STRATEGIES, MARKET ORIENTATION AND CAPABILITIES: BUSINESS PERFORMANCE PERSPECTIVES FROM PAKISTAN – A DEVELOPING MARKET ECONOMY

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Abstract

The aim of this thesis is to study, in the context of a developing market economy, the relationship of Marketing Orientation, Strategic Orientation as well as marketing capabilities with business performance, individually as well as simultaneously and compare these with the proposed relationships suggested in the developed markets of the western world.

The findings suggest that there is a strong relationship between these independent variables with performance but these are not always positive and in some cases not even significant. This in many areas contradicts the proposed positive influence of the above mentioned variables on business performance that is normally taken for granted in developed markets. This result is, however, in line with the results of a few studies carried out in the developing market context. For example a study by Usha and Haley (2006), notify that successful managers in their study argue that best practices developed for information-rich Western markets were not effective in information-void emerging markets.

Further, the thesis in response to developing better understanding of the role of Market Orientation in the affairs of the firm especially in a developing market economy, sought to test its influence on strategic orientation and marketing capabilities. The study found a strong relationship in the hypothesised direction though there is also evidence of reciprocal causality. The strong influence of Market Orientation on strategic orientation that a firm adopts is in line with the results of a few studies noticeably studies by Morgan and Strong (1997) as well as by Hoon and Lee (2005).

The thesis has in a small way tried to broaden the knowledge base in the areas of strategy and marketing by bringing insights from a developing country perspective, which is currently lacking in the literature. It is hoped that the implications of the research will have significant value for both academics and practitioners in the field of marketing and strategy especially in these developing countries.

The thesis, finally proposes that this study is one step in many, needed to develop a mid range theory, and it is hoped that this will become a building block in the overall framework, which would make such studies more rigorous, both theoretically and methodologically in the future.

Dedication

This doctoral thesis is dedicated to my parents

Acknowledgement

Writing a thesis is like a journey. For some it is long and others short but no thesis can be complete without acknowledging those who walked with you on this journey. Some left during my journey and some were there at the end, but one individual who stayed with me throughout the journey is my supervisor Professor of Marketing Dr. Christine Ennew. Her dedication to her work and her resolute focus and guidance were invaluable to me. For this and other fine things our association has taught me I say thank you.

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I also thank my colleagues in United Kingdom and in Malaysia especially Dr. Kyoko Fukukawa and Dr. Matthew Yeung respectively, as well as others from whom I invariably benefited in terms of their constructive comments, encouragement and friendship.

During this journey Humaira Mehmood with her words of encouragement and steadfast support were precious though in the end she was not there. Finally I thank my friend Saadia Rehman for her dedicated editorial efforts and support in tying down all the loose ends.

To my parents all I can say is that I am sure they would have been proud of what I have been able to achieve and they would know that in large part it was because of what I learned from them. Till the end of their time in this world, they were there for me unflinching in their love their understanding and their support.

I hope that all those, who journeyed with me on this achievement, take pride in my accomplishment as much as I do.

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Chapter 1

1.1 Introduction

This thesis aims to investigate the issue of successful business performance in the context of a developing economy. The study will explore not only the factors that contribute to successful performance but will attempt to seek an understanding of their interrelationships. The outcome of this investigation is to identify the most significant of these factors that can become the focal point of managerial activity and resource development policy. This research has significant implications for both, academic scholars who are interested in the development of business practices in developing markets, and the business managers operating in such an economy. In developing countries, there is firstly, a substantial lack of studies that aim to determine and understand factors that contribute to success of business ventures. Secondly, there is a definitive lack of integrative studies which seek to understand the interrelationship of various factors as well as their bearing on business success. Given the lack of an empirically researched body of literature in developing countries, the business approach and practices in such countries are fraught with mistakes, which have a direct impact on business performance. Further this approach of uninformed decisions may be a serious impediment to developing an effective and efficient competitive strategy based on appropriate resources and capabilities in an environment that is increasingly subject to international competitive pressures.

Finally, the lack of such empirical studies in the context of developing economies also suggests gaps in literature on the subject of best practices and detracts from the generalizabilities of normative theories developed and researched in the more developed economies.

It is apparent that on the practical side, one of the burning questions that a manager in a developing economy would like to be answered is whether there is a knowable way in which his local business can survive the competition in general and with MNCs in particular (Lee et al., 2001). As Regan and Ghobadian (2004, p. 292) argue that:

"Managing directors' face an increasingly dynamic and unpredictable environment where technology, knowledge and changing competitive approaches impact overall performance".

In such circumstances, research evidence on the effectiveness of different strategies can be of considerable value.

The importance of successful performance of firms in developing countries is critical in face of the intensifying competition. The developing countries including Pakistan can ill afford business closures both because of lost investment made in such firms and because of the aftermath of such closures in the shape of industrial protests and labour strikes[1].

The issue of success and failure of firms as two sides of the same coin has received a lot of attention over the years in the developed economies (Knott & Posen, 2005; Regan & Ghobadian, 2004). Researchers in the developed countries have sought to discover the determinants of organizational survival and failure both at the industry and firm level (Knott & Posen, 2005; Debbie & Pettman, 1997; Wholey & Brittain, 1986). Moreover, for decades scholars in strategic management and marketing (Stoelhorst & Raaij, 2004; Varadarajan & Jayachandaran, 1999; Porter, 1985) have been studying the ways of creating and sustaining competitive advantage, which explains the differential in firm performance.

Factors such as the industry features (Montgomery & Porter, 1991; Porter, 1980, 1985); nature of strategies (Webster Jr., 1992); strategic planning and strategic management (Miller & Cardinal, 1994); marketing strategies (Okoroafo & Russow, 1993, Varadarajan & Jayachandaran, 1999); human resource management (Prahalad, 1995; Spencer, 1995); organizational structures (Hulbert et al., 2003); firm specific capabilities (Vorhies & Morgan, 2005); inimitable resources (Barney, 1991; Grant, 1991; Wernerfelt, 1984) as well as competencies (Day & Nedungadi, 1994: Hamel & Prahalad, 1994); and systems and environments (Varadarajan & Ramanujam, 1990), have been studied. In other cases the subsets of these major areas such as, benchmarking generally (Jarrar & Zairi, 2001) and benchmarking marketing capabilities especially (Vorhies & Morgan, 2005); dynamic capabilities (Teece et al., 1997); generic capabilities (Regan & Ghobadian, 2004); market orientation (Jaworski & Kohli, 1993; Slater & Narver, 1994; Webster, 1992;1994) brand reputation and brand equity (Aaker, 1991; Keller, 1993; Le Chardoney, 2002); market innovation capabilities (Slater & Narver, 1995; Han et al., 1998); customer relationship

[1] However Knot and Posen (2005) propose that business failure may be beneficial for the economy as a whole as it will eliminate the weak units and improve resource allocation in the environment.

management and skills (Gummesson, 1994; Gronroos, 1996; Varadarajan & Cunningham, 1995; Morgan & Hunt, 1994); employee satisfaction (Selnes, 1996; Piercy et al., 2002) all have been studied as possible sources of success factors that businesses can focus on and incorporate in the policy formulation. In other words, the relevance and the importance of the topics of business success have not diminished over the years[2] and it is suggested that "*Some would argue that there are just as many failures in business as there have ever been. Have we not learnt anything?* " (Anonymous, 2005, p. 6)

This interest in the topic of business firm's success has even spawned best sellers. These have been critically acclaimed for their normative and prescriptive values and Varadarajan and Ramanujam (1990) position them as "the most celebrated examples in the quest for the business world's equivalent of the philosopher's stone". With all these and many other books on the market, the subject has not lost its importance. Firms and academics continue to seek to understand the nature of successful performance (Levitt, 2004; Wholey & Brittain, 1986; Stine, 1986) to help avoid business failure[3]. Even though prescription for success abound, the rate of business failure still remains high across a wide range of industries, especially in the start up firms (McDougall, Robinson, & DeNisi, 1992; Barton, 1994), but there are also many instances where firms that had once held leadership positions in their industries subsequently failed (Levitt, 2004; Richardson, Nwankow,& Richardson, 1994, p. 10).

For example in 2001, a record 257 publicly traded companies with combined assets of $ 258.8 billion filed for bankruptcy and in 2002, WorldCom filed for bankruptcy with over $103 billions in asset (Lehmann & Norman, 2005, p 91).

If the question of how a firm can be successful and avoid failure has been so relevant in the developed countries its significance for the businesses in developing countries is far greater where management skills and capabilities are still in a nascent stage of development. It is, therefore, significant and timely to research and understand the various factors that contribute to the success of businesses in different environments (Webster,

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[2] Harvard Business Review (2004) , Vol. 7/8 is dedicated to this very issue
[3] Dun and Bradstreet (1992), Business Failure Record; reporting failure of 87000 firms in the USA in 1991 alone while in Britain the failure rate had gone up from a total of 15051 in 1990 to 21,827 in 1992 a jump of about 45% (Richardson, Nwankow & Richardson 1994, p. 9 Management Decisions)

1981). It is especially important in the emerging market economies (Lee et al., 2001) because managerial concerns and requirements for success change over time and across environments (Webster, 1981; Lee et al., 2001). For example Hunt and Derozier (2004) state that, "*A strategy that is highly successful in one competitive environment might fail dismally in another*", (p 5).

Such changing environments may also require the development of new skills, acquiring new capabilities and management practices, while all prescribed practices may not be relevant or may not fit the requirements of environments where they are being applied (Nohria & Berkley, 1994).

A start thus has to be made, to carryout studies that are similar in nature to those, which formed the basis of theory development in the area of business management in the developed economies. This is crucial in order to understand what works and what does not work (Nohria & Berkley, 1994) while developing and delineating generalizable frameworks in the marketing and strategy literature (Sheth & Sisodia, 1999; Varadarajan, 1999). It is understood that in most of the studies undertaken on the relationship between performance and business activities, particularly in the broader area of marketing (Hunt & Lamb, 2000) three dimensions stand out among many. These are marketing strategies, marketing capabilities and market orientation.

In this respect a good starting point could be to utilize frameworks that were formulated for application in the developed nations and test their applicability in a developing market context. Thus, while these frameworks are being tested for continuing effectiveness in the developed market context these can also be tested for validity and reliability in other contexts, to allow for theory development with a wider range of application. To this end it will be appropriate to focus on the issues that are specifically related to skills and activities in marketing as well as marketing strategies, which have long been considered as the broad means of achieving organizational aims and goals (Luck & Ferrell, 1979). Therefore, the objective of this thesis is to focus on the nature of strategies, capabilities and market orientation as factors that most significantly affect and influence business performance in a developing country context and further to explore and understand their interrelationships.

The rest of the chapter is structured as follows. The next section briefly introduces the research problem. This will be followed by a short introduction to the three dimensions of marketing mentioned above, which have been considered to drive and influence business success ending the chapter with business performance. Chapter 2 introduces the context and environment in which the research has been set as well as explain the layout of the rest of the thesis to facilitate the reader in anticipating the progress of the study.

1.2 Research Problem

The relationship between marketing and its various correlates have been studied using a number of theoretical perspectives mostly in the developed economies. For example in the decade of the nineties in the last century, Jaworski and Kohli (1990; 1993) and Narver and Slater (1990) looked at the performance impact of market orientation; Szymanski, Bharadwaj and Varadarajan (1993) studied the profit impact of marketing strategies while Berry and Parasuraman (1991) and Gronroos (1996) studied the value creating potential of networks. Among others Doyle and Wong (1997) studied marketing and performance while Vohries et al. (1999) studied capabilities of market oriented companies and performance. In the present century also similar research has continued to emerge. For example Kirca et al. (2005), have carried out a meta-analytical review of marketing orientation and performance; while Lado et al. (2006) and Hooley and Greenley (2005) looked at the RBV and its relationship with performance and strategic positioning respectively; Vijande et al. (2005) and Yoon and Lee (2005) looked at market orientation and its link with strategy; Olson et al. (2005), Desarbo et al. (2005) as well as Vohries and Morgan (2003) studied the link between marketing strategy with marketing capabilities and firm performance.

Just as the focus on the content of marketing strategies has been valuable in identifying performance-enhancing strategies (Shoham & Fiegenbaum, 1999); strategy selection and execution processes have been considered significant in returning good performance (Menon et al., 1999) and they defined Marketing Strategy Making concept as complex activities in the design and execution of marketing plans. On the other hand, Bartmess and Cerney (1993) suggested that the more complex the process underlying superior strategies and the wider it cuts across functional groups the more difficult it is to imitate. This seems to be more important as a general rule of competition. Here inimitability of strategies is considered to be an important source of competitive advantage. In the present thesis marketing strategies and business strategy or strategic orientation will be used synonymously as they cover overlapping areas of firm's actions (Hunt & Drozier, 2004). Hunt & Drozier, (2004) suggest that strategic decision in the functional area of product, promotion, distribution and the sale force, though significantly developed in marketing, are frequent topics in business strategy also. This view is also consistent with the approach adopted by Morgan and Hunt (2002) when explicating on the issue of 'Determining marketing strategy'. Their approach suggests that they view strategies, strategic orientation, strategic thrust, marketing strategies, strategic choice etc as synonymous and sum up the all inclusive conceptual approach by quoting Manu and Srinam (1996) "...... an organization uses strategy to adapt and/ or change aspects of its environment for a more favourable alignment".

From the point of view of local firms in emergent market environments[4], and in view of the causal ambiguity (Powell & Lovallo, 2006; Michalisn et al., 1997) of competitive advantage this inimitability of strategies becomes significant. Here the source and process of strategizing as well as the method of collecting and analysing data (Churchill, 2001) would involve groups beyond the formal organizational set up of the firm thus creating significant grounds for causal ambiguity in strategy derived competitive advantage. This as suggested by Dawar and Frost (1999), might be the source of securing competitive advantage for local firms in developing economies, where multinationals (MNCs) seemingly do not have 'access to the local aspects of doing business'. These developing economies have market conditions where even the multinational corporations (MNCs) need to acquire special skills to deal with situations different to those they are used to in well-developed and established market economies.

The meaning of the concept of marketing strategy in the emerging market context does not differ greatly from its meaning in the marketing and strategic management literature, while being extensively grounded in the developed market environments. It, however, seems that such previous studies have not satisfactorily responded to the following concerns in an adequate manner:

[4] The term emergent market represents both the developing as well as the transition economies. The rationale for this usage will be covered in chapter 3. In usage of the term in this thesis has relied on the following authors for their insight Hoskisson et al. (2000); Arnold and Quelch (1998)

- What kinds of marketing strategies/ strategic orientations do local firms adopt to achieve competitive advantage and higher performance in a highly dynamic environment of the emerging/developing markets?
- What is the role of strategic orientation in the firm's performance and what are the dimensions of such orientations. In other words, how do the elements of these orientations differ from those known in the developed markets and how do they relate to success of the firm in a developing market?
- What kinds of capabilities and skills are required to enable a firm in emerging markets to develop and implement successful strategic orientations?
- What kind of activities particularly marketing activities need to be performed to succeed in the developing market context.

It is, therefore, indicated that investigating the local firm marketing activities and strategies in the emerging market context will broaden the scope of these topics. It will also enhance understanding of the way in which firms operate and should operate in the developing market contexts.

The lack of studies on local indigenous firms in the developing market economies that link business performance with marketing and its correlates such as capabilities, activities and strategies has limited our understanding of the role of marketing and strategy in the survival and growth of the local firms in these specific environments. In turn this also limits and hinders theory development in these fields.

As suggested earlier, previous normative studies of marketing and competitive strategies have been carried out mainly within the contexts of the well-established market economies. The main assumption, which underlies these normative paradigms proposed for general adaptation in the developed west, is that most of the environments in the developed world are similar and, therefore, similar strategies for success are possible (Deshpande, Farley, & Webster, 1997). This is logical and borders on an acceptable truism. The developing market economies, however, differ substantially from their counterparts in the industrially developed western world on many dimensions (Nelson, 1990; Hoskisson et al., 2000). As such universal generalizations should be viewed with care.

The differences, between the two environments, broadly speaking result from the effects of a unique redistributive system in these emerging market economies, which is based on cronyism and nepotism rather than pure market driven forces. Further to the unique way in which the market power operates, there is a lack of well-developed strategic marketing factors such as trained manpower, developed market structures including distribution channels and developed logistics frameworks (Hoskisson et al., 2000, p. 252; Dawar & Frost, 1999). The local firms in developing market economies generally also lack specialized marketing skills and competencies (Malhotra, 1986). These firms are usually confronted with a resource scarcity in the environment and have fewer sources for resource acquisition. It is, therefore, unclear whether research undertaken in market economies of the developed world will have any real bearing on the local firms in such developing market economies (Rosenzweig, 1994). Given the suggested differences exploring marketing behaviour, strategies and capabilities of local indigenous firms in developing market economies is critical and of timely importance. This research is particularly timely, as most of these local firms are now engaged in competing against MNCs while learning to survive and grow. On the other hand, the MNCs bring with them a daunting array of advantages including financial, technological, superior products and strong brands (Dawar & Frost 1999). The thesis in particular will represent a step to improve the sufficiency of organizational theories and research developed largely in the West (Shenkar & von Glinow, 1994).

The thesis, thus attempts to fill some gaps in the literature. Specifically the objectives of this study are to investigate four research questions:

1. What are the contributions of marketing strategies or strategic orientations to the firm's performance in a developing market economy? Are they the same as in developed market environments or different?
2. Are the dimensions of the marketing activities or market orientation of firms in a developing or emerging market economy the same as have been proposed in the developed economies? How are they related to business performance in a developing market economy?

3. What capabilities especially marketing capabilities are significant for success of business firms in a developing market economy? In other words, what are the dimensions of marketing capabilities that are critical for successful business performance?

4. What are the interrelationships, if any between strategic orientation, market orientation and marketing capabilities?

As mentioned earlier, Chapter 2 will introduce the economic context of the study namely Pakistan. It will also highlight why Pakistan as a research context is relevant in evolving a broad generalizable view of the factors that influence firm's performance in the developing market context. It is further believed that the environment of Pakistan, given its cultural and developmental trajectory, is representative of other developing economies of the world in general and of South Asia in particular. In order to investigate the role of marketing strategies, capabilities and activities in the firm's performance in a developing market context, therefore, various industries from Pakistan are included in this study. This study of the firm performance in a developing economy context such as Pakistan has practical implications for managers in the emerging economies of these regions and will further help expand future research in the these areas.

The following section will briefly introduce marketing strategies, strategic orientation, marketing capabilities and marketing orientation as the relevant dimensions, which have an impact on the firm's performance.

1.3 Marketing Strategy

The entire PIMS (Profit Impact of Marketing Strategies)[5] data bank has been developed in the Strategic Planning Institute in an attempt to uncover the 'law of business successes with a strong managerial orientation' (Varadarajan & Ramanujam, 1990). Ongoing studies relying on this database have provided empirical support to the strategy-performance relationship in the context of the American domestic business environment. They have also helped to explore the strategic determinants of business performance (Robinson & Fornell, 1986; Buzzell & Gale, 1987). Study of strategy and marketing strategy and their link with business performance, has been approached from a number of perspectives

[5] For a description of this programme and a discussion of the principles distilled from nearly two decades of PIMS research see Buzzell and Gale (1987). Or an interesting critical assessment of Peters and Waterman's (1982) findings using PIMS data base see 'A.P.S to Peters and Waterman's Book' Proceedings of the PIMS Conference (Strategic Planning Institute 1984)

(Sharma, 2004). However, most of these studies start with a broad statement of what is the role of marketing strategy. For example Chang and Campo-Flores (1980) consider marketing strategy as being crucial and central to the use of the marketing function. While Kotler (1986) sees it as a grand design to achieve objectives. Sharma (2004) referring to Cravens et al. (2000) argued that marketing is a major stakeholder in new product development, customer management, and value/supply-chain management, whereas marketing strategy provides concepts and processes for gaining a competitive advantage by delivering superior value to the business's customers.

According to Greenley (1989), the details of a marketing strategy, which may be specified as the means or schemes that constitute marketing strategy are generally based on the marketing mix the organization employs. The manners in which the marketing mix can be used by organization have been prescribed around various frameworks as follows.

- The marketing mix base (Yudelson, 1999; Foxall, 1981; Chang & Campo-Flores, 1980; Waterworth, 1987; McCarthy, 1960)
- The product life cycle (PLC) base (Kotler, 1965; Baker, 1978; Fox ,1973; Paley, 1989)
- The market share base (Bloom & Kotler, 1975; Doyle, 1975)
- The Positioning base (Kotler, 1985; Porter, 1985)

The operationalization of marketing strategy under each paradigm as suggested earlier depends on how the marketing mix variables are manipulated. For example, in the marketing mix base, the literature suggests that simple manipulation of the marketing mix is strategy (Foxall, 1981). On the other hand for PLC based marketing strategy, the mix is considered to change along the life cycle stages. Similarly, in the market share based framework of developing marketing strategy, mainly - the elements of the marketing mix are considered while operationalising marketing strategies to build market share. In the positioning based market strategies on the other hand, the company investigates the segments available and decides to target a segment or segments. A decision is then taken to position a product in the segment of choice using the marketing mix, which still remains the fundamental part of the positioning strategy.

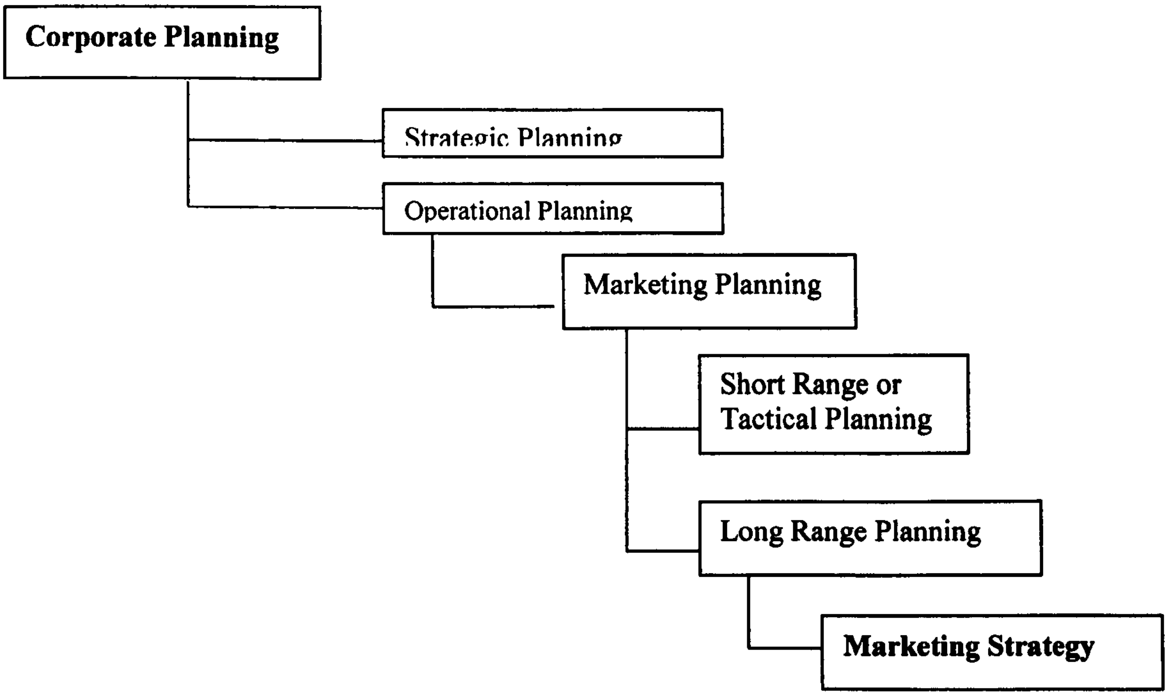
Further, the marketing mix being central to marketing strategy is important especially because developing an appropriate mix is considered to be a significant organizational activity while competing in the market (Kotler, 2005; Yudelson, 1999, p. 63). This thesis will, therefore, consider the development of the marketing mix variables as a capability, while focusing on the strategic behaviours of firms in the developing country context.

The constitution, development and the application of marketing strategy, however, is a multi faceted phenomenon. It not only uses marketing mix as a tool, but also incorporates other strategic factors such as acquisition of appropriate capabilities to promote effective application and implementation of strategy. The multi-facetedness of the concept of marketing strategy is clearly suggested by Piercy (1995) as he thinks that in recent years there has been a growing emphasis on strategy in marketing: market positioning, brand equity issues, service quality, market segmentation, competitive differentiation, and so on. Further, marketing in strategic terms also refers to a firm adapting the STP (Segmentation, Targeting, and Positioning) to its competitive strategy in a chosen area of business (Webster, 1995)

Nevertheless, the focus on marketing mix will remain as one of the centre points of this research for the reasons given earlier. There is however unanimity in the literature, as has been pointed out by Greenley (1989) that marketing strategy develops from the company's strategic planning. Figure 1.1 proposes this relationship between the corporate planning and marketing strategy.

The relationship between marketing and strategy can be further explicated using Piercy's (1995) model (see figure 1.2), which helps in conceptualizing the association based on two issues that confront an organization in their decision making areas i.e. "the *organizational decision-making level;* and the *focus of management attention* – internal to the company or external in the marketplace".

Figure 1.1: The Relationship of Marketing Strategy and Corporate Planning



Adapted from Greenley (1989)

Historically speaking work done by Ansoff (1968) is also considered as a major contribution to the understanding and development of corporate strategy and marketing. Greenley (1989) in his work suggests that Ansoff (1968) views corporate strategy as made up of four component parts including the component of marketing from which a range of strategic alternative can be developed. These components are:

- Product-Market Scope: The particular industry to which the firm is to restrict its business, defining the broad areas of product and market participation.
- Growth vector: The alternatives available to the firm to achieve growth of scale and output, giving the alternatives of market penetration market development product development and diversification.
- Competitive Advantage: How the firm will be able to develop advantages over its competitors within these industries and vectors.
- Synergy: Evaluating how the firm's strength and weaknesses will affect its market participation.

Figure 1.2 **Strategic Management or Marketing**

Organizational Decision-Making level	Focus of Management attention	Internal	External
	High	Portfolio and corporate Investment decisions	Market/ Business Strategy
	Low	Operations Planning and Management	Marketing Planning and Management

Adopted from Piercy (1995)

On the other hand recently Hooley et al. (1993) use the following components or factors that help determine the strategy that the firm could pursue.

- Objective setting: Using Doyle et al. (1986) alternatives objectives the firms can either 'defend against competition', 'hold position' or 'prevent decline' or use a reverse of these and that is to grow and expand. In expanding the firm can either be aggressive or selective and steady.
- Strategic Focus or Scope: Is provided through the market targeting adopted. The strategy could be targeted at the whole market, selected market segments or to individual customers. This will largely depend on the size of the firm (larger firms will target across the wider market due to their reach), market position (leaders will try and serve a wider market), and the type of the customer's need and wants.
- Price/ Quality Positioning in the market: Positioning is related to a number of factors including price and intrinsic product quality where actual position is best measured from the customer's perspective rather than the company perspective (Hooley et al., 1992). However, the attempted price/quality position is indicative of the broad promotional elements of the strategy and the appeal the firm is making to its customers. This can also be taken to be the differentiation being attempted by the firm.

The aim of this brief discussion is to illustrate the relationship between marketing, the central theme of this study and corporate strategy. It is, therefore, possible to propose that in most cases corporate strategy incorporates or subsumes marketing/business strategy, based on a number of overlaps suggested by the frameworks mentioned above. This, however, should not affect the thesis's conceptualisation of strategies and marketing in the subsequent literature review.

Having suggested the link between the corporate and marketing/business strategies it is also to be noted that another extensively used method of understanding and explaining strategies, is the use of typologies. Typologies have proved to be a popular approach for thinking about organizational structures and strategies (Doty & Glick, 1994). They quote the popularity of various typologies that have found a permanent place in strategic literature. For example a few popular ones are Miles and Snow (1978); Mintzberg (1979; 1983); Porter (1980; 1985) and Weber (1946). Generally, in the business strategy literature, considerable interest has centred on identifying generic business/ marketing strategy. In this study also the popular and well known typologies of strategies will be used to help determine whether similar typologies, or some other configuration of strategic orientations exist in the context of business in Pakistan and by extension among other similar developing countries, especially as it is believed that difference may occur in competitive strategies from one country or region of the world to another (Douglas & Rhee, 1989).

The second factor that has been largely considered as having a major impact on performance is the marketing capabilities factor, which falls under the resource based view (RBV) of the firm. In the following section the thesis will briefly introduce the RBV and suggest that marketing capabilities is one such intangible resource that the firms possess that also helps differentiate its performance from others.

1.4 Resource Based View of the Firm

Resource Based View (RBV) advocates that firms are composites of idiosyncratic resources that are scarce, unique, inimitable, durable, non-tradable, intangible and non-substitutable (Amit & Shoemaker, 1993; Barney, 1991; Petraf, 1993). Sustained competitive advantage comes from having a set of these unique resources that are effectively deployed and that create value in the market place (Fahy, 2000; Spender &

Grant, 1996). According to Barney (1991) a resource is valuable when it enables strategies by improving efficiency and effectiveness. He defines it as "all assets, capabilities, organizational processes, firm attributes, information, knowledge etc controlled by the firm that enable a firm to conceive of and implement strategies". RBV further advocates that the differential ownership and control over these resources and their appropriate deployment to fit strategically with the opportunities causes the differential in performance between the firms (Hunt & Morgan, 1995).

This thesis will also follow the general use of the term resources, as suggested by Barney (1991) above and encapsulated by Fahy (2000) to cover all assets, tangible and intangible and capabilities that a firm possesses. However, not all resources are considered to be strategic in nature, since they may not be the source of competitive advantage (Michalisn et al., 1997) and may not contribute to the long-term success of the firm (Meso, 2000). For example, assets such as computer systems may be considered as a firm resource; however, since other firms can also own the same systems, these are not strategic. They may have value but cannot be termed as unique and, therefore, are not a strategic resource. On the other hand proprietary software that increases the efficiency and effectiveness of information flow within the firm and facilitates a high degree of coordinated action, becomes strategic as this software will create value and is also unique to the firm that owns it.

"One of the principal insights of the RBV is that not all resources are of equal importance or possess the potential to be a source of sustainable competitive advantage" (Fahy, 2000, p.96).

Sustainable competitive advantage results only from strategic resources or strategic assets (Amit & Shoemaker, 1993). It is also logical to assume that those resources that have strategic value are the ones, which enables the firm to continuously create positions of competitive advantage in the market and return better performance than their competitors. Barney (1991) dealt with the sustainability of competitive advantage through the firm's ownership of those resources whose value and uniqueness are essentially more enduring than those of other firms. It may be added that this endurance can come when the resource can be upgraded to a higher order level in a continuously spiralling process and strategically deployed. Medcof (2000) puts it as 'being able to outrun the competition' in seeking dynamic capabilities (Teece et al., 1997) that develop new resources that are unique and valuable. It can, therefore, be found that there is a general agreement in the extant literature on RBV that strategic resources are characterized[6] as only those resources, which can create value, are rare, are imperfectly imitable and are non substitutable (Fahy, 2000; Barney, 1991).

Following Wernerfelt's (1984) seminal work on RBV the literature on strategic management (Fahy, 2000)[7] witnessed a steady growth proposing RBV as a significant area of strategic management. A key point made by Fahy (2000) is that the 'best' resource can never be identified and he notes an observation made by Collis (1994) that the strategy field can never find the ultimate source of Sustainable Competitive Advantage (SCA). "Trying to find out which capability is superior leads one into an arena of meta capabilities and the problem of infinite regress where any resource can be theoretically superseded by a higher order resource" (Collis, 1994). There is an apparent contradiction in the above statements where on the one hand resources are not equal in their capacity to contribute to success and on the other there is no best resource that can be identified. This suggests that we need to rethink the issue. If resources can be prioritised then in a given situation one of the resources has to be the best for the firm to own. On the other hand we need to also define what is 'Best'? Is it the best resource/capability needed to secure a given objective in the short run or the long run? Or is a resource best because it can help identify and develop other resources that are necessary for a learning organization.

It is, therefore, significant that the present thesis tries to identify if there is a resource in terms of a capability or culture, which could cause the acquisition of other necessary capabilities, as has been suggested by Azhar et al. (2002). The basis for studying this concept follows from the summary of observations that have been made in the current literature on the RBV on the basis of the theoretical development of the subject.

a. The best resource can never be identified (Fahy 2000; Collis 1994).

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[6] However this is not to say that the above is the only characterization that has been made.

[7] Fahy (2000) article is an attempt to review the relevant literature within the resource-based view of the firm in conceptualizing Sustainable Competitive Advantage. The article also discusses other key issue in the field.

b. Much of the RBV literature to date takes resources stocks as a given and pays insufficient attention to the process of resource development (Fahy, 2000; Godfrey & Gregersen, 1999; Michalisn et al., 1997)
c. Investments in capabilities tend to be irreversible and highly path dependent placing firms on the so-called path trajectory (Teece et al., 1997)
d. The presence of different organizational capabilities positively affects the outcome of the product development process (Verona, 1999) suggesting that there is a strong relationship between various capabilities that a firm possesses.
e. Deeper understanding of the relationships among actors, capabilities and performance will improve the theoretical framework of the RBV (Rumelt, 1987)
f. Firm-specific skills and resources are also referred to as 'drivers' of cost and/or differentiation advantage (Porter, 1985; Bharadwaj et al., 1993). This point implies that skills and capabilities can drive strategies and may also drive the acquisition or development of other skills and capabilities. Porter (1985, p.20) also suggests that a firm must offer "*a moving target to its competitors, by reinvesting in order to continually improve its position*". It is proposed that such investments are made in skills and capabilities that create competitive advantage.

The broad picture that emerges from the above few representative points made in the RBV literature is that firms are repositories of numerous resources. It, therefore, becomes imperative to gain an understanding of their respective efficacy and how they develop. It is also obvious that a firm cannot focus on all of them at any one time (as not all may be strategic in the firm's environment), and may even be focusing on the wrong capability. This is suggested by Fahy et al. (2000, p. 75) in their study of marketing capabilities of East European firms. It is, therefore, prudent to pick on only those that are significant on the basis of their contribution to the firm's performance, which can also be leveraged for creating value for the customer and "possess the potential to be a source of sustainable competitive advantage" (Fahy, 2000; Fahy et al., 2000).

One of the tough management tasks, therefore, given the problem that is associated with causal ambiguity of competitive advantage (Michalisin et al.,1997), as well as causal ambiguity in the linkage between firms capabilities (Powell, Lovallo, & Carnigal, 2006), will always be to select and focus on only relevant capabilities for further investment. One method that could be proposed is to study the relationship between capabilities and performance in a given environment and also study the interrelationships of such capabilities. If it is discovered that there are positive contributory interrelationships amongst a few out of the many that are candidates for such investment and if these can also be shown to have a positive relationship with firm's performance, then the choice will be simplified. It will then be prudent for the managers, as common sense will dictate that investments should be made in developing those capabilities that positively impact the firm's performance and also contribute to the complementary growth or development of other capabilities. In other words, the thesis should have discovered an important criterion for confidently investing and pursuing the development of a resource.

As mentioned above, it should, however, be noted that Fahy (2000), considers it a challenge to identify the critical resources and to seek the process by which these capabilities can be exploited to secure the positions of competitive advantage. One aspect of the current thesis, therefore, is an attempt to suggest that in market orientation there may be a capability that could be the driver for the acquisition and development of other strategic capabilities that are relevant to the environment of the firm and its performance. In making this attempt this thesis aims to seek an understanding of the relationship between various resources and to especially try and understand the interaction of various resources, which are relevant for successful performance. The theoretical goal is one of developing a greater understanding of the dynamics of resource development in advancing resource-based theories of competition (Fahy, 2000) and the practical goal is to help develop other resources that may be considered strategic as a response to the challenge of answering 'Where Do Resources Come From' (Godfrey & Gregersen, 1999).

To summarise, notwithstanding the criticism whether RBV is really a useful perspective (Priem & Butler, 2001) and its rejoinder by Barney (2001), it is believed that skills and capabilities are the areas that need further insights particularly when the focus is on the success of firms in emerging market economies.

In the following section 'Market Orientation' will be introduced as a marketing concept that since the 1990 has developed as a full-fledged paradigm to explain firm performance. This development took place more or less at the same time when RBV was emerging as a popular theory of competitive advantage and firm's performance (Fahy, 2000). Market orientation is considered to be the practical implementation of the illusive marketing concept, which in marketing theory underlies all value creating activities in the market place (Day, 1994).

1.5 Marketing Orientation

Marketing theorists have consistently accorded the marketing concept a central role in the firm's performance (Morgan & Strong, 1998; Anderson, 1982; McNamara, 1972). Marketing concept, as a business philosophy with a substantial theoretical base was seldom put to empirical testing. It is not surprising, therefore, to find that practicing managers always found it difficult to implement the concept. Theoretically the adoption of marketing concept goes through several stages that reflects the introduction of separate marketing functions and depends on the manager's attitudes towards marketing within the framework of the corporate culture (Azhar, Yeung, & Ramasamy, 2002)

Adoption of the concept means that the firm must develop its culture for market orientation. The subscribed wisdom is that marketing orientation culture is at the core of marketing strategy and management (Chan & Ellis, 1998). If implemented, it should result in superior business performance ensuring long-term success of the firm in highly competitive business situations (Harris & Ogbonna, 2001; Webster, 1994; Harris & Piercy, 1997; Barksdale & Darden, 1971; McNamara, 1972; Grewal & Tansuhaj, 2001; Ruekert, 1992; Jaworski & Kohli, 1993; Slater & Narver, 1994; Athuahene-Gima, 1996). A number of studies were thus undertaken to look into the practice of the marketing concept both in the USA (see for example McDaniel et al., 1983; Hise, 1965; McNamara, 1972) and UK (Hooley & Jobber, 1992).

On the other hand concerns with the implementation of the marketing concept (Kotler, 1991; Day, 1994) motivated many academics to focus on developing a framework to assist businesses to reach the coveted goal of being a market-oriented firm, which would enable the firm to create and sustain competitive advantages and thereby enhance the firm's performance.

In the 1990's serious attempts were made to address the issue beginning with the research work undertaken by Kohli and Jaworski (1990) and Narver and Slater (1990). They, finally but independently of one another, provided the broad framework that for the first time presented academicians and practitioners with a practicable construct of market orientation, which became the first step towards implementing the highly elusive market concept. According to Kohli and Jaworski (1990, p.1),

> *"A market orientated organization is one whose actions are consistent with the marketing concept".*

Market Orientation (MO) thus refers to the implementation of the marketing concept (McCarthy & Perrault, 1984). It should be viewed as a central activity of the modern organization (Kotler & Clarke, 1987) in implementing marketing strategies, which are an operational interpretation of the firm's basic marketing philosophy. It is logical, therefore, to find and extend the argument that because of its consistent focus on the market, a market-oriented firm is in a better position than its competitors to anticipate and satisfy the needs of the customers (Narver & Slater, 1990), provide them with superior value (Chang al et., 1999) and thus achieve better performance. Empirical research conducted in the US supports this contention unequivocally (Jaworski & Kohli, 1993; Slater & Narver, 1994) and at the least, in the US market context, researchers expect MO to result in the firm's improved performance. A causal link between market orientation and firm's performance is, therefore, obvious.

The above sections briefly introduced the research problem as well as argued the necessity of studying business performance in environments other than the developed countries to broaden the theoretical base in understanding of the field. The aim is to introduce certain concepts to create a broad framework for the rest of the thesis, which will be further discussed in detail under the section on literature review. At this juncture, however, organizational performance is briefly introduced as the core issue confronting organizations in the emerging market environments, which forms the focus of this thesis.

1.6 Firms' Performance

Organizational performance is a recurrent theme in most branches of management including strategic management and it has special interest for the academic scholar as well as the practicing manager (Venkatraman & Ramanujam, 1986). Most strategy related topics implicitly or explicitly underscore performance implications as one measure of the success of strategy or adopting a course of action including acquiring capabilities and strategic assets, is all predicated on the impact on business performance (Schendel &

Hofer, 1979). It is, therefore, reasonable to suggest that empirical studies in general employ some constructs of business performance to examine a variety of issues related to the impact of strategy and marketing themes on business performance. In the same vein there are a number of factors that may help explain variations in business performance of firms. This thesis at the very outset acknowledges that the three paradigms mentioned above are not the only explanatory concepts and thus these are not all inclusive factors of influence. There are many other factors that are stated to influence firm's performance but most of these, with the exception of a few have a relatively narrow focus and have been considered in relative isolation (Varadarajan & Ramanujam, 1990). Discussion of all these factors, however, is beyond the scope of this thesis and not included here[8].

It is nevertheless easy to visualize that studying performance is not simple in terms of the fact that it is not only multifaceted but that it also encompasses elements describing both the results and the process that create these results (Lebas & Euske, 2002). For example, the measure of market share reflects decisions that were taken earlier. Unless these decisions and their contexts are understood it will be difficult to understand performance in relation to market share. It is thus also note worthy to understand that each decision that is taken can only partially explain the performance achieved. In other words, the factors that influence performance are varied and multidimensional and contextual in many ways and thus relative. It is, therefore, significant to understand that factors that drive performance are in turn related to the measures that are used to define performance and thus, performance is a relative term (Lebas & Euske, 2002), as these measures themselves act as surrogate to performance (Euske 1983 quoted in Lebas & Euske, 2002).

1.7 Conclusion

It has been argued throughout this chapter that most of the studies that have tried to understand firm performance and factors that influence it have studied this phenomenon mostly in the developed market environments and a significant majority of these studies originated in the developed economies of US and Western Europe. It has also been suggested that these factors, have been studied in relative isolation from one another. For example factors such as the nature of firm strategies, organizational structure, entrepreneurship, innovation environment, culture, capabilities etc have all been examined

[8] For an analytical review of the extent to which the empirical studies reflect the performance dimensions see Ginsberg and Venkatraman (1985)

independently as influences on firm's performance. This thesis aims to help correct this imbalance by studying the performance impacts of marketing and strategies in the emerging/developing market context.

The rest of the thesis is structured as follows. Chapter 2 introduces the context of the research study while Chapter 3 briefly discusses the concept of globalization within the context of international trade theory. Chapter 3, while discussing globalization, will also take a brief look at the literature on the phenomenon of the Multinational Corporations and review the impact on the developing countries in general and Pakistan in particular. Chapters 4 and 5 will undertake a detailed literature review of the topics introduced in chapter 1 mainly in the area of marketing strategy, marketing activities and capabilities and their relationship with competitive advantage and performance. It aims to not only expand on the material presented in chapter 1 but will also present gaps in the literature that need a closer look.

Chapter 6 will develop and presents the theoretical framework and the research problem. In developing the research proposals the thesis mainly rely on a) the literature review presented in chapter four and five; as well as b) the 8 exploratory interviews conducted during research with senior executives mainly Chief Executives and Directors of business organizations in Pakistan. Chapter 7 presents the research methodology including the development of the survey document, the validation and reliability assessment of the measurement scales. The semi structured questionnaire used for the preliminary interviews and the final survey document are attached as Annexure A and B respectively. Chapter 8 will present the results and the analysis. Chapter 9 discusses the results and implications of the results and the research limitations as well as sets direction for future research.

Chapter 2

Research Context: A Developing Country

2.1 Introduction

The present thesis not only aims to study the relationship between the three dominant conceptualisations such as Strategies, Marketing Capabilities and Market Orientation with business performance but also the interrelationships, between them, and it also aims to do so in a the setting of a developing economy, such as Pakistan. This study is timely as the developing countries are becoming arenas of competitiveness where the survival of indigenous firms is being threatened by the introduction of free trade regime and entry by MNCs (Dawar & Frost, 1999). This study has both theoretical and practical implications. Theoretically, it aims to identify those competitive strategies as well as the type of organizational capabilities that may be required to be successful in market operations in a developing economy. It, therefore, seeks to provide greater knowledge and in-depth understanding of competitive strategies, marketing activities as well as the capabilities and skills that are necessary to drive and sustain successful strategies. On the practical side, it intends to offer to the managers of a developing economy, fresh insight into the manner in which the major factors impact successful performance. To this end it proposes that Market Orientation (MO) not only drives firm performance but also helps the firms to develop the required capabilities (Azhar et al., 2002) and strategies (Vijande et al., 2005, p.17; Dobni & Luffman, 2000[9]; Hunt & Morgan, 1995, p.11; Barney, 1991[10]). As stated by Morgan and Strong (1998), "*the effects of market orientation are manifest in the form of strategic orientation adopted by an organization*" (p. 1067). In other words, MO acts as a driving force in developing and acquiring appropriate capabilities and strategies.

2.2 Research Setting

As indicated earlier, most of the research done in the area of strategic management, marketing, its other correlates and firm performance has been undertaken in the developed west. The importance of the developing and emerging market economies to the development and growth of world trade is becoming unquestionably important (Arnold & Quelch, 1998). This is demonstrated by the relative increase of global foreign direct

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[9] Dobni and Luffman (2000) consider that literature establishes the influence of organizational culture on business strategy, while it is considered that market orientation is a firms culture (Deshpande, Farley, & Webster 1993;Narver & Slater 1990)

[10] Barney (1991) suggests that strategies are chosen on the basis of organizational resources, where MO is considered to be a source of the firm.

investment (FDI) into these markets which rose from 18% in 1992 to 33% in 1996 (UNCTAD 1996). A Delphi study (Czinkota & Ronkainen, 1997) cited by Arnold and Quelch (1998) also places overwhelming importance to emerging markets as the source of future growth.

In defining a developing economy, the thesis follows Hoskisson et al. (2000), as a country that satisfies at least two criteria: First, a rapid pace of economic development and second, government policies that favour economic liberalization and the adoption of free market system. Hoskisson et al. (2000) also present the most comprehensive list of 64 developing / emerging market economies which includes Pakistan along with other countries from Latin America, South East Asia, Africa, Middle East and Central as well as Eastern Europe. Like any other developing economy Pakistan is now confronted withincreasing competition that results from liberalization of trade. Until recently, most of the businesses in developing economies including Pakistan had their business environments protected through high tariff and non-tariff barriers. These countries are still developing and learning to hone their marketing and strategic skills, which are generally considered vital for success in a more liberalized environment where only market forces rule. The choice of Pakistan as representative of most of the developing countries is not only based on its current economic importance as a staging ground for the reconstruction of Afghanistan or as an overland route to the land locked Central Asian Republics of the former Soviet Union but also for its progressively developing industrial base, which is comparable to most other developing economies of the region.

The correct choice of a country as a focus for investigation is important while examining concepts that can be generalized. The choice of a country for the study should be one, which generally speaking, is representative of other developing countries in terms of its economic environment and developmental paths and should also be able to generate enough data for substantial analysis. It should, therefore, have adequate information base that is comparable to facilitate validation of studies as well as to generate knowledge that will be applicable to a wide variety of other developing economies. Pakistan, in this context, is a substantially representative country to undertake studies of the nature elaborated above.

On the other hand the choice of concepts to be studied is also important. The fact that competing against multinational in a progressively free trade environment in the developing world is becoming an area of growing concern as it involves the very survival of the local businesses. These concepts should not only help in formulating generalizable theories but should also have practical implications for business managers particularly in the area of marketing strategy. The developing countries and their businesses cannot afford to also compete against the multinational giants without adequate planning and preparations or at least having a fair comprehension of what they need in term of resources and skills, to compete effectively. As Hunt and Derozier (2004) suggest:

"Choosing wisely from among the various schools of strategic thought requires that managers understand not just the alternative theories, but also the competitive contexts in which each normative imperative would likely work well" (p.5).

It is further argued that, "*Often the wrong model is adopted for a strategy despite the most careful planning because assumptions are made that could easily prove incorrect* " (Anonymous, 2005, p.5).

The multinationals, on the other hand, have budgets that in many cases far exceed the budget of many developing countries and as such they can write off bad investments without too great an impact on their profitability.

The following brief on Pakistan takes a bird's eye view of the economic situation of the country over the 55 years of its life. The important thing to note is not so much the specificity of events that occurred during the fifty years of Pakistan's independence in 1947, which are naturally unique to Pakistan but the apparent experiments with socialism and free market economic policies and the results. The results particularly are important in suggesting that economic policies and management practices do have similarities across frontiers moderated by cultural diversities. Thus even though there are some major differences between Pakistan and the economically developed West, there are key similarities between Pakistan and other developing countries particularly of the South Asia and South East Asia (Hofstede, 1980; Ronen & Shenkar, 1985).

The trends and results of economic development of most emerging market economies can be viewed, in the larger framework of a passage along the route defined by a road map of economic ideologies such as socialism, nationalism and protectionism, which finally led them to reach the shores of free market economic policies. Pakistan has done just that in the last 5 years of the last century. Since that period (1995-2000), Pakistan has rapidly moved away from socialist and market restrictive policies towards a free market economy dismantling trade barrier imposed through import taxes and subsidies. It is also faced with a rising workers remittances and the potential of sharing in the massive development undertaking that has been pledged for the reconstruction of Afghanistan. Seen in this mixed light of the past policies and future possibilities Pakistan forms a credible testing ground for theories that have been developed in the West and which can also be applicable to other developing nations. To further support the above arguments of applicability of the findings of this research to other emerging market economies, is the evidence of the presence of a managerial class which has largely been trained in the methods of management derived largely from US and the developed West. This managerial class can find similar counter parts in the business management circles of other developing countries.

Another thing that must be kept in mind, when taking Pakistan as a model for comparative studies with other emerging market economies and developing countries particularly of the South Asia and South East Asia, is that Pakistan also has developed a strong industrial and engineering base. This base has mainly been established with the help of foreign assistance in the shape of transfer of technology and joint ventures. Some foreign companies had moved into the country in the early stages of its creation (1947) and thereafter, whenever, governments adopted a more liberal economic policy. This development of the engineering and industrial base was also given an impetus when countries like Russia and China found it politically expedient to support Pakistan's economic development in critical sectors such as heavy industries including steel mills and heavy mechanical complex, as well as atomic energy and aeronautical and missile technology field. The same scenario has occurred in other countries of the developing world.

2.3 Pakistan in History

Pakistan is a country with a rich tapestry of economic experimentation in line with the ideological leanings of its incumbent governments. For example, the military take over by General Muhammad Ayub Khan in October 1958 (later elected as President) was followed by the evidence of his commitment to economic development through free market economic policies. Gross fixed investment grew over twofold, rising from 8.5 % of GDP in 1958-9 to 14% in 1968-9, which was the period of his rule (Baqai, 1969). As a consequence of these largely capitalist oriented framework and policies, the growth rate of the economy more than doubled from 2.5 per cent per annum in the 1950's to 5.6 per cent in the 1960's. During those days, Pakistan's economic development efforts were hailed as a rare success story (Papanek, 1967).

Following the political and social unrest in the winter of 1968, General Ayub Khan transferred power to General Yayha Khan, who was the commander-in-Chief of the Pakistan Army. It is postulated that President Ayub Khan's downfall started with the 1965 war fought between Pakistan and India. The war caused a pressure on resources allocated to the development of both the wings that constituted Pakistan i.e. East Pakistan (now Bangladesh) and West Pakistan (now Pakistan). Diversion of resources from development in East Pakistan as well as unrealistic economic targets (Hasan, 1998), gave rise to fundamental nationalistic feeling in the mind of the Bengalis[11]. The end result was the emergence of East Pakistan as an independent nation named Bangladesh (Burki, 1991)

The break up of the country was very traumatic and turbulent leading to fundamental changes in the political and economic set up of the country. Thus, in West Pakistan now Pakistan, power was transferred from President General M. Yahya Khan and Mr. Bhutto was brought in who took over as the President of Pakistan in December 1971. President Bhutto with his strong socialist leaning ruled the country till 1977. During this period, Mr. Bhutto undertook large-scale nationalization of industry, insurance and banking thus extending the State control of the modern economic sector significantly. Mr. Bhutto's

[11] Bengalis was the race that inhibited East Pakistan and constituted an absolute majority amongst the 5 major races that formed the population of the combined country. These five races in order of population were: the Bengali's, the Punjabi's, the Sindhi's, the Pathan's and the Baluchi's.

government also took full control of the country's educational system by nationalizing private educational establishments (Hasan, 1998). This socialist[12] drive, according to Hasan (1998), was the result of a backlash of the debacle of 1971 that resulted in the break up of a nation. This move must be viewed in the back drop of the fact that during the President Ayub Khan, Mr Bhutto was his most trusted senior cabinet minister.

"The uncertain sense of national identity and loss of national self-esteem as a result of the military defeat and the separation of East Pakistan reinforced most of the socialist economic reforms".

On the other hand a similar move had already been undertaken in the neighbouring India during the government of Mrs Indira Gandhi. This seems to have been the pattern in varying degrees of intensity in most of the developing countries at one time or another during their existence.

The ousting of President Bhutto by General Zia ul Haq as a result of growing political and economic discontent in 1976 saw the culmination of socialist agenda. The decade of the 80's saw the partial dismantling of the trends towards socialism in Pakistan, particularly in the aftermath of the war between Russia and Afghanistan on its North Western borders. During this period the country slowly moved away from socialist leanings of its predecessor in government but the nationalist feelings continued to dominate the economic sentiments. In 1980's, the war in Afghanistan led to a financial bonanza for the incumbent governments as the western world poured in billions of dollars into the country to help fight Russian invasion of Afghanistan.

President Zia's period was followed by the induction of three democratically elected parliamentary governments. This period saw Pakistan make a greater shift towards free market economic policies in part the result of IMF and World Bank's conditionality as well as the realization that market based economy was the only way to reduce inefficiencies in the system. As such in early 1991, the Nawaz Sharif government provided a forceful push to private sector involvement in the economy by a broad based programme of

[12] According to Sultan Mohammed Khan, who was Pakistan's Ambassador to China, Bhutto had expressed his desire, in a private meeting with Chinese Prime Minister Chou En Lai, to introduce socialism in the country on taking over power (Hasan 1998).

privatization, deregulation and relaxation of controls on foreign exchange and investment. The main objective of privatization and private development programmes were to reduce the drain of government resources caused by losses of state-owned enterprise and to create opportunities for private sector investments because the public sector resources for development had become scarce (Hasan, 1998)

To summarize then, Pakistan has witnessed the economic results (see Figure 2.3, below) of both socialist as well as capitalist based market economies over the last two decades. The brief history of Pakistan's economic development is aimed at presenting a picture where it can be seen that Pakistan with its experiments with socialism and capitalism is now fully aware of the future needs of liberalizing its market. This same sentiment is visible in other developing countries such as India where similar reforms were also instituted in 1991 (Subramanian & Gopalakrishna, 2001).

The situation in India following liberalization parallels what has been occurring in Pakistan in terms of market conditions. The opening up of the consumer goods segment to foreign investors, allowing transfer of technology and reduction of tariff duties on several categories of goods have brought substantial changes in the demand and supply situation in the domestic market thus turning the entire Indian subcontinent into a buyers market (Panwar, 1997). In a similar vein Chaudhuri (1998) commenting on condition of marketing in India in the pre 1991 and post 1991 environment states, "*in a shortage economy (prior to 1991), the customer was a commoner, never a king. Nowadays the company is supplicant, fighting elbow to elbow with others to try and catch the client's eye. The enthronement of the buyer constitutes a major revolution for the Indian business and it finds its clearest reflection in the post-1991 explosion of marketing and advertising*", (p.6).

This should be viewed in conjunction with what a managing director of an ice cream manufacturing company in Pakistan had to say when asked about his competitive strategy. His company's major competitor is a multi national company and he said, " *the customer is a king to us, we have to give him what he wants and even though we follow our competitor in all products we do a better job and our service is top class*" (from the preliminary interviews undertaken while developing the survey instrument March 2001).

A similar situation, it is suggested, is confronting the businesses in other developing countries of the South Asia including India, as the countries prepare to meet their obligations under the WTO agreements. Given the above conditions that exists in the country it is very safe to suggest that Pakistan is a typical case of large number of less developing and transient economies around the world and in particular the South East Asia region. It also seems to be passing through the same stages that many middle income countries such as Malaysia, Thailand, Indonesia and Philippines must have passed through as they upgraded from low income to middle income economy. Pakistan, therefore, appears that on most counts it is a good proxy for other less developed economies. It, therefore, is suitable as a sample for the study of competitive marketing strategies undertaken by local indigenous firms while competing against Multinationals and for turning in good performance. It is presumed that it will also provide a good base to study the skills and capabilities that are needed to be effective in formulating and implementing strategies in the context of competing against multinationals.

2.4 Pakistan at present

According to the estimate published in the Pakistan Economic Survey, year 2001-2002, the population of the country is reckoned at 145.960 million. The majority of the people (67%) live in the rural areas and 33% in the urban centres. Pakistan has a large labour force, which replicates the status in most of the developing countries of the South Asia particularly India and the South East Asia. The sectoral distribution of employed labour force is given in Table 2.1:

The labour force is also capable of assimilating new technology very rapidly and is adaptable to change that may be underway in these areas. However, exploitation of these skills is largely dependent on the capabilities that its managerial class demonstrates. Over the past years Pakistan has also seen a rapid growth in the managerial class.

Table 2.1 Employed Labour Force by Sectors

Labour Force	Percentage

Agriculture	48.42
Manufacture And Mining	11.25
Construction	5.78
Transportation	5.03
Trade	13.50
Finance, Community And Social	15.02
Services	1.00
Total	**100.00**

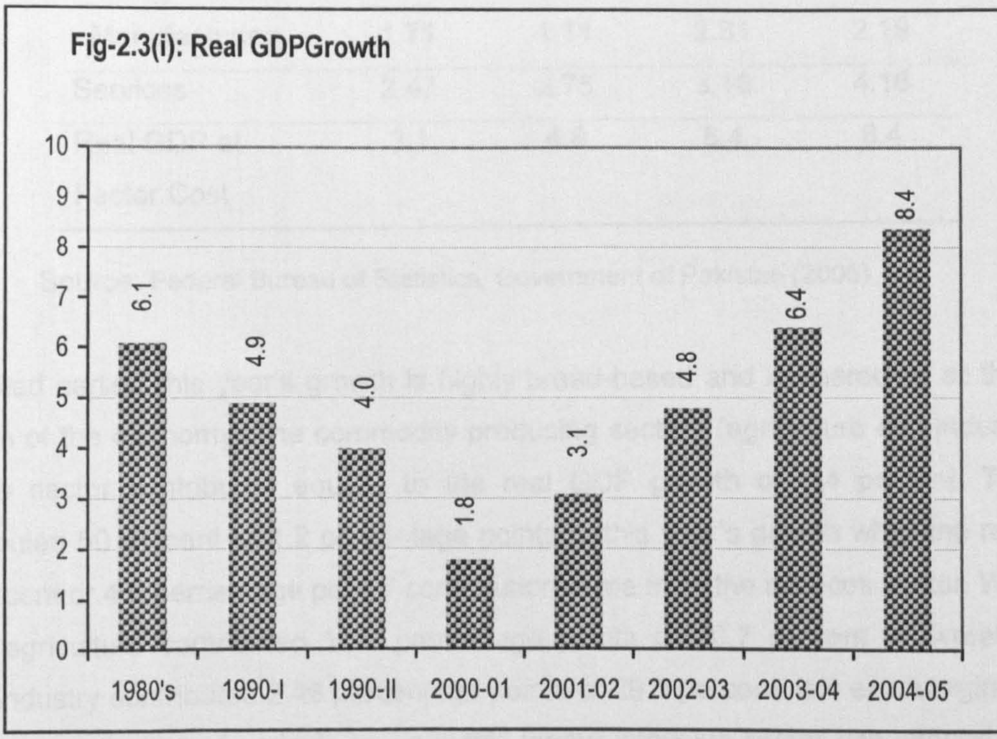
Source: Economic Survey 2001-2002, Islamabad: Government of Pakistan, Economic Division, p. 173.

On the basis of this growth and application of managerial skills it can be safely assumed that there has been a definite accumulation of management knowledge and skills within the country. The question whether this knowledge is of the kind, which could be effective in formulating, and implementing competitive marketing strategies particularly while competing against the multinationals, is important. With a concomitant increase in the management position being managed by those who have some access to theoretical knowledge in the area of business management rather than being just graduates in any subject appears to justify making such an assumption.

Pakistan's economy has extended its impressive expansion for the third year in a row in 2004-05. Economic growth at 8.4 percent (2004-05) reached its highest level in two decades, against 6.4 percent last year and surpassed the target (6.6%) for the year by a wide margin and becoming the fifth time in the country's history that it exceeded 8 percent growth mark (See Figure 2.3). This momentum is underpinned by dynamism in industry, services and agriculture, and the emergence of a new investment cycle supported by strong credit growth. Over the past three years, the prerequisites for a sustained economic growth have gradually come into place. Economic recovery has raised the perceived wealth of households and thus boosted confidence, leading to higher consumption. This positive prospect for consumer demand backed by investment spending, if sustained, will be a crucial support for the government's major macroeconomic policy target for 2005-06.

The sharp pick up in growth this year is ably supported by a stellar performance in large-scale manufacturing, impressive recovery in agriculture and a strong growth of 7.9 percent in services sector.

Figure 2.3 Real GDP Growth



Source: Federal Bureau of Statistics, Government of Pakistan (2005)

The services sector, accounted for 52 percent of GDP and it is projected will play a vital role in sustaining the current growth momentum going forward. This sector has registered an impressive growth of 7.9 percent in 2004-05 against the target of 6.2 percent for the year and in continuation of an equally high growth of 6.0 percent achieved last year. This sector surpassed the growth target by a wide margin on account of robust growth in telecom sector, stellar performance in banking and insurance, and wholesale and retail trade. On the whole, services sector has emerged as a buoyant sector and astronomical growth in telecom sector as well as strong growth in banking and finance, and wholesale and retail trade will continue to provide greater impetus to the sector in the medium-term. Table 2.2 shows the sector-wise contribution to the growth of GDP through the years 2001-2005. (*Federal Bureau of Statistics, Government of Pakistan*)

Table-2.2: Sectoral Contribution to the GDP growth (% Points)

Year / Sector	2001/02	2002/03	2003/04	2004/05
	0.03	1.01	0.53	1.74
Industry	0.61	1.08	2.74	2.46
- Manufacturing	1.71	1.11	2.31	2.19
Services	2.47	2.75	3.16	4.16
Real GDP at Factor Cost	3.1	4.8	6.4	8.4

Source: Federal Bureau of Statistics, Government of Pakistan (2005)

As stated earlier, this year's growth is highly broad-based and is shared by all the major sectors of the economy. The commodity producing sectors (agriculture and industry) and service sector contributed equally to the real GDP growth of 8.4 percent. The CPS contributed 50 percent or 4.2 percentage points to this year's growth while the remaining 50 percent or 4.2 percentage points' contribution came from the services sector. Within the CPS, agriculture contributed 1.74 percentage points or 20.7 percent to overall growth while industry contributed 2.46 percentage points or 29.3 percent. It is encouraging to note that the contribution of agriculture - a highly labour-intensive sector has jumped from 8.3 percent last year to 20.7 percent this year and may have contributed to rise in employment and income level of the people attached with the sector.

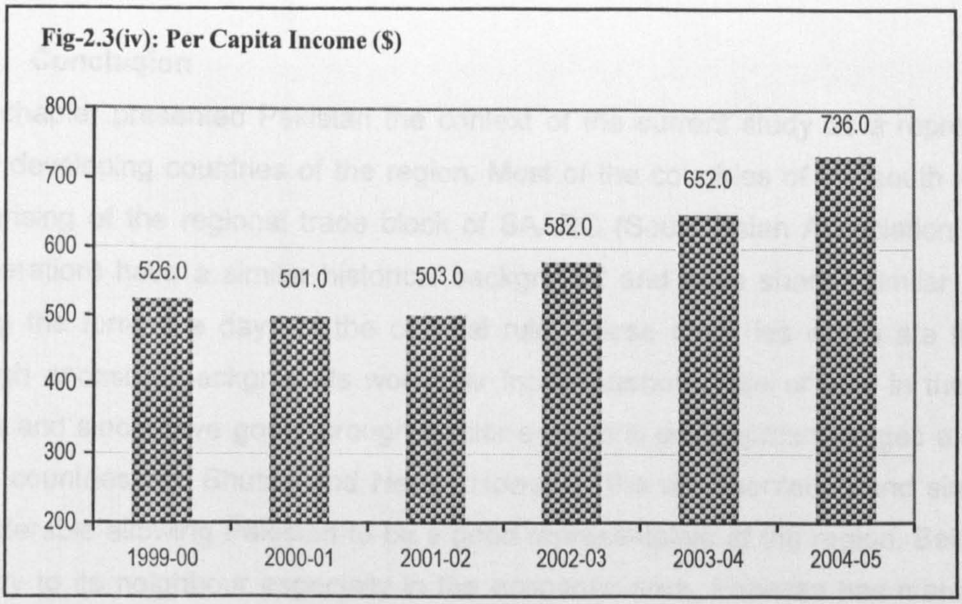
Pakistan's economy is undergoing structural shifts that are fuelling rapid changes in consumer spending patterns. In particular, the middle classes are becoming an increasingly dominant force, which is also the case in the developing countries of the South Asia. Pakistan's per capita real GDP has risen at a faster pace during the last two years (4.4% in 2003-04 and 6.5% in 2004-05 in rupee term) leading to a rise in average income of the people. Such increases in real per capita income have led to a sharp increase in consumer spending during the last two years; as shown in Fig. 2.4.

Per capita income is one of the main indicators of development. It simply indicates the average level of prosperity in the country or average standards of living of the people in a country. We now analyze the growth of the per capita income over the years. Per capita income, defined as Gross National Product at market price in dollar term divided by the country's population, grew at a much slower pace of 1.4 percent per annum in the 1990s, mainly due to slower economic growth, declining trend in workers' remittances and fast depreciating exchange rate.

The per capita income in dollar term has grown at an average rate of 13.5 percent per annum during the last three years rising from $ 579 in 2002-03 to $ 657 in 2003-04 and further to $ 736 in 2004-05. The main factor responsible for the sharp rise in per capita income include acceleration in real GDP growth, stable or even appreciation in exchange rate and four fold increase in the inflows of workers' remittances. Per capita income in dollar term rose from $ 657 last year to $ 736 in 2004-05, depicting an increase of 12.0 percent. Fig. 2.4 shows the improvement in per capita income during the last six years.

Pakistan's total liquid foreign exchange reserves, with some fluctuations, maintained an upward trend during the current fiscal year. By end April 2005, reserves touched all time high at $ 13.0 billion. Of which, reserves held by the State Bank of Pakistan amounted to $ 10.2 billion and by banks $ 2.769 billion. From end-July 2004 till end-April 2005, Pakistan has added $ 906.5 million in its foreign exchange reserves. The rising trend depicted by the foreign exchange reserves, indicates further growth in the foreign exchange reserves which is yet another indicator of economic development in the country. Many factors contributed towards this comfortable position of reserves. The most prominent amongst those are; private transfers that include remittances; higher export proceeds; floatation of bonds and higher FDI flows. With this build up in reserves, Pakistan is in a position to meet any contingency on external front.

Figure 2.4 Per Capita Income Dollar terms



Source: Federal Bureau of Statistics, Government of Pakistan (2005)

The extraordinary strengthening of domestic demand during the last two years points to the following facts which are similar to the trends that are visible in other developing economies especially of the SAARC countries like India, Bangladesh, Sri Lanka.

- The higher consumer spending feeding back into economic activity is likely to support the on-going growth momentum.
- It suggests the emergence of a strong middle class with buying powers - good for business expansion.

This chapter while presenting the environmental and historical perspective on Pakistan as a context for the study tried to establish the fact that Pakistan is substantially representative of other such developing countries. And, therefore, findings would have sufficient ground for extending generalization to developing market economies. The third chapter will take a brief look at the literature on Globalization and the phenomenon of the Multinational Corporations within the context of international trade theories and review the impact on the developing countries in general and Pakistan in particular. This is necessary, as concerns for business survival and growth in developing countries faced with the advancement in globalization confront the perceived threat of a new kind of economic colonization.

2.5 Conclusion

This chapter presented Pakistan the context of the current study as a representative of other developing countries of the region. Most of the countries of the south Asian region comprising of the regional trade block of SAARC (South Asian Association of Regional Cooperation) have a similar historical background and have shared similar experiences during the formative days of the colonial rule. These countries which are tied together through ancestral backgrounds won their independence more or less in the same time frame and since have gone through similar economic development stages except for the small countries like Bhutan and Nepal. However, the representation and similarities are considerable allowing Pakistan to be a good representative of the region. Being a smaller country to its neighbour especially in the economic area, Pakistan has more reasons to learn the latest in technology in various fields that include marketing and management, to learn fast in the face of growing need for an economic union of the regional countries.

Therefore, not only from an academic point of view but from a very practical point of view, Pakistan provides a good area for research. The latest developments in the international political and economic areas especially after the aftermath of the Afghan war of the eighties, more research should be targeted into this region to help a across the board understanding to evolve that will help overcome the concerns that the world has about the region.

Chapter 3

Literature Review: Development of the Global Business Economy and International Trade

3.1 Introduction

This chapter will present a brief review of literature, which looks at the historical basis and drivers of globalization and the current conflict and distrust (d'Epinay & Necker, 1980) between the different economies such as the developed and the developing economies or the economies of the north and the south. The review of literature will also present debates that accompany globalization and influence business practices including business strategies, which are the topics of the next two chapters. The present review is based on the premise that in order to understand managerial behaviour in a particular setting, it is necessary to understand how this behaviour came about. Behaviour is culture and culture results in practices (Dobni et al., 2001; Hofstede, 1993). One of the aims of the thesis is to describe and explain management behaviour in terms of business strategy and marketing activities in a developing market context such as Pakistan. As an extension of this aim the thesis will also try to determine the normative imperatives of marketing and business strategies in the same context. It is, therefore, pertinent to present a review of literature that will provide the framework for subsequent explanation of the managerial behaviours in these contexts. It is to be noted that the aim of the thesis is not to enter into a psychological analysis of management behaviours and approaches, which is beyond the scope of this thesis, but to lay a background against which the findings of the research can be explained.

Words from Dobni et al. (2001, p 401) help to strengthen the basis for presenting this part of the literature review, that is

"Culture, briefly defined, is taken for granted, out of conscious pattern of shared values and beliefs that help employees understand organizational functioning and thus provide them with norms for behaviour in the organization. As a result, organizational strategy and, subsequently, performance cannot be understood without an understanding of the culture of an organization".

If this argument is extended further, it can be premised that managerial practices and behaviours in a broader sense cannot be understood without understanding the broad framework of the environments where these business practices take shape. It can further be safely assumed that the business behaviours as they exist today have evolved along a path that has been shaped by the businesses responing to their environments and to the much broader events that shaped the international and global business. Hofstede (1993) literally makes this point when he makes '*a plea for internationalization not only of business, but also of management theories, as a way of enriching theories at the national level*' (p 81).

Chapter 3 will, therefore, broadly introduce trade theories and international institutions that developed in the second half of the twentieth century when most of the developing economies were securing their independence from the colonizing countries. These theories and institutions have shaped and continue to shape the managerial behaviours and the on going evolution of thought in the developing economies such as Pakistan. The aim of these institutions that were developed during the second half of the 20th century was to reinforce the process of free trade and encourage the global economic development through fair trade practices. However, these institutions are beset by controversies that revolve around the perceived conflict of interest of the various stakeholders from the developed and the developing world. The outcomes of these controversies so far as the developing countries are concerned, are basically two in nature.

a. The positive consequence in the less developed economies has been to strengthen the motivation to learn and develop appropriate management theories and practices to be able to compete effectively in the world business environment.
b. The negative consequence has been to create distrust for the western thought on managerial practices that are put forward as the universal remedy to all ills in the economy.

The specific aims of this chapter, therefore, are:

- To provide a background to our understanding of the current behaviour of the businesses that exists in various economies, especially the economies of the developing world and emerging markets. These behaviours and activities of businesses will then be the focus of the next two chapters

- To draw on the concepts of interdependence, dependence and interconnectedness to suggest the source of the current conflict between various economies of the world.

As a corollary and supplement to these areas of study, a brief review of literature will also be presented that takes a look at Multinational Corporation (MNCs). MNCs form one structure of the connectedness within the concepts of Dependency, Interdependency and Interconnectedness of the world economy. The section, therefore, will highlight the growing role of the Multinational Corporations (MNCs), International Enterprises and Global companies. First, MNCs will be presented as a source of Interdependence and Interconnectedness of the world economies and their associated consequence for the development of business practices and business management around the world. Second MNCs will also be presented as the central character in knowledge creation and dissemination with regards to the competitive advantages that can be pursued in an economic environment. By briefly reviewing literature in these areas, ground work will be laid to further develop the topic of this thesis including the role of competitive advantage, marketing strategies and capabilities.

The final section of this chapter will look in some detail at the growth and development of international competitive situation within the framework of business in the developing economies context, which affects strategic management considerations. In other words, it will be viewed from the point of view of the options that the local indigenous companies have in responding strategically to the increasing competitive pressures using the framework of marketing business strategies.

3.2 Globalization and Developing Economies

Globalization, a far-reaching phenomenon in its varied impacts is generally viewed with apprehension in the developing economies (Dawar & Frost, 1999). Protectionist barriers in the developing economies are down and the security that local businesses in these economies had is now eroding. Globalization, its causes and effects (Anderson, 1999; Tisdell, 2001; Chossudovsky, 1999; Tisdell & Chai, 1998; Keflas, 1998) as well as responses have been widely studied in the business environments of the developed world (Keflas, 1998; Srinivas, 1995 etc.), but not so in the developing economies.

Using a simple definition, globalization reflects the trend of firms producing and distributing products and brands as well as services that are homogenous in type and quality the world over (Rugman & Hodgetts, 2001; Gary, 2000). It is associated with governments generally reducing trade and investment barriers, large firm manufacturing in multiple countries, local firms sourcing raw material or parts from cost-effective suppliers abroad and foreign firms increasingly competing in the domestic markets (Dunning, 1993). Where, on one hand, the proponents of globalization have pointed to the benefits of the process supported by the principles of free trade; there are opponents who, on the other, hand have criticized the unbridled process of globalization with its concomitant impact on increasing disparities across the world.

Dawar and Frost (1999) see the benefits in terms of increased choice of goods that are made possible because of cheaper prices due to lowered tariff barriers and increased international competition thus elevating collective well being through better utilization of resources (Tisdell, 2001; Dawar & Frost, 1999; Cecchini Report, 1988). However Dawar and Frost (1999) also take a look at the speed with which MNCs in search of expansion opportunities in these newly liberalizing economies have affected the existing business environment. While, as mentioned earlier, critics see it as a process that is being driven and controlled by the elites of the developed countries, particularly multi-national or trans-national corporations, and is causing substantial harm to developing countries, small businesses and local communities (Anderson, 1999; Dawar & Frost, 1999; Srinivas, 1995).

3.3 Drivers to Globalization

No mention of globalization can be complete without a brief review of the international trade theories that form the very basis of cross national trading activities both at the micro and macro level (Morgan & Katsikeas, 1997). Further, it is becoming obvious that no business is exempt from the impact of the internationalization of trade in the shape of heightened competitive pressure and the resultant regional trading blocks (such as the ASEAN, NAFTA, the single European Market and even smaller trading associations like SAARC), which is becoming the new reality. This perception has been described by Czinkota et al. (1995) while emphasizing the importance of international business, "*The global imperative is upon us! No longer merely an inspiring exhortation, thinking and acting globally is the key principle for business success. Both the willing and the unwilling are becoming participants in global business affairs. No matter how large or small your business, ready or not, here comes the world*" (p.1).

It has been suggested that one area of study of international trade relates to the effects it has on the economy (Morgan & Katsikeas, 1997). In case of the present thesis the impact that is under consideration is more qualitative in nature. This qualitative impact, in the shape of behaviours that develop when confronted withinternational trade including the manner in which management strategize (Morgan & Katsikeas, 1997, p 69), is more relevant to this thesis than the quantitative impacts on the economy in terms of GDP growth or the economic strength, which results from trade and is frankly the outcome of these managerial approaches and behaviours. This aspect of the study can be facilitated if a general view point is developed that attempts to note how the various trade theories have been received in the developing economies and in the manner that resources are sought or distributed for the purpose of developing and implementing competitive strategies. It is, therefore, relevant to briefly present, in the following section, the classical trade theories as a back drop of not only the flow of trade and business but of managerial thought and practices. Further, this will lay the background to understand the form of conflict of interest that one witnesses between businesses emanating from the developed and the developing economies including the growing body of literature which questions the universal applicability of managerial practices (Fey & Denison 2003; Hofstede 1993 p 82).

Irrespective of the perspective that these classical trade theories have proposed, they have consistently supported free trade. However, the developing economies, which previously were collectively, colonies of the developed west, have viewed these theories with reservations and scepticism, especially those that advocate a complete laize faire approach. At an extreme, these have been viewed as an attempt to create economic colonization and subjugation where the developing countries have to forego their sovereignty and national interest.

3.3.1 International Trade Theories

International trade has been a historical fact stretching back into ancient times following the concepts of the division of labour (Robilcock, 1995). It has been regarded for centuries as one of the most important sources of wealth for political elite and the imperial powers, in the form of taxation on trade. Most states, however, were more inclined to relegate liberal trade policy in favour of politics and nationalistic goals of the state (Viner, 1951). The main goal of trade then, as now, was always to obtain vital resources. Active participation in international trade in those days tacitly supported the concept of globalization, as we see it today. The classical international trade theorists build on the 'Ricardian' precepts of 'comparative advantage' and held that free trade was a valid proposition for the sake of the general welfare of the world and "*In fact many of the articles of the GATT, the international regime which provided guidelines for world trade, were designed with Ricardo's theory in mind*" (HBR case series no. 9-387-023 1986).

3.3.2 H-O and Comparative Advantage

In his book 'Wealth of Nations', Adam Smith (1776 reprint, 1963) used the *principle of absolute advantage* as justification for international trade. According to this principle, a country should export a commodity that can be produced at a lower cost than other nations. Conversely, it should import a commodity that can only be produced at a higher cost than can be produced by other nations. One problem with this absolute advantage principle was that it failed to explain whether a nation would trade if it had absolute advantage in the production of all products under consideration. But 19th century British economist David Ricardo (1817) argued that absolute production costs are irrelevant. To him relative production costs were more meaningful, which determine whether trade should take place and what item to import or export? He enunciated the principle of relative or comparative advantage. A country may be better than another country in producing many products but it should produce only that product in which it was the best. In other words, it should produce a product with the greatest comparative advantage and import the product with the least comparative advantage. Eli Heckscher (1949) and Bertil Ohlin (1933) refined the Ricardian comparative advantage model to help explain the benefits of free trade and the pattern it will follow. They offered the theory of factor endowments. They assumed perfectly competitive markets (Baldwin, 1981, p.5.) and kept all other factors that might affect trade or production constant for all countries. They only focused on two factors of production i.e. labour and capital. This theory holds that the inequality of relative prices is a function of regional factor endowments and that comparative advantage is determined by the relative abundance of such endowments.

They noticed that products differed in their factor intensity (how much of each factor was required to produce a given product irrespective of the country producing it), and the countries differed in the factor abundance (how much supply each country had of labour and capital). The significant postulate of their model, known as the HO model was that the countries exported that product which they were best suited to produce. In other words, a country with abundant capital would have a comparative advantage in producing capital-intensive goods and, therefore, would export the same and import, on the other hand, labour intensive commodities.

Critics variously challenged this theory on the basis of its simplified assumptions (Vernon, & Wells, 1986; Scott, 1985; also Leontief, 1954). The most significant of these criticisms is from the policy formulation point of view. The suggestion inherent in the HO model is that a country should make the best of what it has rather than make an attempt to bring about a proactive change in the underlying conditions and factor endowments. Given the problem with the approach such classical theories subsume is that that factors of production are immobile across countries and, therefore, the country does not have the means to substantially alter the competitive agenda of the country. In other words, these classical theories fail to take into consideration the true source of competitive advantage especially in the international field as reflected in industrial organization theory (Porter, 1985). Other research and practice has also begun to show that firms can gain different types of competitive advantage (Morgan & Katsikeas, 1997). This is further substantiated by some management theorists who were also proposing other more dynamic basis for competitive advantage. For example, Porter (1985) proposed the role of industry structure to seek the advantage through effective positioning, while Bruce (1985) suggested that government policy helps in bringing about competitive advantage to a country's industry. Given these conflicting frameworks for developing management strategies in developing economies, it is not difficult to envisage, especially in Pakistan, the existence of two managerial schools of thought; one, which advocates an internal looking protectionist approach for competing against internationalization, while the other advocates an external and export oriented approach.

In the beginning of this chapter it was proposed that trade theories both classical and current have effectively modulated thought not only among the policy makers but also the managerial class in the developing countries. Further, a conclusion can be drawn from above that businesses within the developing countries are influenced by the businesses and policies of other countries. It can also be conjectured that the strength and intensity of the influence is determined by the relative position of a nation in the international forums as well as the economic development of the country (d'Epinay & Necker, 1980). It, therefore, points to an important conclusion that businesses particularly in the developing countries should broaden their frameworks to incorporate the global environment and seek knowledge of effective business practices and strategies to become successful. They should get ready to accept this interconnectedness of the world as a given factor and understand that isolation or an approach of distrust will only create hurdles to their economic development. Therefore, understanding the theories and international institutions that have been developed over the last half of the 20th century, is important as an enabler in developing an understanding of the business practices and strategies that managers have adopted in developing countries. To substantiate the assertion made above it is worthwhile to take note of what Hofstede (1993) has to say, as he suggests a possible impact on the normative framework that could be instrumental in not only understanding but also bringing about a change towards adopting best practices in business activities in the developing economies.

"One of the conclusions of my own multilevel research has been that culture at the national level and culture at the organizational level---corporate culture--- are two very different phenomena and that the use of a common term for both is confusing. If we do use the common term, we should pay attention to the occupational and the general level of the culture. National cultures differ primarily in the fundamental, invisible values held by the majority of their members, acquired in early child hood, whereas organizational cultures are a much more superficial phenomenon residing mainly in the visible practices of the organization, acquired by socialization of the new members who join as young adults. ***National cultures change very slowly if at all; organizational cultures may be***

consciously changed, although this isn't' necessarily easy" (ibid, p.92; emphasis added)

To continue with the earlier discussion of the classical trade theories the other criticism rested on empirical evidence derived from the trade structure (particularly) of the US studied by Leontief (1953, 1956). Wassily W. Leontief's study contradicted the HO model in very significant details. He concluded that against the postulates of the HO model based on the USA's structure of export/import, the US was exporting more labour-intensive than capital-intensive goods even though US had a comparative advantage in capital. A number of other studies were undertaken (Keesing, 1974; Keesing, 1968; Gruber, Mehta, & Vernon, 1974; Vanek & Diab, 1959) and their predominant focus was on the importance of specialization and competitive advantage of nations. This in other words, means that seeking out positions of advantage based on either specialization in production, or advantage in resources and capabilities would be the most rational approach to compete effectively in the global markets. The international trade with its concepts of specialization spawned the global economy and the genus of the multinational and global companies, which go beyond national boundaries. It also created the genre of Interdependence, Dependence and Interconnectedness of the various players of the worldwide economic field including governments, the international institutions, the global companies and indigenous companies and businesses. This is reflected in the words of O'Sullivan (2004), writing in *The National Interest.* He says,

'Yet nationalism also runs counter to other trends: namely, that the internet and globalization are shaping a borderless world in which multinational corporations are more powerful than governments; that transnational bodies from the European Union to the International Criminal Court are usurping powers that once belonged to sovereign states; and that new non-governmental organizations claim to represent public opinion on the international questions more faithfully than democratic governments (p 1)'.

It should be apparent that in this age and time, no Government is totally independent in making economic decisions in isolation. A major role in moderating the economic policies particularly in the LDCs is played by the international institutions where governments negotiate to secure what is perceived to be their national interests. In the next section, a brief review is presented of the possible implications of the role of multinational and the international trade organizations, such as the WTO and the GATT on the economic policy formulation of nations and the development of business strategies by the business organizations.

3.4 The Multinational Corporation

The globalisation of markets for an ever-increasing number of products and services has been complemented by the speed of technological diffusion. This has created an aggravating sensitivity to the external conditions on the economies of many countries. Low wages, sophisticated processes and improving productivity levels are all putting pressures to reduce unit costs, sometimes with devastating affects on many businesses. Multinational Corporations (MNCs) contribute both to the volatility resulting from the manner and location of production, and the flow of goods and services across national borders. Their presence suggests the possibility of strategic alliances, transfer of technologies, strategic investment decisions and economic development of critical resources. These will have powerful impacts on the division of labour and the distribution of incomes. They will not only affect the deliberation of governments and leaders around the world but also underscore most of the strategic threats to the national businesses. To further compound these impacts, is the rapidly growing international financial integration, which facilitates the swift transfer of funds between markets in response to changes in the economic conditions, real or imagined. Alterations in the relative interest rates available in various economies can hasten the shifts of large sums of monies in pursuit of higher returns. The perceived changes in the economic prospects of respective countries, therefore, initiate precautionary flights from the weaker to the stronger economies, wreaking havoc in the aftermath of such transfers[13].

This argument can be extended a little further and it can be suggested that economic and market interconnectedness, as apart from political dependence and interdependence suggested earlier[14], is the outcome of the growing visibility and activity of the Transnational Enterprise[15] (TE) and Globalizing conglomerates (The MNCs). Therefore,

[13] Mahatir Mohammed, Prime Minister of Malaysia, has criticized this condition extensively in the wake of the South Asian monetary crisis.
[14] See Barry Jones (1995), definitive constructs of Dependence and Interdependence
[15] The term Transnational Enterprise is being used interchangeably for Transnational and Multinational Corporations, even though they are meant to portray two distinct types of organizations. The term here

interconnectedness instead of being a passive set of links is truly a dynamic form of globalization process. At the base of this process is the transcendental nature of the TEs and the MNCs, which also identifies these Multinational organizations as a major source of the tendency for increased international interdependence. The reason for this fact is that these conglomerates wield financial and political powers capable of influencing international events. These powers result from the sheer size of the monetary value that is associated with these corporations, which in turnover volumes and budgets far exceed those of many developing countries.

The broad conclusion, therefore, that can be drawn from above is that businesses within the developing countries are influenced by the businesses and policies of other countries. It also suggests that the strength and intensity of the influence is determined by the relative position of a nation whether it lies in the Core or Periphery, as well as the economic development of the country (d'Epinay & Necker, 1980). It is, therefore, important that businesses particularly in the developing countries should broaden their frameworks to incorporate the global environment and seek knowledge of effective business practices and strategies to become successful. They, therefore, need to judiciously adjust and adapt their business practices by incorporating and assimilating new thought and approaches. To do this they need to research business practices and strategies in terms of their appropriateness to their specific situations at a rapid pace or get left behind.

As mentioned earlier, an understanding and knowledge of behaviours and strategies including those that the MNCs adopt when entering new markets in the developing economies will help the local indigenous firms to develop and adopt behaviours and approaches that will enable them to successfully meet this challenge of globalization. This area of study is broad and it is not the purpose or intent of this thesis to enter into this field in any details. The only aim in briefly visiting these areas is to prepare some background to help understand frameworks that already exist in these business environments resulting from the impacts of globalization. Further, it will assist in interpreting information that we receive from these settings to help us develop thoughts on how a firm that exists in these environments, can be sensitive to these issues, not be intimidated by them and still become successful.

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implies that these corporations do not have any fundamental country allegiance and operate in more then one country.

3.5 The World Trade Organization (WTO)

On January 1, 1995, the WTO was created as part of the results of the Uruguay Round of Trade Negotiations concluded on the 15 Dec, 1993 and it is an incremental change from the existing GATT system (Winham, 1998). It became the first truly international organization to be created after the end of the cold war and thus completes the third pillar of the international economic organization along with the IMF and the World Bank. It has now been given a legal identity, which was missing in the GATT and hence, conforms to the legal presence of the IMF/World Bank. In the words of one representative of its leading member states namely the US, (The US trade Representative Mickey Kantor),

"Some will liken (the WTO) to other international institutions. This is a contract organization not a charter organization. It does not operate the way in which other international organizations have operated, neither by history nor by what we've agreed to under the Uruguay Round"[16].

According to Prof. John Jackson of the University of Michigan (who initially coined the word WTO), legal uncertainty and political weakness characterized the GATT as a result of incrementalism in its system. There were over 180 agreements with differing purposes and memberships sometimes not entirely consistent with the GATT itself. The imperatives of creation of what ultimately came to be known as the WTO were stated in a paper tabled by the EC in June 1990.

The main functions of the organization are:

- Administering and implementing the multilateral and pluri-lateral trade agreements.
- Acting as a forum for multilateral trade negotiations.
- Seeking to resolve trade disputes.
- Overseeing national trade policies and
- Co-operating with other international institutions in the global economic policy formulation.

[16] Hearing on GATT before the Committee on Commerce, Science and Transportation of the US Senate, 16 June 1994 p.52 quoted in (Winham G.R.1998)

The biggest threat to the WTO is the spectre of protectionism as a consequence of the prescription, which enjoins upon the countries of the world the recognition of *'sustainable development'* as well as provides that the relations between the members should be conducted *interalia* 'to protect and preserve the environment'.

3.5.1 Protectionism

Protectionism, which is rooted in theories of Nationalist Political Economy, has been practiced by most of the developed and the developing countries at one time or the other. In the present times, protectionism in the developed world seems to be the major impediment in the smooth implementation of the global liberalization of trade and in bringing the world closer in terms of mutuality on interests. One of the major achievements of the GATT had been its success in lowering the tariff barriers universally and the substantial increase in the world trade as the world exports during 1969 to 1973 (HBS case series, 383-174). The flip side of this success has largely been ignored. There has been a rapid rise of uncertainty among the players, such as the business managers, the government policy makers' in the global business environment (Fatemi, 1997). What is normally ignored is the severe pressure created by enormous social changes unleashing new political forces whereas commentators contend that the euphoria of success in trade liberalization masks the dark waters of instability that is being created in 'emerging' and 'transitioning' economies, (Garten, 1997). The current flurry of protectionist fervour, however, may come from within the developing markets as a backlash to the rapid globalization of business (Garten[17], 1997). The reason for concern and a threat to reversal of reforms lies more in the fragile political and social structures that surround the economic structure in these developing countries. In such a scenario, one of the major task ahead for the MNC's and the TE's is to develop capabilities that will allow them to anticipate and respond to the upcoming disruptions in the emerging markets. However, it is in the interest of the world that the possibility of an economic backlash and social upheaval is kept in mind while aggressively pursuing the cause of globalization and free trade particularly when faced with the slow process of development of stable political systems in the LDCs.

In the next section we will look at the possible approaches to strategy, which will take into consideration not only the firm and market environments but also considers incorporating

[17] Garten was under secretary of Commerce in the first Clinton Administration and is now the Dean of Yale School of Management, New Haven, Connecticut.

the non-market environment. The importance of the non-market environment is determined by the policy imperatives of the governments, not to mention protectionism, which could well be used (for any number of reasons) by the developed countries as a tool against the products of the developing world. These combined with the affects of the international institutions that have already been highlighted in the above sections require a more integrated strategic approach.

3.6 Globalization and Strategy Link

In the past century the concept and theories of international trade, as laid out in the earlier section of this chapter, have undergone considerable improvement in the manner in which the underlying assumptions were constructed. However, it can also be said that the economic foundations on which they rest remain more or less unchanged. It can be, therefore, proposed that those managers who belong to countries, which have heretofore remained on the periphery and are now being dragged into the mainstream of the globalization, should be looking at the new paradigms or analytical frameworks of business. These business leaders, managers and government policy makers will have to understand the constructs of the rapidly evolving market frameworks within the overall setting of the international trade and business as they come in direct competition with the MNCs. The business managers, specially will have to learn to respond with appropriate strategies so that they can sustain their long-term viability or fail.

Most of the literature on globalization strategies or internationalization strategies suggests that the global managers must look beyond their product markets when calculating their global strategies (Hamel & Parahalad, 1988; Young, 1987; Leontiades, 1986 etc.). This advice is more significant and true for business leaders of indigenous local firms in the LDC's who intend to compete or are already competing against the TEs or the MNCs on their own home ground. These business managers as opposed to the global managers at least have the advantage of knowing their own territory. This is one of the key factors in laying a successful strategic base, as Sun Tzu, the Chinese strategist, proclaimed the importance of knowing the terrain of the battle (Cleary, 1991, translation). It is, therefore, imperative that these managers and leaders develop a greater understanding of the forces that drive the winds of change in the global economy. That is, if they are to avoid being surprised, otherwise this will result in the loss of the initiative they can gather from the advantage that they have in the form of knowledge of the local markets, which can be put to effective use against the MNC's (Dawar & Frost, 1999). Strategists in this situation, therefore, must seek to integrate the synergies between strategies that seek superior performance in the market place and the non-market[18] strategies that shape the competitive environment[19]. Baron (1997) suggests,

"A market strategy is a concerted pattern of actions taken in the market environment to create value by improving economic performance. A non-market strategy is a concerted pattern of (collaborative) actions taken in the non-conceptual framework for strategic situation involving International Trade and Policy—the non-market environment, to create value by improving overall performance. For a business strategy to be effective these two components must be integrated and tailored to [the firm's] competencies"

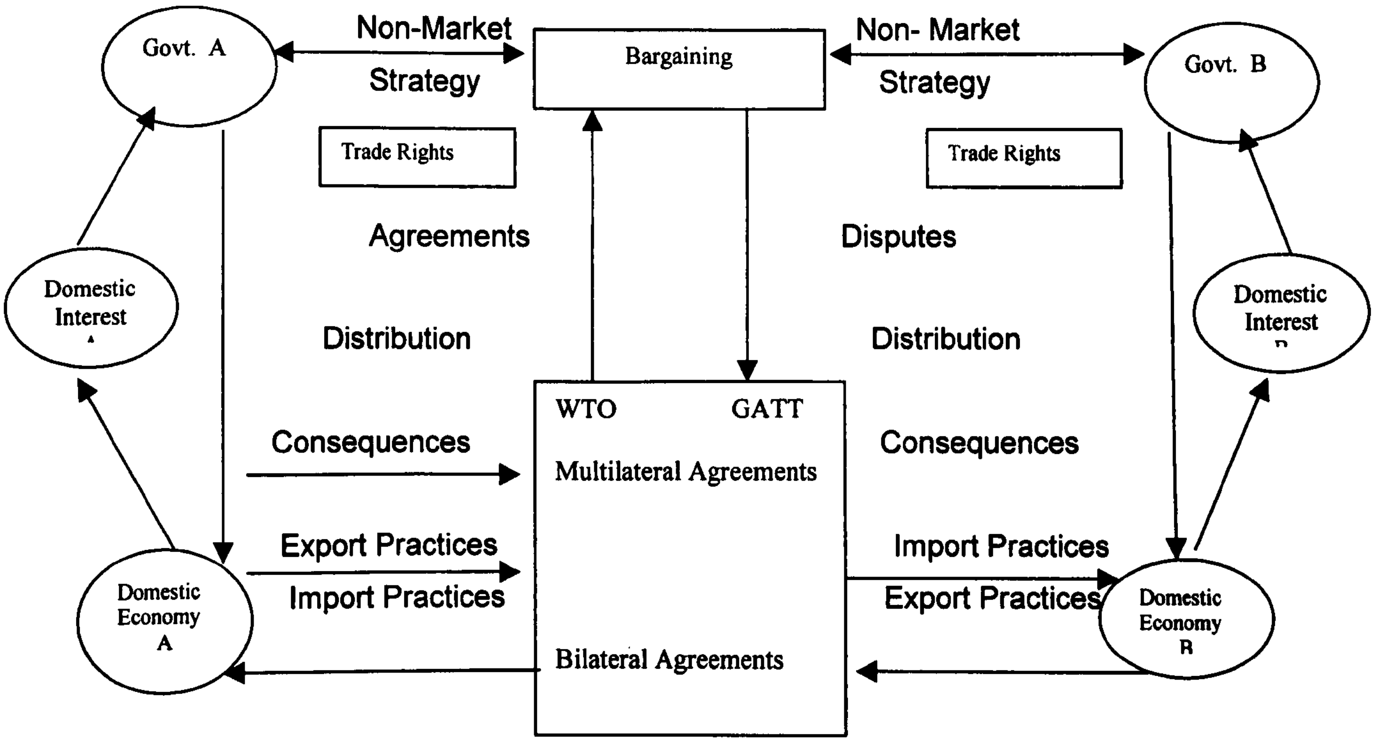
Figure 3.1 presents a conceptual framework of the strategic situations confronting the business managers. It portrays the holistic view of the various forces in operation that has to be taken into consideration by the managers.

Using a two-nation example the Fig. 3.1 lays out the possible numbers of interaction underway at any moment of time. The close end loop suggests that each component is simultaneously affecting and being affected by the players mentioned in the shapes. One can easily see the process illustrated. For example, the import-export policy of either governments A or B, as well as the rules regulating international trade and business practices enforced by the international institutions such as the WTO, will affect both the countries policies as well as the domestic economies.

[18] Non-market environment is to a large extent nation specific. The non-market strategy does not directly generate revenues as market strategy does. Returns from this non-market strategy are in the shape of enhanced returns from the market strategy.

[19] Competitive environment in this context is being used to imply a broader perspective than the mainly local industry's operative environment and includes the environment, which is structured by the international trade and the global players.

Figure 3.1 Market and Non-market Environments
Conceptual Frameworks for Strategic Situations



The businesses operating in the domestic economies governed by domestic interest as formulated by the above interactions, would in their own turn affect and be affected by the policies of their governments. Any disputes and agreements settled or negotiated are completed within the framework set by the rules and regulations of the international trade bodies, which in turn affect the governmental policies of the two countries. Therefore, new paradigms or analytical frameworks of the International Trade and its impacts should be looked for. The business managers and business leaders, as well as the government policy makers, will have to understand the constructs of the rapidly evolving strategic situation frameworks and respond with appropriate strategies to sustain long term viability.

While a number of frameworks could be developed to provide a systematic basis for analysis, Fig. 3.2 suggests one such framework that will also be used in this thesis while analysing the current trends in the business environments of a developing economy. The benefits of using such analytical frameworks as referred above are that they provide a model for reasoning an issue or a strategic situation. They lead up through a format from the abstract, which organizes relevant information required for evaluation to the specific evaluation of alternatives (Besanko, Dranove, & Shanley, 1996; Oster, 1994).

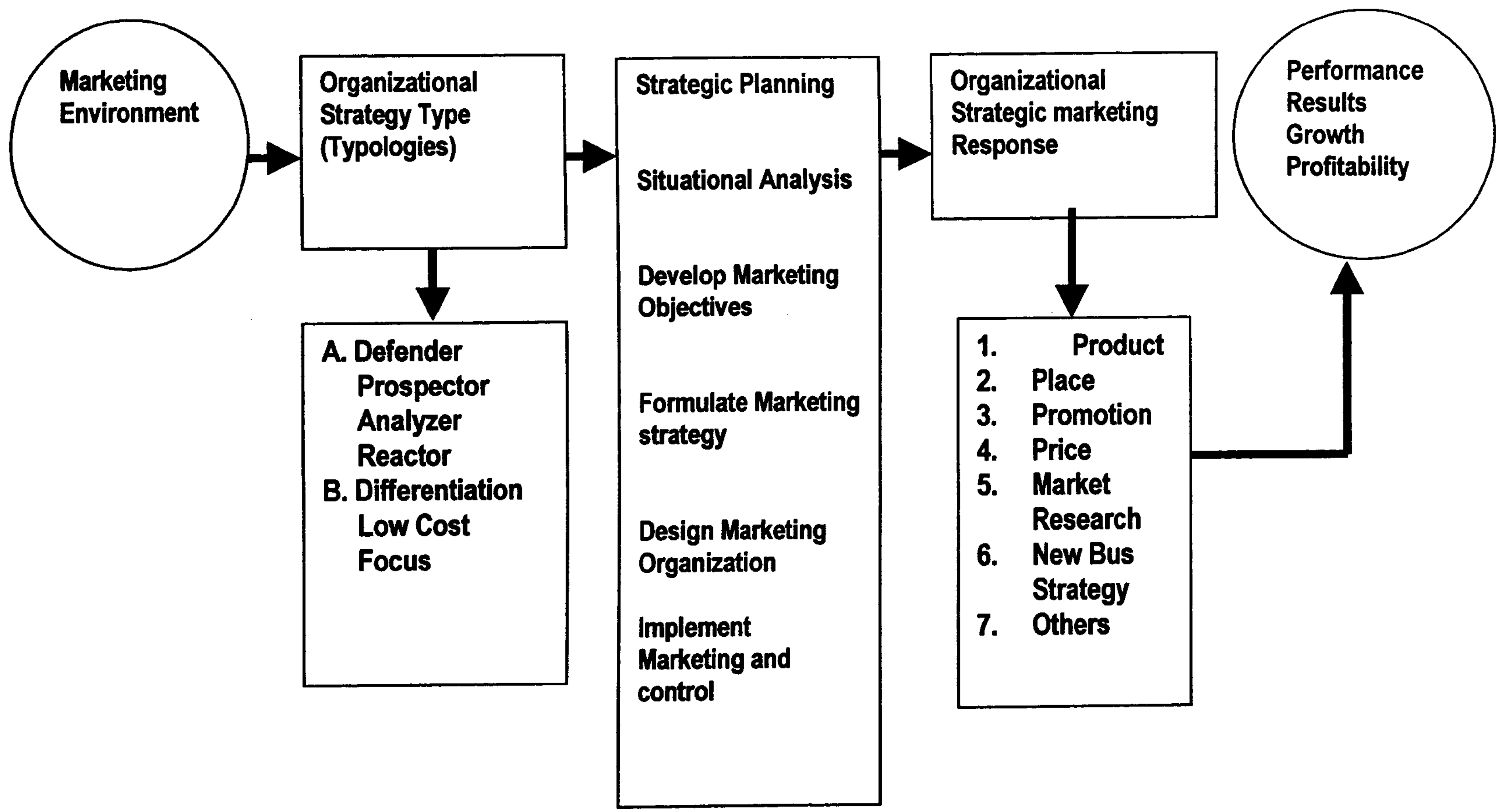
"*The managers have to develop effective strategies to sustain competitive advantage for their organizations in a rapidly evolving business environment. An effective strategy, therefore, would be the product of a strategy system that consists of conceptual frameworks, core strategies, policies and action plan*", (Baron, 1997, p 73-85).

As a first step, therefore, we need an evaluative framework that takes into consideration the integrative strategic approach and suggests the performance impact of strategic responses. As indicated above, a framework suggested by Baron (1995), is adopted here for illustrative purposes, which also forms the basis of the analytical frame of reference for this thesis. For example, the thesis aims to focus on evaluating the marketing environment of a developing economy, such as Pakistan, along with the impact of globalization on its systems, which is the subject of Chapter 2; the organizational strategy types; the organizational strategy development and response process with its focus on planning and marketing activities as well as the result of these actions in the shape of the firm performance. These themes will be the part of chapter 4 and 5. In other words, the Figure 3.2 incorporates the following:

1. A conception of the environment of business in terms of the two inter-related components of the business environment i.e. the market and the non-market environments as indicated in Fig. 3.1. This also takes into consideration the characterizations of the environment in terms of strategy related factor and is identified under the caption of 'Marketing Environment'.
2. A conceptual framework that brings together the characterizations of the external environment and the internal capabilities of the firm as a basis for strategy formulation. This framework provides for the system of analysis of the strategic situations and evaluating the strategy alternatives in the form of typologies of strategies and is identified under the caption of 'Organizational Strategy Types'. Where a strategy system or typology identifies synergies between the market and non-market components of an integrated strategy incorporating a fit between the environment and the firm's capability.

3. The third framework refers to the process by which a strategy is formulated and implemented. This relates to the strategic planning process and focuses on the marketing strategy development. This framework is identified under the heading of 'Strategy Planning'.
4. Approaches to effective development and implementation of the organizational response in terms of the integrated marketing strategy. This involves highlighting the activities and processes that form the basis of the response in the shape of the components of the marketing strategy. These are identified under the heading of 'Organizational Marketing Response'.
5. Finally, empirical evaluation of the effectiveness of the integrated marketing strategies in the shape of performance results. These performance results can be both quantitative in terms of share volumes, sales profits etc and qualitative in terms of achieving objectives, brand loyalty etc.

Figure 3.2 Relationships Between Marketing Environment, Strategic Types, Strategic Response and Performance



3.7 Conclusion

In conclusion, this chapter briefly reviewed the globalization process that has been driven by the growth of international trade and the rise of the MNCs. This coupled with the growth of information technology has heightened competitive pressures across industries and nations. As a result, rapid change, uncertainty, multiple options and an over abundance of information characterizes the market environments of today. The contrasting environmental factors of the developed and the developing economies have also created a different set of pressures for the business managers in the developing countries as against their counterparts in the developed world. In the developed world stability has helped managers to fine-tune their approaches and to take a long-term view of their industries, along with focusing more on developing theory and co-opting practices. In the developing world, managers and academics having been forced to play the catch up game are hard pressed to come to terms with the oft-changing scenario and hence, have often opted to implant untried and untested practices. Their task now seems to be more onerous. They have to begin to mature and join in the development and validation of business practices that are more attuned to their special circumstances. This is particularly important, as they will be forced to confront new situations arising in the environment of international trade and business.

Moreover, business leaders everywhere, who are charged with the long-term viability of their organizations, need to develop their organizations with the help of viable strategic direction and integrated strategies. These managers need to carve out a meaningful strategic position and perform a particular set of activities better than their competitors. These set of activities must lead to and form the basis of their competitive advantage in the market, given the market and non-market environmental conditions, as manifested by the marketing mix that is part of their strategic response (Porter, 1996),.

The next two chapters provide the literature review of topics on strategic orientation and marketing capabilities as they relate to the firm performance that forms the theoretical base of this thesis. Chapter 4, therefore, is based on the literature on firm performance, and the sources of firm performance in terms of competitive advantage theory and the Resource Based View. This will then lead to Chapter 5 focusing on Organizational Strategy Types, the Planning Process, the Organizational Marketing Response in the form of marketing activities and market orientation. These topics as indicated earlier are part of the framework for understanding the relationships and their integration that is presented in Fig 3.2.

Chapter 4

Literature Review: Competitive Advantage and Resource Based View for Competitive Performance

4.1 Introduction

The introduction to the thesis discussed themes such as marketing strategy (strategic orientation), marketing capability and market orientation that are significant in their contribution to the firm's performance. Firm performance has been under investigation for decades. During this period of research in factors affecting performance, different and contrasting themes have surfaced, which have attempted to explain the underlying performance differentials. Institutionalized leadership, with the objective of identifying factors associated with differences in business performance was generally provided by PIMS database[20] (Buzzell, 2004).

However, till the 70's most research on strategy was devoted either to the elaboration of strategies or strategic planning (Aktouf et al., 2005). In contrast to this stream, Porter advocated the strategic positioning of a business in a given industry (Porter, 1980), which primarily applied the structure-conduct-position paradigm using the I/O perspective (Aktouf et al., 2005; Stoelhorst & Raaji, 2004; Barney, 1986). This approach is basically deterministic and depends solely on external environmental conditions for performance, and has met with some valid criticism (Aktouf et al., 2005) of being static and over simplistic.

For example, according to Porter's 'Five Force Model', managers must choose to locate in an industry that displays favourable forces. But Porter does not have much to offer for those firms, which exist in industries where the forces are unfavourable. In other words, in an unfavourable industry either the firms must be the dominant ones or exit (Aktouf et al., 2005). The reality, however, is that firms are not only existing in such unfavourable industries but often do well. In contrast to this approach the resource based view (Peteraf, 1993; Barney, 1991; Grant, 1991), offered an explanation of performance through the deployment of firm specific resources. This internally focused approach has been advocated as the real determinant of competitive advantage and dates back to Penrose

[20] Strategic Planning Institute where the PIMS was housed after 1975 has closed its office. PIMS Europe, however, is still operative and therefore effectively PIMS is not operating in North America anymore (Buzzell, 2004)

(1959). Even this framework is not without its critics (Priem & Butler, 2001). There are researchers, however, like Hooley, Broderick and Möller (1998, p.97) who suggest a form of reconciliation between these two approaches through the concepts of competitive positioning. In their opinion 'positioning decisions' seek to find a match between market requirements (external) and company abilities (internal).

Consequently the objective of this chapter is to review the pertinent literature in the marketing and strategic management disciplines, which has been shown to impact firm's business performance as well as review literature on a generalizable set of capabilities that could be as relevant and significant in the emerging market economies as they are in the developed economies.

The main topics that the thesis intends to cover in this literature review include firm's performance; the competitive advantage theory; marketing strategy and the relevant literature on strategic management; the resource based view; market orientation and marketing capabilities. This is difficult to cover in a single chapter without making it too tedious. It is, therefore, intended to divide this literature review in two separate chapters. Chapter 4 will look at the pertinent literature on firm's performance as this is the central focus of business activities pursued by the firms. The same chapter will also review literature on competitive advantage theory. Concerns with competitive advantage, as we shall see, have given birth to a number of theories, frameworks and paradigms (Morgan et al., 2001; Teece et al., 1997).

Competitive advantage, it has been proposed, also forms the link between strategic activities as well as capabilities and performance. Finally, this chapter will also review literature on the Resource Based View (RBV), which has variously been proposed as one of the latest and dominant though a controversial framework as the source of competitive advantage (McGuiness & Morgan, 2000; Rumelt, 1984 etc). Chapter 5 will present the literature review on themes such as strategic orientation, marketing strategies, market orientation and marketing capabilities, which will play a fundamental role in developing the research framework of the thesis as well as the hypothesis that will be tested subsequently.

4.2 Firm's Performance

Organizational performance has become an important component of empirical research in the field of business policy (Dess & Robinson Jr., 1984). Therefore, measuring performance is attracting academic and managerial attention (Clark, 1999). Researchers frequently take performance of organization into account when investigating organizational phenomena such as strategy, marketing activities and capabilities.

Since effectiveness of action can only be judged in the form of an outcome, therefore, impact on performance needs to be incorporated in research, where necessary, to demonstrate the value of prescribed behaviour. This is very much in line with the normative approach taken in strategy and marketing (Olson et al., 2005; Clark, 1999; Conant et al., 1990; Dess & Robinson Jr., 1984).

Firm performance has been under investigation for decades. Since the beginning of research into performance, different and contrasting themes have surfaced, which have attempted to explain the underlying differentials in firm performance. However, the institutionalized leadership, with the objective of identifying factors associated with differences in business performance, was provided by PIMS database (Buzzell, 2004)[1].

Given the unprecedented attention that performance is attracting (Clark, 1999), it should be noted that researches in the field have not evolved a consensus on what constitutes organizational performance. This section, therefore, aims to highlight the various aspects that are associated with concept of performance and its measure. The end result would be to facilitate operationalising the concept.

In 1982, Ford and Schellenberg had examined major frameworks that have been frequently used to conceptualize organizational performance. They found that there were three largely used frameworks. One perspective, the goal approach (Etzioni, 1964), assumes that organizations pursue ultimate and identifiable goals. This perspective, therefore, defines performance in terms of goal attainment. For example, this could be in the shape of meeting a market share objective; a target profit or return on asset/equity objective; a reduction in complaints and an improvement in customer satisfaction objective. A second perspective, the systems resource approach (Yuchtman & Seashore, 1967), stresses the relationship between the organization and its environment. It defines performance in terms of the organization's ability to secure scarce and valued resources. Finally, the process approach (Steers, 1977), defines performance in terms of the behaviour of organization participants. This is what could be called as the Constituency Approach (Dess & Robinson, 1984). *The constituency approach* views the organization as existing to benefit numerous "Constituencies", both internal and external to the organization, with Organizational Performance assessment focused on fulfilment of constituent needs (Thompson, 1967).

Later, with marketing becoming the focus as a driver to future sales and, therefore, profit as well as overall growth, (Sheth & Sisodia, 1995) the focus has also converged on marketing performance measures. However, to date, organizational proficiency, effectiveness or performance is continuously being measured as outcomes to strategy or marketing behaviour in different ways using different and at times diverse variables (Clark, 1999). This can be verified by a cursory look at Table 5.1(Chapter 5), where studies on market orientation and performance have been reported.

Table 4.1, adopted from Clark (1999), will further inform about the various measures used in different studies. Economists have studied firm's failure and bankruptcy as against survival (one aspect of performance). Survival of firms, in itself, is an important area for study in the evolution of organizations, as survival is a perquisite condition for success (O'Connor, 1994). Financial theorists have identified discriminating variables, which predict firm's demise two to five years prior to occurrence.

For example, financial theorists have used the Altman's ratio or Z-score calculations (Altman, 1968; 1973) to emphasize the financial health as a predictor of failure. However, from a marketing perspective these financial indicators only reflect the underlying maladjustment of the firm to the changing environmental requirements and the shifting key success factors of the business. This is given to mean that marketing actions and activities cannot be taken without due consideration of their financial impact. This further suggests that any shift in the key variables that contribute to the financial success of the firm, forms part of the domain of the marketing activities.

Table 4.1 *Literature Review Summary*

Single Financial Output Measures	
Profit	*Goodman (1970, 1972); Sevin (1965).*
Sales Revenue	*Feder (1965).*
Cash flow	Buzzell and Chussil (1985); Day and Fahey (1988).
Non financial measures	
Market Share	Buzzel and Gale (1987); Jacobson (1988); Szymanski, Bharadwaj, and Varadarajan (1993).
Quality of Services	Bucklin (1978).
Adaptability	Bhargava, Dubelaar, and Ramaswami (1994); Walker and Ruekert (1987).
Customer Satisfaction	Anderson and Sullivan (1993); Anderson, Fornell and Rust (1997); Donaher and Matson (1994); Fornell (1992); Fornell, Johnson, Anderson, Cha, and Bryant (1996); Halstead, Hartman, and Schmidt (1994); Hauser, Simester, and Wernerfelt (1994); Oliva, Oliver, and MacMillan (1992); Peterson and Wilson (1992); Piercy and Morgan (1995); Selnes (1993); Spreng, MacKenzie, and Olshavsky (1996); Teas (1993); Teas and Palan (1997); Voss, Parasuraman, and Grewal (1998); Yi (1990).
Customer Loyalty	Anderson and Sullivan (1993); Dick and Basu (1994); Fornell, Johnson, Anderson, Cha, and Bryant (1996); Jones and Sasser (1995); Oliva, Oliver, and MacMillan (1992); Reichheld (1994), Selnes (1993).
Brand Equity	Aaker and Jacobson (1994); Ambler and Barwise (1998); Barwise (1993); Keller (1993, 1998); Haigh (1998); Lassar, Mittal, and Sharma (1995); Selnes (1993); Simon and Sullivan (1993).
Input Measures	
Marketing Assets	Piercy (1986); Srivastava, Shervani, and Fahey (1998).
Marketing Audit	Brownlie (1993, 1996); Kotler, Gregor, and Rodgers (1977); Rothe, Harvey, and Jackson (1997).
Marketing Implementation	Bonoma (1985, 1986); Bonoma and Crittenden (1988).
Market Orientation	Day and Nedungadi (1994); Deshpande and Farley (1998a, 1998b); Han, Kim, and Srivastava (1998); Kohli and Jaworski (1990); Kohli, Jaworski, and Kumar (1993); Jaworski and Kohli (1996); Narver and Slater (1990, 1998); Slater and Narver (1994); Wrenn (1997).

Multiple Measures	
Efficiency	Bonoma and Clark (1988); Dunn, Norburn, and Birley (1994); Kotler (1977).
Effectiveness	Sheth and Sisodia (1995); Walker and Ruekert (1987).
Multivariate Analysis	Bhargava, Dubelaar, and Ramaswami (1994); Spriggs (1994).

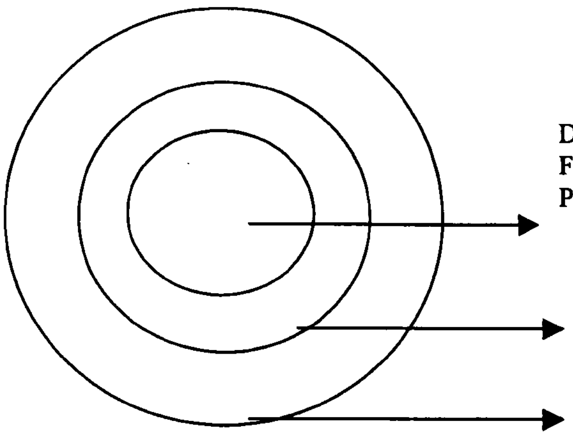
Adopted from Clark (1999)

In other words, any shift in the direction of the key success factor of the business, without a concomitant shift in the firm's stance, will impact the firm's competitive advantage arrangement and financial performance. In turn, this suggests the imperatives of continuous alignment of the firm's strategies with its environment for firm performance (Venkatraman & Prescott, 1990), and its various correlates. A study of 74 top companies selected from the top five over a 15 year period suggested performance to be associated with some specific attribute of an organization. These attributes included a broad product line accompanied by geographic diversity; an emphasis on planning coupled with sound financial controls and reporting systems; a high level of commitment to product and process innovation; investments in modernization of manufacturing facilities; a reputation for superior quality and customer service and progressive human resource management practices (Varadarajan & Ramanujam, 1990).

Performance, whether in terms of survival and failure or in terms of high performing companies against low performing companies, nevertheless, is a difficult concept to operationalize (Carmeli, 2001)[21]. There are differing viewpoints on how performance should be measured or whether a broad view should be adopted which looks at the over all organizational effectiveness or focuses on the limited financial performance measure or adopts a medium of combining financial as well as operational performance measures. This is illustrated in Fig 4.1 given below, which has been adapted from Venkatraman and Ramanujam (1986).

[21] For a detailed review of the history and interrelationships of performance measures see Clark (1999) and also Venkatraman and Ramanujam (1986)

Figure 4.1: Circumscribing the domains of business performance



Adopted from Venkatraman and Ramanujam (1986)

Financial Performance: The Domain of performance constructs in most strategy research including sales growth profitability including measures such as ROI, return on sales, return on equity, earning per share etc.

Financial plus Operational: The enlarged domain reflected in recent strategy Performance: research and include measures such as market share, new product introduction, product quality, marketing effectiveness etc. Similarly market share position, widely believed to a determinant of profitability (Buzzell, Gale, & Sultan, 1975) would be a meaningful indicator within this perspective.

Organizational Effectiveness: The broader domain reflected in most conceptual literature in strategic management and organizational theory. This domain is however very general and broad and therefore, there are still no appropriate models of measurement for organizational effectiveness (Cameron and Whetten, 1983).

The debate on the source of variations in firm performance is on going. There are opinions whether these measures are related to the factors in the firms external or its internal environments or both and what are these factors. There are also a variety of meanings that are being ascribed to the concept and it can be viewed in different contexts. For example, is the short term or the long-term performance being measured, and is the interest in measuring the financial or the organizational benefits? In the extant literature there are, however, two broad perspectives regarding performance. On one hand there is the subjective approach that is concerned with equating the performance of the firms in relation to their expectations, and on the other the more objective perspective uses relativity to competition (Appiah-Adu, 1998; Pelham & Wilson, 1996; Verhage & Waarts, 1988). The second method, which is more objective, is based on the use of absolute measure of performance (Hooley & Beracs, 1997; Cronin & Page, 1888; Chakrvarthy, 1986)[22].

"*There are many ways that 'top performers' might be defined. These include use of hard financial data on the last accounting period (accepting the pitfalls of different accounting methods), assessment of performance relative to objectives (which may have been ambitious or cautious) or relative to the previous period (improvers). Factors can include financial (e.g. Profit, ROI, cash flow), productivity (costs), social (employment provision) or market (sales and market share)",* (Hooley & Beracs, 1997, p. 151).

Some other studies have used the two concepts in conjunction with one another and have also reported a strong association between the subjective and the objective measures (see for example Venkatraman, & Ramanujam, 1986)[23]. Hooley and Beracs (1997) in their study also defined top performing companies, which reported both superior financial (Profitability) and market (market share) performance. Jaworski and Kohli (1993) on the other hand also used both the methods and obtained reliable responses but only for their subjective dimensions.

It is, nevertheless, clear in the extant literature on strategy and marketing that firms, which want to perform well, must secure CA in the market. As such most businesses and marketing strategy researchers emphasise developing and sustaining a CA to achieve superior performance (Day, 1994; Teece et al., 1997, etc). The assumed link between CA and performance is not disputed. Porter (1985), for example, notes that sustainable CA forms the basis of above average returns in the long run. It has also been contended that the firms focus their strategic and competitive activities towards securing CA in the

[22] See also Cronin, J and Page, T (1988), "*An examination of the relative impact of growth strategies on profit performance*". European Journal of Marketing 22, pp 57-68.
[23] See also Robinson and Pearce (1988), "Planned pattern of strategic behaviour and their relationship to business unit performance", Strategic Management Journal 9, pp43-60.

business environments, where consequently these become the sources of CA, which is the real focus of this thesis. It is, however, to be noted that CA in itself is not the focus of the thesis. CA, nevertheless, is the framework around which firm's performance is predicated and its obvious importance while reviewing pertinent literature. Therefore, the thesis now turns to look at the concept of CA. In the following section the thesis will review how firms try and secure CA and undertake specific strategies to sustain and safe guard the same

4.3 Competitive Advantage (CA)

For long organizations have sought to achieve a sustainable CA especially in 'uncertain and changing environments' and central to the deliberations of business and marketing strategy and a common belief among researchers is that the key to achieving superior performance is to gain and sustain a CA (Day, 1994b; Day & Wensley, 1988). The idea of sustainable CA surfaced in 1984 when Day suggested types of strategies that may help to "sustain the competitive advantage' (Day, 1984, p.32). The actual term emerged when Porter (1985), discussed the basic strategies of differentiation, low cost leadership and focus that firms can adopt to achieve CA. Interestingly Porter (1985) presented no formal definition for the term.

The notion that superior performance requires a business to gain and hold an advantage over competitors is central to contemporary strategic thinking. It is also generally recognized that strategy formulation and implementation takes place at different levels in a diversified corporation. This gives rise to the desirability of identifying the various levels at which the strategy processes are undertaken therefore, the thesis will briefly review literature on this in chapter 5, so that the level of strategy which will be the focus of this study, is recognized.

Whatever the theoretical framework applied, the task to constantly keep the organization focused on sustaining the competitive advantage that it secures in the market place, falls upon the marketing executives. It is their task to formulate, adopt and effectively implement appropriate strategies, which aim to seek an effective fit between the organization and its changing marketing environment. In simpler terms, it is proposed that the fit between the strategy and its context, whether external (e.g. Hofer, 1975; Prescott, 1986; Anderson, 1984; Bourgeois, 1980); organizational structure and characteristics (e.g. Chandler, 1962; Rumelt, 1986; Rindova & Fomburn, 1999), and managerial characteristics (e.g. Chandler, 1962; Andrews, 1971; Gupta & Govindarajan, 1984), all have significant implications for gaining competitive advantage and performance. Nevertheless, there are a number of research streams within strategy literature that try to explicate on what is competitive advantage, how to gain and sustain it and to identify the sources of competitive advantage. Among many, this thesis has identified at least three broad beliefs in literature on strategic management and competitive advantage theory that enable the firms to secure CA in the business environments, which forms the base of the framework for this thesis.

The first belief places a renewed emphasis on delivering superior quality products and services to the customers (Bitner, 1992: Day & Wensley, 1988; Parasuraman, Berry, & Zeithaml, 1985) relative to competition. The focus of this belief is essentially external. Among the holders of the second belief, it is felt that organizations should be more practical in considering trade offs between the external environments and strategic initiatives in search of the ideal or best practices and reflect the adaptive cycle to explain sources of competitive advantage and performance. The focus of this belief is both internal as well as external. This group is largely represented by Miles and Snow (1978); Snow and Herbiniak (1980); McKee, Varadarajan, and Pride (1989); Venkatraman and Prescott (1990). An off shoot of this group suggests a more behavioural and cultural approach, which involves organizations to foster a market orientation to support strategy development and implementation (Kohli & Jaworski, 1990; Narver & Slater, 1990; Day, 1994). This group prefers cultures and behaviours that constitute an internal focus that is applied to the external environment of customers and competitors to create performance differentials. Finally, the group that holds the third belief is essentially internally focused on the resources and skills that a firm possesses, which allows it to secure a CA in the competitive business environment (Day & Wensley, 1988; Barney, 1991; Prahalad & Hamel, 1990; Peteraf, 1993; Morgan & Hunt, 1996).

For example, in the third stream, Day and Wensley (1988) focused on the elements involved in CA. Specifically they identified two categorical sources of CA: superior skills, which are the '*distinctive capabilities of personnel that set them apart from the personnel of the competing firms*' (p.2), and "superior resources", which are '*the more tangible requirements that enable a firm to exercise its capabilities*' (p.3). Similarly, Morgan and

Hunt (1996) propose that the firm's resources can be combined in order to form higher-order resources or competencies from which the firm can eventually secure CA.

According to Day and Wensley (1988), 'no common meaning of the term *Competitive Advantage* is yet available'. They further state that, "There is no common meaning for 'competitive advantage' in practice or in the marketing strategy literature", (Day & Wensley, 1988.). They link this ambiguity to the 'confusing welter of overlapping meanings of competitive advantage'. For example, the term, sometimes, has also been used interchangeably with *'distinctive competence'*. Distinctive competence really means relative superiority in skills and resources and is perhaps the source to achieve competitive advantage in the market place and not competitive advantage itself. Selznick (1957) had very early explained distinctive competence as referring to those things that an organization does especially well in comparison to its competitors.

The ambiguity in developing a complete definition of Competitive Advantage may perhaps stem from the difficulty of the task that requires a complex, multidimensional portrayal of all points of superiority or deficiency between a business and its competitors (Day & Nedungadi, 1994). To overcome this problem, Day and Wensley (1988, p2), propose that there may be a method. They suggest that an organization should distinguish the sources of CA from the consequences for relative competitive position and performance superiority. In their proposal of a balanced assessment of CA, they explain the sources of CA as superior skill and superior resources, which translate into positional advantage in the shape of superior customer value. This positional advantage then produces performance outcomes which include customer satisfaction, loyalty, market share and profitability. However, where it may be possible to determine what the competitive advantage is, it will still be difficult to measure its relative position in the market, as CA really is a concept that can only be understood in relative terms.

In order to offer a formal conceptual definition of the term CA it will be helpful to take note of two definitions for the term competitive advantage, which are offered in the literature that comes closest to the requirements of the thesis and are given by Kerin, Mahajan, and Varadarajan (1990) and Barney (1991).

First:

'*Competitive advantage is the unique position an organization develops vis-à-vis its competitors through its pattern of resource deployment and/or its product-market scope decision*' (Kerin et al., 1991).

Second:

'*A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy*' (Barney, 1991, p. 101).

The consideration in offering these two definitions is to highlight the interrelationship of both capabilities and strategy in defining the concept of competitive advantage. This proposition derives from a very logical observation advanced by Prahalad and Hamel (1990). They assert that to achieve a position of competitive advantage; businesses must develop capabilities in key functional areas. However, the competitive advantage that has been achieved has to be sustained to enable the organization to reap long-term benefits. Sustainability must logically then flow from the acquisition and continuous development of capabilities, which are unique immobile and non-transferable. Therefore, to be sustainable these capabilities should be difficult to imitate by the competitors and should support the organization's business strategy (Day & Wensley, 1988; Barney, 1991; Day, 1994).

As mentioned above notwithstanding the apparent unanimity on the importance of Competitive Advantage the scope and definition of the term lends itself to ambiguity. Keeping in mind the earlier suggested definitions, it will be appropriate to look at the ensuing debate surrounding the alleged sources of the advantage and hope that that would explicate further on the meaning and its implications. This will also help in identifying the area of focus of the marketing strategy and the area of capabilities to be developed in the key functional areas. On the other hand it should be noted that to sustain Competitive Advantage the managers need to know what CA has been achieved. This in turn depends largely on the managers' own representation of what they believe their CA is (Day & Nedungadi, 1994).

4.4 Sources of Competitive Advantage

A study by Cockburn, Henderson, and Stern (2000), suggests three major streams of literature, which tried to identify what are the sources of competitive advantage. These are, 1), the active presence of a superior leadership based itself on historical analysis and careful qualitative work. Examples of such research work included Andrews (1971), and Chandler (1962); 2) the resource based view (RBV) as enunciated by Wernerfelt (1984), Barney (1991), and Peteraf (1993); and 3) the positional framework, developed by Porter (1985), which focused on structural analysis of the industry. Porter ended by prescribing that firm secures a competitive advantage through differentiation, cost leadership or focus. This stream was derived from the structure-conduct-performance paradigm.

RBV, on the other hand went beyond the environmental analysis and positional framework by suggesting that market position reflected the internal organizational capabilities such as product development or understanding customer's needs or taking advantage of technology in a more cost efficient manner (Cockburn, Henderson, & Stern, 2000). According to Teece et al. (1997), on the other hand, the sources of competitive advantage cluster around a few loosely structured frameworks or paradigms. They identify the following three paradigms and add a fourth, which they consider to be as yet in its emergent stage.

According to them the dominant paradigm during the 1980's was the one provided by Porter and involves the competitive forces approach (see above). This model emphasizes the action a firm can take against the five competitive forces, which constitute the industrial structure. These competitive forces include the entry barriers, threat of substitution, the bargaining power of the buyer, the bargaining power of the seller and the competitive rivalry among the industry incumbents, while, the relevant strength of these forces determines the profit potential of the industry and its subsequent allocation amongst the forces.

The second approach according to Teece et al. (1997) is what they refer to as a strategic conflict approach, which they suggest, is also closely related to the competitive force approach in its focus on product market imperfections, entry deterrence and strategic interaction. Utilizing the tools of game theory it was first propounded by Carl Shapiro in his 1989 article titled "The Theory of Business Strategy". Seeking to analyze the nature of interaction between rival firms it sought to reveal how a firm can influence the behaviour and actions of the rival firms and thus influence the overall market environment (*behaviour*). The tools that were used by the firm to influence the competitors included strategic investments, pricing strategies signalling and the control of information. The two approaches mentioned above, according to Teece et al. (1997) appear to view that rents flow from privileged product market positions and therefore, these two have also come to be referred as the positional approach to competitive advantage (see above).

The third source of CA is based on the development of fundamental firm-level efficiency advantage. Teece et al. (1997) propose that this third approach actually has two sub approaches:

One sub strand according to them is referred to as the 'resource based perspective[24]' (Hooley et al., 1990; Chandler, 1992; Barney, 1991; Wernerfelt, 1984; Rumelt, 1984) and emphasizes the firm specific capabilities and assets and the existence of isolating mechanisms as the fundamental determinants of firms performance. They identify an inherent weakness in RBV that keeps it from being a comprehensive paradigm in developing an understanding of CA. They base this view on the assertion that it does not explain the nature of the isolating mechanism that enables entrepreneurial rent and sustainable competitive advantage. They, therefore, have proposed another approach the second strand mentioned above, which they call the 'dynamic capability' approach. As Teece et al. (1997) note;

"It is this second dimension, encompassing skills acquisition, learning, and accumulation of organizational intangibles or 'invisible' assets ..... that we believe lies the greatest potential for contribution of the (DCA) to strategy" (pp. 514-515). In general, this approach in strategy literature is being referred to as the Dynamic Capabilities Approach (DCA), which is now dominating the strategy analysis (Mcguinness & Morgan, 2000).

This approach, as stressed by Teece et al. (1997), can achieve, sustain and protect CA through the continuous alignment and combination of competencies and resources. This

[24] This RBV has already been mentioned in the earlier expositions of the sources of CA. In this respect this approach seems to the one that has received growing focus from strategy researchers, with its merits and critiques.

has advantage over the earlier mentioned resource based approach in that it helps to identify focus and exploit firm specific competencies to address changing environments. The focus of this approach is in the development of management capabilities and difficult to imitate combinations of organizational functional and technological skills. This view seeks to integrate and draw upon such diverse areas of management as management of R&D, product and process development, technology transfer, intellectual property, manufacturing, human resource and organizational learning.

Juxtaposed to Teece et al. (1997) proposition of sources of competitive advantage is provided by Day and Nedugadi (1994), they offer the positional view of strategy utilizing firms' assets and resources in securing CA. In their view, they add that the CA that the firm secures is the result of the ability of the management to *position* the firm's assets against some external context. This proposition is also been supported by Hooley and Greenley (2005); Hooley et al. (1999); Porter (1996); Hooley, Broderick, and Moller (1998).

"*Competitive Strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value----the essence of strategy is in activities-choosing to perform activities differently or to perform different activities than rivals*" (Porter, 1996, p. 64)

In other words, these positional and performance advantages are a consequence of relative superiority in two interwoven sources of advantage: assets and capabilities. Assets are the resource endowments the business has accumulated, such as the scale, scope, and efficiency of facilities and systems; brand equity; financial conditions; and patents. Capabilities are the embedded skills and knowledge that enables these assets to be deployed advantageously (Stalk, Evans, & Shulman, 1992; Teece, Pisano, & Shuen, 1991).

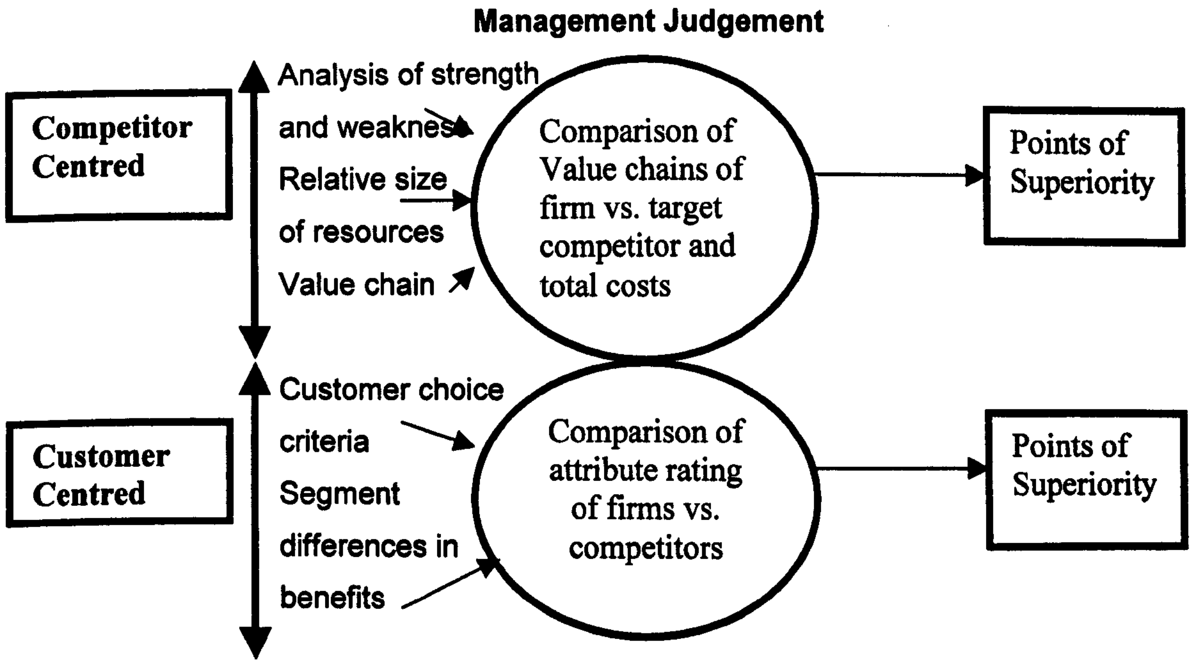
Finally, Day and Wensley (1988) also suggested two further perspectives on how the advantages can be gained. One is competitor centred and is usually observed in stalemated industries, while the other is customer centred and works backward from the customer benefits within the end use segment, to identify the actions to be undertaken by the firm that are necessary to enhance performance. Their framework for assessing advantage is reproduced in Fig. 4.2.

Nevertheless, it was Porter who crystallized the issue of positioning the firm against industry competition and proposed the two basic strategy types (Cost leadership or differentiation) that would secure CA for the firm (Porter, 1980, 1985).

4.4.1 The debate

The debate surrounding the concept of CA relates not only to the various approaches to CA, but also revolves around what actually constitutes CA (Day & Wensley, 1988). It is, however, usually the top marketing executives and their interpretation of what constitutes this advantage (Day & Nedungadi, 1994), as well as their consistency in deploying resources to gain desired capabilities, that help sustain it. These capabilities are generally associated with the ability of managers especially marketing managers to interpret the environment and then formulate an appropriate response (White, Varadarajan, & Dacin, 2003). It is also likely that different managers while viewing the same environment may arrive at different perceptions of it, which leads them to respond differently in terms of whether they appreciate a market situation to be an opportunity or threat (White, Varadarajan & Dacin, 2003).

Fig. 4.2 A framework for assessing Advantage



Reproduced from Day and Wensley (1988)

The main question, however, that continues to agitate searching minds is how and why certain firms build CA (Teece, Pisano, & Shuen, 1997). Hunt and Morgan (1995) for example, propose the theory of comparative advantage in resources. They suggest that differentials in resources enable firms to find and develop competitive advantage in the market place. This in turn creates performance differentials amongst them. While fully subscribing to the concept of firm's strategic assets and resources as being the source of competitive advantage, this thesis takes the view that it is the managerial skills (Pascale, 1990; Day, 1984) and capabilities of the work force (Porter, 1990; Handy, 1990) that also enable the firms to convert comparative advantages into competitive advantages that ultimately leads to the firm's superior performance.

Another perspective on how to gain and sustain competitive advantage, which also forms the rallying point of the proposition of this thesis, is given by Prahalad and Hamel (1990). They suggest two areas that will help determine how a firm can generate its competitive advantage through effective resource deployment. They propose that the firm should focus on the marketing orientation culture and the capabilities in the key functional areas to locate the firm's competitive advantage. Sustainability of competitive advantage must logically then flow from; first the acquisition of the most suitable resources; second from continuous improvement or developments in them; and third from continuously evolving combinations of these capabilities and resources that can be developed deployed and protected (Teece et.al., 1997).

In turn these capabilities, if they have to be sustainable sources of competitive advantage, should be difficult to imitate by the competitors and should support the organization's business strategy (Day & Wensley, 1988; Barney, 1991; Day, 1994). Or to put it another way, strategies should be based on these capabilities and only then these capabilities will be able to support strategies, as strategies cannot be developed in a vacuum but rather have an underlying resource base to make them effective. Further, it is only possible if capabilities combine in unique ways based on market needs if a process is institutionalized that enables the firm to do so.

4.4.2 Summary

In summary then, when it is suggested that there are various approaches to determine the source of competitive advantage this thesis strongly endorses the proposition made by

Teece et al. (1997), that sources of competitive advantage cluster around a few loosely structured frameworks or paradigms and can be located in various areas of the firm's activities. It is further proposed that it is important to understand the relationships between various resources and the culture where they are bred to get a better picture of what and where can the source of competitive advantage be located for the firm.

Further, the idea on which the above section is largely based suggests that firms generally possess heterogeneous resources and capabilities, which can be deployed to achieve CA for the firm and which will contribute to the differences in performance. These could be tangible assets, such as physical and financial assets or intangible, such as human capital and reputation (Grant, 1991) including managerial skills (Pascale, 1990; Day, 1984) and capabilities of the work force (Porter, 1990; Handy, 1990). It is understood that these capabilities may not necessarily be present but could be accumulated or developed over time through complex interactions between firms resources (Amit & Shoemaker, 1993). These assets can then be deployed advantageously (Day, 1994). Teece et al. (1997) proposed that the abilities a firm accumulates or develops reflect the firm's ability to build or reconfigure them in response to the environment. Most businesses and marketing strategy researchers, however, emphasize developing and sustaining a competitive advantage as the key to achieving superior performance (Day, 1994; Teece et al., 1997 etc).

4.5 Resource Based View of the Firm

4.5.1 Introduction

Literature, as suggested in the above sections, is very explicit on the point that having a sustainable competitive advantage ensures that the firm can continue to be successful in its business environment. The assumed link between *Competitive Advantage* and *Performance* is not disputed. Porter (1985), for example, notes that sustainable competitive advantage forms the basis of above average return in the long run.

In an era of intense competition, M&A's and globalisation, the survival of individual firms depends on the extent to which they are able to enhance their competitive advantage in the global market place. Holding such a competitive advantage over rival firms is believed to be the source of achieving superior business performance (Day & Wensley, 1988; Day, 1994). The sources of competitive advantage have been widely researched (Porter, 1990) and briefly discussed above. The thesis finds considerable merit in the proposal made by Prahalad and Hamel (1990) that the management should take a two-sided approach in looking for the possible sources of competitive advantage. These two approaches can be explained using two major paradigms: First, the resources and capabilities of the firm. This perspective is internally oriented and what the thesis suggests is the supply side and what is also known as the Resource Based View (RBV) of the firm.

RBV theory largely advocates that firms are composites of idiosyncratic resources and capabilities (Fahy, 2000; Prahalad & Hamel, 1990; Teece et al., 1999; Barney, 1991; Dickson, 1992; Hunt & Morgan, 1995) and sustained competitive advantage comes from having a set of these unique resources, which when effectively deployed creates value in the market (Barney, 1991; Fahy, 2000). Such firms, it is proposed, have an internally oriented framework (Miles & Snow, 1986; McGee & Thomas, 1986) and are defenders or rigid non-adaptive businesses (Miles & Snow, 1978) as they seldom seek opportunities, which come from an external outlook. This in turn suggests a lack of marketing emphasis because the main focus is on operational efficiencies (Wright et al., 1995). This view will be discussed in the following section 4.5.2.

The second perspective is externally oriented that the thesis calls the demand side, whereby the firm constantly tries to relate to its external environment using market orientation and adapting an appropriate strategic posture. Market orientation as we know involves a duality of active interest i.e. customers and competitors focus (Day & Nedungadi, 1994; Webster, 1994; Slater & Narver, 1994; Jaworski & Kohli, 1993 among others) where information generation is the central activity of the firm (Jaworski & Kohli, 1990) and this will be discussed in chapter 5.

4.5.2 The RBV

According to the RBV, the firm's resources are the main drivers to firm ability to secure competitive advantage (Fahy, 2000; Grant, 1991; Schoemaker, 1990) and return superior performance, (Wernerfelt, 1984; Mahoney & Pandian, 1992; Fahy, 2000). The firm's resources according to Barney (1991) are defined as *"all assets, capabilities, organizational processes, firm's attributes, knowledge etc, controlled by the firm to conceive of and implement strategies that improve its efficiency and effectiveness"* (p. 101) and sustain competitive advantage. According to Collis and Montgomery (1998, p.

27) they are *'the substance of strategy, the very essence of sustainable competitive advantage'*. Not all the firms' assets, however, are resources as not all resources can be sources of competitive advantage (Michalisin et al., 1997). Only those resources that are or can become the source for competitive advantage for a firm are called strategic assets (Amit & Schoemaker, 1993; Barney, 1991). These assets are strategic resources if they are valuable, are rare and are imperfectly imitable and non substitutable (Barney, 1991; Peteraf, 1993). In other words, a strategic asset or a resource or a capability to become the source of competitive advantage must be (Hoopes, Madsen, & Walker, 2003):

1. Valuable. A valuable resource enables the firm to improve its market position relative to competitors (Barney, 1991). For example, resources acquired at a price below their discounted net present value can generate rents (profits that do not attract entry) (Peteraf, 1993). Further explanation is that to be valuable the resource or capability should allow the firm to create a strategic fit with its environment and exploit opportunities or neutralize threats and also enable a firm to secure a competitive advantage in the market that will determine and differentiate the performance of the firms.
2. Rare. To be of value in sustaining competitive advantage resources must be available in short supply relative to demand. In other words, these should be rare and only a few firms should have the same or similar resources.
3. Isolated from imitation or substitution. To be rare, resources need to be immobile and costly to imitate or to replicate. And therefore, have imperfect imitability. In other words, it should be difficult for other firms to imitate them or acquire them and they should also be non substitutable. That is to say that no other resource should be able to perform in the same manner towards the same end.

However, as stated, not all resources are strategic in nature. For example, computers may be an asset and therefore, a resource that is important for managing records. But in themselves they are not strategic, as other firms could own similar computer systems. However, combined with the proprietary soft ware, that the firm owns and uses for developing an efficient and effective management information system is strategic in nature as most likely this soft ware is valuable in providing an edge to the decision makers of the firm as well as being rare so that not many firms own similar packages and at best can be imitated but not exactly and any other substitute will not be as efficient and effective making it relatively difficult to replace.

Resource Based View (RBV) thus advocates that the firms are a composite of idiosyncratic assets or resources (Barney, 1991; Peteraf, 1993). These resources

1) May be financial, human, intangible, physical, organizational or technological (Farjoun, 1994);
2) Are both tangible and intangible and include physical and financial assets as tangibles and human capital, reputation and capabilities as the intangibles; and their presence in the firms leads to competitive advantage (Medcof, 2000).

RBV also suggests that it is the differential that exists between firms in the ownership of these resources that explains to quite an extent the differences in the performance of the firms (Mahoney & Paridan, 1992; Wernerfelt, 1984), while generating economic rents (Godfrey and Gregersen, 1999). Verona (1999), following a detailed literature review, argued that it is capabilities, which have the fundamental qualifications to be called the resource as they are the primary source of economic rents, they accumulate over time, are strictly idiosyncratic (Dierickx & Cool, 1989) and have the properties of being valuable, are rare, are imperfectly inimitable and are difficult to be substituted (Barney, 1991).

It is necessary to understand though that competitive advantage can erode over time, particularly in a fast changing environment (Bettis & Hitt, 1995). Keeping in mind that strategic resources are normally capabilities (Verona, 1999), there is a strong case to be made to ensure that the firm not only owns but also invests in capabilities, which can help the firm to develop, deploy and coordinate different resources (Amit & Schoemaker, 1993; Grant, 1996; Teece, Pisano, & Shuen, 1997). That is to say that the firms, while they do posses some form of capabilities at any given period, should seek to develop those which can help other capabilities to evolve with time. This will enable the firm to keep it aligned with the requirements of the opportunities that exist in the market and also help to neutralize competitive threats so that the firm continues to sustain its competitive advantage in the market.

In this same context some writers strongly connect capabilities with business processes (Stalk et.al.,1992) where capability or competence is a set of business processes strategically understood. Hence, the company's success depends on transforming its processes into strategic capabilities that consistently provide superior value to the customer (Juga, 1998). Most researchers however use these two synonymously (McGuinness & Morgan, 2000).

A detailed discussion on whether strategic resources such as capability, competence, distinctive competence or core competence that a firm can own are different or are they the same concept with different terminologies, is not the real intention of the thesis within the context of the research based view, however, the thesis intends to use these synonymously. Nevertheless, a few conceptualizations as provided in the extent literature are offered along with the thesis's view. It is suggested that in its own right this may be an important area to help practicing managers to clear their mental frameworks while viewing their choices of resources to invest in. In distinguishing between competencies and capabilities the thesis borrows a phrase from Iansiti and Clark (1994) who suggests that 'a firm's capacity for action resides in its capabilities'. Putting it this way, competencies may be considered the latent abilities that a firm possesses while capabilities or abilities are the ones that are finally deployed and exploited to gain critical advantage. For example, two firms may be competent to do certain things but one of them may be more capable than the other. Or putting it in another way, two equally qualified doctors may both be considered equally competent based on their qualifications to carryout a particular procedure but one would be more capable than the other to perform better in a given circumstance based on his experience. In the same form competence may be assumed to be the technological know-how and the knowledge that resides in a firm or an individual. It is the exploitation of two together in terms of action that generates experience and therefore, creates 'The Capability' or what can be called the distinctive capability, which differentiates it from other firms.

Distinctive Competence, on the other hand, which may include the development of marketing capabilities, is a thing that an organization is capable of doing especially well in relation to its competitors (Selznick, 1957; Andrews, 1971; Snow & Hrebiniak, 1980). If done better in comparison to the competitors they become the wellspring of sustained competitive advantages (Day, 1994; Day, 1990; Mckee, Varadarajan, & Pride, 1989; Day & Wensley, 1988).

Core competence finally, can be viewed as that competence which is at the 'core' of the firm's current performance. In stating the essence of core competence using Hamel and

Prahalad's (1994) exposition, Mcguinness and Morgan (2000), summarize the attributes as:

- It is a set of inter-related skills
- The skills collectively enable a firm to provide benefits regarded as important by customers
- The form and extent of the benefits gives the firm a substantial competitive advantage
- The core competence cannot be imitated easily and
- It can be used to provide new products or services imaginable by the firms. In other words, it can be leveraged across a wide variety of markets

In the end the position of the thesis is that it tends to agree with the arguments presented by Thomas and Pollock (1999) on eschewing hair splitting on definitional matters and concentrate on verifiable substance. Because, if RBV is true in its assertion that strategic assets and strategic resources are the crucial determinants of CA and firm's success and if strategic assets can be identified, then it would be possible to test the relationship between strategic assets and firm's performance (Michalisn et al., 1997).

4.5.3 Relationship between Strategic Resources

Recently there have been some indications in the extant RBV literature, which has sought to trace the source of the resources, and capabilities that a firm owns or controls (Weerawardena, 2003; Zahra & Nielsen, 2002; Fahy; 2000; Collis, 1994). The research so far is inconclusive but there is a suggestion that there might be some associations and relationships between various resources that could be of interest for theory development in the RBV literature (Weerawardena, 2003; Zahra & Neilsen, 2002). For example, Weerawardena (2003) suggests that Entrepreneurial intensity could be a significant driver to Marketing capabilities which in turn drives innovation based competitive strategies. In the same vein, Azhar et al. (2001), found a similar relationship between MO and technological capabilities in a survey of Chinese firms. They also expressed the role of MO as a driver to technological capabilities.

Such empirically tested frameworks would certainly be of interest to practitioners who would be interested in discovering and then focusing on investing in 'The' capability that could assist them in acquiring, reinventing or rejuvenating other capabilities that their firms either lack or those which have eroded away in the evolving environment of the firm and which might be strategically important from the firm's ensuing business environments. This suggestion results from theoretical postulates that strongly relate development of capabilities and their acquisition to be a continuous process that can be guided and is strongly related to the knowledge and experience that a firm embodies in its various processes (Spender & Grant, 1998).

Entrepreneurial capability, (or managerial capability Fahy, 2000) it is suggested, is one such distinct capability, which guides and tends to bring other capabilities together and focuses them to target opportunity or minimize threats in the firm's environment. This view is in accordance with Castanias and Helfat (1991), where 'top management, in itself is a potential source of competitive advantage' and top management is assumed to possess entrepreneurial capabilities. In the same context it is also suggested that there is strong positive relationship between entrepreneurial capability of the firm and the firm's performance (Covin & Miles, 1999; Covin, 1991). In other words, the theme that seems to be repeated in the RBV literature is that a capability or lack of it has a significant impact on the firm's strategic situation. It is also these capabilities that enable firms to exploit opportunities in the market providing the basis for developing competitive advantage and providing value to the customer. It seems only reasonable to assume that the management's concern should be in selecting, acquiring and managing resources that are superior to the competitors (Rumelt, 1984, pp 557-558).

In pursuit of seeking these associations and relationships between resources, a case in point is the paper by Verona (1999) that proposes a strong relationship between the various capabilities that the firm owns and the product development process. The obvious implication that the paper suggests is that the product development capability i.e. of developing new products is driven by other capabilities that a firm possesses. It also suggests that the difference in performance between different firms in the area of product development stems from the possession and control of other firm specific and idiosyncratic capabilities, as well as how these capabilities are leveraged. That is why different firms demonstrate major difference in their product development performance. Some firms tend to be more proliferate in their product development than others. As this process of product development is based on other capabilities that the firms own that underlie this differential, these might be called 'the product development drivers' (Verona, 1999).

It is clear that the firm's product development capability is also considered to have a positive and a direct bearing on the firm's performance. In the model that she presents, she assigns the lead driver position to the firms 'Technological capabilities' in 'product development outcome' and also suggests that the marketing capabilities are another set of a very valuable functional source of knowledge (Verona, 1999).
The aforementioned marketing topics, concepts and themes and their relationship to the firm's performance have, however, been studied quite extensively in the developed countries (Olson et al., 2005; Kirca et al., 2005; Vohries & Morgan, 2005, 2003; Wright et al., 1995) as suggested in the literature reviewed. For example, the relationship between strategic types (orientation), distinctive capabilities and organizational performance has been examined in a number of studies but all in the developed market context (Desarbo et al., 2005; Hambrick, 1983; McDaniel & Kolari, 1987; Miles & Snow, 1978; Conant, Mokwa, & Varadarajan, 1990). On the other hand there are only a few studies that have looked at one of the above mentioned themes in detail in the developing market context. This theme relates to market orientation and its relationship with performance (Chelariu et al., 2002; Winston & Dadzie, 2002; Subramanian & Gopalakrishna, 2001; Bhuian, 1998; Ngai et al., 1998). The results from these studies are however mixed in nature (Ngai & Ellis, 1998). No study on the other hand, has been proposed or undertaken that considers the impact of marketing strategies, marketing capabilities and marketing activities on performance and their interrelationships in a developing economy context.

This thesis attempts to fill this major gap in the literature. Major arguments have already been presented to establish the very importance of the fact that these concepts and themes should be explored and clarified from the perspective of their application in the research setting of a developing country. This is critical as around four-fifth of the world's population lives in these developing countries, which are rather poor. Hofstede (1993) suggests that forty years after the creation of World Bank, one thing "*is becoming clear that export of western – mostly American- management practices and theories to poor countries has contributed little or nothing to their development*" (p. 86). This statement alone is a challenge to the researchers in the management discipline to verify whether this is true, by studying various management frameworks in different environmental contexts especially the developing market contexts.

In line with the above argument it is believed that it is significant and timely to research marketing strategy and its correlates in the context of a developing market economy. Further, it is important from the point of view of advancement of management theory and management practice in the strategic marketing area to develop new databases. This will lead to the evolution of new insights, which should supplement findings derived from studies undertaken so far in the developed world. This aspect is pointed out by Hooley et al. (1992) when they contended that 'It is therefore desirable to redress the balance of empirical work which is largely North American based to date'. This in turn suggests that these practices will tend to be different for different regions of the world and

"*The assumption that research conducted in the U.S. has automatic application in different parts of the world cannot be supported*", Burton, Fried, and Manigart (2000).

Burton et al. further add that:

"*To date the development of management theory has been on a single culture, that of the U.S*" while Boyacigiller and Adler (1991) argue that "*Americans have developed theories without being sufficiently aware of non-US contexts, models, research and values*" (p.263).

There is, therefore, a need for management scholars to examine how management theories differ for other countries (Wright et al., 2005; Boyacigiller et al., 2003; Hofstede, 1993, 1990; Doktor, Tung, & Von Glinow, 1991), and from the point of view of this study particularly in Asia, and how these differences are shaped by cognitive institutions.

"*We argue that for strategy research in this area to flourish and make lasting contribution there is a need to consider the extent to which theories and methodologies used to study strategy in mature, developed economies are suited to the unique social, political, and economic contexts as well as firm characteristics of emerging economies*" (Wright et al., 2005, p. 2).

4.6 Conclusion

To conclude the above two sections on CA and RBV we note that the rapidly changing competitive arena, in the emergent market countries in particular, and all over the world in general, makes the performance impact considerations of resources and capabilities of paramount importance, both for the large and small sized firms in these countries. On the other hand, holding a competitive advantage in the market over rival firms is believed to be the source of achieving superior business performance (Day & Wensley, 1988; Day, 1994). In the same vein, Teece et al. (1997) suggest that the fundamental question confronting the strategic management proponents is how can firms achieve and sustain competitive advantage, highlighting the importance that is being ascribed to the concept through decades of research in the area.

In this regard it is also suggested that the future will be far more complex than heretofore known to the business manager and leader. This complexity (in relative terms) will be greater in developing markets that were often characterized as oligopolistic and a sellers' market operating under protective tariff barriers. Growing liberalization of these economies is now creating un-chartered impacts. This environmental change has been further spurred by WTO's covenanting articles, which advocate nurturing of an open market economy regime and enforced economic reform programs (Hooley & Beracs, 1997). In order to be able to cope with such shifts in the environmental arrangement, marketing practitioners and researchers alike are increasingly suggesting the necessity of flexibility, building organizational competence, changing customer requirements and rapid response to new challenges (Olson et al., 2005; Vohries & Morgan, 2005, 2003; Boulding et al., 2005; Ponsonby & Boyle, 2004; Yamoah, 2004; Davidow & Malone, 1992; Quinn, 1992; Kanter, 1989; Miles & Snow, 1986). In many contexts, concern seems to have shifted from productivity to customer value, customer relationship management, satisfaction and innovation (Boulding et al., 2005; Vargo & Lusch, 2004; Yamoah, 2004; Srivastava et al., 1998). It further forces the management to focus on the way resources should be managed for creating value for the customers directly or indirectly. Specifically in the relationship marketing and brand management researches, one finds similar strategic implications of creating customer value for competitive advantage and performance (Aaker, 1997; Parahalad & Ramaswamy, 2000; Devlin & Azhar, 2004). For example various researchers (Vargo & Lusch, 2004; Hunt & Derozier, 2004) have suggested the role of marketing in order to develop and manage resources with the end goal of providing customer value,

"It also implies that resources must be developed and coordinated to provide (to serve) desired benefits for customers, either directly or indirectly. It challenges marketing to become more than a functional area and to represent one of the firm's core competencies;

it challenges marketing to take the lead in initiating and coordinating a market driven perspective for all core competences" (Vargo & Lusch, 2004, p 12-13).

This definitive conceptual shift in the assessment of the business managers, from productivity to innovation, customer relationship management, creation of customer value and customer satisfaction, seems to indicate an evolving transformation of economic life (Vargo & Lusch, 2004; Lowendahl & Revang, 1998). This is especially true in the developing market economies where this transformation is coupled with tougher international competition as a result of increased involvement of the multi-nationals in the economic affairs of the world. Add to this a weak demand for primary products except oil, low cost competition from other emerging markets and escalating operating costs (Steel & Webster, 1992) have all contributed, in radically altering the business landscape in these emerging markets. On the other hand, this change, particularly in the developed economies, is being characterized as a change from the industrial (modern) to post industrial (post modern) society and this transformation may turnout to be as fundamental as the one from agrarian to industrial (modern) society (Lowendahl & Revang, 1998). In other words, all of these contributory factors are setting altogether new parameters of business competition in all environments around the world including both the developing and the developed economies.

It can also be assumed that this advantage is environmental specific and therefore, environment (particularly the competitive environment) seems to be a mediator in the development of specific advantages, which can in turn have an impact on firm's performance. The manner in which this will be operationalized is through the actions of the management, based on how they perceive the environment to be and the choice of strategy that they make which largely depends on their assessment of it. The prevalent management wisdom warns that environments (competitive environments) will change based on the interaction and the shift in the power of the competitive forces (Porter, 1985; 1980). Putting it another way, the exit and entry barriers may change, changing the competitive environment, where these barriers can be influenced by a number of factors not the least being the firm's action itself. Porter (1980; 1985) suggested that industry structure strongly influences the rules of the game as well as the strategies potentially available to the firms, in terms of cost leadership and differentiation. Similarly it can be assumed that customer configuration as well as customer characteristic along with the benefits or value that they seek can change over time. The change driver in this case is, increasing market diversity leading to market fragmentation (Sheth & Sisodia, 1999), and indicates the vulnerability of the current advantages that the firms have secured. Since managers from developing countries need to perform in a rapidly changing environment they need to be aware of the changes that are taking place in the industrial structure as well as their product markets in order to continuously monitor their advantage viz. a viz. their competitors. Only in this manner will they be able to sustain competitive advantages and sustain superior performance against the MNCs and this points to the over riding importance of seeking market intelligence both on the customers and the competitor's side as well as coordinating the use of the information in a response that will add value to the customer. In the next chapter, the thesis will take up the issue of market orientation and marketing capabilities in more detail.

Chapter 5

Literature Review: Strategies for Competitive Performance

5.1 Introduction

In the previous chapter literature was reviewed on the performance of the firm, as well as competitive advantage and its likely sources. In that the RBV is proposed as one of the significant paradigms, which forms the source of competitive advantage that the firms secure and thus help explain the differential in performance of the firms. In this chapter literature will be reviewed that is related with the firm's actions in the shape of marketing orientation and strategic orientation that the firms adopt, which in the extant literature, are also considered the other sources of CA and firm performance. It is suggested that these enable the firms to cope with the environment, to survive and to perform well. In undertaking this part of the literature review a brief discussion of the various aspects of strategy including strategic management, marketing strategy and the contribution of marketing to strategy literature will be presented. This will form the first part of this chapter. These themes are not the real focus of this thesis but will provide a platform to explicate strategic as well as marketing orientation and marketing capabilities literature that are central to the thesis and discussion on these topics will form the second part of the chapter.

5.2 Definitions

Before detailing the literature on the above mentioned themes it will be useful to clarify certain definitions. Strategy is centuries old, finding prevalence in a military context (Lee, Chang, & Wee, 1994). However, in the business sense, strategy is a multidimensional concept and operates at different levels, which in turn are associated with the respective management levels of the firm. For example, "*A typical multi-business company has three main levels of management; a) the corporate level; b) the business level and c) the functional level*" (Hill & Jones, 1998, p. 11) where strategies are developed as well as implemented and where the functional level strategies includes strategies such as the marketing, financial, production and R&D (see also Kerin, Mahajan, & Varadarajan, 1990; Day, 1984).

5.2.1 Corporate Strategy

In general, researchers agree that corporate strategy in simple terms is the decision regarding the general direction that the organization will take when it looks at the future. In developing corporate strategy the organization normally needs to answer the following questions (a) what business the organization wants to be in; (b) what product market positions should its business portfolio hold; (c) what sources would be required to achieve these product markets positions and; (d) where would the resources come from.

A major contribution to the understanding of corporate strategy is the well known work of Ansoff (1968). The view taken by him is that corporate strategy is made up of four component parts from which it is possible to develop strategy alternatives. These are summarised below:

a. Product Market Scope. This specifies the industries to which the business will restrict itself while defining broad areas of product market participation.

b. Growth Vector. This relates to the choices that are available to the firms for growth given the alternatives of market development, market penetration, product development and diversification.

c. Competitive Advantages. This is concerned with how to achieve advantage over competitors within the industries and growth possibilities.

d. Synergy. In simple terms this is concerned with the desired fit between the firm and its product markets. In other words, how the strengths and weakness of the firm will affect its market participation.

5.2.2 Business and Marketing Strategy

In a typical developing market context, however, there will be comparatively very few conglomerates or holding companies with large business portfolios. In these environments single business firms predominate and manifest the competitive arena. Most of the companies being single business units the corporate strategy, business strategy and marketing strategy will generally overlap (Stoelherst & Raaij, 2004; Varadarajan & Clark, 1994) with the emphasis resting on business/marketing strategy.

In these contexts the three levels are compressed into two and "*Analysis of strategic practice reveals that while some issues do indeed fall unambiguously into corporate, business or functional area strategic domains, there is also considerable overlap*" (Varadarajan & Clark, 1994, p. 93), reflects this opinion quiet fairly.

In other words, in a firm with a single business unit, strategies are generally concerned with two areas. One is concerned with the highest level decision making (corporate strategy) and relates to deciding 'what business should we be in' (Varadarajan & Jayachandran, 1999; Walker & Reukert, 1987; Hofer & Schendel, 1978) as well as the setting of objectives and allocating resources for the business (Varadarajan,1992), to achieve these objectives (Chandler, 1962, p.13). The second level is business unit level strategies. The business strategy or competitive strategy is largely concerned with how should the organization compete in a given business (Varadarajan & Jayachandran, 1999; Hofer & Schendel, 1978) and the goal here is the achievement and maintenance of CA (Slater & Olson, 2001; Baker, 2000; Varadarajan & Jayachandran, 1999).

Marketing Strategies on the other hand are normally considered to serve to implement the strategic purpose of the organization and act as vehicles or operating tools by which objectives such as CA are secured in the market place (Boulton & Natrajan, 2003, p. 461). For example Chang and Campo-Flores (1980) refer to marketing strategy as being crucial and central to the use of the marketing function while marketing strategy is also seen as being a broad means of achieving given aims (Baker, 1978); the grand design (Kotler, 1976) or fundamental means or schemes (Luck & Ferrel, 1979) to achieve objectives. Thus marketing strategy seems to resemble the business and competitive strategy mentioned above.

Marketing strategies, therefore, are generally concerned with answering the strategic question of how can organizations get from the current position to the desired position as set out in the statement of objectives and represent the contents of actions to be undertaken. Varadarajan and Jayachandran (1999) quote two authorships Day, Weitz, and Wensley (1990) and Sudharshan (1995) where marketing strategy is about 'marketing activities and decisions which relate to generating and sustaining CA' (Day, Weitz, & Wensley, 1990) and 'Marketing strategy as achieving CA' (Sudharshan, 1995). In the same vein Slater and Olson (2001) are explicit in proposing that marketing strategy is concerned with decisions relating to market segmentation and targeting using product price, distribution and promotion, which is in line with Day, Weitz and Wesley's (1990) position. Slater and Olson (2001) further propose that to achieve a value creating proposition marketing strategy relates to resource commitments and capability development in specific areas (p. 1056).

Menon et al. (1999) defined marketing strategy making as a concept that unites planning and implementation of marketing strategy "as a complex set of activities, processes and routines in the design and execution of marketing plans". They included as part of the process of marketing strategy making, analysis of the situation involving the strength, weakness, opportunity and threat analysis; comprehensiveness involving a systematic development and thorough analysis/evaluation of alternative strategies; emphasis of marketing assets and capabilities; cross-functional integration; communication quality; and consensus and commitment. As a framework, all the ingredients belong to business strategy development process. In other words even in the process many authors seem to bring the two conceptualizations of business strategy and marketing strategy together.

Baker (2000, p. 4), on the other hand, quoting Weitz and Wensley (1984) is clear that where business strategy is concerned with achieving and maintaining a CA, the strategic decisions at the business level (business strategy) are concerned with selecting the target market segments and determining the range of products to offer (marketing strategy). To him, therefore, business strategy is largely marketing strategy with other functional strategies all supporting the core marketing strategy, which is aimed at achieving and sustaining CA.

This thesis takes a position similar to Baker (2000) and considers marketing and business strategies the same especially in the context of developing economies where largely single business units dominate the business environment. In other words, the thesis can safely propose that in business strategy development there is a definitive focus on marketing strategy as the central framework which will also guide other functional strategies. This position is theoretically supported by Slater (1995, p.257) who states that,

" *Although marketing is a function, its centrality of the purpose of business makes its definition more similar to that of the business strategy than that of the other functional* *strategies where business strategies are concerned with the question of achieving and sustaining competitive advantage in the chosen industry*"; while additionally Hunt and Caroline (2004) state that,

"*Marketing strategy, of course, overlaps significantly with business strategy. That is strategic decisions in the functional areas of product, promotion, distribution, pricing and the sales force, though significantly developed in marketing are frequent topics in business strategy*" (p. 11).

This framework of over lapping responsiveness of marketing strategy, business strategy and corporate strategy to the environment resulting in firm's performance is presented in Figure 5.1., which has been adapted from Varadarajan and Jayachandran (1999) for the purposes of this thesis. In the extant literature, therefore, the terms marketing strategies are subsumed under business strategies (see for example Aaker, 1998, p.4) while the structured overlap between business strategy, marketing strategy and corporate strategy is the result of the boundary spanning role of marketing (Varadarajan & Jayachandran, 1999; Day, 1992).

At this point a distinction needs to be made between Strategic Marketing and Marketing Strategy[25], which is the focus of this thesis. Strategic marketing is seen in terms of the strategic role that marketing has to perform in the business and is more concerned with the planning process, which is also called the strategic marketing planning (SMP) (Baker, 2000). However, some researchers treat these two synonymously which is not the case in this thesis. 'Marketing strategies is different than strategic marketing even though an impression of synonymous use by different scholars is evident in their writings (Hutt et al., 1988; McDaniel & Kolari, 1987).

5.3 Marketing Strategy and Performance

Research has long been concerned with the role of marketing in the overall performance paradigm and value creating capability of the firm (Stoelhorst & Raaij, 2004; Slater &

[25] A detailed review of the marketing strategy literature can be seen in the studies by Ramanujam and Venkatraman (1984); Zinkhan and Pereira (1994); Varadarajan and Jayachandran 1999; Stoelhorst and Van Raaij (2004)

Olson, 2001; Doyle & Wong, 1998; Appiah-Adu, 1998). More and more anecdotal evidence has also demonstrated that the success and failure of businesses is the success and failure of businesses in the market place, "Firms go out of business not by closing factories but by unprofitable marketing" (O'Shaughnessy, 1995).

A study by Doyle and Wong (1998), seeking out the determinants of high performance in companies based in the U.K., concluded that:

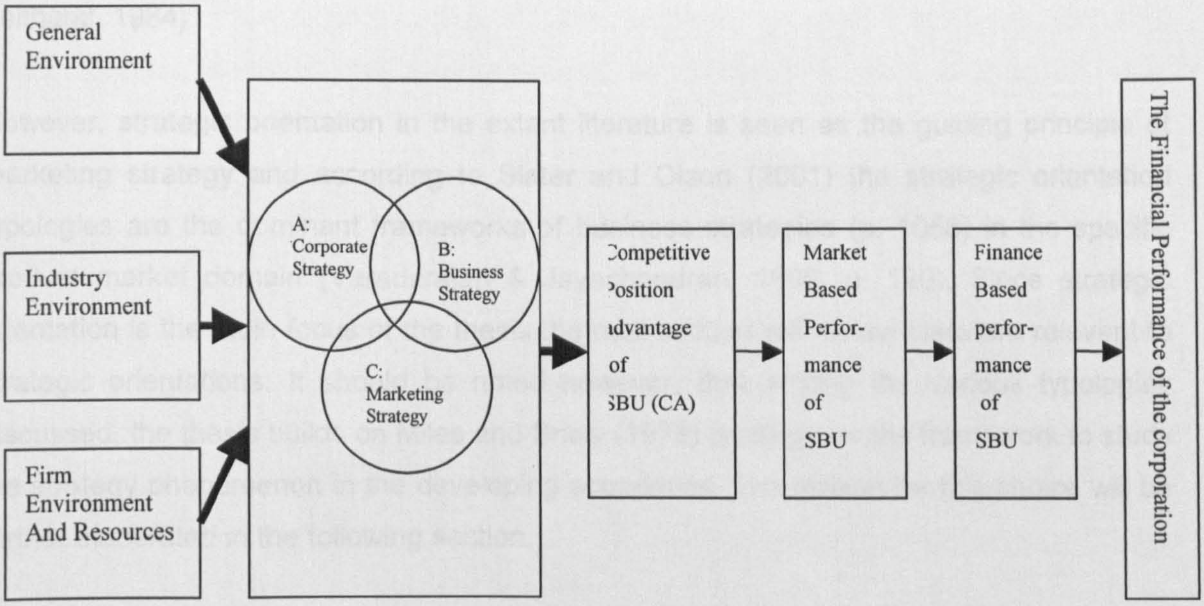
"*Clearly there is a strong correlation between marketing and business performance*" and "*Marketing strategy and marketing planning are also highly correlated with performance. The strongest marketing predictors are a focus on creating sustainable competitive advantage, good cross-departmental relationships, and an emphasis on the real value added innovation rather than trivial differentiation*" (p. 531).

Finally in a recent study, Yoon and Lee (2005) found that marketing strategy has a positive relationship with performance (p. 14)

Stanley (1995) on the other hand found no empirical evidence of the direct contribution of marketing strategy to a firm's performance. He says "*That there is no direct evidence to confirm the direct contribution of marketing strategy to the firms performance seems more ironic at a time when marketing strategy related articles are reported to be receiving 'Outstanding Paper' awards in the Journal of Marketing*" (Stanley, 1995).

These contradictions, therefore, need further evaluations in both environments of the developed as well as the developing economies for the purposes of furthering knowledge. A strong case for research in marketing and strategy-performance relationship in developing economies has already been made. It is reiterated again based on the observation by Varadarajan and Jayachandran (1999) when they ask as to the extent that the strategy-performance relationship observed in the context of US businesses and by extension the developed world businesses is generalizable and/ or exists in other market contexts? Which they believe is an under researched area (p. 136).

Figure 5.1



Adapted from Varadarajan and Jayachandran (1999)

Before proceeding with the review of strategic and marketing themes in detail, which form the focus of this thesis the discussion on marketing strategy and its relationship with business environment, needs to be concluded. In summary, the thesis till now has briefly examined approaches to understanding marketing strategy as applicable to both the developed and the developing market environments. In the context of business environments the role of marketing strategy as an interacting and influencing factor on the circumstances of the business as well as its environment, has been recognized. The success of this condition requires that a more proactive approach should be adopted by marketing strategy to manage these environments. It is also suggested that where changes are happening frequently, and the environment is considered to be dynamic (see Teece et al., 1997); following on the initial path of success with outgrown and redundant strategies could lead to a wrong sense of security. This can result in fossilization, inertia (Levitt, 2004; Levitt, 1960) with a loss of the entrepreneurial spirit, which had brought the initial success to the firm (Bonoma, 1981). It is already known that strategic marketing is considered to be the interface between the firm and its market environment and marketing strategy is the manner or means by which the firm interacts and influences the environment and therefore, "*marketing is the significant force which the organization can call upon to create, change and extend its influence over the environment*" (Zeithaml & Zeithaml, 1984).

However, strategic orientation in the extant literature is seen as the guiding principle of marketing strategy and according to Slater and Olson (2001) the strategic orientation typologies are the dominant frameworks of business strategies (p. 1056) in the specific product market domain (Varadarajan & Jayachandran, 1999, p. 120). Since strategic orientation is the main focus of the thesis the next section will review literature relevant to strategic orientations. It should be noted however, that among the various typologies discussed, the thesis builds on Miles and Snow (1978) typology as the framework to study the strategy phenomenon in the developing economies. The reason for this choice will be further elaborated in the following section.

5.4 Strategic Orientation

Undeniably the strategic posture a firm adopts and pursues is of utmost interest to marketing scholars and practitioners (Mengue & Auh, 2005) while strategic orientations have also been shown to directly relate to the firm's performance. It was suggested earlier (Chapter One) that over the years a study of typologies of business and marketing strategies has received considerable attention from business researchers as frameworks for understanding the normative and prescriptive contents of strategies. Their popularity can be judged by the frequent references that are made in textbooks to some of the popular typologies (Doty & Glick, 1994; Hooley et al., 1992). Among the most dominant ones (Hambrick, 2003) notwithstanding criticisms are Miles and Snow (1978) and Porters (1980; 1985).

Where Miles and Snow (1978) used adaptive capability focusing on the intended product market change to distinguish these strategies, Porter (1980) used two elements that are market scope (Focused or Broad) and source of competitive advantage (Cost or Differentiation) thus focusing on competitors and customers to develop his typologies. It is important to note that these strategic typologies reflect the ideal types (Doty & Glick 1994) and have important implications for typological theories. Doty & Glick (1994) also suggest that inclusion of ideal types serve three purposes.

First, they tend to represent forms that might exist rather than exiting forms; therefore, empirical examples of ideal type are expected to be rare or non-existent. For example a classical prospector type of firm may not exist just like it is difficult to become the cost leader. Second, the ideal types are complex phenomenon that must be described in terms of multiple dimensions and third, ideal types are not categories of organization. Instead each ideal-type represents a unique combination of the dimensions that describe the set of ideal types.

A number of typologies of generic strategic behaviour or orientation have been proposed (McGee & Thomas, 1986; Porter, 1980; Miles & Snow, 1978) and empirically tested (Miller, 1986; Dess & Davis, 1984; Hambrick, 1983 a, b). Further, levels of performance associated with these strategic orientations have been examined as well as their organizational characteristics and the type of environmental conditions under which different types are most likely to be pursued (Olson et al., 2005; Desarbo et al., 2005; Vorhies & Morgan, 2003; Douglas & Rhee, 1989).

The primary objective of such a classificatory scheme is to identify the 'best strategy' or 'competitive position' that yields the best economic performance for the firm. Strategic orientation can be defined as "*how an organization uses strategy to adapt and/or change aspects of its environment for a more favourable alignment*" (Manu & Sriram, 1996, p. 79) or "*the strategic directions implemented by a firm to create the proper behaviours for the continuous superior performance*" (Gatignon & Xuereb, 1997, p. 78). It has been variously defined as strategic fit, strategic thrust strategic choice and strategic predisposition (Chaffee, 1985). Thus, how good the strategy of the firm really is, usually refers to the firm's adaptability to the rapidly changing market place. There are various approaches to grouping strategies, which have been widely employed in practice. There are, however, wide variations in the precise nature of strategy types that have been identified depending on the specific variables that have been used to define strategies as well as methodologies that have been employed to gather data (Hooley et al., 1992; Douglas & Rhee, 1989).

5.4.1 Miles and Snow

For nearly a quarter century, the Miles and Snow (1978) strategic choice typology has been widely embraced and has been the subject of considerable research in both management and marketing literatures (Desarbo et al., 2005). A number of studies can be cited to demonstrate the enduring strength of their typology of strategic choices based on interest, investigation and support. For example studies that were carried out in the last quarter of the last century include Hambrick (1983); McDaniel and Kolari (1987); Meyer (1982); Ruekert and Walker (1987); Snow and Hambrick (1980); Zahra (1987); Conant et al. (1990); Mckee et al. (1989); Shortell and Zajac (1990), while the more recent of such studies include Desarbo et al. (2005); Olson et al. (2005); Vohries and Morgan (2003).

Miles and Snow (1978) originally envisaged strategy as an agglomeration of decisions by which a strategic business unit aligns its managerial processes including the firm capabilities with the environment (Desarbo et al., 2005). Theirs is a comprehensive framework that addressed the alternative ways in which the firm defined as well as articulated the approach to their product market domains to achieve competitive advantage in those domains (Olson et al., 2005). Miles and Snow (1978) identify four archetypes of how firms address these issues of approaching their product market domains. They based their typology on their case study data from four industries. They observed that there were four recurring viable strategies that can broadly cover all the basic strategic orientations. They postulate that these strategies can be pursued equally effectively in any industry i.e. irrespective of the market environment (Douglas & Rhee, 1989). They classified these strategic types as defenders, prospectors, analysers and reactors. The key distinguishing dimensions of the four strategy types were the degree of adaptive capability in product and market development.

Defenders were described as companies engaged in little or no new product or market development. They often compete within relatively secure market niches and the basis of their competitiveness is price, quality, delivery or service. These firms normally direct their products or services to a clearly defined segment of the total market and they offer their target market a full range of products or services while striving to build satisfied customers. Growth is achieved cautiously and incrementally through market penetration. Having chosen their stable product markets, the defender organization protects its domain by offering higher quality, superior service and competitive prices.

Prospectors have a broad product market domain that is in a continuous state of development. These firms act in a proactive manner, seeking growth through product and market developments, changing product lines and thereby creating new market opportunities or capitalizing on emerging market opportunities. They normally employ multiple technologies for different products and try to have flexible technological processes to constantly produce new products.

Analyzers are an intermediate type between the two extremes of defenders and prospectors making fewer and slower product and/or market changes than the prospectors. Their product market domains are characterized by some product markets being essentially stable while some others are changing. They normally have a dual technological core to meet the demands of their stable and changing markets. They are a keen follower of change and imitate the best products and markets of the prospectors through extensive market surveillance. They, therefore, do seek new market opportunities but keep themselves grounded in a specific market. Thus, they are more dynamic then the defenders but less then the prospectors. Growth occurs through market penetration as well as through cautious market and product development.

The one low performing type against the other three types is the Reactors. According to Miles and Snow (1978) these reactors even though a part of the four ideal types were considered as 'residual' type of behaviour as they are forced into a response mode when they are unable to compete as a prospector, a defender or an analyzer. Miles and Snow (1978), also state that these organizations may be classified as reactors when structurally *'the management fails to align strategy and structure and the context in a consistent fashion'* (p. 12). These firms, therefore, lack a clearly delineated strategy and mechanism to adapt to the environment. In other words, these firms respond in an inappropriate manner or use an ad hoc and unfocused approach. Perhaps they never develop a clear strategy with all its accompanying consistencies and may be said to have a dysfunctional strategic orientation (Golden et al., 1995) and may not have mechanisms to respond consistently to their environment (Jennings et al., 2003).

The 'adaptive cycle' inherent in the Miles and Snow (1978) typology suggests an on going process. The cycle embodies the approaches taken by the businesses with differing perspectives on the competitive environment to address three types of problems. First the entrepreneurial problem that deals with the definition of the product market scope; the second engineering problem that deals with the organizations technological systems; and the third deals with the administrative problems arising out of the structure and processes employed by the firm (Olson et al., 2005; Zahra & Pearce, 1990).

For example 'prospectors' continuously attempt to locate and exploit new product and market opportunities; whereas 'defenders' attempt to seal off a portion of their total market to create a stable set of products and customers; while 'analyzers' occupy an intermediate position by cautiously following prospectors into new product-market domains; and finally 'reactors do not have as consistent response to the entrepreneurial problem (Olson et al., 2005). The major implication, however, forwarded by Miles and Snow (1986) is to suggest that each strategic orientation type could perform equally well in the same given environment, which is consistent with the concept of equifinality.

The term is defined (Jennings et al., 2003: Grezov & Drazin, 1997) in the words of Ludwig von Bertalanfy (1960), a biologist who conceived of organisms as open systems and stated that equifinality is the process by which '*the same final state can be reached from different initial conditions and in different ways*'. The concept of equifinality in business management thus suggests that superior organizational performance can be achieved through a variety of different strategies even if the contingencies that different firms face are the same (Grezov & Drazin, 1997, p. 404; Venkatraman, 1990) indicating that strategic flexibility (Child, 1972) is available to firms to affect a choice irrespective of their origin..

This condition as suggested by Jennings et al. (2003) has been observed by many researchers in the field of strategic management where it is considered that no one strategy is superior or inferior then another. And as mentioned above, Miles and Snow (1978) proposed that any of the three more stable archetypical styles (defenders, prospectors and analyzers) are likely to perform equally well, given that they respond to the challenges in a consistent manner.

They further stated that 'reactors' due to their inconsistent pattern of behaviour, '*frequently fall into an unpleasant cycle of responding inappropriately to environmental change and uncertainty; perform poorly as a result and then being reluctant to act aggressively in the future*' (Miles & Snow, 1978, p. 93). Empirical results of research carried out in developed market contexts has also provided sufficient grounds to suggest that reactor type firms are regularly outperformed by the other three types (see Jennings et al., 2003).

The longevity and excellence of Miles and Snow (1978) typology is its innate parsimony, industry independent nature and to its correspondence with the actual strategic postures of firms across multiple industries and countries.

5.4.2 Porter

Porter's framework for strategic management is the basis of a systematic approach to strategy (Aktouf, Chenoufi, & Holford, 2005) that has given Porter the status of the most influential scholar in the field over the past quarter of a century (Barney, 2002). This is not to suggest that Porters view have been non controversial. His views have been controversial, but whether one agrees or disagrees with the premises offered by him his views have crystallised many issues in the field of strategic management (Argyres & McGahan, 2002; Barney, 2002; Brandenburger, 2002).

Based on economic theory of structure, conduct and performance, Porter (1980; 1985) again used case method to derive his generic strategies[26]. Porter firmly argues that there are two generic strategies dominated by cost and differentiation (Aktouf et al., 2005). These typologies introduced by Porter (1980; 1985) have also been widely used. In defining these generic strategies Porter uses two underlying dimensions namely the scope of the market i.e. broad versus narrow segment and the strategic source of competitive advantage i.e. lowest cost position versus differentiation.

Firstly, firms can compete across the industry via their lower cost of production and distribution, preserving higher margins than their competitors. This cost leadership strategy implies that by improving cost structure and offering lower prices the firm gains market share and increase profitability through economies of scale and the learning curve. The low cost leadership according to some critics (Aktouf et al., 2005) is nothing but a reuse of an old neoclassical economic notion that is largely concerned with minimizing

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[26] Hooley et al. (1992) suggest four types i.e. industry wide cost-leadership, industry wide differentiation, focused cost leadership and focused differentiation. However others normally suggest three being cost leadership, differentiation and focus (Douglas & Rhee, 1989). They are the same focused cost-leadership and differentiation being derivatives of focus strategy.

cost with a view to maximizing profits (ibid, p 186). The argument against this conceptualization in the view of this thesis is more to do with the outcome then with the source of the strategic framework. Low cost leadership in the opinion of this thesis implies only one successful firm using this strategy the others will have no option as there is no strategy of being the second.

Secondly, firms can choose a differentiation strategy. Porter (1985, p 120) suggests that a "*firm differentiates itself from its competitors when it provides some thing unique that is valuable beyond offering a low price*". The 'beyond offering low price' clearly points to the competitive advantage. For instance, a firm may develop a competitive advantage by gaining customer loyalty either by innovating and upgrading their products or by offering a unique and valued image via marketing. However, it needs to be kept in mind, as the section of this chapter on 'Competitive Advantage' clearly suggests, that it is difficult to know what competitive advantage really is. Specifically, Porter (1985, p.30) himself defines CA as " *competitive advantage grows fundamentally out of the value a firm is able to create for its buyers that exceeds the firm's cost of creating it*".

Thus, according to Aktouf et al. (2005, p. 186) who cite Klein (2000), this is no way to define CA where CA is being confused or lumped with value bringing further confusion to an already problematic subject. Finally, Porter distinguishes the focus strategy, which is the application of either cost leadership or differentiation strategy to a more narrowly targeted market. It has been, nevertheless suggested that all these strategic orientations have a positive and significant influence on firm's performance (Durand & Coeurderoy, 2001)

5.4.3 Wright et al.

Wright et al. (1991; 1995) offer additional contributions to the area of strategic orientation by explaining strategy as organizational adaptability and organizational rigidity to market change. Organizational adaptability corresponds to an external boundary spanning strategic orientation creating an ability in the firm to adapt to market changes at significant costs. On the other hand, organizational rigidity refers to an internal orientation which is non adaptive to change but can help achieve low cost and efficiency profile. These elements of adaptability and rigidity allow three main types of strategic orientations to emerge: internal orientation, external orientation and dual orientation emphasizing both external adaptability and internal orientation on efficiency.

Firms that adopt an internal orientation have been referred to as defenders or rigid non-adaptive business unit (McDaniel & Kolari, 1987; McKee et al., 1989; Miles & Snow, 1978; Wright et al., 1991). Firms with an internally orientated strategy also correspond to Porter's low cost, low price strategy, with emphasis on operational effectiveness rather than being market driven. Firms that adopt external orientation on the other hand are those who are market-driven, emphasizing new products for emerging market opportunities. Costs of market opportunities are usually not their primary consideration. These firm fall into Miles and Snow's prospector category. Wright et al.'s (1991) third type of strategic orientation is named analyzers and is similar to Miles and Snow's analyzers. These are firms that maintain a dual emphasis i.e. they are both internally and externally orientated. These business units tend to achieve internal efficiency, while at the same time, they also respond to competitors' and emerging market opportunities through product market innovation. As expected among these three orientations, the firms exhibiting dual orientation have been found to show the best performance.

5.4.4 Covin and others

Recent literature has also advocated using an entrepreneurial-conservative dichotomy to establish a firm's strategic orientation (Covin & Slevin, 1991, 1989, 1988; Miller & Friesen, 1982; Naman and Slevin, 1993). This dichotomy has been used extensively in the literature to describe a wide range of organizational systems and firm differences (Yeoh, 1994). Entrepreneurial firms are defined as those willing to take on high-risk projects for the chance of very high return; they are also bold and aggressive in pursuing opportunities. Further, entrepreneurial firms often initiate actions (to which their competitors then respond) and they are frequently first to reach markets with new products (Khandwalla, 1977).

The strategic orientation of these firms approximates those of Miles and Snow (1978) 'prospector' firms (Covin & Slevin, 1989, p. 77). Conversely, conservative firms are defined as having a top down management style, which is risk-averse, non-innovative, and passive, or reactive (Covin and Slevin, 1989) and they resemble Miles and Snow's (1978) 'Defender' firms (ibid, p. 77). In other words, according to Covin and Slevin (1991) based on Miller and Friesen (1982) as well as Karagozoglu and Brown (1988) it can be surmised that most of the strategies can be contained in the typology based on the entrepreneurial-conservative dichotomy. Thus, they propose that the conservative- entrepreneurial distinction represents a concise and theoretically meaningful alternative to the above mentioned typologies (Covin & Slevin, 1991).

In the above section the thesis has discussed four broad frameworks of strategic orientations. Among these Miles and Snow (1978) typology seems to be more dominant as these are also incorporated and associated by researchers working with different variables while defining strategic orientation types applicable to their paradigms. For example Wright's (1991) 'adaptive–non adaptive' framework and Covin's (1988) 'entrepreneurial-conservative' frameworks are both assumed to resemble Miles and Snow (1978) 'prospectors and defender' types in their behaviours and response to the environment. Miles and Snow (1978) have also been cited in over 1000 scholarly works (Ketchen Jr., 2003) giving due recognition to the dominance of their strategic typologies.

As mentioned earlier, the primary objective of development of strategic orientation is to create a strategy for the firm to adopt so it can remain competitive in the rapidly changing business environment of a developing economy. It is generally agreed that firms, which have a strategic orientation, perform better than those, which do not have a strategic orientation and Kerin, Varadarajan, and Peterson (1992) argue that strategic orientations are a determinant of competitive sustainability. In fact, a number of studies have also suggested that groups of businesses could perform well on the basis of a strategic orientation by competing in subparts of their industry environments (Child, 1972; McGee & Thomas, 1986; Miles & Snow, 1978).

Strategic orientation as business strategy and marketing strategy, have been used interchangeably in this thesis as explained in earlier sections. This overlapping of the two is forcefully drawn by Morris and Pitt (1994) who advocate that the unity of marketing and strategy are conceptualized in that "*marketing becomes strategy and strategy becomes an approach for bringing the customer inside the company*".

Apparently these approaches i.e. considering marketing strategy as a functional strategy or subsuming it under corporate strategy/business strategy have contributed to the waxing and waning importance given to the discipline of marketing in the practical management discipline and in the opinion of this thesis these are predicated on the presence of some level of marketing orientation in a firm as viewed in the overall marketing paradigm of firm's performance (Doyle & Wong, 1998; Conant et al., 1990). In other words, marketing's importance has shifted between critically important to modestly irrelevant in the stages/ growth model of the firm (Sui & Kirby, 1998), and to marketing as a business philosophy (Tyebjee, Bruno, & McIntyre, 1983). However, the advocacy of the marketing concept its importance, its challenges its defence and re-espousal suggests a spill over of confusion in the organizations also (Greenley, 1993). It would, therefore, be relevant that before we review literature on market orientation as the form by which marketing concept is implemented to briefly review the concept of marketing itself.

5.5 The Marketing Concept and Market Orientation

5.5.1 Introduction-The Marketing Concept

The Marketing concept has always been the mainstay of marketing's impact on a firm's performance (Morgan & Strong, 1998; Anderson, 1982; McNamara, 1972) where the domain of marketing management is predicated on the assumption of a positive link between the marketing concept and firm performance (Ellis, 2005). The advocacy of adhering to the theoretical marketing concept has existed from the time when marketing became a subject of growing interest between academician and practitioners (Drucker, 1963). The concept is best thought of as a philosophy of doing business that places customer as the central focus of a successful organizational culture (Ellis, 2005; Narver & Slater, 1990; Houston, 1986; Levitt, 1960) or places customers at the top of corporate organizational chart and focus on satisfying customers need ands wants in order to maximise profits (Day, 1994; Ruekert, 1992). As a business philosophy, however, with a substantial theoretical base, marketing concept was seldom put to empirical testing (McNamara, 1972). As Kohli and Jaworski (1990) observe that given the importance of the concept backed by theory development there had been no evidence of an empirical base for this theory.

It is normally postulated that in terms of the firms marketing approach, market orientation is the tool that most effectively implements the marketing concept in the organization. As such while the marketing concept is considered a philosophy, which can be placed at the core of a corporate culture and strategy (Chan & Ellis, 1998; Hunt & Morgan, 1995; Kotler & Clarke, 1987), marketing orientation is considered to be the implementation of the marketing concept (Athuahene-Gima, 1996; Hunt & Morgan, 1995; Kohli & Jaworski, 1993, 1990; Dreher & Krismer, 1992; McCarthy & Perreault, 1990; Gronroos, 1989).

Putting it another way, adoption of the marketing concept means that the firm must develop its culture of Market Orientation where a market-oriented firm is the one whose actions are consistent with the marketing concept (Kohli & Jaworski 1990). The literature suggests that marketing orientation culture if implemented should result in superior business performance ensuring long-term success of the firm even in highly competitive business situations (Ellis, 2005; Pulendran et al., 2003; Harris & Ogbonna, 2001; Grewal & Tansuhaj, 2001; Harris & Piercy, 1997; Athuahene-Gima, 1996; Webster, 1994; Slater & Narver, 1994; Jaworski & Kohli, 1993; Ruekert, 1992; McNamara, 1972; Barksdale & Darden, 1971).

The comments by Commission on the Effectiveness of Research and Development for Marketing Management not with standing, that the emergence and acceptance of the market concept had a single greatest impact on marketing management during the twenty-five year period from 1952-1977 (Myers, Massy, & Greyser, 1980), the fact is, that it is only in the decade of 90's that empirical work was initiated to operationalize the implementation of the marketing concept.

5.5.2 Application of the Marketing Concept in developing economies

During the last two decades there has been a surge of interest in the role of marketing in the developing countries (Ellis, 2005; Dawar & Chattopadhyay, 2002; Dawar & Frost, 1999; Appiah-Adu, 1998; Okoroafo & Russow, 1993; Mitchell & Agenmonmen, 1984; Kaynak & Hudanah, 1987). The debate has centred around two frameworks.

One suggests that the marketing concept is not applicable to the emerging or developing countries (Kaynak, 1982). They argue that a shortage of goods and services (Panigrahi et al., 1996, p.614) is the major problem of developing countries and that the solution is to increase production and not marketing (Malhotra, 1986; Drucker, 1958). This has also led to a general neglect of studies in the development and implementation of the marketing concept because it has been assumed that highly developed marketing systems are totally absent or required in developing nations (Mitchell & Agenmonmen, 1984; Kaynak, 1982).

The second takes the view that even though the concept holds significance for the economic development of the countries (Kaynak & Hudanah, 1987; Appiah-Adu, 1998) lack of marketing capabilities generally acts as a barrier to the development of the discipline (Appiah-Adu, 1998; Malhotra 1986). Given these debates it is important that marketing as a subject area must be investigated in developing countries in general and the incidence and the implementation of the marketing concept in particular. These countries have over 70 percent of the world's population and there economic development is of significance to the whole world. Therefore, studying marketing in the developing countries context is necessary (Mitchell & Agenmonmen, 1984) particularly when it is acknowledged that marketing contributes to the economic development. The managerial implications would be to recognize that the marketing concept should not only be central to the corporate culture but that the practice of the marketing concept in the form of market orientation is critical in the success of firms in emerging/developing markets.

5.5.3 Implementation of the Marketing Concept

Given the ambiguity surrounding the marketing concept it is not surprising that practicing managers always found it difficult to implement the concept. It was these concerns with the implementation of the marketing concept however, which motivated many academics to focus on developing a framework to assist businesses to reach the coveted goal of being a market-oriented firm (Kotler, 1991; Day, 1994). The idea is that if implemented the marketing concept would enable the firm to create and sustain competitive advantages and thereby enhance the firm's performance.

With growing interest in the concept a number of researchers considered to study the various constructs of market orientation as well as measure them across various businesses and environments given the underlying assumption of its performance impact (Kohli, Jaworski, & Kumar, 1993; Gray et al., 1998). In the 1990's serious attempts were made to address the issue beginning with the research work undertaken by Kohli and Jaworski (1990) and Narver and Slater (1990). They finally, but independently of one another, provided the broad framework that for the first time presented a practical construct of market orientation. This then became the first step towards implementing the highly elusive market concept.

5.6 Market Orientation

As mentioned above, it is only recently that attention began to focus on the implementation of the marketing concept. The implementation of the marketing concept is studied through the presence of market orientation in the firm for which two sets of constructs were presented (Kohli & Jaworski, 1990; Narver & Slater, 1990). These constructs were operationalized and subsequently refined as a framework to implement the marketing concept. These two teams of researchers also endeavoured to empirically determine if a relationship existed between market orientation and performance (Jaworski & Kohli, 1993; Kohli & Jaworski, 1990; Narver & Slater, 1990; Slater & Narver, 1990; and Slater & Narver, 1994).

This empirical test of the relationship between market orientation and performance is in line with the assumed relationship between marketing concept and performance. Since market orientation is the practical implementation of the marketing concept, it is therefore, logical to study the other relationship i.e. between market orientation and firm's performance. The result of these and subsequent studies present a mixed picture. In the context of US business environments (Table 5.1) the positive relationship is unequivocal (Narver & Slater, 1990; Kohli & Jaworski, 1990; Ruekert, 1992; Slater & Narver, 1994; Pelham & Wilson, 1996 etc), while studies done in other developed countries business cultures (Table 5.2) report mixed results (Diamontapolous & Hart, 1993; Pitt et al., 1996; Ngai & Ellis, 1998). There is also mixed evidence from the few studies conducted in developing country context (Table 5.2).

Market Orientation (MO) thus refers to the implementation of the marketing concept (McCarthy and Perrault, 1984) and Kohli and Jaworski (1990) further explain that "*A market orientated organization is one whose actions are consistent with the marketing concept*", (p.1). Theoretically the adoption of marketing concept goes through several stages and reflects the introduction of separate marketing functions and activities and depends on the manager's attitudes towards marketing within the framework of the corporate culture (Azhar, Yeung, & Ramaswamy, 2002). A reasonable argument extended in literature is that better performance results from a market-oriented firm's consistent focus on the market. The market orientation culture helps develop competitive advantages as the firm is in a better position than its competitors to anticipate and satisfy the customers needs (Narver & Slater, 1990); and provide them with superior value (Chang al et., 1999), which finally leads to performance improvements.

Given the importance attributed to MO in the developed business environments of the west, it has been pointed out by a number of researcher that there are very few studies of MO that are focused on the developing country business environments, (Kuada & Buatsi, 2005; Ellis, 2004). Ellis (2004, p. 630) categorically states that, "*to date very few MO studies have been reported from developing economies*" and even these few have shown contradictory results. For example Bhuian (1997) reporting on research from Saudi Arabia showed mixed results; Appiah-Adu (1998) found no correlation between MO and firm performance in Ghana while Subramanian and Gopalakrishna (2001) found a strong positive relationship between MO and performance in India. On the other hand Deshpande and Farley (2000) in a study of Chinese firms conclude that "*Market orientation can be especially effective in a transforming economy, although this proposition requires much more testing*", (p. 26). This and other contradictory information requires further research studies especially in the developing nations to be carried out before any substantive claim can be made about the performance MO link (Ellis, 2005).

5.6.1 Operationalization of Market Orientation

There is a general agreement among researchers (e.g. Ellism, 2005; Greenley, 1995; Atuahene-Gima, 1996) that the most compelling and dominating conceptualizations of marketing orientation have been provided by Kohli and Jaworski (1990) and Narver and Slater (1990). Their definitions for describing market orientation has since been widely accepted and are frequently cited by various marketing scholars (see tables 5.1 and 5.2), and their conceptualizations, are also increasingly familiar to managers (Harris & Piercy, 1997).

These two dominant conceptualizations study market orientation from different but complementary approaches. One looks at market orientation from the behavioural perspective represented by Kohli and Jaworski (1990). They maintain that market orientation involves generating market intelligence on the external forces affecting a firm, including customers, competitors and technology (see also Jaworski and Kohli 1996;

Kohli, Jaworski & Kumar 1993). This approach also reflects the marketing capability aspect of firm. Kohli and Jaworski (1990) therefore, consider MO in terms of functional activities (Lafferty & Hult, 2001).

In other words, by specifying what activities should be performed would help implement the marketing concept by facilitating and initiating the firms to the application of market orientation. They formally defined market orientation as " *Market orientation is the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments and organization-wide responsiveness to it*", (Kohli & Jaworski, 1990, p. 6).Their operationalization of market orientation is in terms of the following three elements of firm's activities:

- Intelligence generation
- Intelligence dissemination
- Responsiveness

Narver and Slater (1990), on the other hand provide the other operationalization. Their composition addresses the cultural components of customer and competitor orientation along withinter-functional coordination.

They approach market orientation from the philosophical perspective and focus on the organizational cultural and climate aspect of the firm (Lafferty & Hult, 2001; Sin & Tse, 2000; Lado et al., 1998). To Narver and Slater (1990), " *Market orientation is the organizational culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus continues superior performance for the business*" (p.21). They conceptualize market orientation using the following variables

- Customer orientation
- Competitor orientation
- Inter-functional coordination

5.6.2 Discussion of the two constructs of Market Orientation

According to Narver and Slater (1990), customer orientation and competitor orientation include all the activities that are involved in acquiring information about the customers and competitors in the target market and disseminating it throughout the business/es. Inter-functional coordination on the other hand, comprises of the business's coordinated efforts, typically involving more than the marketing department, to create superior value for the buyers and is based on the customer and competitor information acquired earlier.

In their model, therefore, they emphasized and added to the importance that the generation and dissemination of market intelligence deserved. In general, the more information processed from customer, competitor, and internal sources, the greater the degree of market orientation. In fact, Narver and Slater's (1990) measures of market orientation suggests complementarities and approximations to the measures proposed by Kohli and Jaworski (1990).

Table 5.1

Summary of US Based Market Orientation Research over a decade period 1990-2002

Study	Country	Sample	MO Instrument based on	Performance Measure	MO/Performance Relationship
Pelham (1999)	USA	229 Small firms	Pelham	Multi item subjective scale	Positive
Deshpande and Farley (1998)	USA and Europe	82 Firms	Kohli and Jaworski; Narver and Slater; Deshpande et al.	Subjective assessment of performance	Positive
Pelham (1997)	USA	160 Small firms	Mostly Narver and Slater	Subjective performance	Positive not significant
Selnes et al. (1996)	USA and Scandinavia	222 and 70 Firms respectively	Kohli and Jaworski	Market share; commitment; esprit de corp. and subjective performance	Positive
Pelham and Wilson (1996)	USA	68 small firms various industries	Narver and Slater	New product success, sales growth,/ market share, product quality, profitability	Positive
Hulland (1995)	USA and Canada	55 Firms	Narver and Slater	ROI and Sales growth	Positive but not significant
Moorman (1995)	USA	92 Firms	Narver and Slater based proprietary	ROA relative to competitors	Positive
Raju et al. (1995)	USA	176 Hospitals	Kohli et al.	19 subjective measures ROI, service quality, mortality etc	Positive
Siguaw (1994)	USA	278 Firms	Narver and Slater	Commitment and Esprit de corps	Positive
Slater and Narver (1994)	USA	107 SBUs in 2 Corporations	Narver and Slater	ROA, Sales Growth, new product success	Positive
Jaworski and Kohli (1993)	USA	222+230 companies (2 Samples)	Kohli and Jaworski	Market Share, ROE, Org commitment, esprit de corps, over all performance	Positive
Ruekert (1992)	USA	5 SBUs in a corporation	Discussion with Managers	Sales Growth	Positive
Narver and Slater (1990)	USA	365 SBU In a corporation	Literature Review	ROA	Positive

Adopted from Ngai and Ellis (1998) and Shoham et al. (2005)

Table 5.2

Summary of Non-US Based Market Orientation Research over a Decade period 1990-2002

Study	Country	Sample	MO Instrument based on	Performance Measure	MO/Per Relationship
Rose and Shoham (2002)	Israel	124 Exporters	Kohli and Jaworski	Subjective and Objective; commitment; esprit de corps	Positive
Ramaseshan, Caruana, and Pang (2002)	Singapore	127 Firms	Kohli and Jaworski	New Product Performance	Positive
Subramanian and Gopalakrishna (2001)	India	162 Manufacturing and Service Firms	Narver and Slater	Business Performance	Positive
Shoham and Rose (2001)	Israel	101 Firms	Kohli and Jaworski	Subjective and Objective; commitment; esprit de corps	Positive
Kwon and Hu (2000)	Korea	341 Export Firms	Kohli and Jaworski	Export Performance	Positive
Homburg and Pflesser (1999)	Germany	160 Firms	Kohli and Jaworski	Subjective Market Performance	Positive
Becker and Homburg (1999)	Germany	234 Firms	Kohli and Jaworski	Market Performance	Positive
Cadogan and Diamantopoulos(1999)	UK	48 Exporters	Narver and Slater	Subjective Performance	Positive
Hong and Chen (1998)	Taiwan	76 Small Medium Sized Firms	Kohli and Jaworski	Subjective Performance; commitment and esprit de corps	Positive
Avlonitis and Gounaris (1997)	Greece	2 samples; 161 and 236 Firms	Kohli and Jaworski	Performance relative to competitors	Positive
Cadogan, Diamantopoulos, and de Mortanges (1997)	UK and Holland	198 and 103, respectively	Kohli and Jaworski	Satisfaction and Overall Performance	Positive
Pitt et al. (1996)	UK/Malta	161 UK service firms+ 200 Various Maltese firms	Kohli and Jaworski	ROCE, sales growth, subjective impressions	Weak association
Greenley (1995)	UK	240 large companies Various industries	Narver and Slater	ROI, Sales Growth, new product success	None Identified

Study	Country	Sample	MO Instrument based on	Performance Measure	MO/Performance Relationship
Athuahene-Gima (1995)	Australia	275 Firms	Ruekert	New Product Performance; Project Performance	Positive
Diamantopoulos and Hart (1993)	UK	87 companies	Kohli and Jaworski	Sales Growth and profits relative to industry average	Weak association
Avlonitis et al. (1992)	Greece	381 Firms	Kohli and Jaworski and Narver and Slater	Profitability	Positive

Adopted from Ngai and Ellis (1998); Shoham et al. (2005) and Kuada and Buatsi (2005)

These similarities are obvious as each of the constructs of customer orientation and competitor orientation (Narver & Slater, 1990), involves intelligence generation and dissemination, which are similar in nature to the constructs proposed by Kohli and Jaworski. On the other hand intelligence generation and dissemination of Kohli and Jaworski (1990) concerns both the customers and competitors, which forms the customer and competitor orientation in the Narver and Slater's (1990) operationalization. Responsiveness of Kohli and Jaworski is similar to the inter-functional coordination of Narver and Slater in their value added focus and response to the information generated.

Briefly then there are four general areas of agreement between the two operationalizations (Lafferty & Hult, 2001) and include the following:

- An emphasis on customers: It needs to be kept in mind that market orientation is the implementation of the marketing concept. It, therefore, makes sense to hold customers as central to the firm's activities. To determine and satisfy needs and wants of the firm's customers requires information and an understanding of these needs and wants. Both the constructs do so, with the goal of providing value to the customer, which is better than what is provided by the competitors.
- Importance of information: While Kohli and Jaworski (1990) begin their definition in terms of organization wide generation of information, Narver and Slater (1990)

indicate that to create value for customer an understanding of their needs and wants is necessary which requires information. The focus of this information is on both the customers and the competitors. Kohli and Jaworski (1990) focus not only on the competitor's actions they also take cognizance of other factors that can affect customer's needs and wants. Narver and Slater (1990) on the other hand give equal weight to both customers and competitors in their conceptualization suggesting that information gathering is important in both areas.

- Inter-functional coordination: Narver and Slater (1990) are explicit about the inter-functional coordination as a key element in their conceptualization. Kohli and Jaworski (1990) however focus on intelligence dissemination between and within departments. They emphasise this interdepartmental coordination of information gathering and dissemination as a prerequisite to ensure concerted action by different departments.
- Taking action: Finally they agree on the significance of action to be taken by the organization as a whole in creating value for the customers.

These operationalizations, presented by Kohli and Jaworski (1990) as well as Narver and Slater (1990), have also met with criticism (Lado et al., 1998) on various grounds. The striking feature of these criticisms, other than the methodological grounds, is the seeming absence of a clear and universally acceptable definition of the marketing concept which marketing orientation purports to implement (Lado et al., 1998, p.24).

Ruekert (1992) on the other hand used the strategy perspective (strategy formulation and implementation process) to bring these two operationalization streams together. He suggested that the gathering and use of information from the customers and the competitive environment characterizes market orientation on the basis of which strategy should be developed and implemented to meet and satisfy customer's needs and wants. Gathering and analysis of information presupposes some level of expertise and skill in the matter but has not been explicitly recognized by him. In the opinion of this thesis, however, this capability and skill factor is of significant importance when applied to the business environment of the less developed countries. This observation has to be viewed in light of educational level and experience of the managers who are assigned the task of competing. For example Kuada and Buatsi (2005, p. 64) state that their study "*is* *predicated on the understanding that though firms may embrace the philosophy of market orientation, they may not be able to benefit from it until they* ***have developed the requisite internal structures and systems that strengthen their market oriented capabilities***" (emphasis added).

This also brings the thesis to look at some other conceptualizations and thoughts on market orientation to round off the literature on the subject. For example recently market orientation has been proposed in the form of 'the resource of the enterprise concept', which helps firms to sustain competitive advantage (Hunt & Morgan, 1995; Narver & Slater, 1990, 1994; Deshpande et al.,1993; Day, 1990).

5.6.3 Some Other Thoughts on Market Orientation

There are, however, a few others whose contribution to the development and popularization of the concept cannot be ignored (see e.g. Shapiro, 1988; Ruekert, 1992; Deshpande et al., 1993; Day, 1994). Shapiro (1988) for example was one of the pioneers who suggested that three concepts make up the market orientation.

1 Complete knowledge of the market and the customers
2 Strategic and tactical decisions made inter-functionally and inter-divisionally; and
3 Divisions and functions to be well co-ordinated and executed with a sense of commitment.

These characteristics are repeated in one way or the other in most subsequent works including those by Narver and Slater (1990; 1994); Kohli and Jaworski (1990; 1993); Ruekert (1992); Deshpande et al. (1993). Day (1994) on the other hand suggested features that according to him are important if a firm has to adopt market orientation. These are:

1 A set of beliefs that puts the customer interest first (Deshpande, Farley, & Webster, 1993).
2 The ability of the organization to generate, disseminate and use superior information about customer and competitors (Kohli & Jaworski, 1990) and
3 The co-ordinated application of inter-functional resources to create superior customer value (Narver & Slater, 1990; Shapiro, 1988b).

A close scrutiny of these features of market orientation suggests that if properly operationalized their application would most likely enable a firm to secure competitive advantage. According to Day (1994), one of the critical tasks confronting management is to decide, which capabilities to emphasize. This obviously depends on the management assessment of what is of value to the customer (feature at 1 and 2 above), as well as, which capability or bundle of capabilities would provide the desired customer value (feature 3). Market orientation as stated earlier puts the focus of the entire organization on the market as the fundamental basis for business strategy development (Day, 1994). Contemporary strategy guidelines and paradigms reflect this market focus as well as the shared vision of the market throughout the organization and provide the basis for strategy formulation (Hamel & Prahalad, 1994; Porter, 1996; Slywotzsky, 1996; Grant, 1991).

In short, market orientation has a strong influence on performance and the focus is mainly on the external factors such as the competitors and customers. There is a general consensus that Market Orientation, with its external focus on generating information from the market, is better placed to identify the points where competitive advantage can be gained by identifying customer needs and offering products that are different from or better than those offered by the competition. Kohli and Jaworski (1990) suggested that market orientation led to the unification of effort and provided a focus to the employees and departments in the firm, which leads to superior performance.

This is highly significant when we approach market orientation from an innovative perspective and view market orientation as a process that also uses firm's abilities, resources and capabilities to satisfy customer needs (Grunert et. al., 1996; 1998). It is also to be noted that differences in learning capability of the organizations might have a strong bearing on the firm's ability to perform well in a given environment. This will be truer for market cultures where customer orientation is as yet in the formative stage (Kuada & Buatsi, 2005). Lower educational levels as well as lack of marketing skills impede the understanding of market structures, their boundaries, and drivers to change, buyer's characteristics and competitive forces as well as anticipating how the market is likely to change in the future. All of these are critical aspects in guiding business and market strategies.

Finally validation studies of the various conceptualization of the MO constructs (see table 5.1 and 5.2 above) offer valuable insights into how organizations' level of market orientation may be assessed in different environmental contexts (Kuada & Buatsi, 2005; Okoroafo & Torkornoo, 1995: Appiah-Adu, 1999).

To summarize the above discussion on market orientation, the thesis has highlighted the growing importance of marketing orientation concept that has produced a steady stream of research in the pertinent literature mostly focused on the developed western economies. This stream has endeavoured to establish a positive association between measures of market orientation and firm's business performance. The thesis also suggested the centrality of market-oriented culture for long-term business/market success in the highly competitive environment of the present day business (Narver & Slater, 1990; Jaworski & Kohli, 1993). If the keyword to adopt market orientation and the positive relationship between market orientation and performance are put together it can be safely concluded that any study of the presence of market orientation of firms in the emerging markets take on a greater significance in the present times.

Firms in the emerging and developing markets are being exposed to open market competition particularly from multinationals. Studying the presence of market orientation in firms in the developing economies could have considerable normative and prescriptive implications for managers as marketing has also been directly linked with the economic development of countries. These studies could help develop the correct focus on acquiring the necessary capabilities and skills, which can be developed over time. This conclusion draws on Slater and Narver (1995) who consider market-oriented firms as learning organizations and point to the process of learning and accumulating knowledge within the firm.

The above factor indicates a truism that there will always be differences in organizational capabilities amongst companies performing in the same industry, giving rise to different sources of competitive advantages in the market place. This should hold true for all areas related to development in general and the discipline of management in particular. This is especially significant from the point of view of developing the knowledge base in the emerging market economies, which are only recently confronted with rapidly changing competitive parameters. To cope with this change a knowledge base has to be readily accessible for application, to the managers and entrepreneurs in these economies when seeking solutions that are context specific.

"Knowledge is intended to be useful to someone whether in the industry or government or society more generally, and this imperative is present from the beginning" and "Since solutions comprise both empirical and theoretical components, they are undoubtedly contributions to knowledge, though not necessarily disciplinary knowledge" (Gibbon et al., 1994 quoted in Transfield & Starkey, 1998).

In the above context, therefore, to develop knowledge of the competitive environments, the tools of information gathering, analysis, strategy development and implementation all become significant to the survival and growth of the local indigenous firms in the emerging market economies.

In short marketing strategies cannot be developed in a vacuum. It is critical to develop an understanding of the process of achieving superior performance and avoiding the negativity of business failure by grasping the interrelationship of the various concepts in strategic and marketing literature. This is important from the point of view of theory development so far as it is recognized that normative processes, which tend to bring about assumed similarities, influence business practices.

In concluding the first part of the chapter an overview of the strategy and marketing strategy literature is presented. The thesis also aims to introduce, at this point some indicators of the nature of competition in the developing countries. These have been drawn with the view to highlight certain issues that are confronting these markets. In order to do this the thesis will rely on two specific exploratory studies that have been undertaken in India. It will also use a few illustrations from Pakistan to explicate the topic of strategy and competition in a developing market context.

5.7 Strategies and the Strategic Approach for local firms in developing markets

5.7.1 Dawar and Frost

"*Multinationals are seeking to exploit global scale economies while local enterprises are trying to fragment the markets and serve the needs of distinct niches. The former brings an array of powerful resources that can intimidate even the most self-assured local manager. But like David against Goliath the smaller competitor can rise to the challenge and prevail*" (Dawar & Frost, 1999; p. 129).

Dawar and Frost's article is perhaps the most significant article dealing with strategic issues in an emerging market context such as India with high degree of relevance to Pakistan. Other articles based on transitional economies of the Eastern Europe and Russia has been quite helpful in throwing some light on the issues concerning marketing and its correlates (Hooley et al., 2000; Batra, 1997; Czinkota, 1997). Nevertheless, as explained earlier the regions constituting the transitional economies are significantly different in the conditions that exist in the developing countries such as India and Pakistan. Some of the points made by and Dawar and Chattopadhyay (2000) also seem relevant to this thesis as they could have a bearing on the subsequent development of the theoretical framework.

In their article published in Harvard Business review, Dawar and Frost (1999) propose two parameters that would help managers in emerging market economies to guide their strategic thinking on the basis of which effective competitive strategies could be developed. These are the strength of globalization pressures in an industry and the company's transferable assets.

The first parameter suggested, is based on the contention that the diffusion of globalization process is not uniform from industry to industry in the emerging markets. That is to say some industries in the emerging markets are facing the threat of rapid globalization than others, which results from the entry of multinationals in these industries. They, therefore, suggest that every firm does not have to become over worried and to start reacting to a situation that may not occur for some time to come. The second parameter is the one that relates to the presence of certain strategic assets within the firms, which in their opinion can be leveraged not only in the domestic markets but to gain access to foreign markets also. This aspect of their paper shifts the focus of competing within the economies of the developing market environments to competing in the foreign markets. These two parameters in their normative dispensation require regular environmental scanning, regular internal strengths and weakness assessments and value chain analysis to seek out opportunities, which can be exploited, needing specific knowledge to undertake this type of an exercise. As a result of the combination of these parameters and competitive approaches used by the successful Indian local firms, Dawar and Frost (1999) propose the matrix of competitive positioning of the firms which is presented in Fig 5.2.

They propose that when globalization pressure are weak and a company does not possess strategic assets that can be transferred abroad to other markets than this sort of a company has to focus on defending its market position against the multinational. A company that employs such a strategy is using a *defender* strategy. On the other hand if the globalization pressures are weak and the company does have transferable resources and capabilities, then this company may be able to succeed in international markets by extending its local success to them. This sort of firm is employing an *extender* strategy.

In industries where the globalization pressures are strong and the strategic assets that the company possesses can only be applied in the local environment but cannot be leveraged to other markets abroad than this company will face bigger challenges. This company may like to restructure itself around specific links within its value chain and continue to leverage its locally applicable assets where they will be valuable and therefore, continue to dodge its multinational rivals and stay independent. This company would, therefore, be using a *dodger* strategy.

The final situation involves firms, which can contend against the multinationals in a globalizing industry with transferable strategic assets. A firm or firms that face such a situation can shift the focus of competition from the local environment to the critical markets belonging to the multinationals. This company is called a *contender.*

With the above noted proposal for a competitive strategy scheme one could assume that there is nothing new, within the context of emerging market economies, to make competition between local firms against multinationals an issue of growing concern or importance for these economies.

Nevertheless the significance of the necessity to deal with emerging markets differently from the markets of the developed economies is highlighted by Dawar and Chattopadhyay (2000), and their thesis on the impact of the emerging market characteristics on the marketing programs is presented in Table 5.3.

5.7.2 Defending against MNCs- Das

In the second study undertaken in India by Das (1997) the themes are similar but based on a slightly different focus and approach. For example, Das (1997) concludes that a protected domestic market helps in reaping profits but lack of competitive pressures result in inefficiencies and these further results in an absence of customer focus and inadequate innovation in all aspects of business. According to him, following liberalization, when competitive situation changed in India three strategic choices become available, which need to be evaluated against three critical frameworks.

1. **Reposition and Rejuvenate**. The firm can rejuvenate itself by using the existing portfolios and operations to combat new competition as well as grow in a deregulated environment. It may be assumed that these portfolios refer to the portfolio of competencies and capabilities and this strategic choice is similar to the 'Contender' strategy of Dawar and Frost (1999).

2. **Withdraw**. He suggest that the second option is to withdraw resources from businesses where current competencies are inadequate to deal with future competitive battle and redirect resources to new opportunities that are compatible with competencies available. This is partly similar to 'Defender' strategy of Dawar and Frost (1999).

Figure 5.2

Strategic Positioning for Emerging Markets

Competitive Assets

The Globalization Pressure	Customized to home market	Transferable abroad
	Dodger Focuses on a locally oriented link in the Value chain, enters a joint venture or sells out to a multinational.	**Contender** Focuses on upgrading capabilities and resources to match multinationals globally often keeping to niche markets.
	Defender Focuses on leveraging local assets in market segments where multinationals are weak.	**Extender** Focuses on expanding into markets similar to those of the home base, using competencies developed at home

Adopted from Dawar and Frost (1999)

3. **Globalize**. The suggestion in this case is in line with Dawar and Frost (1999) 'Extender' strategy, which intends to exploit home grown competencies that fit withinternational opportunities.

On the other hand the critical imperatives suggested by Das (1997), which need to be used to evaluate the strategic choices are:

1. Are there exploitable new opportunities in domestic markets that can help to combat increased competition from other domestic firms as well as MNCs (both existing and new entrants)?
2. Are there firm specific constraints that need to be over come, which had not been addressed in the past and may require developing necessary skills and capabilities?

Table 5.3: The Impact of Emerging market Characteristics on Marketing Programmes

	Segments	Products	Price	Distribution	Communication
Low Incomes	Segments are coarse and diverse as the costs of segmentation are high. Mass media are not finely segmented	Products need to be functional Built to Last and basic. Rapid obsolescence is a mistake	Large volumes and low margins drive profitability. Consumers gauge prices In relation to a local basket of purchase	Retail distribution is highly fragmented, but powerful	Persuade consumers to consume more and non-consumers to adopt the product
Variability	Income disparities, income flow variations lead to co-existence of different market segments	Quality consistency is at premium and not easy to achieve. Design and package for infrastructural and consumer variability	Price promotion yields large vol. gains. But it is better to launch second tier brands rather than occasional promotions	Urban and rural retailers look similar but operate on different principles. It pays to be first in rural markets. It pays to be differentiated in urban markets	Creating own channels of communication where no mass media exists to cater to large sections of the market
Cheap Labour	Despite huge differences in consumers, cost of time, the market cannot be segmented on this dimension because time is bought and sold	Products can be re-engineered to replace some elements with consumer labour. Makes product more affordable to the mass market	Consumers make vs. buy decisions drive value perceptions. Competition also comes in the shape of home-made products	People rather then machines provide a cost-effective means of delivering products to consumers	Mass media don't always have a cost advantage over face-to-face customer interaction. Sales force can be used to communicate benefits and usage more effectively

In both cases where, first the typology of strategic actions given by Dawar and Frost (1999) and Das (1997) and second the competencies as suggested by Dawar and Chattopadhyay (2000), a clear case can be found for skills and capabilities which are relevant in emerging markets as the basic driver to the development of appropriate strategies (Grant, 1991). For example, Dawar and Chattopadhyay (2000), refer to fine tuning market segmentation; creating own communication channels as against mass media; or packaging and designing products for infrastructural and consumer variability; all point to the existence or necessity of developing such skills. This is in counter point to the concepts underlying low cost advantages based on economies of scale and standardization as well as the concept of convenience that are so prevalent in mass markets of the developed economies. It is, nevertheless clear that the focus, even though never expressed clearly, is on gaining competitive advantage, which rests on an understanding of key success factors of the local environment along with the requirements of the necessary set of skills and resources.

In continuation of the above, the importance of distinctive capabilities for business performance (Vorhies & Morgan, 2005; Hooley et al., 2005; Ray et al., 2004; Hooley et al., 1999; Shoham & Fiegenbaum, 1999;), without going into the specifics, occur on the basis of their contribution to superior strategy selection and implementation and to sustainable competitive advantage. It has also been suggested that contents of strategy per se are not sufficient to elicit or enhance performance as contents can be easily copied or imitated (Day, 1990, 1994; Stanley, 1996).

For example while K-Mart knows about Wal-Mart's superior logistic strategy (content) is, it cannot replicate it in its entirety because it is embedded in a complex management processes (Shoham & Fiegenbaum, 1999), which are difficult to know. The suggestion is that even though the contents of a strategy can be copied the skills required in implementing a strategy might not exist in a firm and therefore, mere copying a strategy is not enough.

Extending this argument to the developing market context it is obvious that strategies that work in the developed markets such as the US may not be effective or competently implementable in emerging or developing markets pointing to the obvious This contention is specifically in line with the question 'Is organizational science, as it is currently conceived, applicable across countries', raised by researchers such as Hofstede (1993; 1980); and Boyacigiller and Alder (1991), who have focused study on the applicability of American management theories abroad. To put it in other way in the words of Boyacigiller et al. (2003) "*To what extent must organizational theorizing be modified due to national differences*" (p. 17)

5.7.3 Some further Issues of Competing in Developing Economies

"Liberalization is now making the structure of many industries much more fluid, and managers exposed to new kinds of competitors need to realize that they can respond by positioning their companies in a variety of ways". Dawar and Frost (1999; p. 129)

This observation is particularly relevant to developing markets where traditionally, industries and local companies had well-defined boundaries mandated by their governments. The local incumbents working with a unique market power sharing and redistributive system or a system of allocating resources with no relevance to market forces could defend these boundaries aided and assisted by trade policies specifically engineered for the purpose. These same local companies have now lost the protective covers as governments are forced by international agencies to withdraw artificially created trade barriers leaving them exposed to competitive pressures. They are now expected to fend for themselves particularly as they confront an ever-growing presence of the multinational corporations.

Given the above scenarios, two possibilities are obvious:

1. That many businesses in the emerging markets need to realize that just like David had developed exceptional skill in using the slingshot by which he brought down Goliath, they should also develop certain relevant skills to help them compete effectively especially against MNCs.
2. That there are skills that can be acquired, indeed that need to be acquired immediately, before the spectre of globalization over takes them.

However, a further issue within this competitive context seems to have gone unnoticed. The financial strength of the MNCs are essentially unmatched by the local firms under any capacity. There seems to be no protection from the use of this power, where successful local firms will always face the threat of a possible acquisition by the MNC. The MNC could buy and subsequently close the facility to extend monopoly power in the absence of adequate laws to protect consumers from exploitation. The result of the above scenario is similar to the closure of a firm due to failure.

This aspect was demonstrated by the launch of Walls in Pakistan. Lever Brothers of Pakistan Ltd. it seems has invested in a plant estimated to be approximately twice the size of the local ice cream and frozen dessert market when it was launched. There was only one national brand in the country at that time with a national market share of approx. 60%. There were two other well-known brands with strong regional presence. Along with them there were a few other lesser known brands, some of which operated in only one or the other region, based on their plant location. All of these together shared the rest of the 30% of the market.

The launch of Walls was a text book exercise in implementation of a product launch. They swamped the outlets offering the retailers deals, which were not refused, and which could not be matched by any other manufacturer on the national level and in such a short period of time. The three well-known brands reacted in different ways to the entry of the multi national. Discussion with the Managing Director and Chairman of one of the local company, which is also a regional leader, revealed that faced with this launch his company intended to do nothing. In his opinion the MNC had made a mistake in the size of investment made, which is reflected in the higher prices of their product range. This opinion seemed to have ignored all other possible reasons for setting higher prices. On the other hand the national leader responded with the traditional marketing strategy of launching similar products as launched by Walls, adding to their existing range, while keeping the prices below Wall's prices and backing these efforts with an increase in the promotion and advertising.

The third local company moved to improve its product range also but went aggressive in using advertising to inform the public that Walls is not an ice cream. The company contended that Walls were misleading the customer as Walls is only selling non-diary products called 'cold desert'. They, therefore, confused the market to some extent by differentiating an ice cream. It is not clear what the true impact of all these moves was but in 1998 it was reported that Walls had bought the local national leader, which was a private limited company at an undisclosed sum and subsequently closed the plant. This tends to raise certain hypothetical situations and associated issues and supports the contention made earlier that successful local companies, will always be threatened by acquisitions. The broader issue, however, that may further be raised is regarding the benefits the host country could expect if the multinational shuts down the local facility in the name of downsizing or right sizing and uses the accruing monopoly situation to exploit the markets?

The other issue relates to the manner in which the local firms should compete. That is to say, should they aggressively attack the multinational creating conditions for its failure and asking for retaliation by the MNC as suggested above? Or should the local firms wait to see if the MNC makes a mistake and eventually withdraw from the market as was done by Honda, when it announced to pullout from the Indian Scooter market (Dawar & Frost, 1999).

5.8 Strategies in Developing Markets as the Focus of the Study

The focus of this thesis on marketing strategies or strategic orientations stems from the underlying logic of Kotler's (1984) assertion that a marketing strategy is the basic approach that the business unit will use to achieve its objectives. Where marketing strategy is the central part of the firm's marketing activities that greatly contributes to the firm's strategic adaptability and performance (Day, 1992; Mckee, Varadarajan, & Pride, 1989), while it is also considered to be one of the keys to survival. For example according to marketing scholars such as Abell (1978) and Aaker (1984), the key to survival is the set of strategic marketing decisions and actions that helps the firm to align itself with the environment.

Actions of the firm are generally based on the assumptions of the existence of certain environmental factors that will enable these actions to be feasible. Nelson (1990) while discussing the example of Brazil, points to the absence of certain business environmental factors that make contemporary strategic models ineffective in most of the third world countries. Nelson (1990) makes the following assumptions on which the strategic models are predicated as being largely absent in most third world countries (see Table 5.3 above, which reflects the same case). Whether this is true or not is the subject for further research. In the current business scenario that exists in the developing countries such as Pakistan even if these business environmental factors are not altogether absent their presence is relatively weak and not as vigorous as is assumed in the developed west and therefore, contraindicates the existence of the fundamental principles? Some of these principle assumptions are:

1. Firms operate within a freely competitive market;
2. Firms operate under conditions of price elasticity and classical economies of scale;
3. Firms operate under conditions of at least moderate predictability;
4. Innovators gain competitive advantage;
5. Market share is a critical factor in firm performance

Arnold and Welch (1998) add a further condition of the infrastructures that are not available in the developing countries necessitating a rethinking of the processes needed to operate in such countries. They opine that what most developed country companies' regard as basic marketing infrastructure is largely absent in the emerging/ developing economies. They include non-availability of marketing data, poorly developed distribution system, relatively few channels of communication, a lack of regulatory discipline with a propensity to change regulations frequently as well as unpredictably as part of this infrastructure[27]. And they link these and other such issues to the idiosyncrasies of the national marketing system, which can only be addressed, according to them, through a customised initiative.

It is therefore, the considered opinion of this thesis that the local firms in the developing countries normally use strategic models as well as marketing models and practices that have been predicated on the presence of certain strategic structures that in practice do not exist. It is further suggested that this is the result of the lack of research studies carried out in the developing economies, which should have tested the applicability of these models and practices within a given environment. It is these and other similar examples that make it all the more important to study competitive strategies or strategic orientations and marketing activities in emerging and developing countries if managers are to become confident of the efficacy of these theoretical frameworks.

The existence of above mentioned theoretical gap in the extant literature can be demonstrated by the number of studies that have been undertaken in the developed west, which provide empirical support for marketing strategy and performance relationship (Doyle & Wong, 1998; Cravens et al., 1994; Wright et al., 1991; Walker & Reukert, 1987) and compare them with similar studies undertaken in the developing market economies.

[27] See also Malhotra (1986), for detailed discussion on why developing markets need marketing.

To the knowledge of this author none can be reported from the developing countries except a few that have looked at the relationship between performance and MO but not marketing strategy per se. This leaves a wide gap in the development of a robust theory on the contribution of marketing strategy to firm's performance. For example Nelson (1990) critically assesses this situation and states:

"*Most of theoretical and empirical work on business strategy has been carried out in the 'developed' world. The United States and Western Europe have produced the bulk of strategy and policy literature, with occasional information from Japan and the Far East appearing in popular business press. The role of the Third World operations as part of a 'global strategy' is occasionally discussed, but the literature typically treats the subject from the perspective of multi-nationals pondering major corporate incursions into or retreats from foreign environments.* ***Strategy within the Third World environment itself has been largely ignored*** *(*emphasis added, p.16*)".*

A similar view with regard to lack of research in the developing market context even in the case of MO has been offered earlier. For example most validation studies that have been carried out on the market orientation concept and their impact on the firms performance have been mostly confined to the US and Europe and recently in the transitional economies contexts (Hooley et al., 1999). Not many studies have been reported outside the environmental contexts suggested above with a particular lack of such studies undertaken in the context of developing economies of Asia. This points to a noticeable gap in the literature on marketing and reduces the universal applicability of the concept with implications for managerial practice. In other words, the development of practice and culture of market orientation stands to be seriously affected.

Burton, Fried, and Manigart (2000) also are very categorical when they suggest that "*The assumption that research conducted in the U.S. has automatic application in different parts of the world cannot be supported*". While Boyacigiller and Adler (1991) also argue that "*Americans have developed theories without being sufficiently aware of non-US contexts, models, research and Values*" (p.263) clearly pointing to the strong need to further extend research in management areas to the developing market economies. There is, therefore, a need for management scholars to examine how management theories differ for other countries (Boyacigiller et al., 2003; Hofstede, 1993, 1990; Doktor, Tung, & Von Glinow, 1991), and from this thesis point of view how do these differ particularly in South Asia.

In the end it would be appropriate to reiterate that it is highly worthwhile to develop an understanding of the discipline of management in general and in the field of marketing strategy in particular, in the context of the developing economies. As pointed to above this is important from the point of view of theory development and it should be recognized that normative processes operating in an environment influence business practices. To make the point more concise it is important from the point of view of advancing theoretical knowledge as well as informing managerial practice that the scope of research should be widened. Therefore, in taking this kind of research to the developing market context this thesis endeavours to overcome this major shortcoming in theory development and responds strongly to (Nicholls et al., 1996, p.20) who suggests that

"Research also needs to be undertaken that compares countries at similar levels of industrialization with each other, as well as with dissimilar stages of industrial development"

One of the goals of the thesis, as mentioned earlier, is to empirically test how marketing contributes to the business performance in the developing market contexts by studying the relationships of marketing capabilities, activities and strategies with business performance in the developing market environments. While doing so the thesis is mindful of the fact that there are controversies regarding the role and significance of marketing in the developing economies, which are usually characterized as seller economies. The thesis will, therefore, not only test whether marketing strategies and activities are responsible for business performance but to also determine which activities, capabilities and skills constitute an important component of a firm's success in the developing market environments. Thus, the thesis will help in isolating those factors of marketing strategies, activities and capabilities that really influence business performance and can be generalized across both the developed and developing markets from those that are specific to the developing markets business environments. This will not only add to theory development but also have practical implications for the business managers of the developing economies.

In attempting this, the thesis aims to not only replicate earlier studies but also extend them. Replication is important in itself (Hubbard et al., 1998). However, it is needed not merely to validate findings, but more importantly, to establish the increasing range of radically different conditions under which the findings hold and note the predictable exceptions (Lindsay & Ehrenberg, 1993) as well as protect against the uncritical assimilation of erroneous empirical results into literature (Hubbard & Vetter, 1996). Thus, replications with extensions are also basic to empirical generalization or knowledge development (Hubbard & Vetter, 1996; Lindsay & Ehrenberg, 1993).

5.9 Conclusion

Three points have been highlighted in the earlier sections. One relates to the process of globalization, which requires the emerging market economies to learn to compete effectively and efficiently if they want to survive. The second relates to concept of marketing and marketing strategies as a source of competitive advantage, which is considered to be the underlying framework for a firm's performance. This advantage and performance of the firm is irrespective of whether they compete against MNC's or local indigenous firms. The chapter also presented detailed literature review on the concepts of strategic and marketing orientation. It offered specific propositions on the importance of carrying out studies in the developing market economies. Finally, a case has been initiated to suggest that most research on these issues have ignored the areas that most urgently need it that is to say the developing economies whose collective progress is on the agenda of all the development agencies in the world.

This case is reinforced as it builds on the first chapter, while emphasizing that since there are few studies in the developing market context, there is a major gap in the extant literature thus affecting the accumulation and application of knowledge. For example, as evidenced by pertinent research it is suggested that on the face of it, mature market economies, which are characterized by the prevalence of buyers markets, stable growth and intense competition would need extensive marketing capabilities, appropriate strategies and market orientation to sustain business performance.

On the other hand, firms in developing market economies characterized by ill defined market boundaries and strong demand may get away with minimal focus on strategy, few capabilities and little or no market orientation (Gandhi, 1985). However, as there is very weak or at best contradictory empirical evidence on most aspects of management in the developing market contexts it is difficult to be categorical and thus, it is imperative that research on these aspects is rapidly broadened to focus on the developing market environments.

These countries constitute the bulk of the world's population where inefficiency and ineffectiveness are also the norm. It is in these countries that research, on taken for granted theories and practices should be focused, to ensure that managerial practices can be advanced while blind adherence to ineffective approaches is replaced by enlightened involvement. This chapter ends by building a case for the theoretical framework and the proposed theoretical model that will be presented in chapter six.

Chapter 6

Theoretical Framework and Research Hypothesis

6.1 Introduction

The preceding chapters discussed marketing and strategic management theories that are concerned with determining firm's performance. These chapters also briefly discussed globalization, which prescribed the need for studying marketing strategy and its various correlates in an emerging market context. It is contended that business environments and their value systems emerge from decisions taken in the economic history of a country (Hofstede, 1993; Boyacigiller & Adler, 1991) and the importance of social context and its influence on theory development should be appreciated. Needless to say that the extant research is largely based on the developed west and has generally ignored the application of these theories in the developing market context thereby leaving a big gap in theory development in the field of strategic management and marketing. The application and adoption of such theories have been the basis of current and largely unknown marketing behaviours in the developing markets. The present thesis will, therefore, try and provide a better understanding of these behaviours within the contexts mentioned above. There are two further reasons that necessitated the study of these marketing and strategy themes in the developing market context. These are: a) the perceived importance of emerging markets as a driver to the world economic development (Wright et al., 2005; Hoskisson et al., 2000) and b) the necessity for the local indigenous companies in these countries to learn, those factors that really contribute to their business success instead of blind adherence to factors that may be costly and not so effective.

This thesis primarily focuses on the issue of "What should the local indigenous companies learn, to effectively and efficiently compete in the more liberalized and fast changing developing economies following rapid globalization and the ensuing competitive environment, which includes competition in general and with the MNC's in particular?"

The broad goals of the thesis, deriving from the above primary focus are two fold: first, to understand the determinants of performance and success of firms in an emerging market context. Second, to try and understand the interrelationships between these drivers of performance while seeking to discover if one of them could significantly influence the other two.

The study of the relationship of the various marketing and strategic themes to the firm's success and performance in a 'developing market context' and their interrelationships will enable the thesis to contribute to further the theory of the firm[28]. The approach taken by the thesis is to replicate as well as extend research undertaken in the developed economies to the context of the 'developing and emerging markets'. Replication is important in itself (Hubbard et al., 1998) as it is needed not merely to validate findings, but more importantly, to establish the increasing range of radically different conditions under which the findings hold, and the predictable exceptions (Cheng, 1994; Lindsay & Ehrenberg, 1993). Replications with extensions are also basic to empirical generalization or knowledge development (Hubbard & Vetter, 1996; Lindsay & Ehrenberg, 1993). This form of contribution to the theory of the firm follows from the need to investigate the universality of such theories for which it will be necessary to conduct studies in a variety of cultures and countries (Nicholls et al., 1996; Cheng, 1994). The thesis, therefore, aims to serve to protect against the uncritical assimilation of generalized empirical results into literature (Hubbard & Vetter, 1996).

In the first instance the study will explore the applicability of existing theories in marketing and strategy literature to explain organizational performance in a developing market business environment. The starting point in this is to review the existing broad conceptual frameworks of strategic orientation, marketing capabilities and marketing orientation as these have found empirically proven association with performance in the developed world. This is extensively reported in chapters 4 and 5 earlier. Since evidence also exists in the extant literature, again reported in the earlier chapters, which suggests that most theories developed in the west may not apply in totality in a developing market context, exploratory interviews were undertaken with senior business managers in Pakistan, the environment of the present research. The aim of the exploratory interviews is to seek broad outlines of the marketing and strategic behaviours in the business environments of Pakistan.

This will lead to two things. First, it will help in determining the generalizabilities of the extant theory and the extent of these generalizabilities. Second it will help in developing

[28] The following questions are considered to be of central importance while addressing any theory of the firm
(1)Why do firms exist and what is their central purpose?
(2) Why are there differences in the scale, scope and types of activities between firms?
(3) Why are there performance differences among the firms (Slater, 1997)

empirically testable hypotheses, which is the main aim of this chapter. In the second instance the analysis will try and determine the strength of relationships between these operationalized perspectives in the developing market contexts to enable management practices to evolve on the basis of empirical support around the subject of demonstrable strength. In doing so the analysis will use *a priori* conceptualization of the dependent and independent variates sourced to extensive research documented in the strategic management literature as well as the exploratory interviews conducted with top business managers in Pakistan.

The research questions that have been identified are:

1 What are the contributions of marketing strategies or strategic orientations to the firm's performance in a developing market economy? Are they the same as in developed market environments or different?

2 Are the dimensions of the marketing activities or market orientation of firms in a developing or emerging market economy the same as have been proposed in the developed economies? How are they related to business performance in a developing market economy?

3 What capabilities especially marketing capabilities are significant for success of business firms in a developing market economy? In other words, what are the dimensions of marketing capabilities that are critical for successful business performance?

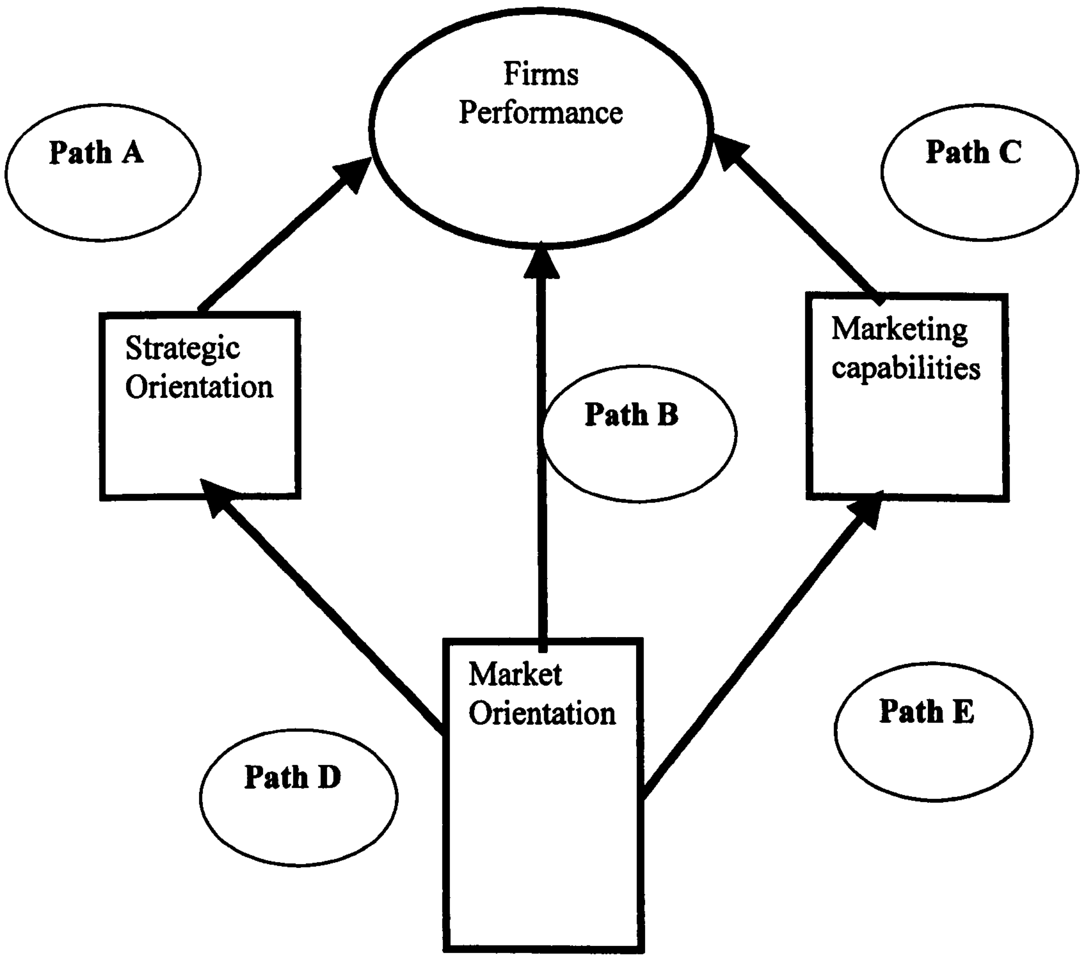
4 What are the interrelationships, if any between strategic orientation, market orientation and marketing capabilities?

The hypothesised relationships derived from the above questions are presented in the conceptual model of these relationships in Figure 6.1. In the process of developing the various hypotheses this conceptual model will be explicated through two stages and will finally be consolidated at the end of the chapter in Figure 6.7

Having stated the background of the research problem and its major research questions, the thesis is now in a position to develop the theoretical framework that will guide research effort undertaken by the thesis. In developing the theoretical framework the thesis will be relying on:

- The literature review undertaken so far
- The 8 exploratory interviews that were undertaken with leaders in the business environment of Pakistan that also formed the basis of developing the research proposition of the thesis

Figure 6.1 Integrative model of Firms Performance



As mentioned earlier, semi structured interviews were carried out with 8 Chief Executive Officers or marketing directors of various organizations. Full details of the participating business managers are provided in Table 6.1, which has been worded in such a way as to protect anonymity whilst attempting to avoid confusion. In addition, as can been seen from Table 6.1, the participants in the exploratory interviews are drawn from a broad range of institutions.

6.2 Background to the Research Framework

The nations, which most closely exhibit the developing markets attributes, are already falling prey to rapid liberalization of trade under the free trade regime being pushed effectively by WTO. And as such "*the rapid adoption of market based policies by emerging economy governments* [29] *raises important issues for the strategies adopted by private enterprises both domestic and foreign*" (Hoskisson et al., 2000; Dawar & Frost, 1999). Growth of protectionist regional trade blocs and sharply reduced capital inflows from previous aid donors to the developing markets have put a premium on resources that are available for developing various sectors of the economies in these countries.

The private sectors in these countries have now suddenly found themselves being burdened with the duties of economic development that were to date considered the turf of their respective governments. In this situation a developing market economy nation can ill afford to lose any of its investments made in its various industrial sectors for want of managerial knowledge and skills? As a corollary it also needs to strategise effectively and prioritize the development of skills in areas, which must be identified for their performance enhancing abilities and improving the knowledge base from where learning can speed up. A judicious proposition is that the organizational capabilities and their evolution are context specific and is dependent on the situation that surrounds the organization as well as the environment's ability to attract the proper resources, (Hoskisson et al., 2000; McGuiness & Morgan, 2000; Hofstede, 1994).

"*For instance, Avis Europe has achieved remarkable performance in high customer satisfaction linked to employee satisfaction in Western Europe. The company's goal of operating in countries of the former Eastern Europe is seriously threatened by the limitations on the ability to recruit and train service- oriented employees locally in such locations*" (Piercy, 1998).

[29] It needs to be remembered that this thesis uses the descriptive 'emerging' as well as developing market and economies synonymously to distinguish from the developed market economies of the western world.

Table 6.1	Participants of the exploratory interviews	
	Role	Brief Description of Company
Participant A	Marketing Director responsible for Marketing and Planning	A Private limited company (PLC) Cooking Oil and Vanaspati sector. A consumer goods company
Participant B	Marketing Director responsible for Marketing and Planning	A PLC a Local Pharmaceutical firm with licences to produce products in a JV
Participant C	Senior Executive Vice President	Public Limited nationalized commercial and micro credit bank targeted to a single consumer niche
Participant D	Chief Executive Officer	Public Limited Financial services organization specially leasing
Participant E	Chief Executive Officer	A PLC Yarn manufacturing in the Textile sector
Participant F	Chief Executive officer	A Public Limited Automotive Battery manufacturing in Auto and Allied group Subsequently the firm was sold off
Participant G	Chief Executive Officer	A PLC Dairy and Ice Cream products
Participant H	Retired Senior Executive Vice President and Regional Manager	The Largest Development Finance Corporation in Pakistan now wound up by the government

Collis and Montgomery (1995, p. 127) provide another example from the western developed business environment of Marks and Spencer's attempt to apply the same approach in the North American markets, which had been so successful in British retailing industry. According to them it is "*a classical example of misjudging the important role that context plays in competitive advantage*". They further also refer to the path dependency and causal ambiguity in application of resources and CA respectively, a fact that makes it all the more imperative to study the requirements of each environment instead of blindly following the prescription however well intended.

A chief executive officer (Participant F) offers an example[30] in a similar vein when he hired a US qualified MBA (a Pakistani) for his firm, who had been working in a bank in America:

"*We wanted an individual who had been working in a bank and had the latest knowledge of financial institutions. We were able to hire an MBA working in USA. The individual was working in a bank as a manager looking after industrial loans and working with clients. His job in US was to analyse loan applications, sanction loans of a certain size and monitor the client firm's progress through disbursement and recovery of the loans. We thought he would be ideal as he was fully aware of the working with the ability to monitor our operations from the view point of banks and ensure that we were operating effectively as necessary from the financing institutions point of view. We had a large bank debt and thought this was the right way. However to our dismay we found that the individual could not manage relations with our local banks or even understand the workings, even though he was considered an excellent manager in the US bank*".

Once again the Participant F has pointed to the different working environments of the developed and the developing countries, that created a misfit between the capabilities and know-how acquired in the developed country and applied in the developing country. In other words, their strategy of managing the affairs of banking and credit management seemed to have failed in achieving the goal of the company. This theme of capability being a critical factor in developing a strategy which affects the success of the firm is repeatedly highlighted.

These few examples from the local business environment of Pakistan and the developed market environments points to the necessity of research focusing not only on the strategies but also on the resources and skills needed and available in working environments of the developing countries, that should form the basis on which success can be build in the most effective and efficient manner. Strategy seemed to have failed in achieving the goal of the organizations because of a mismatch between resources and the

[30] Taken from exploratory interviews

requirements of the strategy. In other words, strategy was perhaps drawn without consideration of capabilities. Conceivably, the correct framework would have been to recognise the requirements of the environment and evaluate the existing resources of the firm and see if these resources could be leveraged in ways and forms to create the necessary fit. This would then have given rise to the appropriate strategies to be implemented with effectiveness.

Following this reasoning, these developing countries and their industrial managers cannot afford to invest in 'quick fix' approaches as suggested by the 'law like generalizations' within the strategic management discipline, based on the paradigms that have largely evolved in the developed economies context. That is so unless a relationship described in the earlier research remains unchanged from one societal context to another. Conversely, if there is change in either the direction or the magnitude of the relationship as the societal context changes, the research finding would not be considered universal or generalizable (Cheng, 1994).

On the other hand universal knowledge is defined as research findings that can be applied cross nationally to explain or predict variation in a given dependent phenomenon using the same predictor variable(s). Thus, if the occurrence of event Y can be predicted by the occurrence of an event X regardless of where the events take place, this information would be considered as universal knowledge. And it is known that all scientific research, including social sciences research, should aim to develop general theories whose predictive utility is not limited to particular national or societal setting (Cheng, 1994, p. 162).

Keeping the above in mind, one form of developing universal knowledge in the subject area of marketing and strategy would be to test relationships in developing and emerging market contexts that have been predicted in the developed economic contexts. The second form would be to introduce societal variables as moderators or separate independent variable having an effect on the dependent variable. This thesis takes the first route to help develop theory as it is perhaps the first attempt at testing, in the developing market context, the known relationships between the organizational performance and various marketing and strategy correlates. This first step should then lead to the next that is if the relationships are not validated to seek the moderating factors that will help explain the differences.

The research problem as stated earlier is not only limited to finding the strategies that are being used by successful companies operating in Pakistan (descriptive) but it aims to also try and understand and explain the differences (explanatory) in the marketing capabilities and activities of, the successful and not so successful firms, which the firms leverage in the market place to create competitive advantage and success. The thesis also tries to understand the interrelationships that exist between the various strategy and marketing themes (causal) in a developing market context to further theory and support managerial practices.

The objective of this chapter, therefore, is to first present a conceptual model of the interaction of strategic orientation, marketing capabilities and marketing orientation that can effectively form a framework for developing and improving competitiveness of local firms in emerging market economies as represented by Pakistan (Figure 6.1); and second to present two separate working models, which would help develop and offer hypothesis for empirical test keeping in view the model presented in Figure 6.1. The first will suggest a conventional framework of showing the impacts of MO, SO and marketing capabilities on firms performance. The second model will present MO as the main driver of the SO and firms marketing capabilities.

The rest of the chapter follows the following structure. The chapter will first briefly reintroduce the impacts of Globalization and MNCs on the business environments of the developing countries such as Pakistan. This has led the concern for defining successful competitive strategies, capabilities and skills necessary to compete in the new evolving environment in the emerging market economies. The thesis will then introduce the schematic model in Figure 6.2, of the successful performance of the firm. This model captures the demonstrated relationship between a firm's performance and explanatory variables found in management and marketing literature such as strategic orientation, market orientation and marketing capabilities reviewed in chapters 4 and 5.

The chapter will then present the integrated two stage model of the firm's performance where the thesis will also develop hypothesis that will subsequently form the basis for the thesis's presentation. The first stage model (Figure 6.4) reflects the documented relationship between MO, SO and marketing capabilities with performance and relates to goal number one of the thesis, mentioned above. This model will form the base to validate the proposed relationships in a developing market context. The second stage model (Figure 6.5) tries to capture the interrelationship between the three dominant themes. Given the known perspectives provided by extant literature and deductive reasoning, the thesis can safely propose the selection of the dependent and independent variates from amongst the three that it focuses on and this is in line with quantitative tests that have been adopted to examine the theory on RBV (Ray, Barney, & Muhanna, 2004; Grant, 1991).

According to Ray et al. (2004), "This approach has been to develop measures of a firm's resources and capabilities and the extent to which they meet the criteria established in the theoretical literature for generating sustained competitive advantages, and then correlating these measures with some measures of the firm performance". Most of this empirical work, they stress, has been consistent with the resource based theory, quoting Barney and Arikan (2001). In their own research in testing the RBV they have used business processes as the independent variable.

A different proposition has been offered by Grant (1991), who suggests capabilities and resources of the firm as the foundation for the firm strategy (ibid p. 114). He further points to two premises on which he rests his proposition. The first, according to him are the internal resources which give direction to the organizational strategy; second it is resources and capabilities of the firm that are the primary source of profits for the firm.

Finally, this thesis will integrate the two in Figure 6.7 to suggest an over all integrative working model, which incorporates the relationship of performance with the three theoretical streams that have been reviewed in this thesis as well as present the interrelationship of the three streams as suggested above.

6.3 Theoretical Framework

6.3.1 Introduction

An important concern that a businessman in a developing economy faces is to find an answer to the question whether there is a way in which his local business can survive the growing competition with MNCs. They benefit from lowered tariffs under WTO stipulations, in the host countries while easily exploiting economies of scale and cost reductions made possible through learning curve as well as cross subsidizations. From the point of view of Pakistan and that of other countries of the SAARC[31] region, this is especially significant. Following economic reforms that were undertaken by its neighbour, India, which also has an advantage of a market size of a billion consumers, a large influx of MNCs was underway to that country (Das, 1997). With further lowering of tariff barriers and by drawing on the economies of scale and cheap labour in India, these MNCs will be well placed to export into Pakistan over relatively short distances making their products highly competitive to the detriment of local companies engaged in production of similar products.

Most of the academic research on competition under globalization views the issues from either the MNCs perspectives (Luo & Tan, 1998) or businesses such as small and medium size enterprise (SMEs) response to globalization (Knight, 2000) in the developed world context. Only recently following growing direct foreign investments (DFIs) in these countries and the resultant socio-economic impacts, the developing country's perspective has come under review (Dawar & Frost, 1999; Das, 1997; Srinivas, 1995).

The thesis has already suggested that globalization has given rise to two extreme views. The first one considers the benefits that result from competition, which is an inherent component of globalization (Tisdell, 2001; Wright & Etemad, 2001; Cecchini Report, 1988). The second has the opposite view. It is viewed as an exploitive force managed by MNCs who, using their superior resources pose a threat to the local indigenous firms that are the basis of any economic development and economic self-reliance of a country (Anderson, 1999; Dawar & Frost, 1999; Srinivas, 1995). The strengths of MNCs include not only financial power but experience of operating in different environments and a

[31] SAARC stands for the South Asian Association of Regional Co-operation. It includes the countries of India, Pakistan, Nepal, Maldives, Sri Lanka, Bhutan and Bangladesh, which are located in the region.

plethora of skills and capabilities that are difficult to match. In a general observation Pierre-Andre and Andre (1994) have stated,

"For those small businesses operating in open markets and unable to face worldwide competition because of low productivity, the increasing trends towards elimination of tariff barriers will lead to closures".

A fact that was echoed in a report filed in Nation (On Line edition dated 3 February 2002) by Hamid Waleed "*The closure of about 40 per cent units in the knitwear sector has created massive unemployment. Not only the unskilled and skilled labourers, working on daily wages or contract basis, but a good number of highly qualified staff of the managerial level have started feeling the heat".*

The policy issue of globalization and MNCs incursion into the newly developing economies can be tackled at two levels. At one level create and maintain a selective mix of tariffs and other barriers (Useem, 2001). This points to the government intervention policy attributed to nationalistic feelings. The second approach is in terms of enabling the local industry to gear itself to tackle the threat of failures and closures in the local businesses. In advancing this approach Dawar and Frost (1999) and Srinivas (1995) (see chapter five for a detailed explanation), urge a closer look at the reality that is operative and try developing skills and capabilities that are necessary to compete effectively in these environments.

6.3.2 Challenges of the Multinational Corporations

Major challenges for both the local indigenous firms and MNCs in any economy are to improve competence and sustain superior performance. In the MNC theory when MNCs expand abroad, they apply an optimal match in resource deployment and environmental conditions (Wernerfelt, 1987; Prahalad & Hamel, 1990). They are also more likely to achieve higher performance than domestic firms (Morck & Yeung, 1991; Hymer, 1976; Dunning, 1979 in Luo & Tan, 1998), and this theory was empirically supported (Kogut & Chang, 1991; Morck & Yeung, 1991). This is possible because they benefit from national differences in market structures, product life cycle and other environmental resources through the utilization of their monopolistic advantages or immediate goods (Caves, 1971).

What is known from the extant literature is that the successful MNCs have a large resource endowment than what is available to the local firms (Tan & Li, 1996; Luo & Tan, 1998). They can leverage these effectively across international borders. Given the theme that firm's unique set of resources leveraged effectively create sustainable competitive advantage and sustained superior performance (Barney, 1991), MNCs seem to hold an unbridgeable gap leaving the local firms in most developing countries at a severe disadvantage, given the economic and political power that the MNCs wield (Srinivas, 1995).

This seems to be the general sentiment pervading the business managers of a developing country such as Pakistan with regard to the MNCs as a fallout of globalization. For example, when asked a question about the likely impact on the industry of an MNC entering the market, a Marketing Director (Participant B) of a Pharmaceutical company responded:

"Very bleak the reason being, I think we are entering into a new set of rules of the game. Come year 2003 or 2004, when WTO is implemented and the borders visibly they will be going away, I think it will be very difficult for the local companies to sustain themselves. The time for big giant MN companies is coming very strongly. So I think within the Medipak, we feel that if we have to survive as a local Pakistani company, we either should go across borders and become a big company or join hands with a company which is big enough to take you within their fold, or you have no future. So I think we are working on that strategy and hopefully we should be able to find something in this area, we are working very hard. But I don't know how will the other Pakistani companies survive, but they may have 10/15% of the market but the rest will be with the MNC. Because once the regulations are gone, no borders will exist economically I think it will be very difficult to work".

A different frame of mind is suggested by the statement the Senior Executive Vice President (Participant C) of the Women Bank of Pakistan, in response to a question made,

"You know, when you go with; when you see where you want to be, you want to be in competition with the best. I don't want to be in competition with the nationalized banks. I see myself moving in the direction where I am in competition with the multi-nationals such as Garmeen, the SEWA, with the Women World banking and believe me we could in two years leave them behind".

Perhaps this frame of mind reflects the type of competition in the banking industry which is considered to be more localized rather than a comment on the impact of the multinationals in the industry.

Given the framework of the local businesses competing against capability and resource driven MNCs, against who they are inherently at a disadvantage in term of skills and resources that the MNCs possess, they are also hampered by a conservative mindset. The competitive framework, therefore, that seems to exist in the developing countries suggest a bleak future for the local businesses. What are the options that such firms have? There seem to be four.

A) Calling on the government to reinstate trade barriers; or B) ask the government to provide some form of support; or C) becoming subordinate partners to a MNC; or D) by simply selling out and leaving the industry (Dawar & Frost, 1999).

6.3.3 Theoretical Framework and the underlying dimension

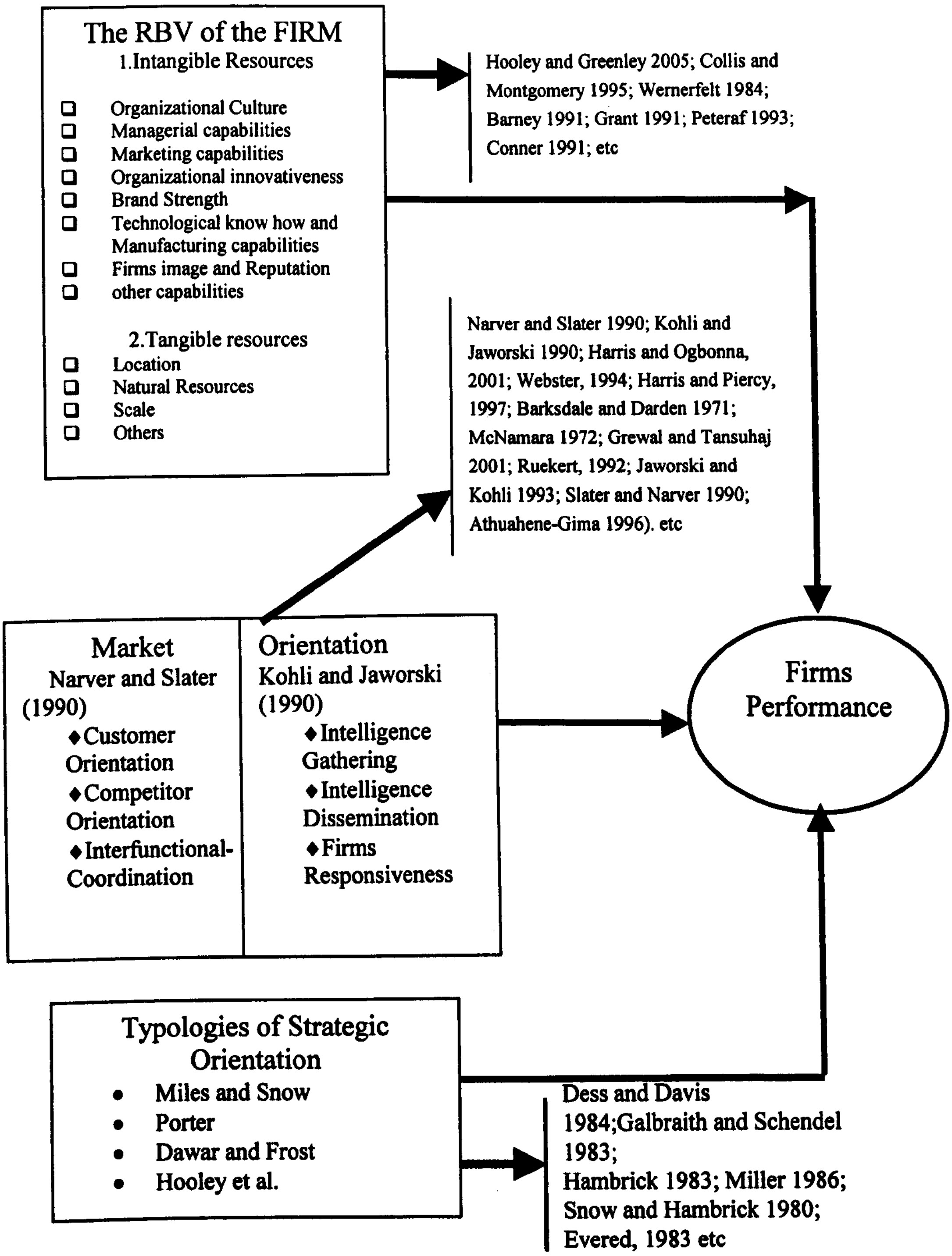
The thesis now presents the framework for successful competitive behaviour. According to the thesis this framework will be applicable to firms that are not only confronted by MNCs as a consequence of globalization but will also be relevant to firms that want to be successful in general at least in a developing country business environment. This framework is based on three major paradigms that have been suggested to influence a firm performance and is set out in Figure 6.2.

The first paradigm generally considers the external environment. Strategic management literature has long espoused support for the external environment having a significant influence on organizational performance (Snow & Hembrick, 1980). Rumelt (1979) argued that strategy as a concept is strongly contextual. In his view the focus of strategy is on the relationship between the whole organization and its external environment. This postulated relationship between the environment and the organizational strategy, which according to Venkatraman (1989) has been called *match; contingent upon; consistent with; fit; congruence and coalignment.* However, according to these researchers, there is a lack of guidelines to translate these verbal terms into analytical frameworks leading to methodological issues of validity of the constructs (ibid p. 423). Nevertheless, this stream is normally associated with those who consider that there is a direct association between the dictates of the environment and the action and strategic choices that are made by the firm to either create a positional strategic fit (Hooley & Greenley, 2005; Porter, 1986, 1980; Bourgeois, 1980) or an environmental adaptation (Zahra & Pearce, 1990). The view of thesis states that strategic orientation (Miles & Snow, 1978) is one manner in which firms respond to their environment, which is also instrumental to the firm performance. In turn Miles and Snow (1978) identify four recognizable strategic orientations within any industry. Thus firms are classified either as the Prospectors, the Defenders, the Analysers and the Reactors and these four types cover the whole set of possible orientations.

The second paradigm pays more attention to the internal side of the firm than to its external environment and takes a resource based view of the firm. The resource based view advocates that the firms be observed in terms of their resources and not in terms of their marketing activities (Wernerfelt, 1984) and takes an "inside-out" view or firm specific perspective on why organizations fail or succeed (Lado et al., 2006; Powell, Lovallo, & Caringal, 2006; Hooley & Greenley, 2005; Hooley et al., 1999; Dickson, 1996; Peteraf, 1993; Grant, 1991) and how competitive advantage can be sustained by deploying company resources and capabilities. This stream of research has been extensively referred to in chapter 4 and 5.

In continuation of this research stream's emphasis on capabilities as the source of competitive advantage, Hooley, Möller, and Broderick (1998) further argue for the need to specifically identify the resources and capabilities to develop alternative competitive strategies and positions (p 95), which would be the source of achieving competitive advantage and firms performance.

Fig. 6.2 A Schematic Framework for Superior Business Performance

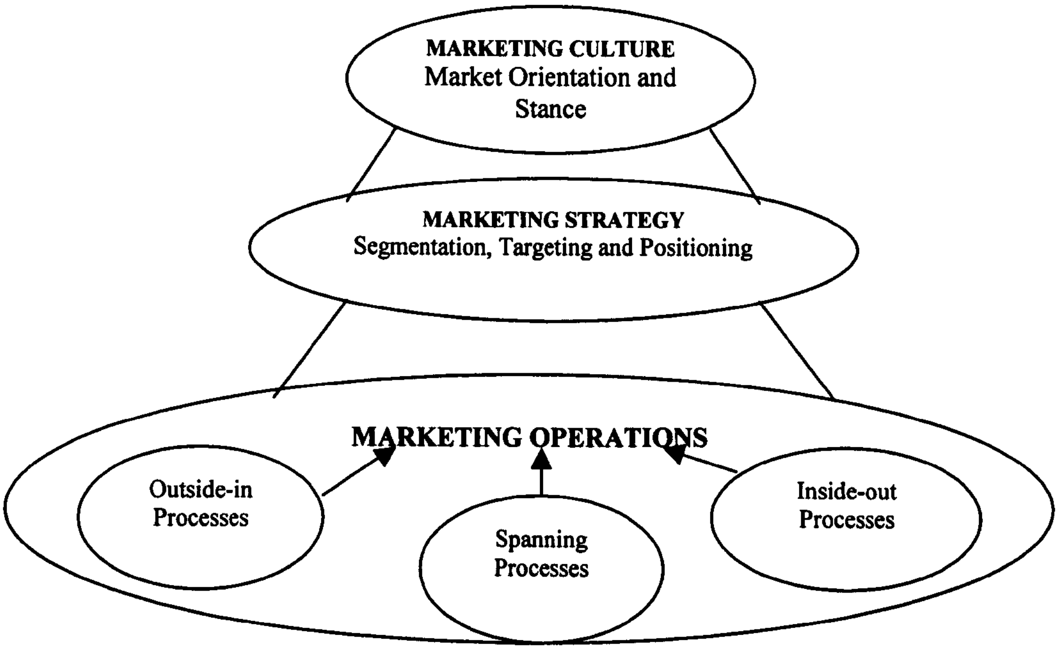


This argument clearly suggests two possibilities on which this proposed positioning paradigm can work. First, the market position is chosen irrespective of strength and capabilities available in the firm dictating that capabilities will be acquired subsequently and unless acquired the firm will not undertake the positioning strategy. Second, that one seeks to look at the availability of capabilities combining this with the knowledge of what is required for each positioning strategy and choosing the one where there is a match between capabilities and the chosen strategy (Barney, 1991).

The third paradigm that has been added to the firm's performance theory over and above the strategic orientation and firm's resource paradigm and relates to the market oriented behaviour of the firm. Market orientation has been defined as "*The organizational culture that most effectively and efficiently creates superior value for buyers, and thus, continuous superior performance for the business*", (Narver & Slater, 1990) and as such is effectively a firm's strategic resource or capability (Hooley, Möller, & Broderick, 1998; Day, 1994). However, with ever growing interest in market orientation as a direct driver of business performance (Kohli & Jaworski, 1990; Narver & Slater, 1990) or as a moderated link (Greenley, 1995), it is justifiable to suggest that market orientation can be viewed as an independent and a separate stand alone source of competitive advantage and firm performance distinct from other resources and capabilities following the lead of Hunt and Morgan (1998; 1995, p. 11), Slater and Narver (1996) and supported by Vijande et al. (2005).

In contrast to MO being a strategic asset, making it distinct from other capabilities of the firm there is another view, which ascribes MO to be a capability of the firm similar to other capabilities that a firm may posses (Jaworski & Kohli, 1993; Lippman & Rumelt, 1999). However, the view taken by the thesis is that MO is a separate and independent framework for firm's success. This proposition derives support from the suggested differences between the resource based view and the competency based theory of the firm (Freiling, 2004). Further support to the above proposition can be drawn from the conceptualization of MO being the driver to market strategy, which forms the basis for deploying capabilities in marketing operations (Hooley et al., 1999; Vijande et al., 2005). This conceptualization is presented in the Figure 6.3, which has been adopted from Hooley et al. (1999, p 262).

Figure 6.3 A hierarchy of marketing capabilities



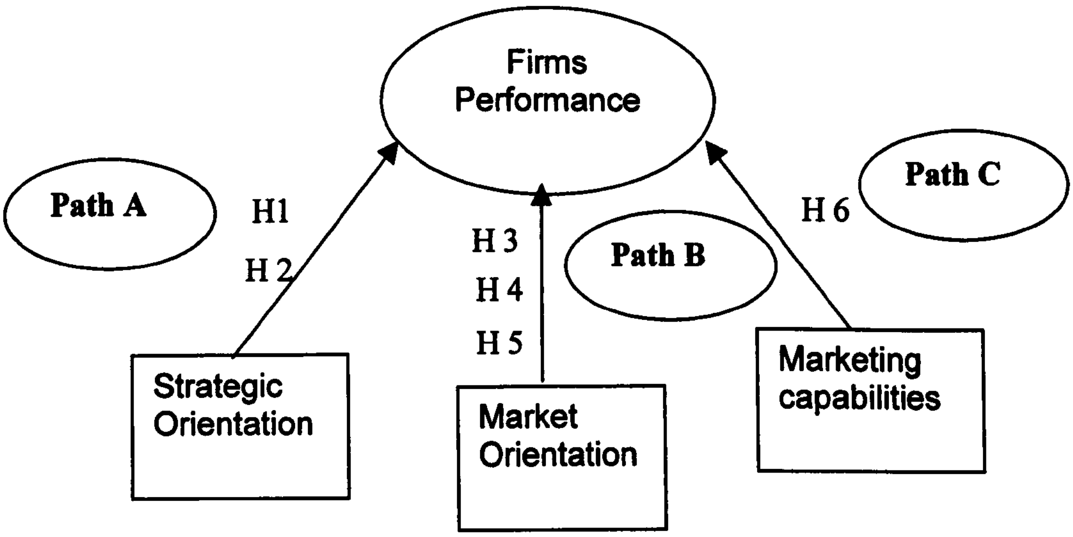
Adopted from Hooley et al. (1999, p.262)

In summary of this section, one may begin to see evidence of numerous but as yet unexplored theoretical links, which exist between these various constructs that closely relate to internal firm resources (capabilities and core competencies), generic (external) firm strategies and firm performance. One may also begin to appreciate why resources and capabilities linked with an external strategic stance based on the business environment of a developing economy such as Pakistan, may be critical to the creation of superior performance.

In the next section, the thesis will explain the development of the conceptual models; the thesis will use, other than the extant literature, illustrations in the shape of extracts from interviews that were conducted with senior managers of business firms in Pakistan. These responses were instrumental in focusing the thesis on using Miles and Snow (1978) typology as a framework to explain strategic behaviour, as well as marketing capabilities that form part of the competitive approaches used by the business firms in Pakistan.

In the first workable conceptual model presented in Figure 6.4, the three dimensions are presented that have been conceptualized to have a direct relationship with the firm's performance in the developing country context and are shown as different paths to the firms success. The second stage presented by Fig. 6.5 offers the conceptualization that in a developing economy such as Pakistan, MO seems to be the relevant competency that drives the approach to strategy (strategic orientation) as well as helps focus the firm on acquiring or developing new capabilities that will be required for interaction and responding to the evolving environment, which in turn will affect organizational performance.

Fig. 6.4 Firms Performance Model



6.4 Strategic Orientation and Performance

As suggested by the strategic management literature, the organizations that generally succeed have the ability to successfully interact with their environments and those who fail normally cannot. This success is dependent on the strategic posture or orientation that the firm adopts in response to the requirements of the business in which the organization is operating.

Miles and Snow (1978) developed and proposed a typology to differentiate strategic orientations adopted by different firms while functioning in their business environments. Their approach aggregates firms according to the nature of strategic posture emphasized Their typology of competitive behaviours or postures of 'Prospectors', 'Analysers', 'Defenders', and 'Reactors' and their conceptualizations have been supported for validity and reliability (Hambrick, 2003; Ketchen, 2003; Brunk, 2003) and widely used (Shortell & Zajac, 1989). This scheme has also proven to be a useful framework to examine the interaction between the firm and its environment (e.g. Hambrick, 1983b; Ruekert & Walker, 1987; Conant et al., 1990a, 1990b; McDaniel & Kolari, 1987 etc).

However, some weaknesses have also been attributed to Miles and Snow (1978) typology and the main one, which is very relevant to this thesis, is their proposition that all stable strategic orientations perform well in any industry. In other words, they did not determine empirically whether for example "prospectors" might outperform say "defenders' under some circumstances, which is inconsistent with the more typical view that an environment favours certain type of strategies (Desarbo et al., 2005). As a case in point one group of researchers namely Zajac and Shortell (1989) did find prospectors outperforming defenders in the health care industry. Desarbo et al. (2005) while clustering firms in their study of 709 organization from US, Japan and China found clusters, which they assume are 'Defensive with marketing skills' and contain firms exhibiting the Miles and Snow (1978) Defender orientation (55%) as well as Reactor orientation (45%) and these firms were among the leaders on almost all performance measures (p.62), which is contrary to the proposition that Reactors are the worst performers. Further, they also found that Analysers of Miles and Snow typology do not form a distinctive group but share clusters formed of Prospector or Defender firms. And this finding is in line with the definition of Analyser firms given by Miles and Snow (1978), in that they share traits that belong to both prospectors and defender firms.

As suggested earlier, this thesis aims to assess whether strategies that have been noted to operate in the developed market environment are also practiced in a developing market context. This interest is in response to the prospect that since the environments are different, the strategies that are exercised in these developing environments might or might not be similar. This aim of the thesis is in line with the concept of theory development which suggests that studies should be undertaken not only to validate theories but also to establish the increasing range of radically different environments under which the findings hold. More specifically in order to investigate the universality there is a need to conduct studies in a variety of cultures and countries specially the developing market environments (Wright et al., 2005: Ngai & Ellis, 2002; Cheng, 1994; Lindsay & Ehrenberg, 1993; Nichols et al., 1996).

As a step to this end exploratory interviews were conducted to seek out the prevalent strategic behaviours of firms operating in various industries in the business environment of Pakistan. It seems that generally, strategies that have been nominated in the Miles and Snow (1978) typologies as prospectors, defenders, analysers and reactors are operating in the business environment of Pakistan also. For example in response[32] to the question

- How would you describe your competitive marketing strategy? And what are the attributes of your marketing strategies within the over all business strategy? What element of the marketing mix forms the basis of your competitive marketing strategy?

Participant A- Director Marketing (Consumer Goods Company) responded that
"We are in the commodity business of providing branded cooking oil where technological changes are not relevant. We operate on low margins and high volume making efficiency important". To a follow up question about which of the 4 P's i.e. product, price, promotion and place is more important, his answer was, "*Our product quality is good and we provide at a price that is affordable to people who are squeezed for money*". He did not anticipate any change in the marketing strategy in the near future.

[32] These interviews were tape recorded and transcribed. The original language has been retained as much as possible, only making adjustments where too many grammatical errors were present. In some places translation to English was necessitated when the Participants used Urdu.

The original business of Participant A is poultry feed. The reason they came into the cooking oil business is, first it is a growth business and second it helped to secure their original business, by ensuring a source of supply for it. Given this information it can be concluded first that the business approach adopted by this organization is of the "Analyzer" category of Miles and Snow (1978) typology. 'Analyzer' tends to maintain a secure position in a core market, which in this case is poultry feed and seek new market position via product development in other product markets, cooking oil in this case. Second, that orientation may differ at the corporate level than adopted by the business unit. In this case the cooking oil business unit strategic approach is an example of a defender orientation as it was applying itself into a narrowly defined segment with efficiency and price as the strategic tools that are most important for performance.

Participant C- Senior Executive Vice President (Nationalized Bank) responded that "*Going through a transition where we are waiting for changes to come it is a difficult period; it is an extremely difficult period*"[33]; "*When you are playing the waiting game there is nothing much you can do*".

"*It will (the new product concept) be successful—because all the factors are in place. It is now up to the Government to provide support and the most important is the economic environment-----And I believe that among the nationalized banks we do have the expertise and if provided the necessary support we can excel (emphasis added), however we have to adopt a wait and see attitude*".

In this case the firm seemed to adopt the "Reactors" orientation (Miles & Snow, 1978).Instead of being proactive in business they had adopted a wait and watch framework and they only fought to maintain their nationalised status when forced by the circumstances, which seemed to be to avoid privatization. On the other hand they are also developing products with intentions to market when the opportunity presents it self. This is more like the 'Analyser' orientation. Thus on the one hand they are only reacting when forced by circumstances and on the other they are proactive in developing products to launch. As we know 'Reactor' organizations seldom make adjustments of any sort until

[33] This was especially related to the changes in the overall environment following a change in the government when General Musharaf took over as the chief executive of Pakistan replacing the elected Prime Minister Mr. Nawaz Sharif. However the Participant C was very hopeful that the changes were taking care of the anomalies in the business sector particularly in the banking and finance sector which was wrought by corruption and cronyism

forced to do so by environmental pressures (Miles & Snow 1978, p 29).While, 'Analyser' compete sometimes as a 'Prospector' and some time like a 'Defended' (DeSarbo et al., 2005).

Participant B- Director Marketing (Pharmaceutical Company) responded

"*What we did was we picked up niche markets and started investing into those areas like say we went into plastic distilled water. We were the first company to introduce plastic distilled water. We have been first in many many areas. So I think as a company we have done well*". When asked to further elaborate on their present strategies he said

"*I think that retrospectively I feel we should have invested; because we were the market leaders. And just sort of instead of investing into the IV solution we invested in allied businesses. We went into eye drops, which meant a smaller investment and perhaps not the same turnover*".

In this participant's case the firm stands out as "Prospector" as it was playing a leadership role of developing product markets in various categories of products for different markets. Typical of 'prospector' behaviour they moved from one product market to another seizing opportunities and taking risks while not being overly concerned for all their product markets. However, the cautiousness with which they subsequently approach there product and market development points to the 'Analyser' orientation. While looking at the ensuing competition in their market with strong entry from a multinational in one of their product markets the Participant B is reflecting on the need to have adopted a 'Defender' strategy to protect their markets robustly. These points to the fact that the same organization might opt to behave in different manners at different times, thus on the whole over a period it cannot be classified as clearly one or the other.

Keeping this in mind as well as the extant literature especially findings by DeSarbo et al. (2005) there are compelling reasons to assume that firms in Pakistan follow strategic orientations and these have been instrumental in their good performance, however, these may not be specified into a clear type of strategic orientation as determined by Miles and Snow (1978). The thesis, therefore, keeping in mind the null hypothesis of all firms clearly following a clear strategic orientation proposes the following hypothesis:-

H1: In the business environment of Pakistan organizations do not always follow a clearly defined strategic orientation.

In order to test the case of equifinality, that is firms with whichever strategic orientation will succeed, the thesis proposes that

H2: In the business environment of Pakistan, businesses with recognizable strategic orientation will perform equally well.

6.5 Marketing Orientation and Business Performance

Marketing theorists have consistently accorded the marketing concept a central role in the firm's performance (Morgan & Strong, 1998; Anderson, 1982; McNamara, 1972). Adoption of the concept means that the firm must develop its culture of Market Orientation. Kohli and Jaworski (1990) further explained, that "A market orientated organization is one whose actions are consistent with the marketing concept".

Market Orientation literature; on the other hand, has found evidences that market orientation culture (Narver & Slater, 1990; Slater & Narver, 1995) or activities (Kohli & Jaworski, 1990) can be important determinants of business performance (Olavarrieta & Friedmann, 1999). Table 5.1 and 5.2 in chapter 5 provided the information on results from various studies regarding the impact of Market Orientation on various performance measures. The subscribed wisdom is that market orientated culture is at the core of marketing strategy and management (Chan & Ellis, 1998; Kotler & Clarke, 1987).

Within the MO framework information gathering and information sharing about customers and competitors is considered to be the very basis on which satisfying customers need and securing CA would rest and according to Jaworski et al. (2002, p. 279) "*Marketing strategy begins with customer and competitive intelligence*". The relevance of gathering information and analysing own and competitor strengths and weaknesses has been proposed generally with wide appeal in all types of environments. It is also necessitated as an approach to reduce risk and uncertainty involved in decision making and thus enhancing the chances of success.

The interview responses with regard to aspects of MO suggested that information gathering was an important facet of each business. For example the question around which this discussion is reported was the following:

- What kind of market information do you seek and this actually followed the question on how environmental scanning was done and by whom in the organization?

  Prompt:

  Do you rely on your own knowledge of the market? Or do you regularly hire market research or do you have any other formal method of gathering market/customer information?

  In what form is the information provided and who all in the company get the information on a regular basis? How is the information recorded and maintained?
- How does the company respond to this information?

Participant B- Director Marketing (Pharmaceutical Company) said that:
"I think the best way that we have found in Pakistan- a place where nobody knows anything in the beginning of the day- but at the end of the day you have to get to know and I think for me it is the Chambers of Commerce. I think we have found that is the best source of having the most updated or at least about the expected changes in the policy or whatever. Because you see every one who wants to make a change would like to inform the business community at the Chamber first. They come there and they talk about it, even the WTO the IMF and the rest of the people they all come there. So I think we find that source very good. If there is any specific information that we want to get on anything world wide than obviously computers have become very important and all this information is becoming accessible". Further about the market information he added, *"There are many ways obviously we keep a tab on our competitor, throughout Pakistan through our sales people. That is part of their job done continuously on a weekly and maybe on a monthly basis".*

However, in case of sharing the information within the organization and in answer to, "How do you react to it? Does the information flow to all, the whole company or kept just at the top", his answer was, *"No we will; no it remains within certain quarters because you see if you have paid for certain information or even if you have not paid then this information is privy in many ways. And giving in many hands will mean that this information can slip into the hands of somebody who could use it against you also".*

Participant G- Managing Director (Ice Cream Manufacturer)

"I follow what my competitor does. When Walls launches a flavour I quickly launch the same. I have lower prices but I produce good quality. This is the information I need." When asked about the role of various members of his organization in this information gathering process, he said *"I trust and train my sales people. I myself train them what information to get. So if there is any thing that my competitor does I know it the next morning".*

The owner, managing director of this company, is actually not educated in the sense of any formal schooling. Whatever education he has is of a practical type acquired through working in various fields. However, due to his past experience and success he seems to trust the old method of copying what his competitor does, therefore, exhibiting a strong competitor focus in information gathering. In terms of sharing information he seemed to be doing so with his product managers and sales force. While in the case of Participant B, the Director Marketing was sourcing the information on his own and was not open to sharing this information.

The focus of what kind of information was gathered differed from one organization to another. That is to say in some cases the focus was to keep tabs on governments policy making while, in the others, it was purely to keep tabs on the strongest competitor. None of these businesses, however, directly reported any special focus on customer information except the textile business manager, Participant E, who was focused on his importer customer. This is considered odd as most businesses were operating in consumer markets and should have been concerned with the consumer interest. This lack of interest in customer information, however, does not detract from the fact that the thesis considers information about customers of paramount importance and, therefore, keeps this focus when choosing the survey document.

Given the various responses to the exploratory interview questions it is proposed that prima facie businesses in the environment of Pakistan are involved in activities that constitute market orientation behaviours. These aspects may not be recognized as components of MO by the management as such but these were clearly suggestive of the activities that include information gathering and information dissemination in Kohli and Jaworski (1990) operationalization of the market orientation.

As mentioned above, a positive causal link between MO and performance (Narver &Slater, 1990; Jaworski & Kohli, 1993; Selnes, Jaworski, & Kohli, 1996, 1997; Slater & Narver, 1994) is strongly supported at the least, in the US market context. There have been some other results that have cast doubts on this unequivocality (Despande & Farley, 1998). Especially research using other economic and business contexts and culture report mixed results of the positive impact of MO on business performance (Diamantopoulos & Hart, 1993; Pitt et al., 1996)[34]. A causal link between Market Orientation and firm's performance is, however, conjectured. The thesis, therefore, proposes the following hypothesis in relation to market orientation and firm's performance in the business environment of Pakistan.

H 3: In the business environment of Pakistan, Market Orientation has a direct and positive influence on organizational performance.

H 4: In the business environment of Pakistan, market-oriented behaviours of intelligence gathering, intelligence dissemination and responsiveness all have a direct and positive impact on organizational performance.

H 5: All business firms in Pakistan exhibit the same level of market orientation with the same focus on all the three activities such as intelligence gathering, intelligence dissemination and responsiveness.

6.6 Marketing Capabilities and Performance

There is no doubt that new ventures come into existence because of entrepreneurial drive and a minimum requisite of capabilities are to be expected. But then firms begin to demonstrate differential performance within the same industry facing the same external factors. This has led to the very basic postulates of the resource-based view of the firm

[34] See Table 5.2 (chapter 5) for further details

that the firms consist of heterogeneous and idiosyncratic resources that when effectively deployed in product markets lead to heterogeneous market positions (Barney, 1986a, 1986b, 1995, 1991; Peteraf, 1993; Wernerfelt, 1984), creating sustainable competitive advantage and business performance. This particular resource based view has been discussed in detail in chapter 4 given its importance over the past 15 years and has become one of the standard theories in strategy literature.

It is, however, Verona (1999) who, following a detailed literature review, argued that it is the organizational capabilities, which have the fundamental qualifications to be called the strategic resources as they are the primary source of economic rents, they accumulate over time, are strictly idiosyncratic (Dierick & Cool, 1989); and have the properties of being valuable, are rare, are imperfectly inimitable and are difficult to be substituted (Barney, 1991). Day (1994) has linked capabilities and processes closely by suggesting that capabilities enable the activities in the business processes to be carried out. And in his conceptualization of spanning capabilities such as marketing management, which are required to integrate all the capabilities (outside-in capabilities and inside-out capabilities), include a variety of others, such as pricing, purchasing, customer service, new product development and strategy development. It is, therefore, logical to assume that those firms which exhibit more capabilities will be more successful than those which have less stock of skills and capabilities. This assumption was empirically studied by Miller and Shamsie (1996) and they concluded that some capabilities had a positive link with financial performance of the organization.

Stalk et al. (1992) maintain that competition in the future will be based on capabilities that the firm possesses. They also argue that capabilities are what will enable firms to compete for the long term and that is exactly what should be relevant for a local firm in a developing market economy. It is with this intention of exploring the capabilities that are normally banked on in the developing economy of Pakistan, that interview questions asked revolved around the following broad framework.

- Which of the marketing mix dominated in the firms approach to the market and in competing against the competitor?
- Is the required work force easily available and is it necessary to train them to bring them up to the requirements of your business strategy as suggested in your focus?

It is to be noted that there was no direct question as to what capabilities the participant considered important, rather the approach was to focus on the factors in marketing that were considered important in the industry. The assumption was that if a respondent considered a specific aspect of marketing as important to the organization then logically a successful organization will either have the specific capability underlying the factor or would be in the process of acquiring it. In this way the aim was to avoid bias that may come into play based on what the respondent thought should be said than what it was in practice.

Participant A- Director Marketing (Consumer Goods Company)

"To us pricing is important as we want to keep our product affordable for people. We also maintain good quality as we are competing in the cooking oil and vanaspati ghee[35] against Dalda[36] brand of the Lever Brothers. Therefore to us both quality and prices is important".

To a follow up question about distribution channels, he said, "*Like I told you we sell to wholesalers in the major rural areas these people have there own depots where customers can come and buy. Tentatively we have started supplying to some retailers in the urban centres but these are still in the developing stage. We think we being the leaders in this Canola cooking oil we don't have much of a problem with the retailers but we need to educate the people on the benefits of using canola oil. It is for this reason we have also named our brand as 'Canola Cooking Oil*".

It is understandable for the firm to focus on price and quality and not on promotion or distribution as much. First, their target market is the rural population, which is not easy to approach through advertising. Second, their wholesalers are good promotional medium though it is not specifically mentioned as such; and finally this is a process industry and draws on the benefits of achieving scale economies by keeping prices down and the demand high. They are competing against traditional ghee industry and can affect switching behaviour if they can give a better price to the customer particularly in the rural

[35] Vanaspati is the local term for vegetable cooking fat like margarine and was very popular before the advent of cooking oils.

[36] Dalda is a brand which is about six decades old in Pakistan and belonged to Lever Brothers of Pakistan. This brand has now been sold of to a local Pakistani private limited company

areas. Presumably then their manufacturing processes will be critical activities and thus the production department will be significantly more important.

Participant B- Director Marketing (Pharmaceutical Company)

"I think product remains a very important part of our business any way. I think first is the product itself. I mean you just cannot have a good product and then feel that you can do the rest of the strategy. Absolutely they won't work. ----------Pricing wise I think we have always been sort of ear to ear neck to neck with our competitor. But since now we keep a shade behind maybe a few paisa[37] here and there, 50 paisa or 20 paisa below them and that is the strategy because see they capitalize on the of the Japanese product; Otsuka from Japan, made in Pakistan. But I cannot say that I am Fracineous from Germany. I can say that I am working under collaboration of Germany. So I think there is a differential and I think at times it is perceived that way".

The quality factor and pricing is again being considered the most important. The human resource in this case is more important than the manufacturing processes in the previous response. This is very logical, it being a pharmaceutical company.

Given the literature and the interviews it is obvious that capabilities are important for every business, however, the emphasis seems to vary. There seem to be more emphasis on pricing and quality than what the literature suggests in terms of market research, logistics, product development and promotion. Nevertheless, a case is there to suggest that senior management is aware of the importance of human resources and the capabilities they embody. The thesis, therefore, proposes that

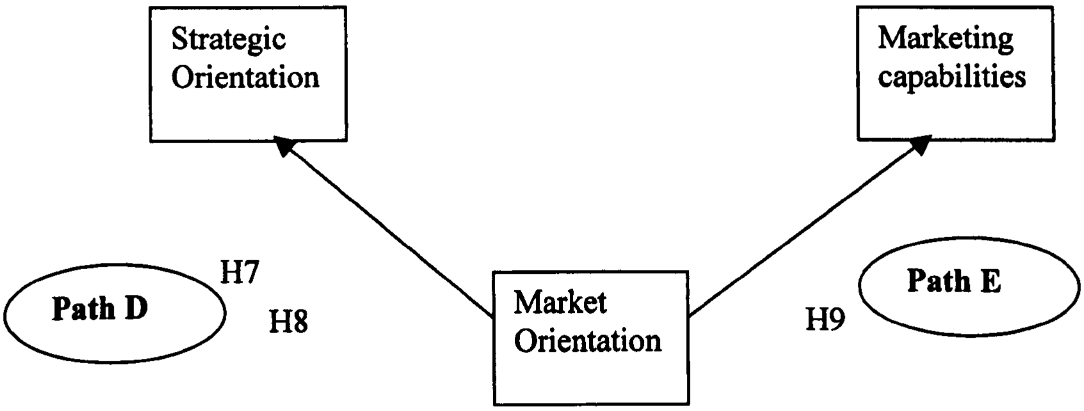
H 6: In the business environment of Pakistan, marketing capabilities such as Market Research, Pricing, Product Development, Channel Management, Promotion and Marketing Management, all have a direct and positive impact on organizational performance.

In the next section, the thesis introduces the second stage model (Fig. 6.4), which proposes MO as a possible driver to both capability acquisition and strategic orientation. In the following paragraphs brief arguments are offered to support the thesis that MO should

[37] There are hundred paisas in a Pakistani Rupee.

be considered as a practicable force, which influences the choice of an appropriate strategic orientation as well as influence the acquisition of relevant skills and capabilities that are required by the firm's response to its perceived environments. This driver or influencer role for market orientation is based on the activities of intelligence gathering, intelligence dissemination through the organization and collective responsiveness to this information, which reflects learning process within firms and markets (Morgan and Turnell, 2003). This driving role, however, obviously presumes a format of analysis prevalent in the organization which helps the firm to interpret and then respond to this information in the form of strategic actions. This area of interpreting the market situation (White, Varadarajan, & Dacin, 2003), however, is not the focus of this study.

Figure 6.5 The Market Orientation Driver Model



6.7 Market Orientation as a driver to Strategic Orientation and Capabilities

The response of the firms as suggested by this thesis should be seen in a much wider context than the response which is seen in the form of actions that only relate to the firms marketing mix in the shape of the Four Ps. The Four Ps, as have been widely suggested, is the reflection of the firm's competitive marketing strategy (Kotler, 1984; McCarthy, 1968). In other words, the firm's response could include two further forms: one to determine and select the skills and capabilities that should be acquired from the environment or developed within the organization, which fit with the needs of the market; second, to determine what strategic posture would best suit the firm's internal capabilities and the firm's competitive environment.

By integrating the following four distinct and valuable comments the contention of the thesis will become clearer. Morgan and Turnell (2003) assert, supported by other researches, including Narver and Slater (1990); Slater and Narver (1994a) that;

*'the second centres on **market orientation as a driver of decision-making** (emphasis added) allied closely to behavioural and cultural elements of organizational functioning'.* The decision making in this situation is related to decisions that form the organizational strategy.

According to the RBV it is recognized that the alternative strategic choices are selected according to the organizational resources available in order to take advantage of the environmental opportunity and threats (Barney, 1991). This reasoning puts forward a relationship between MO and organizational strategy where the former constitutes an antecedent of the later, to the effect that *"market orientation would guide strategy selection"* (Hunt & Morgan, 1995, p. 11), while Dobni and Luffman (2003) suggest that generally speaking, strong recognition has been given to the relevance of culture and its influence on strategy. In this regard culture is the MO culture.

Further, "Narver and Slater (1990, p.21) state that, *"Market orientation is the organizational culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus continues superior performance for the business."*

And finally Jaworski et al. (2002, p. 279) suggest that *"Marketing strategy begins with customer and competitive intelligence"* a clear reference to MO.

It is hoped that as the thesis proceeds with explicating the interconnection and inter-linkages between different streams that are important from the point of view of this thesis (strategic orientation, market orientation and marketing capabilities), there will be additional support for the linkages that this thesis suggests.

Before the thesis explains the models and offers its hypothesis, it will be relevant to embellish on the necessity of establishing with some degree of certainty the one significant driver, MO in this instance, which influences the other determinants of performance i.e. SO and marketing capabilities. The thesis has already reviewed material in the extant literature, which recognizes the importance of seeking the main capability that can be considered with some degree of certainty to be instrumental in assembling rest of the capabilities (Fahy, 2000; Godfrey & Gregersen, 1999) that are necessary and relevant for operational success including breaking out of the path dependencies. The underlying concept is that of a learning organization[38], which it is contended will break organizations out of their 'path dependencies' in strategic behaviour (Morgan et al., 2003 pp.1410; Karim & Mitchell, 2000). This is a major issue in developing countries with their owner manager frameworks and cultural values that force continuation of old successful strategies whether they are relevant in the new situation or not[39]. It is logical to avoid blind faith in such strategies or to focus on capabilities, which may not fit with the ensuing environment (Mcguinness & Morgan, 2000)[40]. In words of Gary Hamel (1997) from his article, which expresses the dilemma that managers face when confronted with competing theories and paradigm in pursuit of performance:

"*Managers simply do not know what to do with all the wonderful concepts, frameworks and buzzwords that tumble out..... strategist may have a lot to say about the content of strategy, but they have, in recent years, had precious little to say about the conduct of strategy___ i.e the task of strategy making".*

This dilemma is more severe in the developing countries where managerial skills are still in their formative stage. This is also clearly indicated in the case of Pakistan as suggested by the Participant B who was commenting on the behaviour of his competitors, which bordered on short term opportunism, and ad hoc strategizing rather than operating under a clear framework, which according to him was making it increasingly difficult to compete under such circumstances[41].

Underscoring this especially with regard to developing markets is the statement by Ambastha and Momaya (2004):

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[38] This concept of the 'learning organization' has also been used by a number of other researchers and therefore should not be considered as new or unique to Dr. Prahalad

[39] See also Mintzberg and Waters (1986), where they describe the entrepreneurial strategies with their positive and negative impacts..

[40] Mcguinness and Morgan (2000) in their criticism of the DCA

[41] The approach as described is similar to what Lengnick-Hall and Wolff (1999) classify as Guerrilla logic in strategizing

"Interactions with industry professionals through two workshops (August 2002) and questionnaire survey (May to August 2002) hint that a key reason for low usage of competitiveness theories may be the weak understanding of these frameworks and models. Also little is known about the usage and applicability of these frameworks and models in developing countries such as India (Chaudri, 2001). There has been inadequate research on such practical importance of these competitiveness-related frameworks and models".

This thesis, therefore, suggests that the managers should focus on that unique culture or organized activities that would as a consequence help the firm to develop or create the relevant structure of skills and capabilities for competing effectively. As Slater and Narver (1994a) put it "*It is better to invest in developing a market orientation while conditions are favourable then to wait until they are threatened*" (p.27).

In theory then, this thesis is proposing that the focus should be on creating a learning organization (Morgan & Turnell, 2003; Slater & Narver, 1995) where a market oriented organization is a learning organization. In other words, this thesis is also identifying a focus on developing a core competency in the shape of a market oriented organization using the intellectual resources available to the firm which can be leveraged across product markets, especially if the firm is a priori not clear of what skills or capabilities are demanded in the competitive environment of particular industry in a developing economy[42].

In this discussion an impression may be created that this is suggesting a miracle formula for success. It is not. What it does is to defend the suggestion that rather then getting confused and making choices in a hurry (to play catch up); or to waste precious time in undertaking lengthy and detailed analysis[43] (waste opportunities and still not succeed), or mistake the past for the future[44], to focus initially on developing this one strategic capability. Thus the managers in these environments would be advised to concentrate on developing and practising MO, which will enable them to seek other areas of capabilities necessary to create an ongoing strategic fit with the environment.

[42] See Hamel and Prahalad (1989) 'Strategic Intent', HBR May/June 1989 pp 63-76

[43] Additionally we should also be cognizant of the fact that most competencies and the way they develop are subject to causal ambiguity (King & Zeithaml, 2001)

[44] See for example McGuinnes and Morgan (2000)

The logic of trying to identify the independent variate (a driver) is really significant for an environment of a developing economy such as Pakistan. Given the limited resources, the lack of high calibre skills and the sunk cost of investments it is all the more rational for business firms in such countries to identify and then focus on developing a specific resource with the knowledge that this will lead to, with some degree of certainty, the development of other sources, capabilities and competencies that will form the base for relevant and most appropriate actions as defined by the firms.

6.8 Market Orientation and Strategic Orientation

Little is known about the relationships between the firm's internal capabilities and resources and the strategic orientation (Desarbo et al., 2005, p. 51; Borch, Huse, & Senneseth, 1999). However, as proposed in this thesis's integrative model (see Figures 6.5 and 6.7) market orientation has a direct link to the type of strategic orientation that is adopted by the firm over a period of time. Based on pertinent literature review as well as insights drawn from the interviews undertaken the thesis presents some additional material in support of the rationale that is put forward in this chapter.

Hunt and Morgan (1995), suggest that market orientation is likely to guide the choice of marketing strategy. This is supported by the view taken by Hooley et al. (2003) when they proposed in their research on market oriented behaviour in transitional economies of Europe that firms with a high degree of market orientation will exhibit a more aggressive long term strategic priorities (pp. 99). Additionally, Walker and Ruekert (1987) have also argued that strategic orientation; marketing activities (the thesis includes market orientation as a part of firm specific activities) and performance along certain dimensions, all have a contingent relationship. Further Desarbo et al. (2005) in their study suggest that *"In sum business will select a particular strategic type based on its particular internal and external environment".*

In support of the above the thesis proposes that it is through the activities of market orientation such as intelligence gathering, intelligence sharing (dissemination) and response that this will be practical. The thesis is also in accord with the proposition that firms choose strategy or adopt a strategic posture based on their perception or interpretation of the environment, which is arrived at following distilled environmental information (Jennings & Zandbergen, 1995; Ken & Mentzer, 2000), which again requires MO activities discussed above.

The thesis presents this implication in Figure 6.6. The Dynamic Competitive Strategy Model (Day, Reibstein, & Gunther, Eds. 1997) is used to illustrate how market orientation can theoretically drive the strategic choice the firms make. In Figure 6.6, the outer circles depict the key challenges that the managers face. It is in these areas, where market orientation can have the most significant impact. The firm's capabilities/activities as defined by the market orientation constructs of market intelligence gathering, intelligence dissemination and responsiveness, which it can be said, have major inputs to offer in each of these key areas.

Trout and Ries (1985), for example, perceived market orientation as an effort to compile market intelligence upon which firms build their competitive advantage by focusing their effort on both the customers as well as the competitors (Avlonitis & Gounaris, 1999). This approach is exemplified by the strategic behaviour of firms in Pakistan. In the words of one Chief Executive (Participant G) whose only strategy is to follow each and every move made by his firm's competitor, a multi national in this case. According to him "*we follow them is our strategy. They are masters, and we follow them but we try and do better because we do things with a personal touch and provide high quality service*" which implies the competitor is the focal point of information gathering. It, however, also implies that responding consistently will result in a particular strategic predisposition, which in this case is defensive orientation.

Further, as mentioned above, the thesis suggests that based on extant literature that an organization that practices market orientation is a learning organization and it is logical to propose that strategic orientation is a learned orientation or disposition and market orientation drives this disposition. For example, strategy type has been considered as the mediator between the market orientation-performance relationships (Ken & Mentzer, 2000). The thesis proposes that the firms with different levels or different emphasis on various constructs of market orientation will lead to the adoption of a different posture and it is perhaps one explanation that can be forwarded in answer to the question: "why firms operating in the same environment adopt different strategic postures or behaviours?"

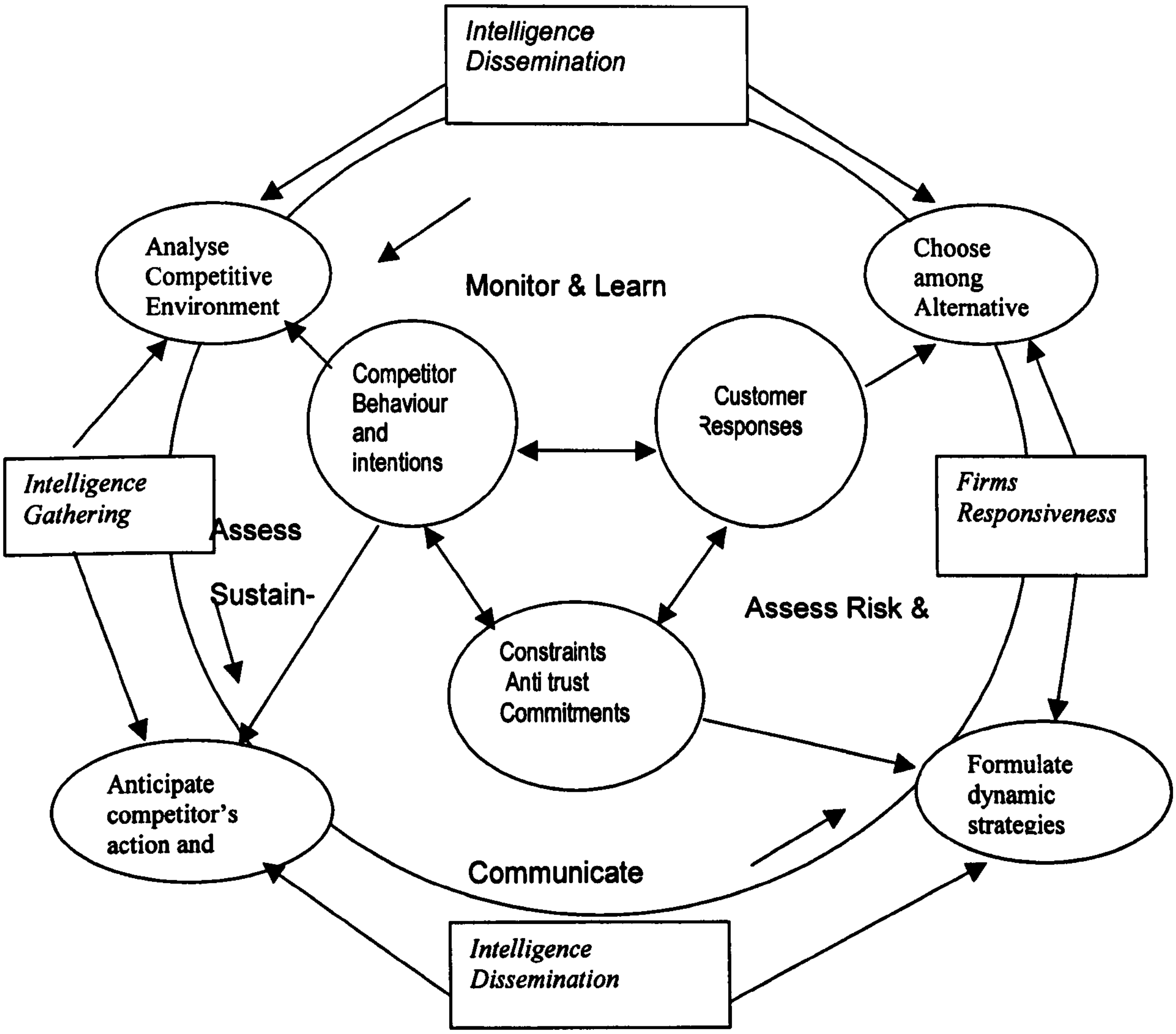
H.7: MO as defined by intelligence generation, intelligence dissemination and responsiveness influences the strategic orientations that is adopted by a firm in the context of the business environment of Pakistan

6.9 Market Orientation and Marketing Development

The opening argument of the RBV is that firms are composites of idiosyncratic capabilities and skills and it is this heterogeneity that creates different competitive positions based on the competitive advantage that they can source. It would also be logical to assume that firms develop these capabilities and skills (resources) over a period of time and in a particular manner. That is to say that no two firms develop them in a similar method (causal ambiguity) or along the same trajectory given those strategic resources are valuable, rare, imperfectly imitable and non substitutable (Barney, 1991; Peteraf, 1993). Thus no two firms are likely to find themselves with capabilities that are exactly similar; or have exactly the same set of competencies. The question is how are these competencies arrived at or in other words, where do these resources come from which are critical to achieve sustainable competitive advantages (Godfrey & Gregersen, 1999). Most of the literature on Resourced based view has focused on the implication of resources for sustainable competitive advantage (Grant, 1991) and as has rightly been pointed out by Godfrey and Gregersen (1999) the question 'where do resources come from' has largely remained unanswered and they point to the comments made by Connor (1991).

"In a resource-based view, discerning appropriate inputs is ultimately a matter of entrepreneurial vision and intuition; the creative act underlying such vision is a subject that so far has not been a central focus of resourced- based theory development".

Fig. 6.6 The Dynamic Competitive Strategy Model



Adopted from Day, Reibstein, and Gunther 1997

Godfrey and Gregersen (1999), however, have pointed to the importance of trying to develop an understanding of how resources develop in the firms. The subject is very vast in terms of discovering the causality of resource generation. Certain resources may attract other resources (Borch, Huse, & Senneseth 1999) or in other words, some may drive acquisition or development of other capabilities and resources. The thesis ventures to propose one possibility that affects the differentials in the resource that firms acquire and that is the market orientation of the firm. This is in line with Prahalad and Hamel (1990) proposition in terms of developing and sustaining competitive advantage. They propose that the two areas that will help determine how a firm can generate its competitive advantage through effective resource deployment, is to focus on the market orientation culture and the capabilities in the key functional areas. Sustainability of competitive advantage must logically flow from; first, the acquisition of the most suitable resources; second, from continuous improvement or development of them; and third, from continuously evolving combinations of these capabilities and resources that can be developed, deployed and protected (Teece et al., 1997). This proposition also finds support from findings reported by Azhar, Yeung, and Bala (2002) where they demonstrate that market orientation drives technological capability.

"More specifically, we were able to show that, among our sample firms in China, Market Orientation drives Technological Capability". If this opinion is prima facie accepted as a possibility with regards to acquiring and developing technological capability it can be extended to suggest that market orientation will drive marketing capability acquisition and development.

To place the thesis's proposition in its research context that is the business environment of Pakistan, this thesis refers to the following answers given by one manager on the issue of employee training as well as quality. The answers are rather illuminating of the problem faced and pointing to the necessity of encouraging a MO framework which will push the managers in the right direction rather then pay lip service as indicated in the following answer of Participant C:

"*Training of employees is another area; there are a lot of mistakes there. Compromise on quality! There should be no compromise on quality, because quality is the key. The price factor of quality comes over a long time period. Today I feel that in order to impart education and skills to women especially, where the skill is not (training skills*[45]*) available; you need to bring in the right expertise, the right specialist, even if it is a man. Because you do not compromise where imparting skill, knowledge, training or education is concerned. I think our weak point was that we just set up things to show things to the*

[45] Interviewer's interpretation of the context and content is given in parenthesis. Emphasis if added is also interpretive and are in italics

world to know. That is to show Ok I have a training group. I really don't have a training group". When pressed further about the future, the manager continued

"*I will not say. My president will say yes, we are training them. Some times I think I am sitting on a bomb shell. You know when we started in 1989 I came from UBL. I had the expertise of training people in house. Now it is changed the needs*".

Keeping the above in mind the thesis suggests that if the importance of training and skill development will be recognized beyond the context of lip service then MO has to come into place so that it can help drive the need and the focus of what is really required in the shape of skills and capabilities. These must come from the feed back information into the organization and this information has to be generated as part of the organizational culture with all the benefits that accrue from conscientious effort. There in this thesis it is proposed that

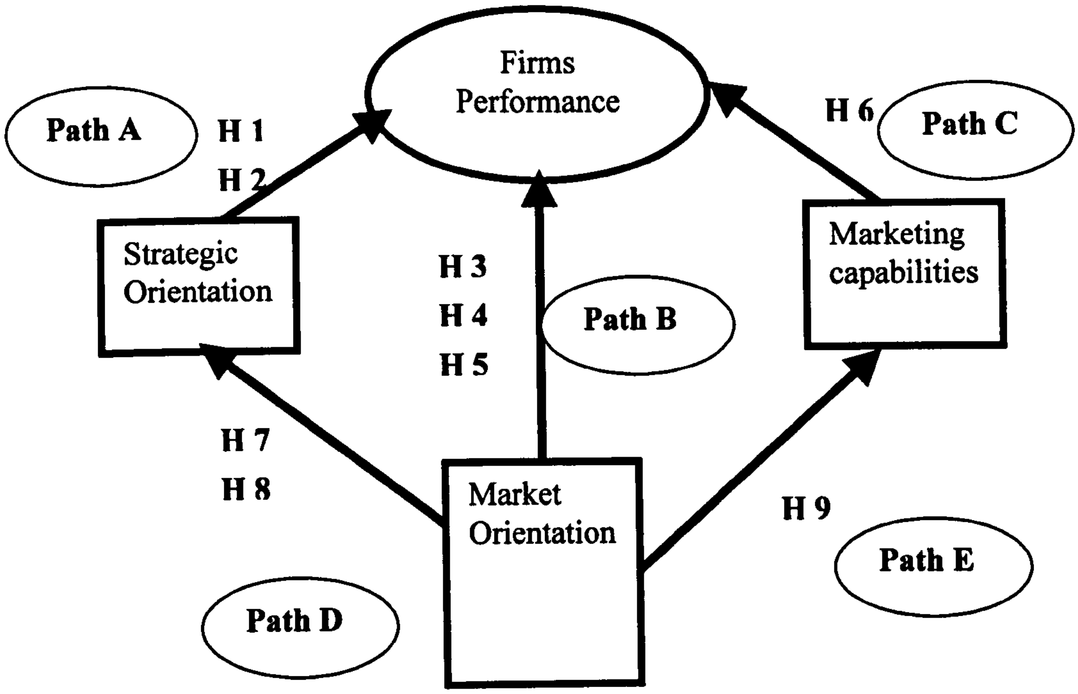
H.9: MO as defined by intelligence generation, intelligence dissemination and responsiveness influences the acquisition of relevant marketing capabilities

6.9 Conclusion

In conclusion of the discussion, the models that have been presented in this thesis and the proposition put forward, the thesis presents the over all integrative model of performance in Figure 6.7. This chapter recapitulated the significance of the globalization process in terms of the developing market economies. It tried to establish the context of the emerging patterns of competition within these market environments and noted the dearth of studies in these market contexts particularly in the area of marketing/ marketing strategy and performance relationships.

It pointed out the fact that not much work has been undertaken in establishing how successful local firms in emerging markets compete. As well as what kind of resource, skill and knowledge (capabilities) base is required, which will enable firms in these economies to be prepared to confront the threat of multinational under the WTO regime. In the end, the chapter set the stage for addressing the methodological issues by determining the objective of the study with the help of the main questions and the hypotheses.

Figure 6.7 Integrative model of Firms Performance



Chapter 7

Approach to Methodology of Research

7.1 Introduction

This research is aimed at studying and explaining the relationship between marketing strategies, marketing capabilities and market orientation with firm's performance in a developing market context. It also aims to understand the inter-relationship, if any, between the various constructs of Market orientation, marketing strategies as well as marketing capabilities. In other words, on one hand it aims to test existing theory in a developing market context and extend it in order to ascertain the possibility of market orientation as the driver to strategic orientation of the firm as well as the possible cause of developing appropriate marketing capabilities in the this context.

Chapter 6 presented the theoretical framework and research hypothesis (see Table 7.1), which were based on the following research questions that were suggested in the earlier chapter; they were:

- What are the contributions of marketing strategies or strategic orientations to the firm's performance in a developing market economy?
- Are the dimensions of the marketing activities or market orientation of firms in a developing or emerging market economy the same as have been proposed in the developed economies? How are they related to business performance in a developing market economy?
- What capabilities especially marketing capabilities are significant for success of business firms in a developing market economy? In other words, what are the dimensions of marketing capabilities that are critical for successful business performance?
- What are the interrelationships, if any between strategic orientation, market orientation and marketing capabilities?

It has already been mentioned that the development of the survey instrument and collection of data through the questionnaire was preceded by exploratory interviews that were conducted with 8 chief executives and senior managers of business firms in Pakistan. These were reported extensively in chapter 6. This was an important step towards building on the research framework derived from the literature review. This chapter is, therefore, organized to provide information and assurance that appropriate procedures were adopted. The thesis discusses the following topics (1) The nature of study; (2) The sample; (3) The operationalization of the constructs and questionnaire design and testing; (4) The data collection methods; (5) The validity and reliability of the constructs; and (6) The data analysis methods.

Table 7.1 Hypothesis

H:1	In the business environment of Pakistan, organizations do not always follow a clearly defined strategic orientation.
H:2	In the business environment of Pakistan, businesses with recognizable strategic orientation will perform equally well.
H:3	In the business environment of Pakistan, Market Orientation has a direct and positive influence on organizational performance.
H:4	In the business environment of Pakistan market-oriented behaviours of intelligence gathering, intelligence dissemination and responsiveness all have a direct and positive impact on organizational performance.
H:5	All business firms in Pakistan exhibit the same level of market orientation with the same focus on all the three activities such as intelligence gathering, intelligence dissemination and responsiveness
H:6	In the business environment of Pakistan, marketing capabilities such as Market Research, Pricing, Product Development, Channel Management, Promotion and Marketing Management, all have a direct and positive impact on organizational performance
H:7	MO as defined by intelligence generation, intelligence dissemination and responsiveness, influences the strategic orientation that is adopted by a firm in the context of the business environment of Pakistan
H:8	Those firms that demonstrate a high level of market orientation will adopt a more pro-active stance as exemplified by the prospector orientation in Miles and Snow typology than those with a low level of market orientation.
H:9	MO as defined by intelligence generation, intelligence dissemination and responsiveness, influences the acquisition of relevant marketing capabilities

7.2 Nature of Study

The research method should be selected on the basis of the research purpose. This thesis serves two fundamental research purposes that derive from the research questions mentioned above (See section 7.1). First, it tries to explain in an emerging market context the relationship of firm's performance with marketing and its correlates. Second, it explores the nature of successful marketing strategy in the context of an emerging market economy. Keeping in mind the context and the need to develop skills and capabilities in a developing market it finally proposes that market orientation could be the driver of developing strategies and capabilities (see chapter 6).

The underlying principle for this study is both academic and practical. The research is visualized with two objectives in mind that is, theory building as well as theory testing, while meeting the rigor of academic requirements. It is hoped that this approach will make a valuable contribution towards furthering the understanding and knowledge of marketing scholars and practitioners.

The history of science is a continuous attempt to use scientific methods to arrive at a rational comprehension of the world in which we live and to construct a logically consistent picture of this world (Sambursky, 1975). It should be noted that the scientific method is a composite of methods. It is not one thing, but a mixture of methods that is to say of explanation, description and prediction (Koch, 1959, p.2). The base, however, of all scientific methods rests on empirical inquiry. The scientific inquiry is also characterized by a number of hidden assumptions that may not be strictly logical but are intuitive suppositions about the nature of reality known as regulative principles (Rosnow, 1983). This is similar to the example of a person trying to open the door using untried keys. He takes one and thinks 'if this key fits the lock then if I turn it, it will open the lock.' The researcher has a choice of empirical procedures, decides on one and then says "let's try it and see" (Conant, 1957, p. xii).

Scientific inquiry is further concerned with universal truths. However, there are boundaries to universal truths and as such there are boundaries to the enterprise of discovering these truths. That is to say, there is a limit to processing the unlimited amount of information that exists. This in turn suggests that the choice of what information to include rests on the researchers in order to unravel the truth in the best possible manner and leads the researcher to the method of collecting information.

In the past, one regulative principle was strict determinism, which meant that there is a causal law for every behaviour or action. On the other hand if there is an insistence on generalizations to be based on strict observations then the first law of motion would stand negated. Newton's first law states that a body will continue in the state of rest if not acted upon by any force. This law is accepted but no scientist has seen 'a body not acted on by any force' much less 'see it in motion in a straight line forever' (Cohen, 1959). Most behavioural scientists, therefore, now accept that behaviour is not governed by strict laws, but is influenced by conscious events and voluntary decisions that vary from person to person and from time to time. This is the basic premise on which this thesis rests its conceptualization. That a single law will not govern all behaviours and that they will be different in different settings and it is the aim of this thesis to seek an understanding of the underlying framework that exists in the management practices in a developing market context.

This introduction to the concept of scientific inquiry is relevant on the basis of conflicting view points to what scientific inquiry aims to do. For some, who are known as realists and include names such as Rudolf Carnap, Ronald Giere and Karl Pooper, believe that scientific theories give literally a true account of the way the world is. The anti-realist on the other hand, such as Pierre Duhem, Thomas Kuhn and Imre Lakatos, argue that theories do not really give a literally true account of the world (see Kourany, 1987).

There may be no adequate resolution to this issue but this thesis tends to go with the anti-realists and thus looks at the strategic and marketing behaviour and attempts to throw light on what may be and not on what actually is. However, it should be kept in mind that anti-realism is not anti-empiricism. Empirical inquiry, as mentioned earlier, is the essential characteristic of scientific method. Empirical research methods in behavioural sciences include a variety of procedures. However, to a large extent there are three general kinds of empirical investigations (1) descriptive research investigation, (2) relational research investigation and (3) experimental research investigation.

Another point that may also be relevant here in determining and resolving the methodological issues is that the focus of some researchers and behavioural scientists is on only analyzing what is observable behaviour, called pure empiricism. In the case of this thesis the inquiry is more contextual (Rosnow & Georgoudi, 1986). The reason lies in the methodological and theoretical pluralism that underlies this research into specific behaviours, which govern firm performance in a developing market context and particularly where interpretation of data and information is concerned. In other words, this thesis needs to resort to a number of methods to get a fix on the contextual reality. The central assumption according to Pepper on which contextualism[46] is predicated is that human events are active, dynamic and developmental moments of a changing reality.

Keeping the above in mind, the thesis depended on three areas to collect information that would help in developing the explanatory propositions, testing them and subsequently interpreting the results. First, it relies on an extensive review of literature that concerned not only the research topics understudy such as strategic management and marketing but also the literature, which forms the underlying framework where these interrelationships are to be studied. This included literature on globalization and political economy and ideologies, which are the factors that build the context of the developing economy and that is where the focus of this research is. Second, it relies on exploratory interviews that shed light on the findings of the literature in a manner that helped in developing the relevant hypothesis. Finally, for the purposes of interpretation of results it again seeks the bases that are located in literature and the context specific interviews.

The descriptive research, which is the general form of the present thesis, requires a mapping of a situation in order to describe what is happening behaviourally. This definition does not directly concern the causal explanations except in a speculative manner. This kind of research would be the first step leading to the second step, which would be to question why does it happen or how what happens is related to other events?

The practical implication at this point is more speculative in nature. Nevertheless, the key to the importance of descriptive research undertaken in this thesis occurs from the belief that the descriptive research in the strategic and marketing behaviours in a developing

[46] The word was originally coined by Stephen C. Pepper (1967).

market context will help improve our understanding of the phenomenon of business performance as it will help in understanding the conditions under which the likelihood of business performance can improve or worsen. To enable this there is a need to focus on at least two variables at the same time to establish the relationship, which is also known as 'relational research'. The focus of this type of inquiry is the description of how what happens is changing, along with changes in another set of observations. This thesis, as mentioned earlier, focused on strategic orientation, marketing orientation and marketing capabilities as the areas of concern to business performance in the developing market contexts and builds hypothesis of relationships around these, to test.

In the following section hypothesis development is briefly discussed and the underlying philosophical consideration presented before the thesis reports its methods.

Hypothesis Development

Against the background of relational approach to inquiry there are three further approaches which concern the methodological issues at hand. Positivism aims to discover laws using quantitative methods and emphasises positive facts. Thus it is assumed that there is a single reality, which can be ascertained by the senses and tested subject to laws of the scientific method. The positivist concept of science was developed by a nineteenth century philosopher Auguste Comte (Keat, 1979), and this is not the relevant form of inquiry for this thesis.

Functionalism, on the other hand, is a positivist approach that focuses on the social system and is relational in nature. Within this framework it is assumed that individual phenomenon can only be understood if analysed in a context of interactions and relationships with the wider social system. However, if it is argued that a social system consists of networks that shape and constrain the individual experience, attitudes and behaviour then this suggests that there is little control or free choice, which assumes that everything is caused in a predictable way which is known as " determinism".

Thus, phenomenology method is promoted as an alternative to strict functionalism, which argues that some research observations must precede theory because it initiates, it reformulates, it deflects and it clarifies theory (Merton, 1968) and is broadly known as atomism. Atomism suggests that social systems do not exist apart from individuals interacting with each other; they otherwise are mere abstractions. In this situation the research setting is accepted as un-manipulated and is naturally interactive and jointly participative. The vehicles for this type of research are the open ended unstructured in-depth interviews and are called 'naturalistic research'. The thesis as reported earlier used these to help contextualise and crystallise strategic thought as it is proposed in extant literature to help develop its hypothesis.

Deductive reasoning on the other hand starts with general ideas and develops a theory and testable hypothesis from it. The hypotheses are tested by gathering and analysing data. In contrast, inductive reasoning begins with the observations and builds up ideas and more general statements and testable hypothesis from them for further testing on the basis of further observations. Scientific inquiry was initially built on a philosophical framework of deductive logic. The concept of inductive inference was later formalised by the seventeenth century philosopher, Francis Bacon, who demonstrated how deductive logic would not be predictive without the results of inductive inference, a view later contested by David Hume on grounds of incompleteness inherent in the inductive logic (Hughes, 1990). John Locke, however, popularised inductive methods and helped establish empiricism, discussed above, as the prevailing philosophy of scientific inquiry. The weakness inherent in inductive logic, however, relates to its making plausible guesses and its inability to provide a method of cause and effect relationship. This was refuted by Karl Popper, who proposed that knowledge accumulates only by falsification of hypothesis. Pooper argued then that scientific hypothesis can never be more than informed estimates about the universe and since they cannot be proven true the scientist should concentrate on developing testable hypothesis formulated in a way that allows predictions to be made and then construct investigations, which attempt to disprove their hypothesis. Thus, knowledge accumulates only from falsification. Probabilistic inductive logic on the other hand leads to a better framework as a general explanatory system where one can state that there is a high probability that X causes Y rather than propose a universal law.

The way this can be approached is that there is an idea for a theory (the hypothesis), estimates for its prediction are made, then these are tested against data collected, in a deductive fashion. If theory does not fit with the data and is refuted, induction is used to construct a better theory and so on. This is the form that the current thesis applies in its quest for knowledge.

Inquiry into strategic orientation, market orientation and capabilities, in the above mentioned form, is an inquiry into interaction among individuals and its consequences and relates to social science where the normal form of collecting information or data is through questionnaires and survey sampling procedures. The emphasis in theory building and theory testing in social sciences, as suggested earlier, is best approached through field study if they involve empirical studies (Cook & Campbell, 1979), because of its traditionally applied nature (Snow & Thomas, 1994) and it will enhance the applicability and acceptance of results (Cook & Campbell, 1979). Therefore, this study used questionnaire survey as the field study method[47].

This study, as mentioned earlier, is descriptive as well as explanatory in nature depending on the way one looks at it. On one hand it tries to describe business performance of firms in an emerging market economy in terms of theories that were formulated and applied in the western developed economies. Hence, in an emerging market context it is testing, confirming and validating or replicating these theories of relationships between marketing strategy, market orientation and capabilities with performance. Replication is important to determine the degree of generalization (Ketchen et al., 1996) that can be associated with these studies of marketing impact on business performance. On the other hand, as mentioned in the opening paragraph, this study is explanatory as it tries to explain the nature of marketing strategy while trying to conceptualize marketing strategy in the emerging market context, in the shape of strategic orientations. It further explores the likelihood of market orientation being the driver to strategic orientation as well as to the acquisition and development of marketing capabilities (Chapter 6 and 7). In carrying the two later tasks it is building theory (Snow & Thomas, 1994), particularly in the environmental context of the developing markets.

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[47] Shrivastava and Lim (1989) however, have identified survey and field method as separate methodological orientations while Snow and Thomas (1994) have included surveys as part of field methods. This thesis has followed the later in identifying the methodology.

7.3 Sample-Cross Sectional Approach

Given the above multidimensional nature of this study, it was considered important to get a larger picture of the business behaviours across various industries rather than narrowing it down by being industry specific or content specific (Shrivastva & Lim, 1989). This study, therefore, uses cross-sectional data, which is also the norm in the extant literature and involves samplings of businesses across various industries with the aim of seeking generalities in strategic behaviour and the underlying skills and capabilities of firms when they compete in emerging markets (Desarbo et al., 2005). It is, however, understood that while using cross-sectional data, it is difficult to infer confidently if one construct causes another (Netemeyer, 2001). This specifically refers to the model where it is proposed that MO drives the strategic orientation and the acquisition of relevant capabilities that the firm needs to be successful, especially in a developing market context. However, as suggested by Netemeyer (2001), "*Still the determination of directionality is not solely a statistical judgement. Directionality judgements can be enhanced by logical reasoning and a thorough understanding of accumulated theory and research that a compelling directionality can be made*". As the thesis suggested in the preceding chapters that it may seem that it is proposing a final prescription for firms in a developing market context, which is not the case. The thesis is actually proposing a starting point to view market orientation in a different perspective and giving it more weightage, as a possible engine for organizational development.

The advantage of the cross-sectional approach amongst others is highly practical in that a large data set can be collected from a large and diverse sample at a relatively low cost. It also allows the inclusion of a large number of firms in the sample and can cover both successful and not so successful or failing firms. It is, however, understood that in using cross-sectional data it is assumed that the relationships that are being considered are similar and homogenous in nature across industries. This helps to generalize findings. Further, as suggested earlier, this thesis is descriptive and exploratory in nature; second it has been proposed that a study of cross-sectional relationships of causality are acceptable before attempting to validate findings through costly time lagged and/or longitudinal studies (Kenny, 1979). On both these counts it is judged that cross-sectional field study is an appropriate method for this research. It is hoped that further research focusing on different business and industrial sectors, at a later point in time, will help validate or extend the findings that are expected from this initial study. The information on the cross-sectional nature of the respondents is given in Table 7.2. This information is in response to the question: "Which industry does your company belong to?"

Table 7.2

Participating Industries

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Consumer goods	13	14.6	17.3	17.3
	Textile and made ups	26	29.2	34.7	52.0
	Services	7	7.9	9.3	61.3
	Financial services	7	7.9	9.3	70.7
	Others	22	24.7	29.3	100.0
	Total	75	84.3	100.0	
Missing	System	14	15.7		
Total		89	100.0		

The industries, as can be seen from above, were mainly from the textiles, financial services and consumer products. They, more or less, cover the whole range of businesses that are operating in Pakistan and form the general sample frame for the study. In Pakistan, for example, the consumer goods industry includes businesses as diverse as Auto and Allied, Food and Allied, Pharmaceuticals, Tobacco etc. They constitute 28% of all listed companies. Financial services include Investment Companies and Banks, Leasing Companies and Modarba (Islamic Financing Companies) and constitute about 26% of the total listed companies. Similarly, even though textiles sector is composed of Spinning, Weaving and Composites only, they also form about 28% of the total listed companies in Pakistan. Service sector is a newly developing area and firms in this sector are relatively small, privately owned companies except banks or financial services and include firms such as advertising companies, soft ware engineering houses, restaurants etc. It is expected that these cross-sections of the Pakistan economy and business field will capture the rich fabric of the strategies that companies employ in competing in their industries. It is also expected that the data set that will be generated from this sample would allow generalizations to be drawn for furthering theory development in the area of marketing in an emerging market context.

In the following section, the thesis briefly explains the competitive structure of the three dominant groups of industries. This will provide a bird's eye view of the extent of the impact of globalization in these industries and the kind of competition i.e. whether a local focus or a global focus that is present.

7.3.1 Financial Institutions

Financial and Banking services being delivered in Pakistan are localized and their form is largely culturally determined. There is, nevertheless, a significant presence of indigenous and quasi-indigenous firms who compete with established multinational banks like the Citibank, Bank of America, Hong Kong and Shanghai Bank etc. This provides for a lot of competitive activity, which is internal to the country. There is presently a form of restructuring going on in the industry with the state bank forcing mergers or acquisition of smaller private banks and financial institutions by larger foreign and local banks while the large nationalized banks are being sold off to the private sector. This will change the industry structure and provide for the development of new ways to approach marketing strategies in contrast with the past. As mentioned earlier, there is a strong presence of the multinational banks with their international business practices and global coverage, which will also provide for an effective setting to study the competitive marketing strategy in the industry. Furthermore, this is also areas where, because of the aspects of trust/confidence in particular financial instruments, which have cultural and religious overtones (such as the interest free banking and internal regulatory mechanism), cross border activity can be restricted.

7.3.2 Textiles

Operates in a global market setting, which is internally and externally mature in terms of product evolution and market development. The product of the industry is of an intermediate nature, which in the shape of yarn or cloth is sold to both local and international buyers to produce cloth and garments. Thus most competitive activity is external to Pakistan and is located in foreign countries where many companies from different countries also compete. Environmental factors along with international regulations, including those which are being enforced by the WTO, have significant impact on this trade in the changing the competitive environment, which requires new ways of competing. The growing significance of the regional economic bloc's, as well as bilateral trade arrangements, plays a significant role in further shaping the competitive environment. Pakistan's share of the world textiles grew from 1.6 percent in 1980 to 2.8 percent in 1995 (WTO 1996 Annual Report Table IV.51) and this fact alone suggests the importance of the study of the industry's competitive strategies and marketing behaviours.

7.3.3 Consumer Goods

Consumer markets in Pakistan are local in structure, but the competitors, who include a large number of multinationals, originate from a variety of countries and backgrounds with their own specific business practices and approaches. Competition is largely internal and more consumer/competitor-focused with a range of marketing tools that are available to the competitors to use as they compete. In this competitive environment, multinational brands have strong values and are associated with the originating country of the multinational in question, providing a certain competitive advantage to the brand. There are strong competitive challenges and the rich variety of competitive tools, that can be applied to secure competitive advantage through the application of effective marketing, provides for an ideal study area to compare strategies and their corresponding performances. However, this competition is less culturally bound due to the level of consumer awareness fostered by an increase in sources and uses of communication channels.

7.4 Sample Frame

An attempt has been made to establish the rationale and importance of carrying out an exploratory research through qualitative exploratory interviews followed by descriptive and validating studies on marketing behaviours in a developing market context. This is consistent with observations made by a number of academicians who have expressed the desirability of extending research to developing markets. The aim is to further theory building and help develop practices that are relevant to the emerging market conditions. The importance of developing/emerging markets as a research area is also established as it constitutes 70% of the world population and is considered to be the most important location for the future economic developmental efforts in the world. In turn, Pakistan is considered as a representative locale for this study where the possibility and existence of marketing strategy and behaviours can be explored. In order to do so, similar studies that have been carried out in the developed business environments are used as reference points as well as inputs to the research methods including questionnaire development and analysis. Information on Pakistan is provided in chapter two to create the awareness of the environment where research is undertaken. A brief of the major industries that were part of the research is given above.

A random sampling of the population, for subjects is considered to be the best option for obtaining a cross section of the population of the thesis's interest. However, it is extremely costly and time-consuming to draw such a sample especially as in the case of Pakistan it would have involved over 30,000 businesses. This study, therefore, adopted the availability sampling method, which is an alternative to random sampling (Keppel, Saufley, & Tounaga, 1992). The Institute of Leadership and Management, Lahore Pakistan (Currently University of Management and Technology) provided the sample frame of five hundred business organizations on all-Pakistan basis. The basic reason for utilization of this sample frame was that these organizations normally take part in research studies and are interested in development of marketing activities. To the personal knowledge of the author getting response from the private businesses in Pakistan is difficult as these researches are normally viewed with distrust and scepticism. This point is also made by Professor Yoshino, who was trying to study companies in the ASEAN region when he suggests that many companies are still hesitant to talk (Philips, 1999). It was, therefore, considered important to make an effort to contact those organizations, which would respond in normal conditions. It is nevertheless arguable that this method makes it difficult to know how random or representative the sample population is. As suggested earlier, the thesis has to keep in view the nature of this present study as well as the cultural conditions that make it justifiable to use the above mentioned availability sampling method.

7.5 Questionnaire Design and Testing

The self-completion questionnaire is the principal method of data collection. This method of collecting data enables the generation of large amounts of information that can be subjected to statistical analysis (Snow & Thomas, 1994). The basis of developing the questionnaire firstly, rested on earlier research studies on strategic orientation (e.g. Snow & Miles, 1978), market orientation (e.g. Kohli & Jaworski, 1990) and marketing capabilities (e.g. Vorhies et al., 1999) and their relationship with business performance. The thesis has in review previous research on the above topics to locate appropriate questionnaire instruments. Secondly, the thesis is guided in developing the research framework as well as the survey document from the exploratory interviews as well. It may be worthwhile to briefly describe the format for these exploratory interviews.

As mentioned earlier, semi structured interviews were carried out with 8 Chief executive officers or marketing managers/directors of various organizations. Full details of the participating senior business managers and chief executive officers are provided in Table 6.1, which has been worded in such a way as to protect anonymity whilst attempting to avoid confusion. In addition, as can been seen from Table 6.1, the participants in the exploratory interviews are drawn from a broad range of institutions. The number of interviews is sufficient for common themes to emerge allowing reasonably robust conclusions to be drawn. Other qualitative studies have incorporated similar sample sizes in order to produce high level peer assessed output in the management field. Encouragingly, those who were interviewed, represent businesses, which in sum encompass areas that dominate the economic scene in Pakistan, giving the sample an impressive breadth of coverage. Thus, the recommendation of Carson, et al. (2001) to compare results across different contexts is met. The sample is one of convenience and is drawn on the basis of the author's knowledge of the backgrounds of the interviewees and their direct involvement in the affairs of their business.

These semi-structured questions focused on various issues that were considered important and relevant to competing successfully in the business environment of Pakistan. For example response to competition or competitive action is one area of discussion. The other area related to the way information from the market is collected and how is it shared. Finally the focus is on the emphasis that the business places on various aspects of marketing as well as on training and development of the resources that the firm has. These interviews were recorded on tape and were subsequently transcribed. These interviews helped in explaining existing practices and were also instrumental in developing the theoretical framework, research propositions and the shape the survey questionnaire would finally take.

Thirdly, in terms of construct development, for those constructs that have been employed in previous research (e.g. market orientation, marketing capability and performance) the thesis adopted the same variables from literature knowing that they had a high degree of validity i.e. these items (instruments) measured dimensions that are clearly defined in the theoretical construct (Hair et al., 2006; Chandler & Lyon, 2001; Peter, 1979). To conceptualize marketing strategy (strategic orientation) the thesis used the Miles and Snow (1978)'s descriptions of the firm's strategic orientation.

The Miles and Snow (1978) typology is chosen to represent strategy content in this thesis because this typology has been shown to be both rigorous and descriptive. Moreover, it has been empirically examined and has been determined to be sound and inclusive in its representation of an organization's strategy (see e.g. Zahra & Pearce, 1990 for a detailed review; see also Shortell & Zajac, 1990 regarding reliability and validity[48]of the typology).

Zahra and Pearce (1990) have forcefully argued that while determining, which of Miles and Snow's strategic orientations a firm adheres to, requires the use of multiple measures. This is in line with Doty and Glick (1994, p. 233) exposition on typologies where they suggest that typologies represent ideal types and "*ideal types are complex phenomenon that must be described in terms of multiple dimensions*". Keeping in mind the logic of this argument this thesis opted for a multiple item scale to measure the strategic orientations in a developing country context (where this is perhaps the first study of its kind) specifically to capture the richness of information that is possible through the use of multi-item measurement scales. This is also in line with the approach take by Conant et al. (1990), who framed an 11 item scale to measure strategic orientation as well as Desarbo et al. (2005) who also used these items in their study.

In the light of the above, the thesis used Miles and Snow's descriptions and recreated a set of 15 items scale for the research instruments that relaxed the restriction of adhering to only one of the four described groups but at the same time kept the contents in line with Miles and Snow's descriptions as explicated by different researchers. It is important to note here that Miles and Snow (1978) had defined *Reactors* as a category of firms with no clear strategy; this group has normally been eliminated from further considerations in

[48] See and Conant et al. (1990); Vohries and Morgan (2003); Desarbo et al. (2005); Olson ét al. (2005) for use of the typology in their respective research. Also see Hambrick (2003); Goshal (2003) and Brunk (2003) for commentaries on the practical and theoretical implications of the typologies as well as Chapter 5 and 6 for further exposition

various subsequent studies (Conant et al., 1990). However, in developing the questionnaire for this thesis this group is included as the author is aware of the possibility of a larger group of companies, which do not have a clear strategy in Pakistan. This possibility has also been demonstrated in chapter 6. This contention of the thesis is further substantiated by observations made by Jennings, Rajaratnam and Lawrence (2004) as well as the inclusion of reactors as a strategic orientation in the study by Conant et al. (1990) as well Desarbo et al. (2005).

In developing the set of multiple-item measures for strategic orientation, the intention is to capture the import of the single paragraph descriptors of strategic orientation. Thus, each descriptive statement is converted into a set of questions using the contents of the paragraph statement of Miles and Snow (1978) descriptions and insights drawn from a number of researches conducted in this area. For example 'Prospectors' are considered to be first to market and succeed by being able to *develop new products and markets rapidly* (McDaniel & Kolari, 1987; and Conant et al., 1990). Prospectors also tend *to lead change in their industries principally by launching new products or identifying new market opportunities thereby creating new shifts in the industry* (Miles & Snow, 1978).

'Defenders' on the other hand *find and seek to maintain a secure niche in a stable product or service area and stay within a limited range of products rather then concentrating on developing new products or markets.* They focus on resource efficiency and process improvements to cut costs. *They offer a more limited range of products or services than their competitors and try and protect their domains by offering higher quality superior services and lower prices* (McDaniel & Kolari, 1987; Shortell & Zajac, 1990; Hambrick, 1983; Miles & Snow, 1978).

'Analysers' are considered to have properties that in times reflect 'prospectors' and at other times reflect 'defenders'. They are thus seen to be hybrids of 'Prospector' and 'Defender' orientation. Therefore, these firms while defending positions in some industries may selectively move to follow promising new product or developments. They may initiate product or market development but prefer to follow second-but-better strategy. A business pursuing an 'Analyser' strategy competes sometimes as a 'Defender' and some times as a 'Prospector' (Desarbo et al., 2005). Finally, 'Reactors' shift strategic orientations in reaction to the competitive pressures and thus lack a consistent strategy and they tend to respond inappropriately to environmental pressures as they arise. In other words, their reactions may be based more on perceived threats rather then actual threats and reflects their risk perceptions.

The resulting 15 item scale to measure strategic orientation is drawn on the above basis and slightly modified to capture the strategic posture of firms in the business environment of Pakistan. In this way content validity for the constructs of strategic orientation is ensured. This was then included in the final questionnaire, which now has the 15 items to measure strategic orientation, 32 items to measure MO, 24 items to measuring marketing capabilities and 6 items to measure performance. This questionnaire was first submitted to three academics in Pakistan who were knowledgeable of the business environment of Pakistan and were also well versed with the functional area of marketing. As no change was suggested these were then shown to seven-business executives again in Pakistan to ensure that there is nothing ambiguous or unrepresentative in the scales and thus, the thesis tried to ensure the measurement validity of the instrument. Since no change was recommended, at least at that stage measurement quality was assumed (Chandler & Lyon, 2001).

As mentioned earlier in the thesis, all the constructs for SO used multiple-item scales for measuring various concepts and therefore at least in this criterion the constructs also met one of the requirements of reliability, (Boyd, Gove, & Hitt, 2005, p. 245; Chandler & Lyon, 2001). Since the rest of the constructs related to MO and marketing capabilities were drawn from research with measures that had been assessed for validity and reliability in developed business environments it is assumed that all these constructs also have internal validity such that the instruments truly measure the constructs which they intend to measure. In repeated research studies these instruments, at least in the developed market environments, provide consistent results and thus on the face of it they all were reliable measures. These measures were further evaluated by practicing managers and by experienced academicians in Pakistan and since no difficulties were encountered the measures are considered 'face valid' and suitable for use in data collection for the main study.

The designed questionnaire (Annexure B) focused on seven broad categories of questions each set down under the headings of sections which are as follows.

Section A Market Orientation using the constructs from the conceptualization of market orientation given by Kohli and Jaworski (1990).

Section B Marketing Capabilities using Vorhies et al. (1999) measurements of marketing capabilities. These included marketing research capabilities; pricing capabilities; product development capabilities; channel management capabilities; promotion capabilities and finally marketing management capabilities.

Section C Strategic Types as mentioned above included variables that were developed from Miles and Snow (1978) descriptions of strategic orientations and also sourced to various other researchers.

Section D Self reported comparative performance measures were used that have been popularized in the extant literature. These measures include an assessment of overall performance compared to the closest competitor; as well as relative performance on market share, ales growth, customer satisfaction, profitability and return on investment.

Section E and F Included information on closest competitors and general information regarding the company.

Section G Provides for personal details of the respondents including educational background and experience.

7.6 Data Collection

7.6.1 Data Collection Procedures

It has already been mentioned in the thesis that an availability or convenience sampling method was used for data collection. The survey documents with a covering letter from the Director NUBS Malaysia and the author were posted with a self-addressed postage paid envelope. The letters highlighted the nature and significance of research pointing to the fact that competition is intensifying and it is important for local businesses to become aware of the factors that can constitute success. It was also pointed out that this was the first study of its kind and inputs from the respondents would go a long way in developing best practices relevant to the environment. With the assurance of confidentiality and use of data for research purposes only, they were offered to share the findings if they wanted. Finally, as the questionnaire was pre-tested the thesis could suggest that their inputs in terms of time would not be more than 35 minutes. This information was meant to assure them that it would not occupy their time for too long. These survey documents were mailed at the end of August 2001.

These self-administered questionnaires were sent to 600 CEOs and General Managers of medium and large size organizations in Pakistan by post in two waves i.e. a first wave of 500 questionnaires and the second wave of a hundred. Following the first wave 65 usable responses were returned, yielding a moderate response rate of 13.0%. In the view of this response rate, another wave of questionnaire of 100 was sent. Altogether, 89 usable responses were finally available and are included in this analysis.

The over all response rate of 14.8 percent is still low, however, given the timing of the survey, which was undertaken around the events of September 11, 2001 and the aversion of businesses in developing countries to reveal data (Green et al., 2000), which they consider may compromise their operations, getting this response was encouraging from the point of view of the thesis. Lack of any comparative data on response to similar research in Pakistan, however, makes an unbiased assessment of the success of the survey questionable. On the other hand, a look at some other studies undertaken on generic strategies suggests that the overall number seems to be reasonable even though a higher number would have been preferable. For example, Green et al. (1993) report their study of generic competitive strategies of Portuguese firms where the sample size was 68. These 68 firms were from amongst the largest 500 firms in Portugal. Campbell-Hunt (2000) also reports a study carried out in the Canadian declining industry where the sample size was 87. Dess and Davis (1984) while studying the paint industry in US reported a sample size of 78 firms. Given these and other such studies (see for example Piercy & Morgan, 1994; Morgan et al., 2003), the present sample size of 89 responses was considered adequate for further analysis.

As mentioned earlier in the thesis, the turn of events at this point in time is very significant and needs to be kept in mind when considering the response that was received. In order to ensure that there was no non-response bias in the data extrapolation procedure described by Armstrong and Overton (1977) was used. No significant differences were found between early and late respondents across the study variables.

7.6.2 Retrospective and Key Informant Reporting Approach to Data Collection

This study used key informant and retrospective reporting approach for collecting data. One of the main reasons in using key informant approach to collecting firm data was to improve reliability of information. This approach seeks to obtain company information of importance to the research through key persons in the organization. For the purposes of this research these individuals are considered to be knowledgeable about the strategic issues in the organizations and are willing to communicate these without reservations (Seidler, 1974). While the ideal may be to use multiple informants so that information provided can be cross checked (Golden, 1992) this study, however, used single informant for retrospective reporting. First, at least in the Pakistan business environment most companies are not very large (see Tables 7.3 and 7.4). The top management is nearly involved in most strategic planning and therefore, are well aware of whatever is happening. Second, because of the cultural behaviour in majority of the businesses in Pakistan, the top management is usually informed of all developments taking place in their environments. Once again the over all size of the firm and the market make it is possible for the top management to be fully aware of the strategies and activities that are being undertaken and most probably it is being done with their go ahead. This is in line with Hambrick's (1981) proposition that a single manager is considered the most knowledgeable person regarding firm's strategies. Third, the underlying logic is that the person by virtue of his position in the organization hierarchy is able to give opinions and perceptions that are valid reflections of the perceptions and opinions of other decision makers in the firm (Philips, 1981). Thus, it is methodologically sound to use single key informant when most of informants occupy senior executive or ownership positions within the local organization (see Table 7.5).

Finally, retrospective reporting is commonly used in marketing, strategic management and organizational behaviour research (Bourgeois & Eisenhardt, 1988; Zajac & Shortell, 1989). Even though this method has been popular there has been some criticism voiced on its use based on the possibility of biased reporting and inaccurate recall (Gloden, 1992; Huber & Power, 1985). In a recent paper, however, Miller et al. (1997) showed that retrospective reporting is a viable research method if the measures used are fairly reliable and valid.

In terms of eliciting response to the questions given in the questionnaire it was not explicitly stated that all questions have to be answered and an implicit assumption, therefore, was that respondents might not answer certain question. This is in line with the suggestion made by Huber and Power (1985) and Miller et al. (1997), of free reporting to improve the accuracy of response. Certain questions were not answered which reduced the number of valid answers but on the other hand it is hoped that it improved the response accuracy. Other measures to improve quality of response were taken, in line with the suggestions made by Miller et al. (1997) and included asking about facts of behaviour rather than opinion or beliefs. Therefore, asking whether they agree or disagree on a likert scale with a statement such as "In our company we do a lot of market research" would reduce complexity and the burden of ambiguous judgement. And a similar pattern with all questions was followed. Further, to motivate the informants to provide accurate information instead of answering along desirable lines, the thesis provided the respondents with the significance of the project and that their responses would be treated in utmost confidentiality. Finally, to reiterate the importance of the project and the contribution that would be made by the respondents in understanding strategic and marketing behaviour a covering letter from the Director of NUBS (Nottingham University Business School) Malaysia was enclosed requesting for assistance and response. In view of the thesis, given these measures the responses have been accurate even though it might not have increased the response rate in a major way.

7.7 Operationalising the Constructs

This section will present the measures of the dependent and independent variable included in the models shown in chapter 6. As suggested in the section on questionnaire design and testing as well as being consistent with Venkatraman (1989) and Chandler and Lyon (2001), operationalization and measurement of variable were achieved in three ways:

(1) As suggested earlier, the thesis adopted those variables that have previously been employed in research settings of the developed market environments. These included the constructs of Market Orientation, Marketing Capabilities and Firms Performance. This approach of measuring phenomenon, based on existing constructs in a new setting of emerging market economies, follows from the argument that 'constructing new measures for each situation is wasteful' (Peter, 1981).

Table 7.3

Company's paid up capital?

		Frequency	Percent	Valid Percent	Cumulative Percent
	0 - 5 million Rupees	11	12.4	20.4	20.4
	5.5 - 50 million Rupees	7	7.9	13.0	33.3
	51 - 500 million Rupees	27	30.3	50.0	83.3
	500 million Rupees and above	9	10.1	16.7	100.0
	Total	54	60.7	100.0	
Missing	Values	35	39.3		
Total		89	100.0		

Note: Conversion rate Pakistani Rs 115 = £1 (approx)

Table 7.4

Company's approximate turnover?

		Frequency	Percent	Valid Percei	Cumulative Percent
	0 - 5 million Rupees	2	2.2	3.9	3.9
	5.5 - 50 million Rupees	8	9.0	15.7	19.6
	51 - 500 million Rupees	14	15.7	27.5	47.1
	500 million Rupees and above	27	30.3	52.9	100.0
	Total	51	57.3	100.0	
Missing	System	38	42.7		
Total		89	100.0		

Note: Conversion rate Pakistani Rs 115 = £1 (approx)

Table 7.5
Position of the respondent in the organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Deputy Managers/Managers	28	31	31	31
	CEO/President/Managing Directors	11	12.5	12.5	43.5
	Director/Executive Directors/ General managers/ Regional Managers	44	50.0	50.0	93.5
	DGM	2	2.2	2.2	95.7
		3			
	Others		3.3	3.3	99.0
Missing	System	1	1.1	1.1	100.0
	Total	89			

Since one of the aims of this thesis has also been to validate earlier studies, this approach to use existing constructs is considered practical. It should also be kept in mind that construct validation is an ever extending process of investigation and development, which is the underlying framework of developing robust theories (Peter, 1981).

(2) For the variables to measure strategic orientation the thesis used the broad conceptualization forwarded by Miles and Snow (1978) and adopted them for the purposes of this study. Through preliminary interviews and subsequent pre-testing a high degree of content validity was assured. Subsequent exploratory factor analysis using principal component, of this construct of strategic orientations as well as the reliability analysis of all the other constructs is satisfactory and is reported in Tables 7.6a through 7.6d.

(3) It has already been indicated in the thesis that all the variables are assessed using multiple measures. Such scales are necessary to capture the domain of the constructs adequately and accurately (Boyd et al., 2005; Chandler & Lyon, 2001; Churchill, 1979; Nunally, 1978). In addition, this approach of using multiple measures is believed to reduce measurement error and increases the reliability and validity of the measures (Churchill, 1979).

7.7.1 Measurement of Marketing Orientation

The marketing orientation constructs provided by Kohli and Jaworski (1990) were used to measure variables using 7-point Likert scales ranging from 1 'Strongly Disagreed' to 7 'Strongly Agreed'. The respondent is asked the extent to which he/she agreed with the statements related to market orientation activities in their firm. The activities of Market Orientation that are measured were I*ntelligence Gathering, Intelligence Dissemination* and *Responsiveness.*

Intelligence Generation was measured using 10 items:

1. In this business unit we formally meet with the customers often to find out what products or services would they need in the future.
2. Individuals from our production department interact directly with the customers to learn how to serve them better.
3. In our company we do a lot of in-house market research.
4. We are slow to detect changes in our customers' product preferences.
5. We survey end users at least once a year to assess the quality of our products and services.
6. We often talk or survey those who can influence our end users purchases, e.g. retailers and distributors.
7. We collect industry information by informal means, e.g. lunch with industry friends, talk with trade partners etc.
8. In our company several departments generate information on competitors independently.
9. We periodically review the likely effect of changes in our business environment, e.g. regulation on our customers.
10. We are slow to detect fundamental changes in our industry, e.g. technology regulation competition

Intelligence Dissemination was measured using 8 items:

1. A lot of informal "chat" in our organization concerns our competitors' tactics or strategy.
2. We have interdepartmental meeting at least once a quarter to discuss market trends and developments.
3. Marketing personnel of our company spend time discussing customers future needs with other functional departments.
4. Our company periodically circulates documents, e.g. reports newsletters etc that provide information on our customers
5. When some thing important happens to a major customer of the market, the whole company knows about it within a short period
6. Data on customer satisfaction are disseminated at all levels in this unit on a regular basis.
7. There is minimal communication between marketing and the manufacturing departments concerning market developments.
8. When one department finds something important about competitors it is slow to alert other departments.

Finally ***Responsiveness*** was measured using 14 items:

1. It takes us quite a while to decide how to respond to our competitors' price changes.
2. Principles of market segmentation drive new product development efforts in our organization.
3. For one reason or another we tend to ignore changes in our customer's product or service needs.
4. We periodically review our product development efforts to ensure that they are in line with what customers want.
5. Our business plans are driven more by technological advances than by marketing research.
6. Several departments get together periodically to plan a response to changes taking place in our business environment.
7. The product lines we sell depends more on internal politics than real market needs.
8. If a major competitor were to launch an intensive marketing campaign targeted to our customers, we would implement a response immediately.
9. The activities of different departments in this organization are well coordinated.
10. Customer complaints are normally ignored in this organization.
11. Even if came up with a great marketing plan we probably would not be able to implement it in a timely fashion
12. We are quick to respond to significant changes in our competitors pricing structures.
13. When we find that customers are unhappy with the quality of our service we take immediate corrective action.
14. When we find customers would like us to modify a product or service the department involved makes concerted efforts to do so.

7.7.2 Measurement of Marketing Capabilities

The strategic importance of capabilities lies in their demonstrable contribution to sustainable competitive advantages and superior profitability (Day, 1994). In following Day (1994), the thesis has already proposed that capabilities are complex bundles of skills and accumulated knowledge. These capabilities are manifested in typical business activities especially marketing capabilities, which are developed when the firm's marketing employees repeatedly apply their knowledge and skills to solve the firm's marketing problems (Vohries et al., 1999). The capabilities are dynamic in nature and should change as needs of the firms' changes (Grant, 1991) and as the thesis suggested in the first, fourth and sixth chapter, these should have the attribute of evolving to a higher level as they develop through the firms learning process (Grant, 1991; Prahalad & Hamel, 1990; Shinkula, 1994). As mentioned earlier, in defining marketing capabilities specifically, the thesis follows Day (1994) and defines them as an integrative processes designed to apply collective knowledge and skills, thus enabling businesses to satisfy customers wants by adding value to its good and services and meeting competitive demands. The important question, however, is 'what marketing capabilities should a market-driven firm develop'? The constructs for marketing capabilities that are used in this research were developed and tested by Vohries et al. (1999) based on an earlier study by Möller and Antilla (1987). In all, six areas of marketing are included in the study and indicate the existence of capabilities such as market research; pricing; channel management; promotion and marketing management. These variables are measured using 7-point Likert scales ranging from (1) 'Strongly Disagreed' to (7) 'Strongly Agreed'. The respondent is asked the extent to which he/she agreed with the statements about marketing capabilities based activities in their firm.

A. Market Research

One of the key areas of marketing capabilities is gathering information whether informally or formally about the customers, competitors or the broad market environment and using this to design market programs to meet customer needs and market conditions (Kohli & Jaworski, 1990). The activity involved is market intelligence gathering and the capability is market research. The major premise advanced by Perreault (1992) is that there is a revolution of sorts going on in marketing research, as there is a shift in the nature of marketing information that is available and how it is used in the firm (Malhotra, 1992). Market information gathering will be an important area of capability development in the emerging markets because, as Malhotra (1992) foresees that marketing research is becoming an integral part of the decision-making and decision-making is becoming an integral part of marketing research. With consumer needs and wants changing along with higher level of competition and information technology, marketing research becomes an important success factor. Market research is defined as "*the systematic and objective identification, collection, analysis and dissemination of information for the purpose of assisting management in decision making related to the identification and solution of problems and opportunities in marketing*". In other words, the practice of looking into all the relevant trends within an industry requires a painstaking process of systematic data collection and evaluation (Möller & Antilla, 1987).

Following Vohries et al. (1999), four items are used to measure Market Research, they are:

- Our market sensing abilities help us find more new customers than do our competitors
- Market research skills help us develop effective marketing programs
- We use our marketing information more effectively than our competitors use their own marketing research information
- Our marketing capabilities help us develop better marketing programs than our competitors

It is important to note that in the original construct of marketing research given by Vohries et al. (1999) the first variable used the beginning 'our market research abilities----'. In the thesis it was changed to 'market sensing abilities' based on two considerations. Firstly, in an emerging market, businesses are still learning to rely on market research for answering their marketing problems. This was obvious from the interviews that were conducted for the purpose of this thesis, where most of the information was gathered through informal formats. The CEOs mostly relied on their market sensing abilities even for the purpose of deciding whether to use market research or not, which is what is also proposed by Malhotra (1992) mentioned above. Secondly, Day (1994) considers market sensing a distinctive capability and uses it to cover the ability to learn about customers, competitors channel members in order to continuously 'sense' and act on events and trends in the present and prospective markets. And according to him, this surpasses the ad hoc or passive reception of marketing information that is gathered through market research. The former is also more in line with Kohli and Jaworski's (1990, p.6) sense of '*intelligence generation*' in market orientation.

B. Pricing

The importance of pricing can be gauged by the fact that it is one of the first topics explained in a principles course (economics) and the entire filed of microeconomics is often called the 'price theory' (Huston & Kamdar, 1996). Effort and pricing are involved in virtually all-selling situations (Bhardwaj, 2001) and according to Porter (1980), by making units of a fairly standardized product and under-pricing everybody else, you can attain overall cost leadership. This is also one of the most important arguments in favour of. undifferentiated marketing. In undifferentiated marketing pricing dominates the selling agenda and it is more relevant in a developing market economy where firms are still learning to differentiate their products through other marketing efforts. Limited size of the market makes cost spread of other marketing efforts costly. With squeezed purchasing power and increasing competition in the developing market environments, price becomes an important tool for marketing as was strongly indicated during the exploratory interviews reported in chapter 6 in detail. In other words, firms that have the capability to use pricing effectively will have an advantage over the firms, which do not. Capability of deciding on the correct price as well as taking the proper pricing decisions including decisions to delegate pricing decisions to sale force is important (Bhardwaj, 2001). Pricing capability is, therefore, concerned with the ability to competitively price the firm's products and monitor prices in the market.

Four item are used in line with Vohries et al. (1999):

- Pricing has a major impact on marketing program success.
- Our pricing approach is more effective than our competition's.
- We know competitors pricing tactics better than they know ours
- Our prices our comparatively lower than our competition's prices.

C. Product Development

In the contemporary competitive context, new product development takes on a critical role (Tomboyish & Miller, 2000). New products assume a substantial share of a firm's turnover. Products introduced during the previous five years, account on average, for 30% of a firm's profit (Griffin, 1997). Within this context, passivity is lethal (D'Aveni, 1999). Companies that fail to react to challengers on the market consistently suffer from market share erosion (Ferrier, Smith, & Grimm, 1999). Because fierce competition erodes the competitive advantage of firms (Christensen, 1997) they must increasingly complement their traditional competitive analyses and long term strategic planning with the necessary capabilities to adapt to changing circumstances: "*If firms cannot forecast they must have the capability to respond quickly*" (Bettis & Hitt,1995). Being able to react quickly and insightfully to competitive moves, therefore, becomes increasingly important. This is particularly true when these competitive moves represent the introduction of new products, as these really reshape the market (Marion et al., 2002). This is one of the points made by Participant B during the interviews. It is, therefore, suggested that for a firm to have the capability in product development or product launch is important, especially in response to customers' needs while meeting internal goals and hurdles set by the company,. The product should also be able to outperform competition in key areas (Möller & Antilla, 1987). The product capability was operationalized using Vohries et al. (1999) constructs as follow:

- We do a better job of developing new products/ services.
- Our product/service development often falls short of its goals.
- Our product/service development gives us an edge in the market.
- Our product/service development efforts are more responsive to the customers needs than those of our competition.

D. Channel Management

Accelerating technological change, heightened marketplace demands, more aggressive global competition, and shifts in the workforce and population demographics are affecting distribution channels, forcing companies to reconsider fundamental assumptions about how they reach their markets (Anderson, Day, & Rangan, 1997). Channel management, or the process of analyzing, planning, organizing, and controlling a firm's marketing channels (Rosenbloom, 1995), is becoming a critical management decision area. It can be a source of CA, at least in the developing market economies (Dawar & Frost, 1999), where relations of local indigenous firms with the channel members should be better than the ones that can be created by MNCs. As products become less differentiated and more commodity-like (undifferentiated marketing) the competition among firms is rapidly moving away from products towards attaining efficiencies in distribution (Mehta et al., 2000).

To have the capability in channel management, in the words of Vohries et al. (1999), is to form relationships with distributors and effectively manage them. This requires working closely with the members and building effective relationships bringing efficiencies to the channel. Nevertheless, this specific attribute was not emphasised during any of the interviews and one reason could be that channels in the developing economies are based more on personal relationships and friendships then any formal laid down criteria. This, therefore, implicitly assumes similarity of objectives between the manufacturer and the channel member. Therefore, this construct was retained and the following variables were used to operationalize channel management capabilities:

- We have better relationships with distributors than do our competitors.
- Our distribution system is more efficient than our competitors.
- We work more closely with distributors and retailers than do our competitors.
- Our distribution programs are vital for marketing success.

E. Promotion

After the company has designed a product and offers to match the wants of its target market, it needs to communicate this offer to the buyers and persuade them to try it. The capability of achieving this goal is by using four main tools effectively. These are advertising; personal selling; sales promotion and public relations (Doyle, 2000). The communication process, which includes the use of the promotional mix, is meant to lead the customer through the various stages i.e. make the customer *aware* of the product; make the customer understand the *benefits* of product; to *convince* the customer that it will satisfy his/her want and finally to bring the customer to the point of purchase to make the *purchase* decision (Aaker & Meyers, 1996). While differentiating between advertising, sales promotion and other elements of the promotional mix[49] the thesis is focusing more on the area of advertising and sales promotion as these are considered the traditional areas of any communication campaign and constitutes the largest component of the expense incurred on promoting products (Crosier, 2000). Even though a direct question to Participant G in the use of promotion did not elicit a strong preference this variable is being retained because as mentioned in chapter six more and more brands are entering the market, which would lead to more sophisticated segmentation and hence targeted promotional campaigns. In this study following Vohries et al. (1999), promotion includes advertising, sales promotion, and personal selling activities that a firm uses in general to communicate with the market and promote its products. The construct includes the following variables:

- Advertising is a vital component of our promotional program.
- Our sales promotions (coupons, free samples etc) are more effective than those of our competitors.

[49] Promotional mix includes such tools as Advertising; Publicity; Direct marketing; Sponsorship; Exhibitions; Packaging; Point of Sale (POS) merchandizing; Sales Promotion and personal selling (Crosier, 2000)

- Our advertising programs are more effective than those of our competitors.
- Our promotional campaign is a very important component of our competitiveness in the market.

G. Marketing Management

Itami and Roehl (1987) referred to management skills and capabilities as information-based resources and named them invisible assets that create CA. A study of high and low performance firms by Carmeli (2001), found that 'managerial competence' was rated as the second most valuable intangible resource by successful firms after organizational strategy. Marketers need to manage and explore efficient ways to get the right products to customers at the right time and place (Okoroafo & Russow, 1993). This necessitates managing diverse marketing functions (Kotler, 1991).

In the context of this study, the thesis is interested in marketing management capability and skills, which includes the management capability of applying market and marketing oriented concepts and tool (Möller & Antilla, 1987). These capabilities include the managing of market segmentation and positioning as it defines the firms competitive environment (Biggadike, 1981) as well as in the management of these marketing programs and functions that form the traditional core of the firms marketing capabilities (Möller & Antilla, 1987). McCarthy (1971, p. 38) provided this paradigm for marketing management which suggested that marketing tries to satisfy customers within the context of the environment and the firm's resources and objectives (the uncontrollable factors) by designing and implementing an appropriate marketing mix (the four P,s- controllable factors).

One final area of marketing management capability covers the way inter-functional coordination is affected (Narver & Slater, 1990) in response to the customers' needs. According to Ruekert and Walker (1987), marketing personnel often play a coordinating role, linking demands from outside the organization with the functional departments inside the firm that are capable of satisfying those demands. In other words, marketing management capabilities are concerned management of customers' acquisition along with management of marketing programs and the ability to coordinate action among the diverse elements in the firm that are needed to implement a marketing program (Möller & Antilla, 1987). The constructs of marketing management following Vorhies et al. (1999) include the following variables.

- Our abilities to segment and target-market help us compete.
- We manage our marketing programs better than our competitors.
- Our marketing management skills give us a competitive advantage.
- Our ability to coordinate various departments in this organization helps us to respond to market conditions faster than our competitors.

7.7.3 Measurement of Business Performance

Performance improvement is a recurrent theme in most branches of management including marketing and marketing strategies and lies at the heart of strategic management (Venkatraman & Ramanujam, 1986). To understand the underlying logic for using a specific construct and its operationalization it is important to understand what it means in terms of this study. Following Vohries et al. (1999) this research defines performance as a multidimensional construct using financial, operational and customer related performance indicators (Kaplan, 1993; Kaplan, 1996; Venkatraman & Ramanujam, 1986). Growth in sales and market share (Kaplan, 1993; Kaplan, 1996; Venkatraman & Ramanujam, 1986) reflects trends in terms of long-term viability of a business and its future resource availability and its association with profitability (Buzzell, Gale, & Sultan, 1975), which is a source of financial resources. Profitability is also viewed by some as the ultimate organizational outcome (Hunt & Morgan, 1995) and is commonly used in strategic marketing literature (Vorhies et al., 1999). Financial performance indicators have been the dominant models in empirical strategy research (Hofer, 1983). One of the measures used as a financial indicator is return on investment, which also indicates efficiency in the application of financial resources.

Customer satisfaction, on the other hand, represents the effectiveness of an organization in delivering value to its customers (Kaplan & Norton, 1996; Day, 1990; Day & Wensley, 1988). In developing markets this assumes significant importance as environments, which, heretofore, were sellers' markets in nature; now shift to marketing activities centered on customer satisfaction (Okoroafa & Russow, 1993) and are becoming critical (Gronroos, 1984). Business performance measures used in other researches include market share Sales Growth and return on investment (Douglas & Craig, 1983); Profits and Sales (Kotler

1991). In line with these researches, Vorhies et al. (1999), business performance was measured using the indicators given below and respondents were asked to report their firm's relative performance in relation to their closest rival. The respondents were asked, "In the last three years, relative to your closest competitor how well or poorly do you perceive your firm has performed on the performance measures?" The measurement procedure used was a semantic differential scale ranging from Much Worse (-3) to Much Better (+3) with About the Same (0) acting as the mid point and assumes equal performance.

The logic in using this relative to the closest competitor-reporting format was that almost all businesses are aware of their closest rivals or direct competitors. This was indicated in the interviews where Participants A, B and G all referred consistently to their immediate competitor and ignored the over all competition. Therefore, instead of asking for relative performance against industry average, closest competitor was used as a reference point. Using industry average might be a better evaluative format but this kind of industry information is difficult to have in emerging markets where syndicated data of this nature is seldom available. The measures used are

- Over all business performance (BP 1)
- Market share (BP 2)
- Sales Growth (BP 3)
- Customer satisfaction (BP 4)
- Profitability (BP 5)
- Return on Investment (BP 6)

7.7.4 Measurement of Strategic Orientation

Strategic orientation scales as mentioned earlier were developed using Miles and Snow (1978) typology and their paragraph descriptions. These were also sourced to a number of studies (see section 7.5 above) and included the following statements

- Our organization attempts to locate and maintain a secure niche in a relatively stable product or service area.-----------
- Our firm tends to offer a more limited range of products and services than its competitors

- Our firm tries to protect its product market by offering higher quality product/superior service and or lower prices etc
- Our firm is often not in the fore front of developments in the industry--- it tends to ignore industry changes that have no direct influence on current areas of operation and concentrates on doing the best job possible in a limited area.
- Our firm typically operates within a broad -product market area that undergoes periodic redefinition
- Our firm values being the 'first in' in new product and market area even if not all of these efforts prove to be highly profitable.
- Our organization responds rapidly to early signals concerning areas of opportunity and these responses often lead to a new round competitive action.
- However our firm may not maintain market strength in all market that it enters.
- Our firm attempts to maintain a stable, limited line of products or services.
- Our firm is also quick to move out quickly to follow a carefully selected set of more promising new developments in the industry.
- Our firm is seldom 'first in' with new products or services.
- Our firm carefully monitors the actions of major competitors in areas compatible with our stable product market base, and we are frequently the 'second in' with a more cost-efficient product or service.
- Our firm does not appear to have a consistent product-market orientation.
- Our firm is usually not as aggressive in maintaining established products and markets as some of its competitors, nor are we willing to take as many risks as other competitors.
- Our firm normally responds in those areas where it is forced to by environmental pressures

7.8 Validity and Reliability of the constructs

In order to develop or test theory, an important requirement is that the constructs should be valid. Construct validation refers to investigating the degree fitness or agreement between the constructs and their measures (Bagozzi et al., 1979; Peter, 1981). According to Peter (1981) "*such theories cannot develop unless there is a high degree of correspondence between abstract constructs and the procedure used to operationalize* *them*" (p. 133). In the following sub sections the thesis will address the issues of validity and reliability.

7.8.1 Some concepts regarding Validity and Reliability

Validity refers to the extent to which a measure or a set of measures correctly represents the concept of the study (Hair et al., 1998). This is a fairly broad definition of construct validity and is used to suggest the usefulness of the construct as a tool for describing or explaining some aspect of nature such as behaviour (Peter, 1981). This can be achieved as explained in the following paragraphs through a) Content validity b) Construct validity. The second concept is more focused to the concept of the construct it self and is that degree to which a measure assesses the construct it is purported to assess (Peter, 1981).

Combined, these two methods help to interpret the dependency of construct on the theory it is based on and to ensure that it has explanatory power by creating observational meaning. The main reason to assess validity is because a valid measure is the essence of science (Peter, 1979) and reliability of the constructs is to reduce measurement error and, therefore, yield consistent results. Several methods can be adopted to determine the validity of the constructs.

The first is to seek content validity. This refers to the extent to which the measurement reflects the specific domain of the content (Carmines & Zeller, 1979). The thesis has already indicated in chapter five and chapter six as well as in section 7.5 above that a thorough review of the pertinent literature was carried out. In doing so the choice of using existing constructs was made based on the relevance of those constructs with the phenomena that were to be studied which were market orientation, strategic orientation and marketing capability. The choice was also supported by the preliminary interviews that were carried out. These scale items were initially reviewed by academics in Pakistan and several senior executives of various business firms in Pakistan. The thesis expects that such a procedure ensured content validity of the constructs used for this study.

The second is to seek construct validity. This refers to the fit between the variable or the measure of the construct and the underlying concept that is being measured and how well is the concept defined by the measures (Hair et al., 2006, p 104; Cook & Campbell, 1979). For example, it aims to show that the alternative variables that are included in measuring a concept all relate to each other in significant manner and is known as the convergent validity. On the other hand, construct variables that measure different concepts should not have any significant relationship and is known as the discriminant validity (Cook & Campbell, 1979; Venkatraman, 1989). Since the thesis has used existing variables to measure concepts mentioned earlier and these have all demonstrated construct validity in the extant literature the thesis will precede with reporting the internal consistency of the various constructs, which is to use Cronbach's (1951) coefficient alpha to assess the reliability of the construct as they applied to the business environment of Pakistan.

7.8.2 Reliability Analysis

Measuring the Internal consistency of the constructs such as market orientation, strategic orientation, business performance and marketing capabilities or the reliability analysis is an important step before carrying out further data analysis (Hair et al., 1998). Similarly according to Gray et al. (1998), initial reliability analysis of the constructs must be conducted and unreliable questions (in terms of a particular research environment) should be dropped from the scales before further analysis. In this context reliability refers to the 'extent that independent but comparable measures of the same trait or construct of a given object agree' (Churchill, 1979, p.65). Internal consistency on the other hand refers to the degree to which the items (or statements/questions) in the measurement set are homogeneous (Ngai & Cheng, 1997). Internal consistency, therefore, is commonly used to measure reliability of the construct (Hair et al., 1998).

The underlying logic of testing for internal consistency or carrying out reliability analysis in the present situation is to ensure that the variables which were developed to measure a specific construct in the research setting of developed markets are also appropriate for emerging market economies. For example, if one of the scale items in the Intelligence Generation construct is not actually appropriate in an emerging market economy context, it would not relate internally with the other items and therefore, should be excluded. Since all the constructs in the study have a multi-item scale of at least three variables as was suggested by Green, Tull, and Album (1988) the Cronbach's coefficient alpha analysis is chosen. The Cronbach's coefficient alpha is the most widely used and useful formula for assessing the internal consistency or reliability of measures in marketing research (Peter, 1979) as it measures the degree of covariation that exists among the scales of the constructs or to put it another way it gives us information about the extent to which item in a set correlates with other items in the set. A low coefficient indicates that the sample items have not been able to capture the construct while a large alpha indicates that the given item correlates well with the true scores. The alpha, therefore, provides the lower limits of a scale's reliability and in most situations it provides a conservative estimate of the measures reliability (Carmines & Zeller, 1979).

Before the thesis proceeds to describe the data analysis methods it explains the factor analysis that preceded the reliability test for the constructs of Strategic orientation. It has already been explained in the thesis that, to measure Market Orientation and Marketing Capability existing constructs were used. Therefore, reliability analysis was deemed sufficient to proceed with creating summated scale for the purposes of further analysis. It was only for the Strategic Orientation measures that this thesis had to factor analyse and empirically reveal the underlying structure of strategic behaviour of firms in Pakistan.

As mentioned by Hair et al. (1998), this technique is well suited to help in analyzing the interrelationships among a large number of variables and in explaining these variables in terms of their common underlying dimensions. With around 90 respondents and 15 items, this requirement is roughly in line with the respondents/items ratio suggested by Tinsley and Tinsley (1987) and the minimum of 5 observations per variable suggested by Hair et al. (1998).

These survey response items were thus subjected to principal component factor analysis. Since the underlying theory specified four factors as suggested by Miles and Snow (1978) and since the thesis's design was based on their framework, it was deemed necessary to draw a similar number of factors and as such the thesis's analysis retains a specific number of factors equal to four. In view of the thesis this would be sufficient and conceptually valid in their correspondence to theory. Given this, four clear factors emerged, which accounted for 65.97% of the total variance[50]. As is common practice, a varimax rotation with Kaiser Normalization was performed to differentiate the factors. Results of the factor analysis are shown in Table 7.5. Bartlett's test of sphericity was significant at the 0.001 levels that imply the presence of nonzero correlation. The overall measure of sampling adequacy (MSA) was 0.579, which exceeds the recommended cut-

[50] A fifth factor based on eigen value of 1 was possible but with out any significant improvement in the additional variance explained as well as the theoretical background four factors were retained.

off level of 0.5 and individual measures were all well above this cut-off level. Overall, this data meets the fundamental requirements for factor analysis satisfactorily (Hair et al., 1998).

The four factors result showed items loading highly on each factor with only one cross loading evident. By eliminating the aforementioned variable from the constructs and running the reliability analysis the alpha coefficient improved to 0.52. Reinterpreting the factors now is more representative of the conceptual underpinning. It is, therefore, considered to finalize the factors (Table 7.6a).

These factors were interpreted as relating to strategic orientation types of *Reactor, Defenders, Prospectors* and *Analyzers.* Reliability test was run on these factors and it was found that except for one, reliability scores for the three remaining constructs exceeded the given threshold of acceptability and ranged between .6 and .7. The alpha score for the fourth factor i.e. '*Analyzers*' was below .6.

After factor analysing the construct of strategic orientation for its relevance to the developing market context of Pakistan the thesis continued with the assessment of the reliability of the other three measurement/scales. The common routine for questionnaire analysis is followed and then the information gathered is analyzed using component factor analysis to assess the reliability of each multi-item sub-scale. The primary aim of this analysis is to later form a summated scale for each of the following construct, which would be used for subsequent analysis. The reliability scores of the measures using Cronbach's alpha statistics and as well as the finalized representative items for each of the above constructs are shown in Table 7.6 b through Table 7.6 e

A) **Market Orientation**
1) Intelligence Generation
2) Intelligence Disseminations
3) Responsiveness

C) **Strategic Orientation**
1) Reactors
2) Prospectors
3) Defenders
4) Careful Analyzers

B) **Business Performance**

D) **Marketing Capabilities**
1) Market Research
2) Pricing
3) Product Development
4) Promotion
5) Market Management
6) Channel Management

Table 7.6a Result of Factor Analysis and Reliability Tests on Strategic Orientation

Factor	Alpha	Item	Factor Loadings			
Reactors	**0.761**	1: Our firm does not appear to have a consistent product-market orientation	0.890			
		2: Our firm is usually not as aggressive in maintaining established products and markets as some of its competitors, nor are we willing to take as many risks as other competitors.	0.738			
		3: Our firm tends to offer a more limited range of products and services than its competitors.	0.711			
		4: Our firm normally responds in those areas where it is forced to by environmental pressures	0.660			
		5: Our firm attempts to maintain a stable, limited line of products or services.	0.507			
Defenders	**0.763**	1:Our organization responds rapidly to early signals concerning areas of opportunity and these responses often lead to a new round competitive action		0.821		
		2: Our firm tries to protect its product market by offering higher quality product/superior service and or lower prices etc.		0.800		
		3: Our firm is also quick to move out quickly to follow a carefully selected set of more promising new developments in the industry.		0.708		
Prospectors	**0.678**	1: However our firm may not maintain market strength in all market that it enters			0.800	
		2:Our firm typically operates within a broad -product market area that undergoes periodic redefinition			0.772	
		3: Our firm values being the 'first in' in new product and market area even if not all of these efforts prove to be highly profitable.			0.513	

Analyzers	0.519	1: Our firm carefully monitors the actions of major competitors in areas compatible with our stable product market base, and we are frequently the 'second in' with a more cost-efficient product or service.				0.788
		2:Our firm is seldom 'first in' with new products or services				0.719
		3: Our firm is often not in the forefront of developments in the industry--- it tends to ignore industry changes that have no direct influence on current areas of operation and concentrates on doing the best job possible in a limited area.				0.515

Absolute coefficients less than 0.45 are hidden for reading aid only

Table 7.6.b Result from Reliability Analysis of Market Orientation Constructs

Item	Cronbach Alpha	Item-to-total Subscale	Alpha if item deleted
Intelligence Generation	**0.637**		
1. In our company we do a lot of in-house market research.		0.331	0.610
2. We are slow to detect changes in our customer's product preferences.		0.426	0.568
3. We often talk or survey those who can influence our end users purchases, e.g. retailers and distributors.		0.516	0.514
4. In our company information on competitors is generated independently by several departments.		0.309	0.625
5. We are slow to detect fundamental changes in our industry, e.g. technology regulation competition		0.377	0.590
Intelligence Disseminations	**0.892**		
1. Marketing personnel of our company spend time discussing customers future needs with other functional departments.		0.774	0.859
2. When some thing important happens to a major customer of the market, the whole company knows about it within a short period		0.778	0.856
3. Data on customer satisfaction are disseminated at all levels in this unit on a regular basis.		0.814	0.824

Responsiveness	**0.767**		
1. It takes us quite a while to decide how to respond to our competitors' price changes.		0.461	0.744
2. Principles of market segmentation drive new product development efforts in our organization.		0.527	0.736
3. For one reason or another we tend to ignore changes in our customer's product or service needs.		0.444	0.747
4. We periodically review our product development efforts to ensure that they are in line with what customers want.		0.425	0.748
5. Our business plans are driven more by technological advances than by marketing research.		0.407	0.750
6. The product lines we sell depends more on internal politics than real market needs.		0.316	0.760
7. If a major competitor were to launch an intensive marketing campaign targeted to our customers, we would implement a response immediately.		0.260	0.765
8. The activities of different departments in this organization are well coordinated.		0.297	0.761
9. Customer complaints are normally ignored in this organization.		0.343	0.757
10. Even if came up with a great marketing plan we probably would not be able to implement it in a timely fashion		0.381	0.753
11. We are quick to respond to significant changes in our competitors pricing structures		0.345	0.757
12. When we find that customers are unhappy with the quality of our service we take immediate corrective action.		0.444	0.754
13. When we find customers would like us to modify a product or service the department involved makes concerted efforts to do so.		0.516	0.739

Table 7.6.c Results from Reliability Analysis of Market Capabilities Constructs

Item	Cronbach Alpha	Item-to-total Subscale	Alpha if item deleted
Market Research	**0.937**		
1. Market research skills help us develop effective marketing programs.		0.872	0.908
2. We use our marketing research information more effectively than our competitors use their own marketing research information.		0.869	0.910
3. Our marketing research expertise helps us develop better marketing programs than our competitors.		0.871	0.908
Pricing	**0.745**		
1. Our pricing approach is more effective than our competition's.		0.663	0.549
2. We know competitors pricing tactics better than they know ours.		0.679	0.540
3. Our prices our comparatively lower than our competition's prices.		0.401	0.857
Product Development	**0.865**		
1. We do a better job of developing new products/ services.		0.772	0.791
2. Our product/service development gives us an edge in the market.		0.739	0.815
3. Our product/service development efforts are more responsive to the customers needs than those of our competition.		0.737	0.822
Channel Management	**0.702**		
1. We have better relationships with distributors than do our competitors.		0.476	0.657
2. Our distribution system is more efficient than our competitors.		0.408	0.687
3. We work more closely with distributors and retailers than do our competitors.		0.530	0.625
4. Our distribution programs are vital for marketing success.		0.596	0.577
Promotion	**0.935**		
1. Advertising is a vital component of our promotional program.		0.874	0.906
2. Our sales promotions (coupons, free samples etc) are more effective than those of our competitors.		0.824	0.924
3. Our advertising programs are more effective than those of our competitors.		0.888	0.903
4. Our promotional campaign is a very important component of our competitiveness in the market.		0.805	0.928

Market Management	0.923		
1 Our abilities to segment and target-market help us compete.		0.767	0.921
2. We manage our marketing programs better than our competitors.		0.862	0.887
3. Our marketing management skills give us a competitive advantage.		0.874	0.882
4. Our ability to coordinate various departments in this organization helps us to respond to market conditions faster than our competitors.		0.793	0.9 09

Table 7.6. d Result from Reliability Analysis of Business Performance Constructs

Item	Cronbach Alpha	Item-to-total Subscale	Alpha if item deleted
Business Performance	0.931		
1. Over all business performance		.923	.901
2. Market share		.848	.911
3. Sales Growth		.692	.934
4. Customer satisfaction		.616	.940
5. Profitability		.858	.910
6. Return on Investment		.891	.905

Table 7.6. e Result from Reliability Analysis of Strategic Orientation Constructs

Item	Cronbach Alpha	Item-to-total Subscale	Alpha if item deleted
Reactor	.761		
1. Our firm does not appear to have a consistent product-market orientation.		.749	.652
2. Our firm is usually not as aggressive in maintaining established products and markets as some of its competitors, nor are we willing to take as many risks as other competitors.		.604	.690
3. Our firm normally responds in those areas where it is forced to by environmental pressures		.522	.722
4. Our firm tends to offer a more limited range of products and services than its competitors		.331	.789
5. Our firm attempts to maintain a stable, limited line of products or services		.517	.727

Defender	.763		
1. Our organization responds rapidly to early signals concerning areas of opportunity and these responses often lead to a new round competitive action.		.735	.510
2. Our firm tries to protect its product market by offering higher quality product/superior service and or lower prices etc.		.487	.791
3. Our firm is also quick to move out quickly to follow a carefully selected set of more promising new developments in the industry.		.580	.702
Prospectors	.678		
1. However our firm may not maintain market strength in all market that it enters		.434	.660
2. Our firm typically operates within a broad - product market area that undergoes periodic redefinition		.623	.391
3. Our firm values being the 'first in' in new product and market area even if not all of these efforts prove to be highly profitable.		.446	.651
Analyzers	.520		
1. Our firm carefully monitors the actions of major competitors in areas compatible with our stable product market base, and we are frequently the 'second in' with a more cost-efficient product or service.		.244	.572
2. Our firm is seldom 'first in' with new products or services.		.475	.185
3. Our firm is often not in the forefront of developments in the industry--- it tends to ignore industry changes that have no direct influence on current areas of operation and concentrates on doing the best job possible in a limited area.		.301	.470

Through this Component factor analysis, fourteen factors all, with at least three variables each, were derived. All Cronbach alpha coefficients uniformly exceeded the minimum recommended cut-off level of 0.600 (Nunnally, 1978), suggesting that the selected scales are reliable instrument for measuring the fourteen constructs. Reliabilities for the construct of "Analyzers" (0.52) falls short of the recommended level but it is still acceptable in common practice. To ascertain the acceptability of reliability analysis it is important to note that even though no hard and fast rules have been offered for evaluating the magnitude of reliability coefficients Nunnally offers a guideline (Peter, 1979). According to Peter (1979), Nunnally (1967, p 226) suggests that in early stages of research, modest reliability in the range of 5 to 6 will suffice. Given this suggestion it is considered that in the case of this exploratory study of strategic orientations of firms in an emerging market economy the alpha coefficient for Analyzer at 0.52 is acceptable. On the other hand, all the other constructs which were being reused in the emerging market contexts, showed adequate robustness to allow for further analysis.

The descriptive statistics including mean, standard deviation, minimum and maximum are reported in Table 7.7

Table 7.7

Descriptive Statistics for Factors	N	Minimum	Maximum	Mean	Std. Deviation
Market Orientation					
• Intelligence Generation	89	1.67	7.00	4.37	1.48
• Intelligence Dissemination	88	1.00	7.00	4.88	1.87
• Responsiveness	84	3.00	7.00	5.20	0.95
Marketing Capabilities					
• Market Research	84	1.00	7.00	4.88	1.73
• Pricing	84	1.00	7.00	4.14	1.67
• Product Development	85	1.33	7.00	5.45	1.41
• Channel Management	67	3.25	7.00	5.20	1.13
• Promotion	79	1.00	7.00	4.12	1.78
• Market Management	80	1.25	7.00	5.04	1.30
Strategic Orientation					
• Reactors	84	1.00	6.40	3.49	1.21
• Competitive Defenders	84	1.33	7.00	4.98	1.33
• Prospectors	82	2.67	7.00	4.41	1.34
• Careful Analyzers	84	1.00	7.00	3.72	1.20

Performance

- Business Performance 83 -2.50 3.00 1.01 1.48

- Valid N (list wise) 64

Given below is the comparison of the variables of the originally designed constructs and sub-constructs as against the variables that were retained in the sub-constructs. This is to show the relevance of the construct and its reliability in the business environment of Pakistan.

	Number of Original variable in construct	***Number of Retained variable in construct***	***Cronbach Alpha***
Market Orientation			
Intelligence Generation	10	5	0.637
Intelligence Dissemination	8	3	0.892
Responsiveness	14	13	0.767
Marketing Capability			
Market Research	4	3	0.937
Pricing	4	3	0.745
Product Development	4	3	0.865
Channel Management	4	4	0.702
Promotion	4	4	0.935
Market Management	4	4	0.923

7.9 Conclusion

In this chapter the issues surrounding methodology that were relevant to investigating relationships between market orientation, strategic types and marketing capabilities with the firms performance were presented. This study uses cross sectional data from business organizations operating in various industries in Pakistan. The questionnaire was designed based on a comprehensive literature review, exploratory interviews and the author's personal practical business experience of over 15 years. This experience included working in joint venture companies and extensive business contacts with foreign organizations around the world. The data was collected using retrospective reporting by key informants and was based on self-administered questionnaires. The difficulty that was encountered in getting the appropriate response has been explained on two grounds. The first is the timing when the questionnaires were posted. It was around September 11, 2001. The second difficulty is inherent in all developing markets and that is the reluctance of firms to share information that might be considered sensitive. This is evident from the number of firms who reported on their turnover or size. It was also indicated that three existing constructs were used which had been validated in the developed market contexts while one regarding Strategic Orientation was developed and tested and was based on the Miles and Snow's (1978) strategic types. With regards to analytical techniques both factor analysis and reliability tests were used to assess the reliability and validity of the major constructs used in the theoretical framework.

As discussed in the preceding section first factor analysis was performed on the strategic orientations, to explore the structure of marketing strategies in the emerging market economy of Pakistan. The thesis has reported four factors which are in line with extant theory and the typology given by Miles and Snow (1978). Factor analysis according to Hair et al. (1998) is useful to analyze and explore the interrelationships among a number of variables and then using these variables to explain the common underlying dimensions or factors. Based on the factors that emerged from the factor analysis of strategic orientation in Pakistan and the exiting factors for market orientation, marketing capabilities and performance that have been described in the section on 'Reliability Analysis' reliability and validity test were performed and have been reported in the above sections.

To test hypothesis a number of statistical tests are envisaged including cluster analysis as the reliability analysis of the constructs only confirms the underlying structure of Market orientation, Strategic orientation and marketing capabilities, which exists in the emerging market economy of Pakistan. It cannot provide any information on whether the whole sample of firms adopts similar behaviours and activities and do they have the same capabilities. In order to determine if distinct and homogenous groups can be found which demonstrate a similarity in their market orientation activities, their strategic behaviours the cluster analysis is required. The clustering procedure is carried out using summated scales of the constructs and is detailed in the next chapter.

Further, it is possible that due to the different forms of Market Orientation, Strategic Orientation and Marketing Capabilities that firm's posses in a developing market context, the organisational performance of the identified clusters would be different. In other words, there is a possibility of identifying the nature of market orientation or strategic activities that can lead to superior organisational performance. The same would also be possible for marketing capability in terms of determining which of the capabilities is more significant. In other words, it is possible to determine the degree to which selected constructs and variables are able to predict the differentials in performance. This requires the adoption of regression analysis of the market orientation, strategic orientation and marketing capabilities to test their relationship with firm performance. Additionally the thesis is proposing that MO has an influence in forming the strategic orientation that a firm adopts as well as influencing the kind of capabilities that the firm needs in the contexts of developing market. This requires a canonical analysis and these results are be discussed in the following chapter.

Chapter 8

Results and Hypothesis Testing

8.1 Introduction

The aim of the thesis is to understand business performance in the context of developing markets. In other words it aims to analyse the relationship between business performance and predictor variables such as strategic orientation, market orientation and marketing capabilities sourced to the extant literature in strategic management and marketing. The literature on the firm performance has a rich history and is theoretically grounded in several disciplines including economics, sociology and organizational behaviour (Anderson, 1982). However, authors have not concurred on a single explanation of the firm performance. Several authors link strategy to performance [51](e.g. Miles & Snow, 1978), while others propose the firms resources (Barney, 1981) and/or capabilities (e.g. Day, 1994; Vohries et al., 1999) and more recently market orientation (Narver & Slater, 1990; Kohli & Jaworski, 1990).

None of the research streams mentioned above provide unequivocal empirical support to these theorizings. This in turn points to a general need for further empirical research in these areas using different context and involving different industries to further theory and develop a more holistic view of the theory of the firm and its performance. Three observations are apparent from this literature.

First, there is a sound theoretical base for these three streams. For example it is intuitively appealing to assume that a well planned strategy should lead to success. It is also appealing to suggest that without specific resources and capabilities the firm will not be successful. Finally, there is considerable weight to the argument that firms, which continuously seek information of what the consumers need and how it is being currently satisfied by the competitors are in a better position to satisfy these needs through value added response. Thus irrespective of the empirical support these observations are theoretically difficult to refute.

Second, researchers in these streams, in general have studied their domains in an exclusive manner. That is to say these streams have developed independently of one

[51] These streams of literature have been extensively reviewed and referenced in chapters 4, 5and 6. Here reference to a few is made for illustrative purposes.

another. The third and final observation is that most of the research work in these subject areas is US based. Some work has also been undertaken in other developed market contexts but there is a demonstrable lack of studies based in the developing economies. Whatever research has been done is mainly to test the market orientation and performance link and even in this area the results reflect opposing views.

The aims of this thesis as described earlier, if stated briefly are three fold

a. First, to study the relationship between the three theoretically grounded streams of literature such as market orientation, strategic orientation and marketing capabilities with business performance in the context of a developing economy. In this form the thesis aims to replicate and extend research and add to the existing knowledge by bringing a developing economy perspective to each area. This is conceptually proposed in Figure 6.4 (Chapter 6).
b. Second, this thesis aims, rather than viewing these streams separately, to take an integrative view particularly with the developing market context in mind and attempt to determine if some of the proposed underlying factors associated with these three streams are more important then the others. This is predicated on the fact that it is not only difficult but cost prohibitive to focus on all management and strategic areas at once, especially in the developing markets contexts, where these economies are learning to come to grips with new technologies in marketing and strategies. This, it is hoped will have practical implication for the business managers in the developing country such as Pakistan. This proposal was suggested in an integrative conceptual model in Figure 6.7
c. Third and finally, the objective of the thesis is to search, in the context of the developing market economy such as Pakistan, if among the three conceptual frameworks such as market orientation, strategic orientation and marketing capabilities, there is one that influences the other two so that by focusing on this one the mangers would be set on the correct course of properly acquiring the other two. This has practical implications for the practicing managers in these countries. A further underlying reason for this proposition is that in theory, there are conflicting thoughts; first that strategy drives the acquisition of capabilities; the second suggests that capabilities drive strategy and the third suggests that market orientation drives strategies. This thesis, by proposing and empirically testing the hypothesis that market orientation is the core competence that drives both the development of appropriate

strategies and the necessary capabilities, will contribute both theoretically to the body of research and practically to the managerial practices in the developing market economies. This proposition is presented in Figure 6.5 in Chapter 6.

The preceding chapter outlined the research methodology as well as the operationalizations of the dependent and independent variables. That chapter also reported the initial data descriptive along with the reliability and validity of the measurement scales used in the survey document. In this case reliability refers to the extent to which a variable or set of variables is consistent in what it intends to measure where as validity is the extent to which the measure or set of measures correctly represents the concept of study (Hair et al., 2006). For this thesis the measurement scales for MO and marketing capabilities were used that had been developed by Kohli and Jaworski (1990) and Vohries et al. (1999) respectively.

These scales were selected on the basis of their being robust and having been extensively validated in their use in different business environment contexts. Given this, they were deemed to be valid constructs in that they were measuring market orientation and marketing capabilities as reported in the last chapter. These scales have also been considered reliable in the developed market environments and as such should not have required an internal consistency check. However, these were now being applied to a developing market context and these developing market business environments have been noticed to be different from the developed market business environments. It is, therefore, considered necessary to check the convergent validity using both the component factor analysis as well as reliability analysis of the derived constructs for application in such an environment.

The scales for the strategic orientation, on the other hand, necessitated exploratory factor analysis first, as these scales were developed from Miles and Snow's (1978) typology descriptions and required an initial view of the underlying structural consistency of the factors. The factors in this case were decided to be four on a priori basis, and were drawn using principle component factor analysis followed by reliability check using Cronbach's alpha coefficient.

The independent variables to be used in the various test of hypotheses include the three factors of Market Orientation (Intelligence Gathering, Intelligence Dissemination, and Responsiveness) four factors of Strategic Orientation (Reactors, Defenders, Prospectors and Analyzers) and the six factors of marketing capabilities (Marketing Management, Product Development, Pricing, Promotion, Marketing Research and Channel Management).

These factors have all demonstrated construct validity in the developing context of Pakistan also, as factor loadings all verified the acceptable minimum level recommended of .5 and most were in the range higher then .7 (Hair et al., 2006, p. 777) and were reported in the last chapter 7. These factors were then further checked for reliability. One method of reliability check used regularly is the Cronbach's alpha coefficient. These results are again reported in Chapter 7, in Tables 7.5a through 7.6d. Some of the original measures that did not indicate adequate reliability were therefore, eliminated from the final constructs. The estimates of reliability for the remaining items indicated that internal consistency exists and that the measures all consistently represent the same latent construct. It should also be recognised that 'Face' validity is assured, as the contents and meaning of the items to correctly express and specify the measurement theory, was ensured using two separate procedures. In that the survey questionnaire was evaluated both by academics and businessmen from the business environment of Pakistan, which is the context of the current study.

The present chapter now focuses on reporting the findings of the study, which include testing hypotheses that were set in the theoretical framework in chapter 6 and are reproduced here for ready reference in Table 8.1. Before the thesis moves to begin reporting the rationale behind various test and the results, the descriptives are presented in Table 8.2 for information.

Table 8.1

Hypotheses

H1: In the business environment of Pakistan organizations do not always follow a clearly defined strategic orientation.

H2: In the business environment of Pakistan, businesses with recognizable strategic orientation will perform equally well.

H3: In the business environment of Pakistan Market Orientation has a direct and positive influence on organizational performance.

H4: In the business environment of Pakistan market-orientated behaviours of intelligence gathering, intelligence dissemination and responsiveness all have a direct and positive impact on organizational performance.

H5: All business firms in Pakistan exhibit the same level of market orientation with the same focus on all the three activities such as intelligence gathering, intelligence dissemination and responsiveness.

H6: In the business environment of Pakistan marketing capabilities such as Market Research, Pricing, Product Development, Channel Management, Promotion and Marketing Management, all have a direct and positive impact on organizational performance.

H7: MO as defined by intelligence generation, intelligence dissemination and responsiveness influences the strategic orientations that is adopted by a firm in the context of the business environment of Pakistan

H8: Those firms that demonstrate a high level of market orientation will adopt a more pro-active stance as exemplified by the prospector orientation in Miles and Snow typology then those with a low level of market orientation.

H9: MO as defined by intelligence generation, intelligence dissemination and responsiveness influences the acquisition of relevant marketing capabilities.

8.2 Descriptive Statistics

The main descriptive information covering the type of participating firms, the turn over and the respondents' position held in the organization have already been reported in the preceding chapter. Some additional descriptive statistics for the constructs of MO, SO and Marketing Capabilities are provided in Table 8.2

Table 8.2

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
A. Strategic Orientation					
Reactors	84	1.00	6.40	3.4899	1.2054
Defenders	84	1.33	7.00	4.9802	1.3276
Prospectors	82	2.67	7.00	4.4065	1.3446
Analyzers	84	1.00	7.00	3.7222	1.2044
B. Market Orientation					
Information gathering	89	1.67	7.00	4.3670	1.4754
Information Dissemination	88	1.00	7.00	4.8788	1.8667
Responsiveness	84	3.00	7.00	5.1979	.9457
C. Marketing Capabilities					
Market Research (MR)	84	1.00	7.00	4.8770	1.7338
Pricing (PR)	84	1.00	7.00	4.1429	1.6721
Product Development (PD)	85	1.33	7.00	5.4471	1.4138
Channel Management (CM)	67	3.25	7.00	5.1978	1.1336
Promotion (PM)	79	1.00	7.00	4.1203	1.7799
Marketing Management (MM)	80	1.25	7.00	5.0406	1.3014
Overall Business Performance (BP)	83	-2.50	3.00	1.0060	1.4826
Valid N (list wise)	64				

8.3 Analysis - Strategy

The first two hypotheses (H1 and H2) are concerned with the approach to strategic orientation as well as the relationship between strategic orientation and organizational performance. In Miles and Snow (1978) typology, the literature suggests that firms will follow clearly defined strategic orientations and firms with these strategic orientation types would perform equally well, representing a case of equifinality. In other words, it is postulated that these strategies can be pursued with equal effectiveness in any industry i.e. irrespective of the market environment (Douglas & Rhee, 1989). As the underlying condition is 'irrespective of the market environment' the thesis proposed to test the assertion that the business performance outcomes of strategic orientations will hold true in a developing market context also and that organizations pursuing these orientation would all perform equally well. Given this it could be proposed that adoption of any form of strategic orientation would be suitable. It has to be kept in mind, however, that the extant literature suggests that three of these strategic orientations, such as the Prospector Orientation, the Defender Orientation and the Analyser Orientation would outperform the Reactor orientation and therefore, recommend that it may be ignored. However, the literature does not suggest as to which of these orientations could, outperform all the others in some condition or environments (Desarbo et al., 2005). This is a crucial area of examination for the developing market business managers.

The first test is run by first classifying all the firms in the sample in line with Miles and Snow (1978) typology using cluster analysis. These clusters can then be used to test the hypothesis of equifinality. This second test requires the use of multiple regression analysis to see if the influence of the strategic orientation in general is positive and in line with what the literature proposes and second, to see if each orientation has the same impact on performance. While undertaking cluster analysis the presence of firms adhering to the Reactor Orientation will also be exposed, if present, and this will have practical implications for the business managers who it may be assumed have overlooked that behaviours classified as Reactor could be prevalent among business firms in Pakistan

Further, it is to be noted that this study follows the tradition of using aggregate performance scales where average of criterion scores to study performance are used for testing performance relationships, instead of using single item scales. As such all the hypothesized relationships between SO and the firms' performance as well as others will use aggregate performance scale (BP) and a self reported overall performance (BP1). In this regard, the thesis follows Hooley et al. (1999) who used four criteria, two to measure financial performance and two to measure market based performance and then aggregated these to form a composite performance scale with four items. In the present thesis, there are five criteria, two measure financial performance and three measure the market based performance. These five are aggregated into a single composite measure BP with five items. On the other hand, while also retaining a single self reported performance measure (BP1) the thesis is aware of the advantage of a summated scale in terms of overcoming the measurement error inherent in single item scales but does so only to see if there are significant difference in results between self reported business performance BP_1 and summated business performance scale BP. In using this approach the thesis is influenced by the proposition that executives' subjective perception of performance exhibits high levels of consistency with objective measure studies (Dess & Robinson Jr., 1984; Venkatraman & Ramanujam, 1986; Covin et al., 1994) and this in turn will also help confirm the results and triangulate them for interpretation purposes.

In certain areas of the study, in order to further explore relationships between the dependent and independent variables, the thesis has also used aggregated marketing performance measure (BP_M) using three items and financial performance measures (BP_F) using two items.

The next four hypotheses (H3 to H6) are concerned with the relationship between MO, marketing capabilities and performance. Therefore, the thesis in pursuance of its aim to contribute to the existing theory of market orientation by revalidating results of studies of the relationship of market orientation and organizational performance will also test this relationship using multiple linear regression analysis.

In hypothesis number 5, however, the underlying assumption is that based on the cultural and behavioural conditioning in a developing country like Pakistan, firms will largely not be highly market oriented and lack emphasis of the same level on all the constituent activities of MO. For this a cluster analysis is considered necessary. Once the firms are clustered into groups it would be possible to check how these various firms (clusters) behaved in their emphasis on the different MO activities. The rationale behind this analysis is to facilitate the description of market oriented activities in firms in Pakistan. The inquiry, underlying these hypotheses will also help understand and explain if all of these independent sets of variables, as defined by the activities of MO and the Marketing Capabilities respectively, are necessary and in need of the same attention from management in a developing market context, to achieve high performance.

Finally, hypotheses 7 and 8 were aimed at discovering the strength of the relationship of the various constructs of MO as the set of the independent variables and the various constructs of SO as well as marketing capabilities as the two sets of dependent variable. In these two cases, constructs of MO were a priori determined to be the dependent variables. This hypothesis required canonical correlation analysis, a multivariate statistical model technique, which facilitates the study of interrelationships among a set of multiple dependent and multiple independent variables. In other words the relationship is between the canonical variates, which are sets of the multiple variables involved. This technique simultaneously predicts the contribution to multiple dependent variables from multiple independent variables (Hair et al., 1998) and is different from multiple regressions, which predicts a single dependent variable from a set of multiple independent variables. In cases such as these, where multiple independent and dependent variables are involved, canonical correlation analysis is the most appropriate and powerful multivariate technique (Hair et al., 1998).

An alternative that could have been used is the multivariate analysis of variance but for that all the independent variables have to be non metric, which is not the case in this situation. The canonical correlation analysis technique is predictive in nature and in the case where we can suggest a priori the independent variable, we can prima facie, build a case for causality based on the strength of the relationship expressed by the canonical correlation coefficient. The two results of interest in this case are the canonical variates, which are the linear combination of dependent and independent variables and the canonical correlation representing the relationship between them. In other words if a strong relationship is presented between the constructs, then it can be predicted with the help of cross loadings, which of the constructs of MO will drive which of the independent variable and by what magnitude. This analysis it is hoped will embellish findings of interest drawn from analysis that will be carried out in testing other hypotheses

8.4 Strategic Orientation and Performance in a developing market context

The first hypothesis was set forth under the background theory that strategic orientations have been demonstrated to have a significant effect on business performance. In most of the typologies and especially the one proposed by Miles and Snow (1978) this association has been validated in a large number of studies conducted in the developed market contexts. The thesis drawing on a large body of research and exploratory interviews conducted in the business environment of Pakistan assumed that prima facie there is a case that the same situation will hold true for a developing market context such as Pakistan. The hypotheses were:

H1: In the business environment of Pakistan organizations do not always follow a clearly defined strategic orientation.

H2: In the business environment of Pakistan, businesses with recognizable strategic orientation will perform equally well.

To test the first hypothesis a cluster analysis is performed using the factor analysed variables reported in chapter 7.

Cluster Analysis

The objective at this stage is, to develop a taxonomy of firms in the business environment of Pakistan that groups all the firms with similar strategic orientation. Once identified, it would enable a better understanding of strategic behaviour of business organizations in Pakistan. This can then be further used, to study relationships with other variables of relevance to this thesis. It will also help to test the hypotheses of equifinality in terms of business performance in the developing country like Pakistan.

It should be noted that clustering helps in empirically grouping units of interest to facilitate further analysis. This form of analysis is frequently viewed with scepticism based on, which measure of similarity to use or what number of clusters is appropriate (Punj & Stewart, 1983). This scepticism could be further stimulated by the fact that the current data on the firms used for this thesis is cross sectional. In the present case, however, it will help to broadly establish groups of firms in Pakistan, which focus on certain strategic activities irrespective of their industry and see how these different groups of firms behave in performance.

For clustering, Hair et al. (1998) recommend the use of a two step approach to determine the appropriate number of clusters. The first step of the cluster analysis normally would be to partition the firms using hierarchical procedure to help identify the appropriate number of clusters and the initial seed points. This would entail the use of the factor scores that were determined while factor analysing the Strategic orientation construct earlier and reported in chapter 7. In order to determine the most rational number of clusters to be extracted in the second step, the agglomeration schedule produced in the first stage is observed and the percentage change in the agglomeration coefficients from one level to the next is calculated. The percentage change in coefficient to next level helps identifying relative large increases in the cluster homogeneity which offers insights into how many clusters should be drawn. The validation of the range of clusters is then determined through testing the significant differences of the clusters on the factors that determine the underlying strategic behaviours that are prevalent in the developing country like Pakistan. The second step of the analysis then would be to apply the non-hierarchical procedure to "fine-tune" the results further, by utilizing the results or the seed points from the hierarchical analysis.

However, since this hypothesis aims to test whether Miles and Snow (1978) proposition holds true in a developing market conditions, it is considered necessary to form the same number of clusters that have been shown to exist in every industry. This is also appropriate as in the exploratory factor analysis four clear factors had emerged which suggested that the structure underlying business behaviour could be defined by four factors that of Prospector Orientation, Defender Orientation, Analyser Orientation and finally Reactor Orientation. As four clusters were desired these four clusters were formed using K-mean cluster analysis. It is now desirable to check how these clusters correspond to Miles and Snow framework. Table 8.3 indicates how each of the four derived groups corresponds to factors reported earlier.

The results denote that:

A. Group A is composed both Prospectors and Defenders oriented companies though the orientation is more Prospector type.

B. Group B exhibit a mixture Reactor and Analyser type behaviours and these firms show the least characteristic of a Defender orientation.

C. Group C is again a mixture of firms which are Prospector and Defender types. However in this group the dominant strategic orientation is that of Defenders.

D. Group D is a mixture of firms that use features of various orientations with a little more emphasis on defender orientation.

Table 8.3

Clustering Variable Characteristics: Non hierarchical Cluster Analysis

Four cluster Solution: Mean of Strategic Orientation

	Reactor Orientation	*Defender Orientation*	*Prospector Orientation*	*Analyser Orientation*	*N*
A	4.85	5.69	6.28	4.11	12
B	4.36	2.70	3.00	4.64	11
C	2.13	6.13	5.19	3.79	21
D	3.67	4.91	3.79	3.39	38
F-test	44.62*** (0.000)	55.99*** (0.000)	42.86*** (0.000)	4.01*** (0.000)	

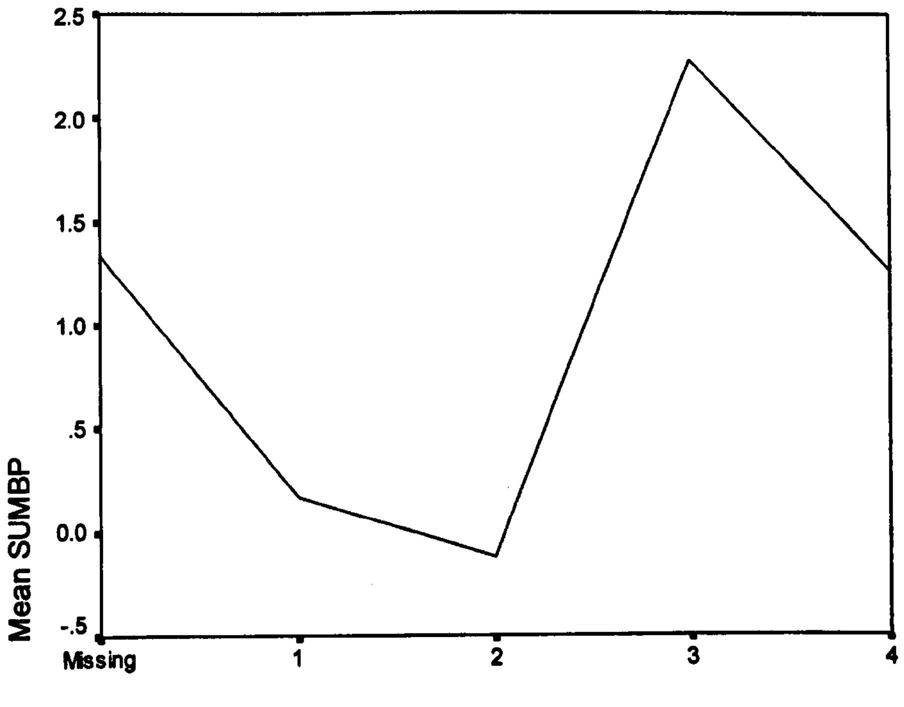
*** represents significant at 1% level

These clusters are now profiled against business performance and this result is presented in Figure 8.1 below. Carrying out ANOVA using Tukey's post hoc test is also performed using Business Performance as the dependent variable and the clusters as the independent to confirm that the means of the clusters are significantly different from each other. Tukey (HSD) post hoc test results show that the means across all clusters are significantly different with F statistic of 15.71 at .05 levels.

This graphic presentation also shows that the group that exhibits more features of Defender Orientation perform better in the business environment of Pakistan. It further suggests that the firms that exhibit equal measures of Reactor orientation and Analyser orientation do not perform well; rather these are the worst performers. This analysis further suggests that the various clusters show different combination of strategic behaviours. Therefore, in the case of Pakistan it can be assumed that firms specify their strategic choice or posture through a combination of competitive features emphasizing or de-emphasizing an aspect more or less from among a number of available competitive elements (Douglas & Rhee, 1989), which in turn show different performance results.

These findings are in line with the study undertaken by Desarbo et al. (2005) in which they come to a similar conclusion. They cross tabulated their four groups and the Miles and Snow typology and in their study found that groups of firms consists of different orientations. For example one group is composed of Prospector and Analyser firms. A second group is Defenders and Reactors, while a third is what they call a hybrid group, which is mixture of Analysers, Prospectors and Defenders and finally a group of Prospectors and Analysers.

Figure. 8.1 Clusters of Strategic Orientation and Performance



In other words, the findings of the thesis suggests that in the business environment of a developing economy, given a firm is strategically oriented, it may place more emphasis on one element of strategy then another or it may strategically consider de-emphasizing some element, and these may occur simultaneously as a strategic posture is being defined. For example, if there are only two strategic elements, four strategic orientation groups can be formed. The first group may consist of firms, which emphasize both elements in their strategic intent; the second group of firms may de-emphasize both elements while the third group may emphasize the first element and may de-emphasize the second element and finally the firms in the fourth group might just do the opposite and emphasize the second and de-emphasize the first element.

To further test the hypotheses that all strategic orientations produce similar performance results a multiple regression analysis is also conducted using the strategic orientation factors derived from the earlier analysis as the independent variables and the measures of the performance as the dependent variables. The results are presented in Table 8.4.

Analysis1: Strategic Orientation and Business Performance

First a brief word on the regression model. The multiple regression models used the constructs of SO as defined by the factors of strategic orientation namely, the Reactors; Defenders, Prospectors and Analyzers, as the set of independent variables and used performance measure like BP (Summated scale of all performance measures used) and BP1 (the self reported overall performance) as the dependent variables. The power of the overall fit of the regression model, measured by the average R^2 is 0.430. The R^2 suggests the strength of the relationship of the independent and the dependent variables in general. We, therefore, can suggest that approximately 43% of the variation in business performance can be explained on the average by the set of independent variables used.

Nevertheless, in this thesis the data is cross sectional and the thesis takes note of what Pindyck and Rubinfeld (1981) said with regard to R^2 in cross sectional studies. "In cross sectional studies on the other hand, a lower R^2 may occur even if the model is a satisfactory one, because of large variations across individual units of observations which is inherently present in the data". Given this it is suggested that in the context of the developing economy of Pakistan SO does have a significant influence on the performance of business firms.

Having said that it is also clear from a cursory look at the table 8.4 that this relationship is not necessarily positive and in some cases of strategic orientations it is also not statistically significant. For example, the Reactor and Prospector orientation both, have a negative impact on 'Ov*erall Business Performance' measures BP1 (Self Assessed)* and

BP (Summated Scale). The Reactor, the Defender and the Prospector orientations have high statistical significance at 5% significance levels in all three cases. The best overall statistically significant performance, in terms of positive impacts on both performance measures, is of the Defender orientation. Analyzers orientation on the other hand shows statistically insignificant influence on both performance measures used. This result should be viewed in the light of the results reported during the cluster analysis where it was also found that Defender oriented firms perform better.

Table 8.4:

Regression Analysis: Relationship between Strategic Orientations And Business Performance

Independent	BP1			BP		
Variables	Stand R. Coeff β	t-test	*p-value*	Stand R. Coeff β	*t-test*	*p-value*
REACTOR	*-0.387*	*-4.322*	*0.000**	*-0.479*	*-5.152*	*0.000**
DEFENDER	*0.615*	*5.898*	*0.000**	*0.471*	*4.356*	*0.000**
PROSPECTOR	*-0.264*	*-2.506*	*0.014**	*-0.227*	*-2.076*	*0.041*
ANALYSER	*0.100*	*1.124*	*0.265*	*0.093*	*1.013*	*0.314*
Goodness-of-fit						
R square	*0.451*			*0.410*		
Adjusted R^2	*0.422*			*0.379*		
F-test	*15.422*			*13.032*		
p-value	*0.000*			*0.000*		

Note: BP 1 Self reported overall business performance; BP summated scale
**Significance level 5% **Significance level 10%*

Given this information it is compelling to suggest that we fail to reject the first hypothesis and reject the second hypotheses stated above. We can, therefore, conclude that in the business environment of Pakistan there is evidence to suggest that firms will not always exhibit clear strategic orientations. And while strategic orientations will definitely influence business performance in the business environment of Pakistan this influence may not be positive or similar in terms of the business performance measures used.

In order to develop a better explanatory insight on the impact of strategic orientations on overall financial or marketing performance the thesis carried out another regression analysis. In this case the independent variables stayed the same but the thesis used a summated scale of market as well as the finance based performance measures as the two dependent variables mentioned in section 2.1 above. The result of this multiple regression analysis is reported in Table 8.5.

The overall fit of the regression model is strong and is also statistically significant. In other words 43% variation in marketing performance and 32% variation in financial performance of the firms can be explained by all the strategic orientations that the firms adopt in the business environment of Pakistan. In the case of individual orientations, the Reactor orientation consistently has a negative impact on both measures ranging from 40% in the case of marketing performance to 50% in the case of financial performance. It is therefore, obvious that an emphasis on Reactor orientated behaviour need be avoided by firms in Pakistan. An emphasis on the Defender orientation on the other hand has a positive and statistically significant impact on both performance measures, which was also the case when summated scales and self reported scale of business performance were used. This indicates that the business firms in Pakistan would be well advised to emphasise a Defender Orientation.

Table 8.5:

Regression Analysis of the Relationship between Strategic Orientation and summated scales of Marketing and Financial Performance

Independent Variables	BP_Marketing Stand R. Coeff β	*p-value*	BP_Finance Stand R. Coeff β	*p-value*
(Constant Unstandardized)	*0.375*	*0.596*	*1.476*	*0.132*
REACTOR	*-0.378*	*0.000**	*-0.496*	*0.000**
DEFENDER	*0.494*	*0.000**	*0.318*	*0.008**
PROSPECTOR	*-0.045*	*0.678*	*-0.220*	*0.065***
ANALYSER	*0.039*	*0.666*	*0.186*	*0.064***
Goodness-of-fit				
R square	*0.425*		*0.319*	
Adjusted R^2	*0.395*		*0.283*	
F-test	*13.881*		*8.779*	
p-value	*0.000*		*0.000*	

Note: BP_Marketing 3 items summated scale of marketing performance.
BP_Finance 2 item summated scale financial performance
** Significance level 5% ** Significance level 10%*

Prospector orientation on the one hand results in a statistically significant negative impact at 10% significance level on BP_F (financial performance) of the firm; and it has no statistically significant impact on BP_M (marketing performance). Thus it may also be prudent to avoid this behaviour. Finally Analyser orientation demonstrates a positive and significant impact at 10% confidence level on BP_F (financial performance) only but does not have any significant impact on overall marketing performance.

8.5 Market Orientation and Performance in a developing market context

The third and fourth hypotheses that the thesis has proposed are related to the Market Orientation and Performance. In the case of Market Oriented behaviour, there is a general consensus that at least in the context of the western developed world market orientation has an empirically tested direct and positive impact on business performance. The thesis hypotheses are:

H3: In the business environment of Pakistan Market Orientation has a direct and positive influence on organizational performance.

H4: In the business environment of Pakistan market-orientated behaviours of intelligence gathering, intelligence dissemination and responsiveness all have a direct and positive impact on organizational performance.

To test the third hypothesis the thesis uses the business performance summated scale (Overall business performance; market share; sales growth; customer satisfaction; profitability and ROI) and the summated scale of the three market orientation variables (intelligence gathering; intelligence dissemination and responsiveness) called BP and MO respectively. This method of summating the market orientation variables into a single composite score for MO has been used by Ngai and Ellis (1998). Further Vijande et al. (2005) also propose the unidimensionality[52] of the MO construct based on the Kohli and Jaworski (1990) scale and confirm using a confirmatory factor analysis approach (ibid, p.30). However, it is recognized that various researchers have used this construct in two distinct manners. Some have promoted it as a unidimensional construct while other have portrayed it as being multidimensional.

For example Pearson (1993, p. 242) states that "*orientation is ----- a question of degree— the degree to which one functional (or object) orientation dominates the way decisions get taken and the way people do their jobs*". In this sense, market orientation represents a way

[52] For example a study of MO in hospitals by Bhuian and Abdul-Qader (1997) reported unidimensionality of the construct using confirmatory factor analysis

of thinking and acting. This perspective presents the cultural (Narver and Slater, 1990; Hooley et al., 1990), philosophical or attitudinal and hence assumes to be unidimensional in its underlying framework.

But marketing has also provided a different approach to conceptualization of market orientation, which is a behavioural construct (Kohli & Jaworski, 1990) and can be understood as a set of activities and behaviours directed to achieve certain objectives related to clients and in this form market orientation is considered multidimensional. Thus, at this stage the two approaches of assuming MO to be unidimensional or multidimensional are simultaneously in use (Bhuian, 1998; Diamantopoulos & Hart, 1993)[53]. This thesis, without taking sides on the issue, has also used the two frameworks to study the impact on performance. In the first case it uses MO as a unidimensional construct to test the hypothesis that MO has a positive relationship with performance while in the second case it treats MO as multidimensional based on firm specific activities to see if the impacts of these various activities are the same or different on performance in a developing market context. This approach has merit as it is important to understand both approaches in order to appreciate adequately the contribution of market orientation to entrepreneurial efficiency (Jaworski & Kohli, 1996; Slater & Narver, 1996). It has also been suggested earlier in chapter 5 that the major reason behind this approach is that in the developing market economies an easier method to develop cultures is to start with activities and let these activities then become the way of thinking and acting thus transforming into the culture of the firm.

Following this reasoning in the first analysis a simple regression analysis is undertaken to test the hypothesis that there is a direct and positive association between MO and Performance. The result of the analysis are presented in Table 8.6

Analysis 1: Market Orientation and Performance

From the Table 8.6 we are clearer about the impact or influence of MO on the two performance measures as defined by self reported overall business performance (BP1) and the summated scale (BP). The overall fit of regression model between MO and BP (summated scale) is adequate as indicated by the R^2 of 0.209. At first this may seem to be

[53] An in depth discussion on MO has been reported in chapter 5 and 6. References here are only illustrative

on the lower side, but we have already mentioned that low R^2 may result from cross sectional data and not because of a poor fit itself. The Table also shows the standardized regression coefficient Beta* of .457 (BP Summated) and 0.499 (BP_1 Self Reported), which are also highly statistically significant (p=0.000 at 5% significance level). It would, therefore, be justified to say that we fail to reject our third hypothesis and prima facie accept that MO has a positive influence on business performance in the business context of Pakistan. This is verified by the standardized Beta* coefficients reported above.

Table 8.6

Market Orientation and Performance

Independent Variables	BP1 Stand R. Coeff β	t- test	*p-value*	BP Stand R. Coeff β	t- test	*p-value*
(Constant Unstandardized)		*-3.139*			*-2.859*	
MO (Summated)	*0.499*	*5.146*	*0.000**	*0.457*	*4.592*	*0.000**
Goodness-of-fit						
R square	*0.249*			*0.209*		
Adjusted R^2	*0.239*			*0.199*		
F-test	*26.479*			*21.082*		
p-value	*0.000**			*0.000**		

* Significance level 5%; **Significance level 10%

This leads us to the fourth hypothesis. This hypothesis seeks to explain in the market environment of Pakistan, the impact of the different activities that constitute the construct of MO such as Intelligence gathering, Intelligence dissemination and Responsiveness on the two performance measures used. The result of the multiple regression analysis is reported in Table 8.7.

Before the thesis analyses the data on the influence of MO on performance, it is appropriate to report the diagnostics on collinearity of the independent variables. Even though the measures used for MO are based on the measures developed by Kohli and Jaworski (1990) that have been empirically tested and validated extensively this test might not be considered necessary. However, in view of the thesis, since these are now being applied in a developing environment context of Pakistan, the multicollinearity of the three variables that is to say Intelligence Gathering, Intelligence Dissemination and

Responsiveness need to be considered as this may have significance while interpreting the results of the regression analysis. The use of several variables as predictors make the assessment of multiple correlations between the independent variables, to identify multicollinearity, important (Hair et al., 1998) as its presence complicates the interpretation of the variate and it is more difficult to ascertain the effect of any single variable owing to their interrelationships. For this purpose, the thesis reports the 'Tolerance' values and the 'Variance Inflation Factor' (VIF) in Table 8.7.

Table 8.7

Analysis 4: Market Orientation Activities and Performance

Independent	BP1			BP				
	Stand R. Coeff			Stand R. Coeff				
Variables	β	t- test	*p-value*	β	t- test	*p-value*	*Tolerance*	*VIF*
(Constant Unstandardized)		*-0.293*			*-0.347*			
Information Gathering	*0.487*	*3.978*	*0.000**	*0.565*	*4.519*	*0.000**	*0.552*	*1.810*
Information Dissemination	*0.265*	*2.271*	*0.026**	*0.129*	*1.087*	*0.280*	*0.609*	*1.641*
Responsiveness	*-0.225*	*-2.100*	*0.039**	*-0.211*	*-1.927*	*0.058***	*0.720*	*1.389*
Goodness-of-fit								
R square	*0.353*			*0.326*				
Adjusted R^2	*0.328*			*0.300*				
F-test	*14.206*			*12.551*				
p-value	*0.000**			*0.000**				

Note: ** Significance level 5% ** Significance level 10%*

Tolerance value and VIF (variance inflation factor) in Table 8.7 suggest no significant multicollinearity among variables as higher 'Tolerance' values approaching one suggests zero collinearity. Similarly no VIF exceeds 10.0 thus both these results show that any collinearity does not explain more then 10 percent of any variables variance and therefore it is not a concern in this analysis. The rest of the Analysis of the results reported in Table 8.7 is given in Analysis 2.

Analysis 2: Market Orientation and Performance

The overall model fit statistics as indicated by the average R^2 is 0.34, which seems to be adequate given the lesser number of independent variables in this model and the use of cross sectional data. Therefore, this regression model would suggest that in the environment of a developing country, the various activities of MO have a significant influence on the firm's business performance.

1. Overall Business performance BP1. The data shows that the model has a good fit and the relationship between the independent MO variables is strong at adjusted R^2 of 0.353. The F statistic is 14.206 (p=0.000, at 5% significance level). In case of the relative magnitude of the impacts of the independent variables of IGS, IDS and RPS; on the overall business performance, the most significant positive impact is of Intelligence Generation (Beta*= .487 & p=.000) followed by Intelligence Dissemination (Beta*= 0.265 & p= 0.026) and lastly Responsiveness, which is negative (Beta*= -0.225 & p= .039).

In this case of negative impact of Responsiveness on performance, it can be suggested that responsiveness could be either in the shape of hasty actions or just responding as a form of reaction, with out the necessary involvement of analysis and planning resulting in the negative impact. It might not be out of context, if the thesis refers to the issue of Reactor orientation noted above with its own negative impact on performance. It was suggested that Reactor orientation is indicative of responding to the market without due consideration and only when forced to do so by environmental pressures, which also seems to be confirmed by the kind of responsiveness that the thesis refers to in earlier chapters.

2. Summated scale of the Business Performance (BP). The strength of the relationships in the overall model is good and all the results are more or less the same in terms of directionality to the ones reported above except for the magnitude. The goodness of the fit given by adjusted R^2 is 0.300, the F statistic is 12.551 (p= 0.000 at 5% significance level). On the individual impacts IGS still by far has the largest impact on business performance indicated by the Beta*= 0.565 & p= 0.000. On the other hand in this specific model, IDS has no statistically significant impact on performance Beta*=0.129 &

p= 0. 280. Where as RPS has a negative impact shown by Beta*=-.211 & p= .058, which is statistically significant at 10% significance level.

The interpretation of this data is similar to the one for the self reported overall business performance model except for the differences in the standardized Betas*. The minor differences may result from the perceptual variables used by managers in reporting their overall perception of business performance as self assessed by them in the first case, which may be slightly different from the variables used to calculate the average of the performance measures in this model.

In conclusion of this part of analysis it is first of all important to note that the overall impact of Market Orientation on firm's performance is significant when considered without the involvement of any other variable in the equation and is in line with the findings proposed in the literature. However, it is further to be noted that in this present case the direction of the impacts of the individual variables is either negative or insignificant other than IGS, which has shown to be the most critical activity within the MO framework so far as the developing country context is concerned. On the other hand, Responsiveness as a variable on its own has also repeatedly shown to have a negative impact on performance. As an explanation it can be hypothesized that the development of managerial concepts are still in there nascent stage. Informal gathering of information is mostly done by the owner managers or the Chief executive officers as suggested by a number of responses in the exploratory interviews. And it is this information, which is sometimes not shared with other managers as indicated by the insignificance of information dissemination or information sharing, in one case, on which strategy is formulated. However, where the action is well considered by the single person in the firm, who is generally the CEO, it can result in success but where the strategic response is only reactive in nature it results in the negative impacts.

Analysis 3: Level of Market Orientation in Firms and their Performance

Hypothesis 5 suggested that all business firms in Pakistan exhibit the same level of market orientation with the same focus on all the three activities such as intelligence gathering, intelligence dissemination and responsiveness. This necessitated a cluster analysis to determine and classify whether all firms showed the same level of market oriented behaviour or if they differed in their focus on the various activities which constitute market orientation. In other words, the aim is to develop empirical groupings of companies based on their market oriented behaviours. The clustering of Marketing Orientation is also required because Factor Analysis (FA) of the constructs of Market Orientation (Intelligence Gathering, Intelligence Dissemination, and Responsiveness), can only confirm the underlying factor structure of market orientation within the sample. FA cannot provide any information on whether all the organizations in the sample adopted similar Market Orientation activities or whether they differed in the forms of market orientation that was adopted. In order to analyse any possible divergent patterns of Market Orientation activities in the business organizations of Pakistan, a cluster analysis is therefore, undertaken. This, it is hoped will help to broadly establish groups of firms in Pakistan, which focus on certain market oriented activities irrespective of their industry and then observe the relative impacts of these activities on performance.

This procedure will further facilitate in explaining, first the use of patterns of market orientation behaviours pointing to a similarity or dissimilarity in approaches to marketing activities. With an understanding of the relative impact on performance of the constituent variables of MO, it will help explain the differences and similarities in the performance. Second, this would support the underlying objective of the thesis which is to understand organizational behaviour in the context of Pakistan. Since this thesis is both exploratory as well as descriptive it will benefit from a combined use of this cluster analysis using factors reported in chapter 7, which provided us with the underlying factor structure of marketing activities in the context of a developing country like Pakistan, as well as the regression analysis reported in the above section. It is expected that a better understanding of business activities with significant practical implications would be advanced especially in guiding managerial practice.

The clustering procedure is based on the Market Orientation activity of the sample that is encapsulated in the three sub-constructs of MO. Generally speaking the cluster analysis uses the averaged scale of the three Market Orientation constructs (or dimensions). The analysis process is based on Hair et al. (1998) suggested clustering procedures. The first step, as indicated earlier in clustering procedure for Strategic Orientation, is to identify the possible number of clusters through hierarchical analysis. The validation of the range of clusters is determined through testing the significant differences of the clusters on the three Market Orientation constructs. The second step of the analysis is to fine tune the sample clustering by non-hierarchical analysis based on the statistics derived in hierarchical analysis. The following section details the steps taken to derive the cluster of companies that behaved along the underlying Market Orientation activities.

Step 1: Identifying possible number of cluster through hierarchical analysis

First, the hierarchical cluster analysis is performed to identify the appropriate number of clusters in the sample. The agglomeration coefficient statistics from ten to one cluster, and their respective percentage change when the number of clusters is reduced by one unit, are documented in Table 8.8. As a rule of thumb the base criteria to determine the number of clusters is to use the largest percentage change of agglomeration coefficient to its next level.

From the Table 8.8, the largest percentage change in agglomeration coefficient is from two clusters solution to one cluster solution (89.24%), followed by 64.77% where the number of cluster is being reduced from three to two clusters. Hence, the possible number of cluster would therefore be either two clusters or three clusters. This also suggests that there are possibly two (or three) types of groups of companies, with each group showing different market orientation behaviour.

In order to gauge the possible extent of differences amongst these different groups of companies, their respective mean scores in Intelligence Gathering, Intelligence Dissemination, and Responsiveness need to be examined, including the statistical significance of mean difference between different clusters. The mean score of Intelligence Gathering, Intelligence Dissemination, and Responsiveness for the two clusters and three clusters solutions are summarised in Table 8.10.

Table 8.8

Analysis of Agglomeration Coefficient for Hierarchical Cluster Analysis

No. Cluster	Agglomeration Coefficient	% Change in Coefficient to Next Level
10	51.8495	0.1049
9	57.2880	0.1433
8	65.4987	0.1542
7	75.5954	0.1349
6	85.7950	0.1999
5	102.9455	0.2012
4	123.6608	0.3755
3	170.0901	0.6477
2	280.2542	0.8924
1	530.3470	

The F-test indicates whether the mean score difference of the three marketing activities is significant. P-value that is less than 0.05 at significance level of 5% would suggest that the mean difference is statistically significant. From panel A of Table 8.9, it appears that the samples in the two different clusters or grouping did behave differently in terms of their market orientation. The same applies for the three cluster solutions (see panel B, Table 8.10). It also seems from the two panels of Table 8.9 that cluster 1 of panel A seems to decompose in panel B into cluster one and three, where as cluster 2 remains unchanged in both cluster solutions. In order to fine-tune the clustering results, the non-hierarchical technique is then performed using the seed points obtained from the hierarchical analysis. The non-hierarchical clustering results were quite similar in terms of number of samples falling into each cluster. Table 8.10 documents the comparisons and distributions of samples in the cluster. The mean score of Intelligence Gathering, Intelligence Dissemination, and Responsiveness for the two clusters and three clusters non-hierarchical solutions are also summarised in Table 8.10. Again, the F-test of mean difference suggested that both of the two and three clusters performed differently in their marketing activity and strategy.

Table 8.9

Clustering Variable Profiles for Initial Solution from Hierarchical Cluster Analysis

Panel A: 2 Cluster Solution				
Cluster	IG	ID	RP	N
1	4.7714	5.6048	5.3643	70
2	2.4286	1.7381	4.3661	14
F-test	44.6717	142.8826	15.2276	
p-value	0.0000	0.0000	0.0000	
Panel B: 3 Cluster Solution				
Cluster	IG	ID	RP	N
1	4.0965	4.7807	4.9276	38
2	2.4286	1.7381	4.3661	14
3	5.5729	6.5833	5.8828	32
F-test	51.7950	214.1839	23.8007	
p-value	0.0000	0.0000	0.0000	

Step 2: Fine tuning of clusters through non-hierarchical analysis

Keeping the above in mind, the thesis opted for a three cluster solution as it would give an opportunity to try and understand the differentiating market oriented behaviour of three group of companies rather then have some of the activities masked by consolidating the firms in two group. As already stated, this also being an exploratory study it is deemed better to try and view groupings, which are not so wide that they loose all meanings or too narrow to obscure relatively important information. Therefore applying the logic underlying cluster analysis, which is to try and find groups that are both internally homogenous and externally isolated, the thesis will be using the 3 cluster solution to analyze market oriented activities.

Table 8.10

Clustering Variable Profiles for Initial Solution from Non-Hierarchical Cluster Analysis

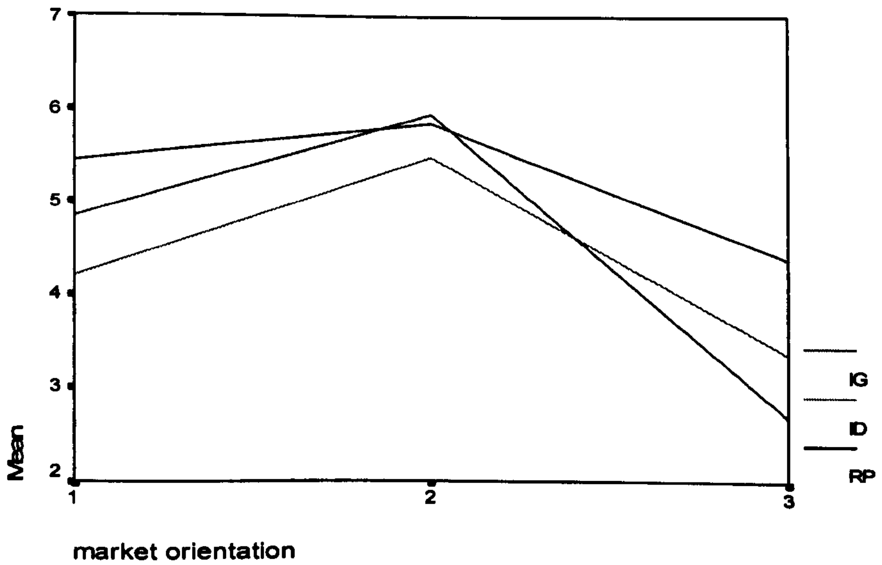
Panel A: 2 Cluster Solution				
Cluster	IG	ID	RP	N
1	4.7696	5.6814	5.3952	68
2	2.7292	1.8958	4.3594	16
F-test	34.6379	171.1614	18.8902	
p-value	0.0000	0.0000	0.0000	

Panel B: 3 Cluster Solution				
Cluster	IG	ID	RP	N
1	4.0855	4.7436	4.9103	39
2	2.3333	1.6154	4.3750	13
3	5.5729	6.5833	5.8828	32
F-test	53.5306	218.3303	23.2107	
p-value	0.0000	0.0000	0.0000	

In order to visualise the market orientation activities of the three clusters of companies the thesis set the mean scores of the three market oriented activities against the cluster groupings and exhibit them in Figure 8.2. From the figure, it can be suggested that there are actually three different groups of companies pursuing different combinations of Intelligence Gathering, Intelligence Dissemination, and Responsiveness.

At this point, it can be concluded that the sample data suggests that there are actually three levels of market oriented activities currently being undertaken. Companies in cluster group 2 (Figure 8.2) are performing a higher level of market oriented activities than the other two clusters i.e. Clusters 1 and 3. The companies in cluster two are also more balanced in their emphasis on the three activities of Intelligence Gathering, Intelligence Dissemination and Responsiveness with a slightly higher focus on Intelligence Gathering followed by Responsiveness and then Intelligence Dissemination activity and therefore, could be called the "Balanced" group.

Figure 8.2: Three Clusters solution Versus Market Orientation



On the other hand, companies in Cluster 1 seemed to also involve themselves in a higher level of market oriented activities but these are not as well balanced as in the case of companies in Cluster 2. The companies in Cluster 1 seem to emphasise Responsiveness slightly more then Intelligence Gathering, which seemed to be second on their priority list of market oriented activities. It will not be too far off the mark to assume that they demonstrate the behaviour of managers who quickly respond on the slightest form of information received and can therefore be called as "Responders". Finally, the third group of companies demonstrated the lowest level of market oriented activities. And once again their emphasis is in responsiveness but lower than those exhibited by "Responders". However, they seem to have a very low level interest in the Intelligence Gathering activity making it the least preferred activity out of the three activities of MO. This group of companies seem to be generally uninterested in intelligence gathering or dissemination. The thesis labels this group as "Disinterested".

In light of the above discussion, the thesis has sufficient grounds to reject the hypothesis that all firms in the business environment of Pakistan use a balanced approach in emphasising the three activities of market orientation namely Intelligence Gathering, Intelligence Dissemination and Responsiveness.

8.6 Marketing Capabilities and Performance

The next hypothesis is related to marketing capabilities and their impact on business performance. It is understood that it is through capabilities that firms implement their actions in the market. Based on RBV it is also empirically established that capabilities directly influence performance. Some of the capabilities, which are critical are considered to be strategic and are more important for firms to acquire then others with their demonstrable positive influence on the firms performance in a given business environment. One of the aims of the thesis is to also determine if the marketing capabilities that are considered important in terms of their influence on the firm's behaviour in the developed market context will similarly be important in a developing market environment such as Pakistan. The hypothesis is:

H 6: In the business environment of Pakistan marketing capabilities such as Market Research, Pricing, Product Development, Channel Management, Promotion and Marketing Management, all have a direct and positive impact on organizational performance.

For this hypothesis also, it is deemed necessary to undertake a multiple regression analysis. The results of the regression analysis are reported in Table 8.12. Before the thesis starts the analysis of the regression tables, it would be better to report on the collinearity statistics in Table 8.11. The idea once again is to assess if there is any independent variable that might have a strong correlation with the other independent variables, which might significantly affect the interpretation of the regression results. Again the Tolerance value and VIF (variance inflation factor) given in Table 8.11 suggest even though there is some collinearity with tolerance values ranging between 0.270 and 0.476 the problem is not extensive.

Table 8.11

	Co-linearity Statistics Tolerance	VIF
(Constant)		
Market Research	.324	3.085
Pricing	.421	2.376
Product Development	.472	2.120
Channel Management	.311	3.220
Promotion Management	.476	2.099
Marketing Management	.270	3.699

Analysis 1: Marketing Capabilities and Performance

Multiple regression analysis is used to test the hypothesis that marketing capabilities such as marketing research, pricing, product development, channel management, promotion management and marketing management positively influence the business performance in a developing market context such as Pakistan. The model is estimated twice – initially a dummy variable is included to check for the presence of sector effects but it is found to be insignificant and accordingly the only results reported are those of the model without a dummy variable. Table 8.12 reports the result for this set of multiple regressions.

The average R^2 of the overall model is 0.366. Based on the earlier presented arguments it is suggested that even in this case, marketing capabilities strongly influence performance of the companies in the business environment of Pakistan. It is also clear that the influence of these capabilities is not always positive and in some cases not even statistically significant. Next, it is important to identify the most statistically significant of these capabilities, which influence the performance positively or negatively.

In both the cases the strength of the fit of the models and their statistical significance is sufficient to suggest that variances in the overall business performance (38%) and summated business performance (38%), can be explained by the marketing capabilities that the firms possess.

The reported statistics for each of these models are:

- overall business performance BP1 (Adjusted R^2=0.384; F=7.761 at p=0.000);
- summated business performance BP (Adjusted R^2=0.381; F=7.676 at p=0.000);

Further evaluation reveals that for the individual independent variables of marketing capabilities the Marketing Management capability is the most statistically significant in influencing the business performance in the business environment of Pakistan. It has a positive and significant influence at significance level of 5% on Summated business performance BP (Beta*= 0.560 and p value= 0.004). On overall business performance BP1 it has a positive influence but at significance level of 10% (Beta*= 0.327 and p value= 0.086).

Table 8.12

Regression Analysis of the Relationship between Market Capabilities and Business Performance

Independent	BP1			BP		
Variables	Stand R. Coeff	t-test	*p-value*	Stand R. Coeff	t-test	*p-value*
(Constant Unstandardized)		*-3.046*			*-2.186*	
MARKET RESEARCH	*0.206*	*1.204*	*0.233*	*0.179*	*1.043*	*0.301*
PRICING	*-0.008*	*-0.054*	*0.957*	*-0.153*	*-1.017*	*0.313*
PRODUCT DEVELOPMENT	*-0.341*	*-2.404*	*0.019**	*-0.450*	*-3.170*	*0.002**
CHANNEL MANAGEMENTS	*0.337*	*1.932*	*0.058***	*0.260*	*1.487*	*0.142*
PROMOTION MANAGEMENT	*0.095*	*0.675*	*0.502*	*0.038*	*0.270*	*0.788*
MARKETING MANAGEMENT	*0.327*	*1.745*	*0.086***	*0.560*	*2.987*	*0.004**
Goodness-of-fit						
R square	*0.441*			*0.438*		
Adjusted R^2	*0.384*			*0.381*		
F-test	*7.761*			*7.676*		
p-value	*0.000*			*0.000*		

Note: BP1 self reported overall performance; BP summated scale
** Significance level 5% ** Significance level 10%*

The most statistically significant capability with a negative impact on performance is the capability of product development. In both cases BP1 (Self Reported) and BP (Summated Scale), Product Development shows a negative impact of Beta* = -0.341 and Beta* = -0.450, respectively. Capabilities such as Marketing Research, Pricing and Promotion Management do not have any statistically significant influence on either of the two performance measures. Finally, Channel Management (CMS) has a positive impact on overall business performance BP1 with standardized Beta*= 0.337, p= 0.058, which is significant at 10% significance level, while the impact on summated performance scale (BP) Beta*=0.260 is not significant. Thus, in the end only two capabilities are highly significant in the business environment of Pakistan.

Having completed one major aim of the thesis that is to say to replicate studies in the developing market economy, the thesis now comes to its second aim and that is to integrate all these factors, as specified in the Integrated Conceptual Model, which is reproduced in Figure 8.3 for convenience and test the model using multiple regression analysis. Before reporting the results a few words are necessary on the underlying reasons to undertake a test of this model.

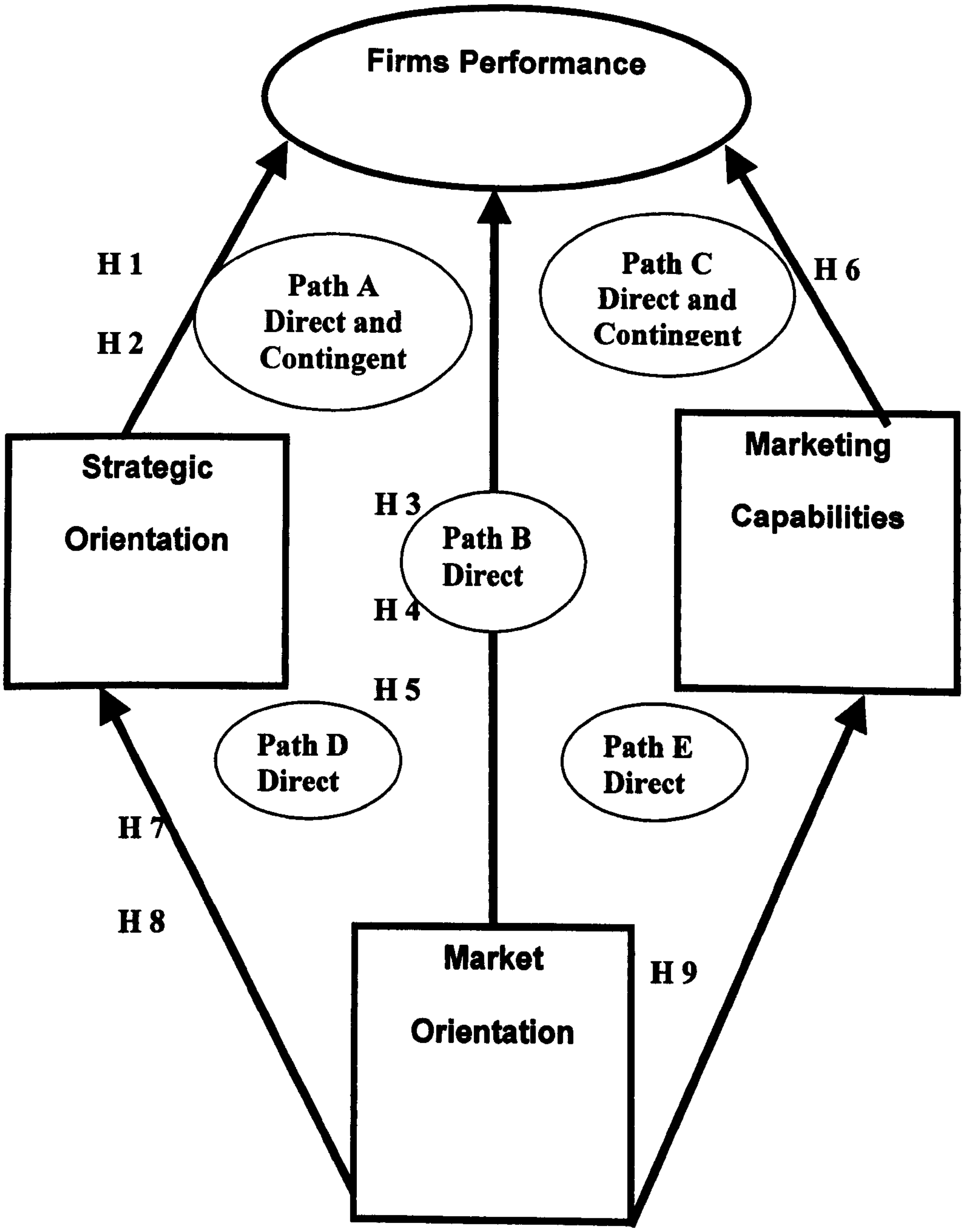
8.7 An Examination of the Integrative Model

The aim of the thesis is to understand business performance in the context of developing markets. In other words it aims to analyse the relationship between business performance and some predictor variables sourced to the extant literature in marketing and strategic management. In this simple form business performance is deemed to be the dependent variable and several variables that include factors of strategic orientation, factors of marketing orientation and factors of marketing capabilities as the independent (predictor) variables.

As a start, the thesis proposes a set of relationships in the context of a developing economy that best describes the possible impact of the independent variables on the dependent variable, which in the present case is business performance in the developing market economies.

This set of proposed relationships, both direct and contingent, between the independent variables and dependent variables are presented in the chapter 6 of this thesis in the form of an Integrative Conceptual Model and is reproduced here for convenience in Figure 8.3. This model conceptualises the various independent variables sourced extensively to literature and reported in Chapter 4, 5 and 6 as well as to the exploratory interviews conducted in the business environment of Pakistan and reported in Chapter 6.

Figure 8.3 Integrative Conceptual Model of Firm Performance



8.7.1 Integrative Model

In the integrative model the relationships, direct as well as contingent, have been conceptualized showing Paths A, B, C, D and E. These relationships as implied by the paths are reflected in the multiple hypotheses that have been proposed. These hypotheses, therefore, intuitively suggest that a presence or otherwise of the proposed relationship(s) along the path could be tested as an approach to support or otherwise disprove the presence of any relationship that is hypothesized. In other words these multiple hypotheses would require multiple tests to verify the proposition of relationships implied in the model and conceptualised through the hypotheses.

The integrative model that is proposed could be specified in an equation form of the nature of

1. Business Performance = bo+ b1 (Market Orientation) +b2 (Strategic Orientation) +b3 (Marketing Capabilities)+e

OR

Business Performance = bo + b1 (Intelligence Gathering) + b2 (Intelligence Dissemination) + b3 (Responsiveness) + b4 (Reactor Orientation) + b5 (Prospector Orientation) + b6 (Reactor Orientation) + b7 (Analyser Orientation) + b8 (Marketing Management) + b9 (Marketing Management) + b10 (Product Development) + b11 (Pricing) + b12 (Promotion Management) + b13 (Channel Management) + b14 (Marketing Research)+e

Where, in the second equation the equation includes as the first three variables, the market oriented activities, the next four the strategic behaviour activities and the final six, the various capabilities that the firms hold. In this second conceptual framework the assumption underlying is that a firm undertakes a number of steps and involves in a number of activities that can be referenced to activities of the strategic or functional nature. And there is no clear set of activities that can be solely assigned to any one category while ignoring the rest of the associations with other areas of a firm behaviour. For example pricing is a functional activity and setting a proper price a capability which has an impact on strategy. And this price that finally results, comes about on the basis of information that is gathered from the business environment both about competitors as well as customers.

Nevertheless, the model tries to capture this relationship and to test the strength of these relationships in a single process. For this purpose using SEM on LISREL, would have been the preferable methodology, however the number of observations are not sufficient to run the analysis. Alternatively, this thesis used the multiple regression analysis to test the impact of predetermined independent variables on the dependent variables. Because of the possibility of multi-collinearity, a sequential search is considered a better approach of estimating the regression equation by considering a set of initially identified variables and then selectively adding or deleting among these variables until some over all criterion measure is achieved. This approach provides an objective method for selecting variables that maximises the prediction while employing the smallest number of variables. For this purpose a stepwise procedure to select variables is adopted.

A combinatorial approach is also available to search for a regression model. This is a generalized search process across all possible combination of independent variables to identify the best fit model. This approach is not used because of a number of criticisms both theoretical and practical against its use (Hair et al., 2006). Alternatively the thesis, as mentioned earlier uses the Stepwise Estimation process. This technique, as reported above is generally used to find the best regression model that will explain the dependent variable using a 'considered approach' to adding an independent variable in the model. The independent variables are added on a sequential basis. The variable with the greatest contribution is added first and subsequently variables are added that provide incremental contribution to the model

The regression is run on SPSS version 11, with the dependent variable being the Summated Scale of performance measures (SUMBP), which had variables measuring both financial as well as marketing performance measures. These performance measures included Market Share, Customer Satisfaction, Share Growth, Profitability and Return on Investment. The independent sets of variables are defined as explained earlier (see the second proposed equation above).

In order to choose the first variable for inclusion in the model, a correlation matrix is drawn (Table 8.13) using the dependent and the independent variables that are part of the conceptual model. The highest correlation is reported for Marketing Management (0.547, at .05 significance level). Using the Stepwise Estimation procedure Marketing Management is entered first. Overall Fit of the first model is given by R^2 (the coefficient of determination) 0.300 with F ratio of 26.514 at .05 significance level. The regression coefficient (B) and the Standardized Coefficient Beta (β) are 0.546 and 0.548 respectively. These reflect the change in the dependent measure for each unit of independent measure.

The second variable to be included in the regression model, in the second step, is to be chosen from among the variables not entered in the model and to be based on the evaluation of the matrix. The Reactor Orientation variable with the highest partial correlation of -0.247 and significance level of 0.052, which also shows a (β) of -0.227 is therefore, chosen. The level criterion for entry is set at .05 and 0.052 is marginally higher. However, as this is largely an exploration of a proposed model the variable is entered in the model at step two. The overall fit statistics do not show any major improvement in the overall model fit as the R and R^2 are marginally better at 0.585 and 0.345 respectively. However, the F value deteriorates.

The final resultant model and various statistics are presented in Table 8.14a to 8.14c. The specific model denotes that in the business environment of Pakistan business performance is a function of Marketing Management, Product Development, Reactor Orientation and finally Defender Orientation

At this point no other variable shows any statistical significance on the basis of the entry level set for this analysis, which is 0.05. The overall regression model with four independent variables explains approximately 50% of the variance of the business performance. The adjusted R^2 of 0.45 indicates no over fitting and the results should be generalizable from the perspective of the ratio of observations to the variables in the equation (20:1 for the final model). The estimated coefficients show that the constant along with Reactor Orientation is not significant. Marketing Management is marginal at 0.1 significance level. However, Defender Orientation is highly significant with regression coefficient 0.719 while Product Development is also significant with a B of -0.525.

On the other hand the collinearity statistics imply the presence of multicollinearity, especially in the case of Defender Orientation and Product Development as the Tolerance values for both are low but not very significant and therefore, in a general form the predictive equation as implied by the model can be stated as

Business Performance= -0.336+ (0.240) Marketing Management + (-0.150) Reactor + (0.719) Defender + (-0.525) Product Development + error term

Table 8.13 Correlation Matrix

	SUMBP	REACTOR	DEFENDER	PROSPECTOR	ANALYZER	IG	ID	RP
Dependent Variable								
SUMBP								
Independent Variable								
REACTOR	**-0.488****	1						
DEFENDER	**0.420****	-0.119*	1					
PROSPECTOR	0.206*	-0.212*	**0.543****	1				
ANALYSER	-0.045	**0.224****	-0.014	0.100	1			
Information Gathering	**0.480****	**-0.375****	**0.357****	-0.095	0.088	1		
Information Dissemination.	**0.377****	**-0.339****	0.263*	-0.208*	0.127	**0.634****	1	
Responsiveness	0.112	-0.17	**0.450****	0.061*	-0.109	**0.521****	**0.434****	1
Market Research	**0.390****	**-0.295****	**0.615****	**0.422****	-0.071	**0.345****	0.034	**0.283****
Pricing	**0.352****	-0.136	**0.418****	-0.216*	0.205*	**0.388****	**0.571****	**0.269****
Product Development	0.103	-0.006	**0.699****	**0.534****	0.163	0.199*	0.114	**0.486****
Channel Management	**0.485****	-0.174	**0.615****	0.075	0.089	**0.462****	**0.551****	**0.453****
Promotion Management	**0.317****	-0.112	**0.627****	0.215*	0.047	**0.368****	**0.309****	**0.231****
Marketing Management	**0.547****	**-0.394****	**0.650****	0.108	-0.188*	**0.642****	**0.503****	**0.663****

	MR	PR	PD	CM	PM	MM
Market Research	1					
Pricing	0.219*	1				
Product Development	**0.564****	0.226*	1			
Channel Management	**0.457****	**0.589****	**0.508****	1		
Promotion Management	**0.570****	**0.490****	**0.488****	**0.632****	1	
Marketing Management	**0.593****	**0.652****	**0.461****	**0.762****	**0.591****	1

Note: * **Significance Level 0.1**
** **Bold items Significance Level 0.05**

Table 8.14a

Overall Model Fit

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate	F	Sig.
1	0.548	0.300	0.289	1.145	26.574	0.000
2	0.585	0.343	0.321	1.119	15.889	0.000
3	0.630	0.396	0.366	1.081	13.130	0.000
4	0.702	0.492	0.458	0.999	14.300	0.000

a. Predictors: (Constant), Marketing Management;
b. Predictors: (Constant), Marketing Management, Reactor
c. Predictors: (Constant), Marketing Management, Reactor, Defender
d. Predictors: (Constant), Marketing Management, Reactor, Defender, Product Development
e. Dependent Variable: SUMBP

Table 8.14b

Variables Entered into the Regression Model

Variable Entered	Regression Coefficients			Statistical Significance		Correlations			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Zero-order	Partial	Part	Toler-ance	VIF
(Constant)	-0.336	0.846		-0.398	0.692					
Marketing Mgt.	0.240	0.144	0.241	1.664	0.101	0.548	0.212	0.154	0.410	2.439
Reactor	-0.150	0.146	-0.116	-1.026	0.309	-0.416	-0.132	-0.095	0.676	1.480
Defender	0.719	0.177	0.711	4.063	0.000	0.528	0.468	0.377	0.281	3.555
Product Dev.	-0.525	0.157	-0.507	-3.339	0.001	0.125	-0.399	-0.310	0.373	2.682

Dependent Variable: SUMBP

Table 8.14c

Variable Not Entered into the Regression Model Number 4

	Statistical Significance				Collinearity Statistics	
	Beta In	t	Sig.	Partial Correlation	VIF	Tolerance
Intelligence Gathering	0.163	1.182	0.242	0.153	2.220	0.263
Intelligence Dissemination	0.162	1.307	0.196	0.169	1.807	0.271
Responsiveness	0.074	0.416	0.679	0.055	3.603	0.195
Market Research	-0.133	-0.828	0.411	-0.108	2.976	0.220
Pricing	-0.060	-0.443	0.659	-0.058	2.114	0.241
Channel Management	0.204	1.277	0.207	0.165	2.993	0.233
Promotion Management	-0.096	-0.746	0.459	-0.097	1.923	0.232
Prospector	0.103	0.795	0.430	0.104	1.938	0.228
Analyser	0.133	1.256	0.214	0.163	1.316	0.266

a .Predictors in the Model: Marketing Management, Reactor, Defender, Product Development

b. Dependent Variable: SUMBP

The above results brings to completion the second objective and that is to test for relationships between the dependent variable business performance and all the independent variables that were sourced to three distinct streams of research, which each in itself had the potential to explain firm performance. The thesis now reports the results of the canonical analysis that is proposed earlier to satisfy the third objective of the thesis and that is to determine whether MO can be considered to be driving the strategic orientation of the firm as well as the development of necessary capabilities.

8.8 Market Orientation as a significant influence on Strategic Orientation and Marketing Capabilities

Analysis 1: Market Orientation as a significant influence on Strategic Orientation

The model that the thesis proposes in the earlier chapters is based on the supposition that Market Orientation (MO) will influence the strategic choice the firm will make and drive the acquisition of significant capabilities in its quest for competing effectively. The thesis, therefore, proposes that

H 7: MO as defined by intelligence generation, intelligence dissemination and responsiveness influences the strategic orientations that is adopted by a firm in the context of the business environment of Pakistan

H 8: Those firms that demonstrate a high level of market orientation will adopt a more pro-active stance as exemplified by the prospector orientation in Miles and Snow typology then those with a low level of market orientation.

As mentioned earlier, in the extant literature it is well recognized that marketing and strategic management is well related (Morgan & Strong, 1998). The proposed hypothesis, which denote MO as the major influence on the Strategic Orientation (SO) that the firm adopts, is also a response to the challenge of "understanding the link between market orientation and strategies...................... is important to our comprehensive appreciation of market orientation's contribution to organizational effectiveness" Slater and Narver (1996, p 56). Another study by Morgan and Strong (1998) tested the relationship between firm's market orientation and what they induced to be the six dimensions of strategic orientation. From their study of these relationships, a strong inference can be drawn that MO could influence the various dimensions of strategic orientation.

While specifying the model of this relationship between MO and SO the following considerations have also been kept in view: First, it is understood that establishing causality between social occurrences in any case is difficult if not impossible (Sarantakos, 1998). These social phenomenons such as market orientation, which constitutes activities and behaviours as well as SO, which constitute approaches in responding to market environments, result from interactions between open systems. Therefore, establishing causality without a doubt is more or less impossible especially in complex phenomenon. Second, for causality to occur the criteria such as relationship, explanation of the relationship, time order, contiguity and rationale must be demonstrable.

However, in the present case the concern of the thesis is not with establishing the fact that a construct such as MO, per se causes strategic orientations to occur, or in other words MO brings SO into being. The thesis is only concerned with the fact that, MO influences Strategic Orientation and that the various constructs and the emphasis on the sub constructs of MO can lead the firms into a specific type of orientation as determined by the type of actions that are subsequently taken by the firms.

As the thesis suggests and the results given above confirm that MO does exist in firms in one shape or the other, based on some form of intelligence gathering, intelligence dissemination and responsiveness. However, what differs among the firms is the level of the MO activities practised and the difference in the focus on the activities that are pursued. Some firms will pursue these activities in a formalized manner; some pursue it without formality while other firms involve themselves with only intelligence gathering and responsiveness.

Further more, the existence of this pattern has already been indicated to a large extent in the exploratory interviews undertaken for this thesis and which also formed the basis of the research hypothesis set forth in Chapter 7. Given these considerations, the thesis proposes that if the relationship and magnitude of relationships can be demonstrated between MO and SO as well as MO and marketing capabilities a good case for causality can be made. It goes without saying that further research is required to verify and establish this causality and relationship.

The thesis, therefore, aims to test the strength of the relationship between sets of multiple dependent variables (constructs of SO) and a set of multiple independent variables (constructs of MO). The direction of the relationship in advising the dependent and the independent sets is based on the requirements of the analysis procedure and is predicated on *a priori* framework. This is conceptualized on the basis of judgment formulated on practical experience and inductive reasoning. Hunt and Morgan (1995) also suggest that 'market orientation would guide strategy selection' reflects the role of MO as the independent variable and SO the dependant variable[54].

Canonical Correlation Analysis and Results

Following the test of the reliability of the MO and strategic orientation, the sub-constructs of the two theoretical constructs are submitted to canonical analysis. Canonical analysis is used because the objective of the present research is to analyze the overall relationship between two sets of construct, and this method is

[54] Details of this conceptualization is given in chapter 6

considered to be most appropriate for the current study. The goal is to confirm or disprove that MO influences or drives SO in a firm. If the relationship based on these dependent and independent sets is strong then one can surmise with the support of other circumstantial evidence as well as inductive logic that a firm that practices MO in a systematic manner will adopt the most relevant SO given the firms peculiar circumstances as defined by its external and internal environments.

The practical logic in this reasoning is that the relationship between a strategic orientation and performance will only be determinable in the long run over an extended period of time and could result in costly mistakes. Whereas the focus on MO will be more cost effective in developing the necessary capabilities and formulating proper responses to the environments. In other words, for managerial practices, it will be best for the firm to seek to develop MO capabilities through the activities that constitute its sub constructs rather then try and decide which strategic orientation will best suit the firm at a stage in the life of the firm. The concern of the thesis, as mentioned earlier, is to understand the relationships between the MO and SO as defined by their respective constructs or variates the canonical correlation analysis is, therefore, applied.

This technique was introduced by Hotelling (1935; 1936), and is a multivariate statistical technique for investigating the relationship between two sets of variables (sub-constructs in our case), where each set consists of at least two variables. A number of authors consider canonical correlation as a logical extension of simple and multiple regressions (Horvath et al., 2002). It is further clarified that multiple regression analysis is a more specific case and is capable of handling only a single dependent variable (Hair et al., 1998). Similarly multivariate analysis of variance could be used, but only if all of the independent variables were non metric (Hair et al., 1998), which is also not the case in this analysis. On the other hand, the objective of canonical correlation is to correlate *two sets* of variables known as variates where each set has more then one variable and in such a situation canonical correlation represents one technique available for examining the relationship between multiple dependent and independent variables.

The underlying principle is to quantify the strength of relationship of a linear composite of one set of variables (canonical variate) and a (different) linear composite of another set of variables that will produce a maximal correlation (Green et al., 1988). Thompson (1984) states that, "*Given that canonical correlation analysis can be as complex as reality in which most causes have multiple effects are multiply caused, an 'advanced organizer' regarding some of the research questions that can be addressed using canonical analysis may be helpful*". The use of canonical correlation has been limited until the late 80s, as there was an absence of an accessible statistical program to perform the calculation for canonical analysis (Tatsuoka & Lohnes, 1988; Hair et al., 1998).

This technique normally does not require variables to be designed as belonging to a dependent set or an independent set, however, the thesis makes the distinction for the purposes of this analysis, and as suggested earlier, it does so, on a priory basis. Thus, market orientation constructs are the independent set of variables, which drive the dependent sets i.e. strategic orientations. For the first part of analysis, altogether four strategic orientation variables were entered into the model as dependent set (set of multiple criterion variables of Reactor Orientation, Prospector Orientation, Defender Orientation and Analyser Orientation) and the three market orientation variables as the independent set (set of multiple predictor variables of Intelligence Gathering, Intelligence Dissemination and Responsiveness). Since the number of canonical function extracted by canonical correlation analysis always equals the minimum number of variables in either sets (which in the present case means three based on the independent variables included in MO) therefore three canonical functions were extracted. The aim now is to test the existence of the most important structural relationship as represented by the canonical functions. It should, however, be noted that according to Hair et al. (1998), which function to interpret requires a look at the following three criteria (1) level of statistical significance (2) magnitude of the canonical correlation and (3) redundancy measure for the percentage of variance accounted for from the two data sets. The analysis begins with examining the overall fit of the proposed relationship, followed by examining the strength of the relationship between their sub-constructs and the statistical significance of the relationship.

Table 8.16 shows the overall model fit statistics for the proposed canonical correlation model while canonical loadings and redundancy indices are reported in Table 8.16a. To determine the statistical significance of the model, it is desirable to use a multivariate test of all canonical roots (squared canonical correlations) simultaneously. The test statistics including Pillai's, Hotelling's, Wilks' and Roy's statistics are also reported in Table 8.15. The results of Pillai's, Hotelling's, Wilks' and

Roy's statistics suggest that the overall relationship of Market Orientation and Strategic Orientation is statistically significant.

Next, the statistical significance of the three canonical functions or variates is investigated separately. It should be noted that minimum acceptable level of significance for interpretation of the functions is 0.05. The strength of the relationship between the two sets of variates (dependent and independent set) in a canonical function (canonical variate) is represented by the canonical correlation coefficient. When squared (R^2), these represent an estimate of the amount of variance shared between the dependent variable set and the independent variable set, in each canonical function, where each variable set is considered as a linear composite of variables. That is to say that each function has two linear composite sets (one for the independent variables and the other for the dependent variables).

Results of the overall model fit for each function in Table 8.15 suggests that only two canonical functions are statistically significant at 5% confidence level with the first being the more significant while the third function is not at all significant. Individually, the resultant statistics for the first function, R=0.770, the R^2= 0.593, the F- statistics (F= 8.270) and p=0.000 at 5% significance level suggest that the relationship between the two variates (independent and dependent) is strong. The first function is practically more significant in its explanatory power as about 60% of variance is shared between the set of dependent variables (SO) and the independent variables (MO). On the other hand, although in the second function, the strength of the relationship between the two variates is still strong, the practical significance of the second function with F-statistic (F= 2.302), R= .392 and R^2= 0.154 is low. In normal circumstances it may be considered lacking any practical significance. Here, however, it should be noted that the practical significance of the function is represented by the size of the canonical correlation, and according to Hair et al. (1998) no acceptable guide lines have been given for suitable size of the canonical correlations, which depends largely on the nature of study and the needs of interpretation by the researcher. The practicality of the second function will, therefore, require further investigation. We can do this by viewing the redundancy index. While the third function has a very low R as well as R^2, and therefore the third canonical function is rejected as being statistically and practically insignificant.

In order to confirm, which of the functions is practically more significant in its explanatory powers, the redundancy indices for the two functions in Table 15a Panel

A are observed. Redundancy index (Stewart et al., 1968) in the first significant canonical function, for independent variate (Market Orientation) is 0.368 and dependent variate (strategic orientation) is 0.086. The low redundancy, of the dependent variate (0.086), results from the relatively low shared variance in the first function of the dependent variate (0.146), which is the average loading squared and not the R^2 (0.593). This is not problematic as the dependent and independent sets have been clearly delineated and particularly when the canonical function has substantial canonical R^2 or eigenvalues (0.593). The strength of this relationship and its statistical significance is therefore established. On the other hand in the second canonical function, which is statistically significant, the redundancy index for both independent and dependent variates that are calculated is very low (0.039; 0.045 respectively) and therefore these suggest that no practical use can be made of the function in terms of interpretation. Given this, the first canonical function is taken to be both statistically and practically significant and further interpretation will, therefore, be based on the first canonical function only.

Table 8.15

Canonical Correlation Analysis: Relationship between Market Orientation and Strategic Orientation

Measures of Overall Model fit for Canonical Correlation Analysis				
Canonical Functions (variates)	Canonical Correlation	Canonical R-Sq	Approx F Statistics	Probability
1	*0.770*	*0.593*	*8.270*	*0.000*
2	*0.392*	*0.154*	*2.302*	*0.037*
3	*0.085*	*0.007*	*0.278*	*0.758*

Multivariate Tests of Significance

Statistics	Value	Approx: F Statistics	Probability
Pillai's trace	*0.753*	*6.454*	*0.000*
Hotelling's trace	*1.643*	*10.085*	*0.000*
Wilks' lambda	*0.342*	*8.270*	*0.000*
Roy's ger	*0.593*		

This analysis brings the thesis to an interesting and yet significant conclusion with practical implication. The redundancy index as known, suggests the power to explain the variance that occurs in either of the two variates. The thesis also recognizes that the procedure does not need to explicitly identify the independent or independent variables as it helps to determine the strength of the relationship between two variates. However, for the present purposes the dependent and independent variables are identified, based on a priori inductive reasoning. Redundancy values of the independent and dependent variates suggest a directionality which is contrary to the hypothesis that is being tested. The explanation for this result is completely valid and understandable and lends force to the proposition that further research is required to determine the influence of MO and its directionality.

It is logical to assume that an organization that comes into being learns about its environment through the activities of intelligence generation. The initial steps taken by the organization create the response system, which then becomes what this thesis refers to as its strategic orientation.

Table 8.15a

Canonical Structure for the Three Canonical Functions

Panel A: Calculation of the Redundancy Indices for the Three Canonical Functions			
	Canonical Loading Square		
Variables / Variate	Function 1	Function 2	Function 3
Intelligence gathering	*0.801*	*0.033*	*0.166*
Intelligence Dissemination	*0.810*	*0.010*	*0.180*
Responsiveness	*0.246*	*0.724*	*0.030*
Average Loading squared	***0.620***	***0.255***	***0.125***
Canonical R^2	***0.593***	***0.154***	***0.007***
Shared Variance (Explained By their own canonical variate)			
%	*0.620*	*0.255*	*0.125*
Cumulative %	*0.620*	*0.876*	*1.000*
Redundancy			
%	*0.368*	*0.039*	*0.000*
Cumulative %	*0.368*	*0.407*	*0.407*

Canonical Loading Square

Variables / Variate	Function 1	Function 2	Function 3
REACTOR	*0.264*	*0.000*	*0.306*
DEFENDER	*0.227*	*0.619*	*0.072*
PROSPECTOR	*0.047*	*0.207*	*0.697*
ANALYSER	*0.048*	*0.364*	*0.103*
Average loading Squared	***0.146***	***0.298***	***0.295***
Canonical R^2	***0.593***	***0.154***	***0.007***
Shared variance (Explained By their own canonical variate)			
%	*0.146*	*0.298*	*0.295*
Cumulative %	*0.146*	*0.444*	*0.739*
Redundancy (Explained by the opposite canonical variate)			
%	*0.087*	*0.046*	*0.002*
Cumulative %	*0.087*	*0.133*	*0.135*

Once the strategic orientation gets a hold, the approach to market orientation activities start to become path dependent and are confined to those areas, which are reckoned to be relevant only to the ensuing strategy, but not what is necessary or may be necessitated by the needs of the environment. That is to say that MO activities that are being emphasised, may not help in recognising the necessity to change or even help in identifying the critical features of the changing environment.

It is this work structure, which is found in a developing country like Pakistan, where management reacts to the environment more often because it is being forced to do so rather then because it anticipates the future needs to do so. Thus it is rational to find that once the organization has already started on the path of doing business, the way market orientation activities are applied is dependent on the strategic orientation that the firm has got accustomed to.

To further analyse the link between the two variates, the thesis subsequently presents some canonical structure statistics and their interpretation. As mentioned earlier according to Hair et al. (1998) the interpretation of each canonical functions require examination of the sign and the magnitude assigned to each variable in the canonical function. This can be done by using three forms, that is to say use canonical weights, the canonical loadings or the canonical cross loadings. Canonical weights are subject to the same criticism, which is associated with the interpretation of the beta weights in regression techniques. On the other hand canonical loadings prove better, especially if there is no issue of multi co-linearity. In the earlier analysis the thesis has already rejected the possibility of any significant co-linearity in either MO construct or SO constructs. For further analysis, therefore, canonical loadings are considered appropriate, which are reported in Table 8.15a Panel B. Canonical loadings reflect the canonical functions' structural correlations and are similar to the factor loading. They are measures of the relationship between the variables in the dependent and independent set with the variate or canonical function, *after the two canonical variates (dependent and independent) are maximally correlated with each other.* That is to say they report the variance that is shared between the variables and the variate. Thus larger the coefficient, the more important is the variable in deriving the canonical variate or function.

Table 8.15b

Canonical Structure for the Three Canonical Functions

Panel B: Canonical Loadings for the Three Canonical Function			
	Canonical Loadings		
	Functions		
Correlations between the independent variables and their canonical variates			
	Function 1	Function 2	Function 3
Intelligence gathering	*0.895*	*-0.181*	*-0.407*
Intelligence Dissemination	*0.900*	*0.100*	*0.424*
Responsiveness	*0.496*	*-0.851*	*0.173*
Correlations between the dependent variables and their canonical variates			
	Function 1	Function 2	Function 3
REACTOR	*-0.507*	*0.009*	*0.478*
DEFENDER	*0.479*	*-0.791*	*-0.293*
PROSPECTOR	*-0.230*	*-0.482*	*-0.839*
ANALYSER	*0.197*	*0.588*	*-0.427*

In view of this information and the Table 8.15b Panel B, the thesis would suggest that in the business context of Pakistan, amongst the independent set, Intelligence

Dissemination should be considered as the most significant variable closely followed by Intelligence Gathering and finally Responsiveness. In the dependent set the most significant variable based on the magnitude of impact is the Reactor Orientation followed by Defender Orientation and finally Analyzers and Prospector orientations. The last two have similar magnitudes. The signs are also significant. A negative sign projects an inverse relationship while the positive sign a direct one. Thus the negative signs for Reactors and Prospectors show an inverse relationship with the other variables while the positive signs inform us of a direct relationship of the Defender and Analyzer with other variables in the function.

It needs to be remembered that canonical loadings are best used for predictions and less for interpretation (Hair et al., 1998). Such results, as represented by the first function, informs that in the business environment of Pakistan the impact of all sub-constructs of MO have a positive and direct relationship with the two sub-constructs of SO, that is to say the Defender Orientation and Analyser Orientation with the impact of Intelligence Dissemination as the most significant followed closely by Intelligence Generation. This, in other words means, that Defender Orientation and Analyser Orientation are representative of the efforts made in improving the Market Orientation activities especially Intelligence Dissemination and Intelligence Gathering. On the other hand these sub-constructs of MO exhibit an inverse relationship with the strategic orientations of Reactors and Prospectors.

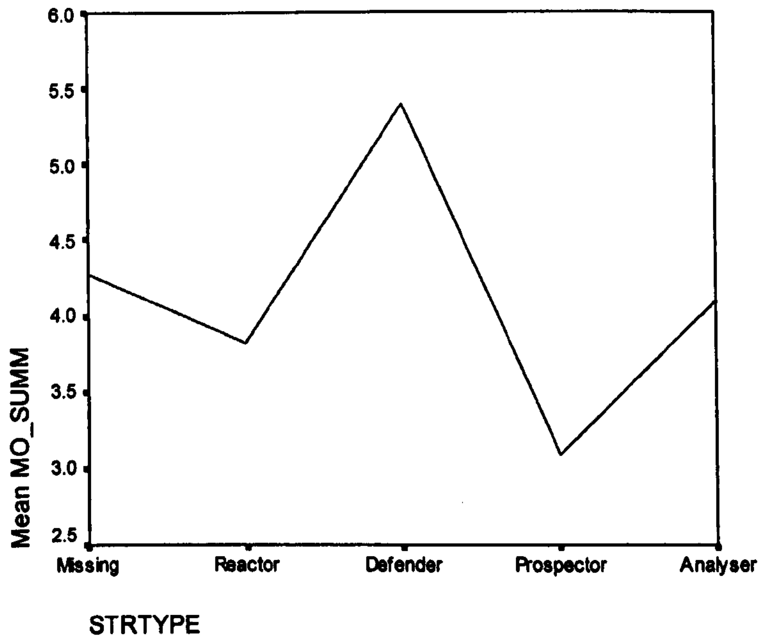
The thesis can, therefore, surmise that in the business environment context of Pakistan, a higher level MO will discourage Reactor Orientation and Prospector Orientation, and the impact of this effort will be more on the Reactor Orientation. These impacts have a reciprocal perspective also. The opposite of these impacts can, therefore, be stated as; any attempt to adopt a Defender orientation will induce a strong Intelligence Dissemination and Intelligence Gathering activity, followed by Responsiveness. On the other extreme the more a firm adopts a Reactor Orientation; it will start giving up on Information Dissemination followed by Intelligence Gathering. Same is the case with Prospector Orientation in the business environment of Pakistan. The more Prospector orientated a firm becomes the less it will rely on Intelligence Gathering and Dissemination.

In conclusion of this analysis, therefore, the thesis can suggest that so far as the hypothesis is concerned there is a definite relationship between the MO and SO.

However, it is also clear that given the data, that any efforts to improve market orientation activities will influence the firms to shift from Reactor and Prospector orientation towards Defender or Analyser orientation.

Given the exploratory nature of this thesis these results are significant. It is also clear from the analysis that these two constructs require further investigation to understand and explain their nature while we are clear of their relationship. In the end, therefore, we can safely accept the hypothesis that in the business environment of Pakistan MO as defined by intelligence generation, intelligence dissemination and responsiveness has a direct influence on the strategic orientations that is adopted by a firm. However, the hypothesis that those firms that demonstrate a high level of market orientation will adopt a more pro-active stance as exemplified by the prospector orientation in Miles and Snow (1978) typology than those with a low level of market orientation, can be rejected. This is graphically presented in Figure 8.4 below.

Figure 8.4 Market Orientation Level and Strategic Orientations



Analysis 2: Market Orientation as a significant influence on Marketing Capabilities

The final hypothesis that is suggested involved the relationship of MO and Marketing Capabilities. The hypothesis conceptualized the link between MO as a set of activities and specific marketing capabilities that are considered to be important in the successful performance of the firms. This is hypothesized on the basis that as intelligence is generated about the business environment management tends to develop their own view of what may or may not be necessary and thus will focus their effort to gain certain skills or capabilities. For example, if the information on competitors and customers suggest that cost and price is the most important factor, irrespective of whether this assumption is right or wrong, the firm in Pakistan will try and hire a cost and management accountant; while if the firm considers that since their competitors are advertising therefore they should too, they would tend to hire a marketing manager with experience in advertising. Thus in one form or the other, MO activities will be strongly related to the capabilities that will be acquired. The earlier discussion on the use and interpretation of canonical correlation analysis are relevant in testing this hypothesis as well as in interpreting the results.

H.9: MO as defined by intelligence generation, intelligence dissemination and responsiveness influences the acquisition of relevant marketing capabilities.

First, the overall strength of the canonical correlation model as indicated by model fit statistics is provided in Table 8.16. The results of Pillai's, Hotelling's, Wilks' and Roy's statistics suggest that the overall relationship of Market Orientation and Strategic Orientation is statistically significant.

Next, the statistical significance of the three canonical functions or variates is investigated separately. Results of the overall model fit in Table 8.16, for each function suggests that all the three canonical functions are statistically significant at 5% confidence level with the first two being more significant then third function. Individually, the resultant statistics for the first function, R=0.873, the R^2= 0.762, the F-statistics (F= 11.968) and p=0.000 at 5% significance level suggest that the strength of the relationship between the two variates (independent and dependent) is strong. The first function is also practically more significant in its explanatory power as about 76% of variance is shared between the two sets of variables that is to say MO and Marketing Capabilities. On the other hand, for the second function, the F-statistic (F= 6.999), R= .718 and R^2= 0.516 also points to the strength and practical significance of the model. The third function even though statistically significant is not practically significant and therefore, the third canonical function is ignored for further analysis.

The rest of the analysis and interpretation, therefore, will be based on the first two functions only. In order to further confirm, which of the functions is practically more significant in its explanatory powers, the redundancy indices for the two functions in Table 16a Panel A are considered. The redundancy index as we know suggests the power of the function to explain the variance that occurs in either variate.

Redundancy index, in the first significant canonical function for independent variate (Market Orientation), is 0.352 and dependent variate (Marketing Capabilities) is 0.180. The low redundancy, of the dependent variate (0.180), results from the relatively low shared variance in the first function of the dependent variate (0.236), which is the average loading squared and not the R^2 (0.761). This is once again not problematic particularly when the canonical function has a substantial canonical R^2 or eigenvalues (0.761). The strength of this relationship and its statistical significance is therefore recognized.

Table 8.16 Canonical Correlation Analysis: Relationship between Market Orientation and Marketing Capabilities

Measures of Overall Model fit for Canonical Correlation Analysis				
Canonical Function	Canonical Correlation	Canonical R-Sq	F Statistics	Probability
1	*0.873*	*0.762*	*11.968*	*0.000*
2	*0.718*	*0.516*	*6.999*	*0.000*
3	*0..431*	*0.186*	*3.423*	*0.014*

Multivariate Tests of Significance			
Statistics	Value	Approximate F	Probability
Pillai's trace	*1.464*	*9.531*	*0.000*
Hotelling's trace	*4.498*	*14.160*	*0.000*
Wilks' lambda	*0.094*	*11.968*	*0.000*
Roy's ger	*0.762*		

Panel A: Calculation of the Redundancy Indices for the Three Canonical Functions			
	Canonical Loading Square		
Variables/ Variate	Function 1	Function 2	Function 3
Intelligence gathering	*0.406*	*0.401*	*0.235*
Intelligence Dissemination	*0.055*	*0.947*	*0.039*
Responsiveness	*0.927*	*0.057*	*0.010*
Average loadings squared	*0.463*	*0.424*	*0.113*
Canonical R^2	*0.761*	*0.558*	*0.259*
Shared variance (Explained By their own canonical variate)			
%	*0.463*	*0.424*	*0.113*
Cumulative %	*0.463*	*0.887*	*1.000*
Redundancy (Explained by the opposite canonical variate)			
%	*0.352*	*0.236*	*0.029*
Cumulative %	*0.352*	*0.588*	*0.617*

	Canonical Loading Square		
Variables/ Variate	Function 1	Function 2	Function 3
Marketing Research	*0.264*	*0.000*	*0.104*
Pricing	*0.027*	*0.786*	*0.020*
Product Development	*0.367*	*0.301*	*0.036*
Channel management	*0.154*	*0.417*	*0.000*
Promotion Management	*0.013*	*0.183*	*0.417*
Marketing Management	*0.591*	*0.332*	*0.049*
Average Loadings square	*0.236*	*0.337*	*0.104*
Canonical R^2	*0.761*	*0.558*	*0.259*
Shared variance (Explained By their own canonical variate)			
%	*0.236*	*0.337*	*0.104*
Cumulative %	*0.236*	*0.573*	*0.677*
Redundancy (Explained by the opposite canonical variate)			
%	*0.180*	*0.188*	*0.027*
Cumulative %	*0.180*	*0.368*	*0.395*

On the other hand, the second canonical function is also similar to function one, where the redundancy index for both independent and dependent variates is (0.236; 0.188 respectively) and the R^2 is significant at 0.558. Given this, it is accepted that the first two canonical functions are both statistically and practically significant. The thesis will, therefore, use both functions to interpret the relationship between MO and Marketing Capabilities.

Redundancy values of the independent and dependent variates in the first and the second function suggests that the functions explain more of the variance in the independent variates than in the dependent variates. For example in the first function, in the independent variate the loading range between 0.235 for Intelligence Dissemination to 0.639 for Intelligence Gathering and 0.936 for Responsiveness resulting in an overall sharing of 0.436. This also indicates that there seems to be a higher correlation between Intelligence Gathering and Responsiveness in the first function.

In the second function on the other hand, in the independent variate there is a higher correlation between Intelligence Gathering and Intelligence Dissemination and the shared variance is 0.424. So far as the dependent variates are concerned in the first function the loadings range between very low of 0.013 for Promotion Management and a high of 0.591 for Marketing Management, the rest being on the lower side resulting in a shared variance of 0.236 and redundancy index of 0.180. This indicates that there is a lack of inter-correlation between the dependent variable set.

In the second function, however, the thesis has a different picture that emerges with a high loading of Pricing 0.786 in the variate, followed by Channel Management 0.417; Marketing Management 0.332 and Product Development at 0.301. However in this case the redundancy of the dependent set in the second function is slightly higher at 0.188 than in the first function. Therefore, it can be considered the second function as more significant then the first. However, while interpreting the influence of MO on marketing capabilities and vice versa, the thesis will use both functions.

Table 8.16a

Canonical Structure for the Three Canonical Functions

Panel B: Canonical Loadings for the Three Canonical Function ***Correlations between the independent variables and their canonical variates*** ***Canonical Loadings***		***Functions***	
	Function 1	Function 2	Function 3
Intelligence gathering	0.639	0.510	-0.576
Intelligence Dissemination	0.235	0.972	-0.013
Responsiveness	0.963	0.256	0.087
Correlations between the dependent variables and their canonical variates			
	Function 1	Function 2	Function 3
Market Research _Cap 1	0.514	-0.029	-0.322
Pricing_ Cap 2	0.165	0.887	0.143
Product Development_ Cap 3	0.606	-0.175	0.060
Channel Management_ Cap 4	0.392	0.646	0.017
Promotion Management _Cap 5	0.112	0.428	-0.646
Marketing Management_ Cap 6	0.769	0.576	-0.223

The thesis has already suggested that canonical correlation represents the only predictive technique available for examining the relationship of the multiple independent variables with multiple dependent variables (Hair et al., 1998, pp. 445). In the present case of establishing a relationship, which can help in predicting the influence of MO on Marketing Capabilities the thesis has suggested that the second function is practically more significant. This is due to the relative higher redundancy value of the dependent variables. Nevertheless, the thesis will still analyse both for practical significance and then discuss the function that is more in line with theoretical meaning as well as the analysis presented earlier while testing other hypothesis.

Function 1. Loadings in the first function clearly establish that the most significant variable in the independent set is Responsiveness followed by Intelligence Gathering and then Intelligence Dissemination. The relationship suggests that all constructs of MO in the independent set have a positive impact on all constructs of marketing capabilities in the dependent set. The most significant impact in terms of magnitude will be on Marketing Management, followed by Product Development, Marketing Research and Channel Management, with Pricing and Promotion Management coming in last. Further, it also suggests that any attempt to improve MO will increase the Responsiveness activity more then the other two variables in the variate. Looking at it in another manner, it suggests that focus or improvements in Marketing Management, Product Development, Market Research and Channel management skills will result in a further increase in Responsiveness activities of MO followed by Intelligence Gathering and then Intelligence Dissemination. These results and predictions do not correspond to the dimensions that were seen in the earlier presented regression analysis. It is found that marketing management, in the business environment of Pakistan, has the most significant and positive impact on business performance while Product Development has the most negative impact on performance.

Function 2. On the other hand, in the second function it is observed that in the independent function the most significant variables in the order of magnitude are Intelligence Dissemination followed by Intelligence Gathering and finally Responsiveness. In the dependent set the most significant variables based on the magnitude are Pricing (0.887), Channel Management (0.646), Marketing Management (.558) followed by Promotion Management (0.428) and then Product Development (-0.175) and Market Research (-0.029). In this case we can see that market research with its low magnitude has no significance. There are two negative signs where only the negative sign of Product Development is of some consequence. The rest of the signs are positive and therefore have a direct relationship with all variates. In other words any attempt to improve MO will bring an improvement in pricing, channel management, marketing management and promotion management skills and capabilities. On the other hand this improvement in MO will weaken an emphasis on product development. There is, therefore, a close correspondence of these results with the earlier reported regression analysis and the thesis can therefore suggest that in practical terms this function is more relevant in predicting the influence of the MO on the marketing capabilities in the business environment of Pakistan then the first function. The thesis will discuss these results in the next chapter in the light of the analysis done so far. To end this part of analysis the thesis can confirm that there is a significant relation ship between MO and Marketing Capabilities. Further, based on the data that the thesis has analysed and as defined by the second function, there is a significant influence of MO in guiding the marketing capabilities that are relevant in the business environment of Pakistan.

8.9 Conclusion

This chapter reported the results of the analysis that is carried out to test the hypothesis that were developed in chapter 7. The thesis has provided the descriptions on which each hypothesis is tested. The thesis also suggests the reasons of using the various techniques and also provided broad based arguments for the various results that are reported. With respect to the main effects, the study showed that Market Orientation, Strategic Orientation and Marketing Capabilities have a strong impact on business performance in the context of Pakistan, however, this impact is necessarily not positive in the case of the sub constructs of market orientation and marketing capabilities nor do all the strategic orientations demonstrate a positive impact on business performance. In other words, some of these constructs or strategic orientations have a negative impact on performance and suggest that these should be avoided in the current business situation.

The next and final chapter will discuss the results and further implications to be drawn from the study, as well as discuss its limitations and future direction for research work.

Chapter 9

Discussion on Results and Hypothesis Testing

9.1 Introduction

This final chapter discusses the empirical findings presented in Chapter 8. It aims to advance potential implications of the results in the light of the research questions and theoretical frameworks presented in Chapter 1 and 6. This chapter will also address the limitations of the current study and offer some directions for possible future research. In the first part of the chapter, the contributions made by the research based on the objective of the thesis and the research questions will be reviewed. In the second part, the results presented in Chapter 8 will be discussed in detail in the light of the literature review as well as the theoretical framework. In the third, the research implications from the point of view of theory development and managerial practices will be discussed. And in the final section the issues of research limitations and future research direction along with a brief summary of the thesis will be dealt with.

9.2 Contributions of the study

The purpose of this study is to contribute to the literature by integrating marketing and strategy research by investigating how market orientation, strategic orientations and marketing capabilities affects success and performance of firms in the context of a developing economy. It further purposes an interrelationship between the various constructs of these three major themes found in the extant strategic management literature. Thus, the thesis responds to Kohli and Jaworski's (1996) suggestion that conceptual approaches are not mutually exclusive and rather must be considered as complementary. Thus, two broad conclusions, as they relate to a developing market context can be denoted from the research results.

1. Theories need to be tested in different market environments to assess their generalizabilities. Further, if results are divergent from those predicted in theory then explanations need to be presented. This should lead to new hypothesis to be tested. In this way the deductive and inductive form of knowledge development is combined to provide impetus to new research and lead to the creation of knowledge.
2. Firms are an integration of activities and these must be viewed in a complementary manner rather then mutually exclusive (Kohli & Jaworski, 1996). Knowledge is certainly advanced with simple models, but there is also a definitive need to integrate theories of firm behaviour and study these

interrelationships to provide a more comprehensive explanation of phenomenon. This is just what Conant et al. (1990) recommend, following their study of Strategic Orientation and capabilities that future research needs, that is to say to examine the synthesis and integration across multiple set of items.

This thesis has, therefore, attempted to contribute and further the theory of business and business performance by adding a dimension from the perspectives of a developing economy to the one sided research programme largely based in the developed market economies. In other words, the thesis by attempting to answer the following questions, has expanded the application of management theories into the heretofore less researched environments and brings further insights to the development of managerial practices especially in the developing market contexts.

1. What are the contributions of marketing strategies or strategic orientations to the firm's performance in a developing market economy?
2. Are the dimensions of the marketing activities or market orientation of firms in a developing or emerging market economy the same as in the developed market economies? And how does this affect the firm's performance?
3. What capabilities, especially, marketing capabilities, are significant for success of business firms in a developing market economy? In other words, what are the dimensions of marketing capabilities that are critical for successful business performance?
4. What are the interrelationships, if any, between strategic orientations, market orientation and marketing capabilities?

It is also to be noted that the thesis has, perhaps also for the first time in a developing market context, treated the three conceptual approaches concurrently and studied the impact on performance using an integrated framework model. Finally, this thesis in line with the several proposition found in the developed market context of the contribution of MO to the firms strategy, has empirically tested the conceptual model where MO defined as a core capability from the RBV perspective, drives strategy by influencing the strategic orientation of the firm as well as drives the acquisition of capabilities that the firm needs for achieving business success.

Theory building involves the identification of relevant constructs and development of hypothesis of relationships as well as offering explanations for these relationships (Eisenhardt, 1989; Yin, 1984). On the other hand theory testing involves using hypothesis or propositions formulated under a given environment and testing them for consistency under similar conditions but with more vigour (Snow & Thomas, 1994) or using different theories that explain the same phenomenon and test them against each other for better explanatory powers. In both these cases descriptive studies, explanatory studies or predictive studies can be used in the area of strategic management under the larger framework of field studies (Snow & Thomas, 1994). The types of approaches to undertake such studies include Direct and Participation Observation (e.g. Mintzberg, 1979); Interviewing (e.g. Miles & Snow, 1978); Questionnaire Surveys (e.g. Dess & Davis, 1984); Field Simulations and Experiments (e.g. Thomas & McDaniel, 1990). The present study follows Dess and Davis (1984) approach of questionnaire survey with the aim to reach a large cross section of the sample population to help test theory in three distinct streams of management literature. This theoretical framework involves firm performance and its relationship with market orientation, strategic orientation and marketing capabilities.

Most recent researchers have argued favourably to undertake replicative studies of marketing and strategic phenomenon such as Market Orientation, Strategic Orientations and Marketing Capabilities in explaining business performance in different cultural and economic contexts (Douglas & Rhee, 1989). This argument is broadly based on the supposition that management theories that are developed in the West, especially in the US, can be applicable to the rest of the world, which is logically unsustainable. As stated by Burton, Fried, and Manigart (2000), "The assumption that research conducted in the U.S. has automatic application in different parts of the world cannot be supported"

This is especially true for the developing countries, where competition from local and indigenous business firms is expected to intensify against MNCs who will be seeking markets of these countries. These developing economies now constitute the largest and the fastest growing economies of the world. Such studies in the developing economies should aim at informing managerial practices about the effective and the efficient outcomes of adopting frameworks that have been advocated for long in the developed market economies.

Keeping the above arguments in mind the following discussion is based on the results analysed in Chapter 8.

9.3 Discussion of Results

9.3.1 Discussion on Strategic Orientation and Performance

Both academics and practitioners have emphasised the role of competitive strategy or strategic orientation in business performance (Desarbo et al., 2005; Vijande et al., 2005; Doyle & Wong, 1998; Miller, 1986; Dess & Davis, 1984; Porter, 1980; Miles & Snow, 1978). However, this relationship is not unequivocal (Stanley, 1995). All these studies are based in the western economic contexts and a review of literature suggests a general absence of similar studies in a developing market context. Further, there are only a few studies that have tried to understand the facets of strategy in a developing market environment and these largely centre in India (Dawar & Frost, 1999; Das, 1997; Dawar & Chattopadhyay, 2002). To this end, therefore, the first two hypotheses (H1 and H2) focused on two objectives, one to understand and describe the strategic orientations that are adopted by firms in a developing market context and to find if these can be assigned to a specific orientation as defined my Miles and Snow (1978) typology; second to understand the relationship between such orientations and business performance.

H1: In the business environment of Pakistan organizations do not always follow a clearly defined strategic orientation.

H2: In the business environment of Pakistan, businesses with recognizable strategic orientation will perform equally well.

Cluster analysis reported in Table 8.3 suggested that in the business environment of Pakistan firms explicate their strategic stance through a combination of competitive features and do not follow any ideal type as suggested by the strategic typology framework of Miles and Snow (1978). The goal of this present classification of firms of Pakistan is not meant to uncover strategic types that could be generalized across industries or contexts nor is it meant to challenge the framework of ideal types of strategic orientation with an agglomeration of decisions by which a business aligns itself to its environment (Desarbo et al., 2005). Rather, this thesis aims to defend the proposition that firms in a developing market contexts based on their perceptions of competition, approach strategy through different behavioural elements that can be sourced to Miles and Snows (1978) description of ideal strategy types. Thus, this result enables a better understanding of the strategic behaviour of firms in the business environment of a developing country like Pakistan. These results are also in line with the conclusions that were drawn by a recent study covering three countries that is USA, China and Japan reported by Desarbo et al. (2005) as well as a previous study by Hambrick (1983).

The result of Strategic Orientation and performance relationship presented in Table 8.4 as well as in Figure 8.2 is contrary to the extant theory of equifinality as applied to strategic management. The cross sectional sample of firms surveyed in Pakistan suggest that firms whose predominant behaviour is more closely reflected to the form of Defender Orientation will perform the best in terms of all business performance objectives. The only other orientation that of Analysers has a positive association with over all business performance but this is statistically insignificant except that in the case of financial performance where it is significant at a 10% significance level (Table 8.5). On the other hand, Reactor Orientation and Prospector Orientation have a negative impact, more or less, on all performance measures (Table 8.4 and 8.5). Zajac and Shortell (1989) had also found that in some cases one orientation may out perform another. This result, therefore, has strong practical implication by focusing managerial practises in the right direction in the context of a developing market such as Pakistan.

Conventional wisdom for a Prospector Orientation in the developed market economies has it that a successful prospector firm in pursuit of new market opportunities are able to fragment markets in finer segments, pioneer and create new technologies, develop and deploy innovative new products as well as co-opt distributors to gain access to consumers, while positioning their brands to extract maximum leverage for their offerings. These strategies are so central to the prospector orientation that they have become embedded in corporate cultures of firms pursuing such an orientation in the developed market economies. Nevertheless, firms inclined to follow this pattern in a developing markets, are unfavourably challenged by the conditions including the lack the strategic structures that facilitate theses actions. A few of these conditions are mentioned below:

a. The market size that is being served is growing but rather slowly.

b. The wants are not very diverse nor are they backed by substantial purchasing power.

c. Markets are characterized as suppliers markets rather than buyers markets, thus reducing the need to develop finer segments to serve.

Therefore, the focus of the prospector orientation on product development will prove counter productive. This observation is also supported by the negative association of Product Development on business performance and is similar to the one made by Dawar and Chattopadhyay (2002) who observe in the case of India that: "*Products and program transplanted from affluent markets only appeal to the affluent elite: no more than five percent of the population*". This, however, stands in sharp contrast to the well entrenched idea found in the developed economies that new products are the real drivers of business performance.

To be successful in developing countries the firms must either stick to a small and well defined segment, which can be defended successfully using the Defender Orientation; or by deciding to pursue mass marketing in consideration of the large sections of population in the lower income groups. This may be done by developing programs and supplying products to target these mass markets as has been successfully done by companies such as Unilever and Colgate-Palmolive. However, this requires huge resources which the local indigenous firms in the developing economies lack.

In case of Pakistan this weakness may further be compounded by the possibility of a lack of managerial capabilities that are needed to manage diverse market needs where a prospector oriented firm normally has to operate. There is also no doubt, however, that with significant economic development taking place in Pakistan and other developing countries, there will be the necessity to re-evaluate this result through another study on similar basis.

Reactor Orientation is always considered in the extant literature as a low performer (Miles & Snow, 1978), however, there is no indicator throughout literature that this strategic orientation could have negative results. And therefore, this result is worth noting for future research. Rather then ignoring this orientation it should be incorporated in studies to verify if this orientation has negative impact on business performance at least in the developing country contexts. In the present research, however, there is significant evidence that this orientation need to be avoided in the developing market contexts. The presence of this result can be explained in terms of the firm's ability, or lack of it, to make quick decision, based on its capability to analyse and process information (Eisenhardt, 1989).

In Pakistan, Reactor Orientation reflects the approach of ill-considered Responsiveness as part of the market oriented behaviour, which perhaps seems to be the precursor to the development of a Reactor Orientation. This relationship between responsiveness of a firm without considering the long term impacts and the Reactor Orientation can be understood in light of the comments made by the marketing director, who when asked to comment on the behaviours of some of his competitors, described the approach as highly unprofessional and a case of unnecessarily destabilizing the market, which could be avoided with some planning. Thus the firm's lack of analytical skills and a short term approach to business, coupled with the back ground of the incumbent owner/managers result in lack of cohesiveness in actions, which by definition is a Reactor Orientation. These results, therefore, suggests the need in educating and developing managerial and entrepreneurial skills as well as in developing the necessary analytical techniques before undertaking action, to ensure successful performance.

Defender Orientation, on the other hand, proves to be the best strategic approach as suggested by the sample because it has a positive and statistically significant impact on all performance measures with the standardized Beta* of 0.471 and p= 0.000. There is strong intuitive appeal to adopt the Defender Orientation in a developing market context. As mentioned earlier the market sizes, as defined by the targeted segments, are generally small where most firms tend to focus on the narrow but affluent segments of the upper and middle class rather then the mass markets. Since, business organizations also lack major financial resources to pursue a number of market segments there is seldom a choice except to strongly defend the market segment. This further points to an important observation that market size may turn out to be an important moderator variable[55] in strategic orientation and performance relationship in a developing market environment, which is not tested in this case.

[55] Moderator Variable is a second independent variable which is believed to have a significant contributory or contingent effect on the originally stated relationship (Cooper & Schindler, 2003).

In the case of Analyser Orientation, it was assumed that this orientation would show a strong influence on performance, especially on the marketing performance composite and yet it did not, rather the results were insignificant. One reason could be that this orientation in the context of Pakistan is epitomised by too much caution and risk aversion especially in those firms where the management is aware of the consequences of wrong decisions, which in turn means lost opportunities. This again could be due to a lack of analytical and research oriented skills, because if these skills were well developed, the analysis would be trusted and decisions informed.

In summary, it seems reasonable to propose that what works in the developed markets in term of strategies, may not work in the developing market economies because of the typical market conditions and characteristics that one will expect for some time to come in these markets.

9.3.2 Discussion on the results of Market Orientation and Performance

Research in market orientation has approached the subject from fundamentally two frameworks; a culture based approach (Narver & Slater, 1990) and the series of activity and conduct that are in accordance with this orientation (Kohli & Jaworski, 1990). A true market oriented culture becomes embedded through these repeated activities and actions and as such these conceptual approaches are not mutually exclusive but are complementary (Kohli & Jaworski, 1996). Most of the research on market orientation in the developed market economies has focused on analysing its effect on firm's competitive performance (Narver & Slater, 1990; Slater & Narver, 1994; Pelham, 1996)[56]. This can be, therefore, interpreted as an indicator that market orientation allows a firm to offer sustainable superior value to its customers, which makes it a source of competitive advantage and thus a core competency.

A few studies carried out in the developing market have reported mixed results with more results that suggest a lack of direct and positive relationship between market orientation and firms performance (Grewal & Tansuhaj, 2001, Athuahene-Gima, 1996). It is, therefore, not clear whether market orientation in these developing economic cultures can contribute to the business success of the local firms or the nature of business cultures and market structures renders this approach largely ineffective (Kaynak, 1982). In other words empirical investigation of this relationship

[56] See for other details Table 5.1 and Table 5.2

within the context of developing countries is lacking, particularly in the economies of South Asia and South East Asia which constitute about one third the population of the world. This element of equivocality presents an egregious need to study the relationship between market orientation and performance in specific country contexts (Subramanian & Gopalakrishna, 2001) before one can become fully certain of the significant need to develop a market oriented culture as a source of competitive advantage, at least in the developing markets. This study thus focuses on two aspects related to market orientation. It firsts tests the relationship with business performance that has been purposed in the extant literature and second it investigates the dimensions of market orientation that are operative in a developing market environment and also looks at the impact of the activity constituents on the firm performance . These concerns are presented in the following hypotheses.

H3: In the business environment of Pakistan Market Orientation has a direct and positive influence on organizational performance.

H4: In the business environment of Pakistan market-orientated behaviours of intelligence gathering, intelligence dissemination and responsiveness all have a direct and positive impact on organizational performance.

H 5 All business firms in Pakistan exhibit the same level of market orientation with the same focus on all the three activities such as intelligence gathering, intelligence dissemination and responsiveness.

Market Orientation and Performance

The results of MO and performance relationship, presented in Table 8.6 clearly denote that overall Market Orientation construct has a positive influence on the various performance measures, which are all statistically significant. In other words the results are generally in line with similar research undertaken in another developing country such as India (Subramanian & Gopalakrishna, 2001) where a strong and positive relationship between market orientation and performance is demonstrated.

A different point of view is indicated with the results presented in Table 8.7, regarding the impact on business performance of the various activities formulated as the sub constructs of market orientation. It was assumed in developing the hypothesis that all the activities of market orientation will have a positive impact on business performance. The results, however, indicate first that firms in Pakistan adopt different levels of market oriented activities perhaps based on their particular interpretation of the environment; and second these activities do not contribute to the firm performance in an equal measure. It is, therefore, through a combination of two presumptions with which the two results are reconciled. For example, the most important activities that seem to be more relevant in the context of Pakistan are activities, which involve Intelligence Gathering and Intelligence Dissemination with their demonstrable positive impact on the various performance measures. It is stated that this skill of tapping information and responding rapidly may itself prove to be a competitive advantage (Morgan, Turnell, & Strong, 1998; Morgan, 2003; Kohli & Jaworski, 1990; Narver & Slater, 1990 etc). However, responsiveness for the sake of responsiveness in the form of unconsidered reaction should be avoided as this will possibly lead to decisions that have a negative impact on business performance. This result is not only significant but has noteworthy practical implications as this indicates a strong need for developing proper analytical skills to facilitate effective decision making as indicated in the results given in the section above.

9.3.3 Discussion on Marketing Capabilities and Performance

The resource-based view of the firm was originally developed in the field of strategic management with the aim of explaining the reasons why firms applying the same strategies in the same industry obtain different results.

This view postulates that firm is a composite of idiosyncratic capabilities that enable the firm to secure competitive advantage and thus these capabilities become the source of firm performance (Barney, 1986a; Wernerfelt, 1984; Mahoney & Pandian, 1992; Fahy et al., 2000). This view is offered as an alternative to the market forces based approach of developing strategies and securing competitive advantage which would then lead to superior performance. However, Porter (1996) offers a reconciliation of the two when he explains strategy:

"*Competitive strategy is about being different. It means deliberately choosing a different set of* ***activities*** *to deliver a unique mix of value------- the essence of strategy is in* ***activities*** *– choosing to perform* ***activities differently*** *or to perform* ***different activities*** *than rivals*" (ibid, p. 64, emphasis added).

It is, however, also clear that capabilities are context specific. That is to say that capabilities and the type of capabilities that are significant to success of the firm are dependent on the environment where they will be applied. Further, not all capabilities are strategic. It is also intuitive to suggest that acquiring all the possible capabilities irrespective of the needs and requirements of the environment is wasteful in terms of resources that are necessary to allocate to develop and nurture these in the long term. In the extant literature on strategic management based in developing market economies there is no known study at all, which has tried to use business performance relationship to isolate the marketing capabilities that may be more relevant in the developing market context from those that are generally considered important in the developed markets.

This thesis, therefore, focuses attention on the nature of capabilities that are important in the developing market context using the relationship between the marketing capabilities and business performance. In doing so the thesis, other then contributing to the theory of business performance generally, contributes to managerial practices in the developing market economies by helping the management to focus on those capabilities that exhibit a positive relationship with performance particularly as skills and capabilities in these countries are still in the developing stages.

The results of the relationship between marketing and capability are presented in Table 8.12. In view of the results presented it is possible to denote that in a developing market economy, at least in the present scenario, not all capabilities are significant for performance. This is a divergent view from the assumed logic that if a firm has more capabilities its relative performance will be that much better as it will be able to leverage these in different manners against competitors. However, it is very much in line with one of the principal insights of the RBV "that not all resources are of equal importance or possess the potential to be a source of sustainable competitive advantage" (Fahy, 2000).

A finding by Fahy et al. (2000), confirms this argument when they, while discussing the results of their study on the marketing capabilities in Eastern Europe, say that "*This may be attributable to the fact that organic firms had placed significant emphasis on developing price positioning capabilities which suggest that they may in fact be developing the 'wrong' capabilities*" (p.75)

It is also suggested that ownership and control over the resources and their appropriate deployment to fit strategically with the opportunities causes the differential in performance between the firms (Hunt & Morgan, 1995). Therefore, a lack of managerial ability to combine these various skills and capabilities for deployment in the marketing efforts will only result in waste. For example, according to Kotler (1996), marketing management is the capability to manage the component of the marketing program, offering specialized expertise in managing product policy, pricing, communications and distribution channels.

Keeping this in mind it is evident from the results that marketing management capability may be considered as highly significant in terms of its positive impact on all performance measures in a developing market context. Therefore, firms seeking to improve performance in various areas may like to focus on activities that constitute marketing management capability (Fahy, 2000), which by definition is an integrative processes designed to apply collective knowledge and skills (Day, 1994). Many in academia also make a strong case that firm should own and invest in those capabilities, which aim at developing, deploying and coordinating different resources (Amit & Schoemaker, 1993; Grant, 1996; Teece, Pisano, & Shuen, 1997).

It is further evident at the time this research was undertaken, that market research among other capabilities is not significant. Market research is "the systematic and objective identification, collection, analysis and dissemination of information for the purpose of assisting management in decision making related to the identification and solution of problems and opportunities in marketing". And according to Malhotra (1992), marketing research is becoming an integral part of the decision-making and decision-making is becoming an integral part of marketing research. The importance of marketing research is generally recognised for reducing risk and uncertainty and thus increasing the chances of success (Ogunmokun, Chin, & McPhail, 2005); for its educating activities such as informing executives and consumers as well as coordinating various marketing activities (Panigrahi et al., 1996).

However, in case of a developing economy and the present study this market search and performance relationship has to be seen in terms of the characteristic of the markets served as well as the size of the firms.

For instance, in consumer goods industry in the developing market economies, the assumption is that the consumers, which belong to the affluent class, are more similar to the affluent markets of the developed west and can be approached in exactly the same manner (Dawar & Chattopadhyay, 2002). The businesses, which target such segments, tend to ignore mass consumer markets that are less affluent but which can result, in generating returns or growth through long term sales volumes if offered appropriate products and quality at affordable prices. However, this approach requires substantial investments and firm sizes that can justify the investment made in targeting larger markets. This will also justify undertaking marketing research on a regular basis to tap into consumer and competitor information. A study reported from India also suggests that marketing research is normally undertaken by large firms, of which about 70% regularly use marketing research. However, out of the firms with smaller sizes only 10% rely on marketing research (Panigrahi, Misra, & Calcich, 1996). Given this line of argument, it is obvious that in the first case firms in the consumer goods industry in Pakistan for the time being has largely ignored the mass markets. They do need to gather information, but their current markets do not need extensive market research. Second, the markets in Pakistan are still a sellers market where demand outstrips production thus curtailing the need to carry out significant market research. With consumer needs and wants changing along with higher level of competition being predicted and increased use of information technology, marketing research will become an important success factor.

Particularly, as the practice of looking into all the relevant trends within an industry will grow, it will necessitate a painstaking process of systematic data collection and evaluation (Möller & Antilla, 1987). However, that does not seem to be the case at the moment and is shown by the insignificant p value as well as the low β (standardized regression coefficient).

The results for promotion management, channel management as well as pricing are similar to that reported for market research and the reasons are more or less the same. That is to say that these results are indicative of the nature of consumer markets and an absence of sophistication in the marketing process. For example promotion requires a fine level of segmentation, one that will help the firms to reach the customer audience through differentiated communication. This is considered to be a perquisite for a successful differentiation strategy. A targeted medium that enables finer segmentations are simply unavailable in many emerging market economies (Dawar & Chattopadhyay, 2002). Consider the example of magazines. There exist about 18000 magazine titles in the US for a population of 250 million. In contrast, in Brazil a country of 150 million there are fewer than one thousand; in India a country of over one billion people, there are just over 300 magazines (Dawar & Chattopadhyay, 2002), while in Pakistan with a population of 150 million there are only 80 recognized magazines. This lack of finely defined segments limits the ability of marketers to narrowly focus media to effectively target the desired market segment for a given product.

On the other hand, in contrast to the three capabilities cited above product development has negative impacts on all performance measures. This is an especially noteworthy finding and denotes a lesson that the rapid new product development and deployment, continuous product innovation and accelerated obsolescence that are part of the competitive apparatus in the developed markets are unsuited to developing markets (Dawar & Chattopadhyay, 2002). The rationale put forward for this is simple and relate to the characteristics of the consumers in these markets.

According to Dawar and Chattopadhyay (2002), the consumers in such markets, because of their limited resources as well as the low educational level prefer simple economical products. These consumers generally dislike products that evolve too rapidly, making their recent purchase obsolete; instead they need basic, functional, long lasting products. For example, the Volkswagen Beetle remained the largest selling car in Brazil long after it had been phased out in the developed and affluent markets and despite competitive assault by other manufacturers with newer models. The largest selling car in China is still Volkswagen Santana (Dawar & Chattopadhyay, 2002). The Maruti produced by the Suzuki joint venture in India remains by far the top selling car in India for the past 20 years. It is exactly the same case in Pakistan where Suzuki Mehran 800 cc (essentially the same car as Maruti except for the name) is the top selling car in Pakistan, notwithstanding the introduction of latest models by manufacturers such as Toyota, Honda, Hyundai and others. These Suzuki cars are known to be dependable work horses that can be easily repaired when they break down with readily available and inexpensive spare parts. A simple Suzuki 800 Pick up is known to carry up to 8 passengers, on the most difficult mountain roads of North Pakistan.

The other test undertaken to isolate the industry influence of service industry on the relationship between marketing capabilities and performance did not show any significant difference from the results reported for the manufacturing firms. In other words in general, marketing management capability with its positive association, and product development with its negative association with performance across all industries is a significant finding for developing markets. Thus, till the market conditions change in the developing market economies, until research and development capabilities are developed and market research becomes important, a focus on continuously improving its marketing capability might be the best way forward for the firms as this capability aims at developing, deploying and coordinating different resources (Amit & Schoemaker, 1993; Grant, 1996; Teece, Pisano, & Shuen, 1997).

9.3.4 Discussion on the Integrative Conceptual Model

As explained earlier, one of the aims of the thesis, in order to develop a comprehensive understanding of business performance in the context of developing markets, is to analyse the relationship between business performance and the factors of strategic orientation, the factors of marketing orientation and the factors of marketing capabilities as well as the interrelationships between these independent variables. The rationale in advancing this agenda is two fold. The first is based on the practical considerations that ensue from environmental concern of focusing management in the direction of those factors that given necessary attention, would lead the firm to success and the second is more academic in nature.

The academic side is predicated on the basis that firms are a composite of behaviours that are undertaken simultaneously, which in separate yet interlinked manner affect performance. Extant literature on the above mentioned variables have generally studied their relationships with performance in isolation of the others. In a developing market context no study can be reported that used more then one of these, if at all. And that one has been market orientation. Therefore, this thesis in furthering knowledge uses all these variables to see, which of these variables has a stronger influence on performance thereby advancing theory of performance.

In light of the above a multiple regression analysis is carried out using all the factors of Market Orientation, Strategic Orientation and Marketing Capabilities as the independent variables and business performance as the dependent variable. In this case the aim, as mentioned above is to see, which of these variables has the strongest impacts on business performance in a developing market such as Pakistan. Thus, logically then these impacts should draw more attention from the management when formulating decisions. And this reflects the practical aspect of the discussion.

For example, literature suggests many things in as many ways and Gary Hamel's (1997) words from his article clearly expresses the dilemma that managers, especially in developing markets, face when confronted with competing theories and paradigms in pursuit of performance: "*Managers simply do not know what to do with all the wonderful concepts, frameworks and buzzwords that tumble out*".

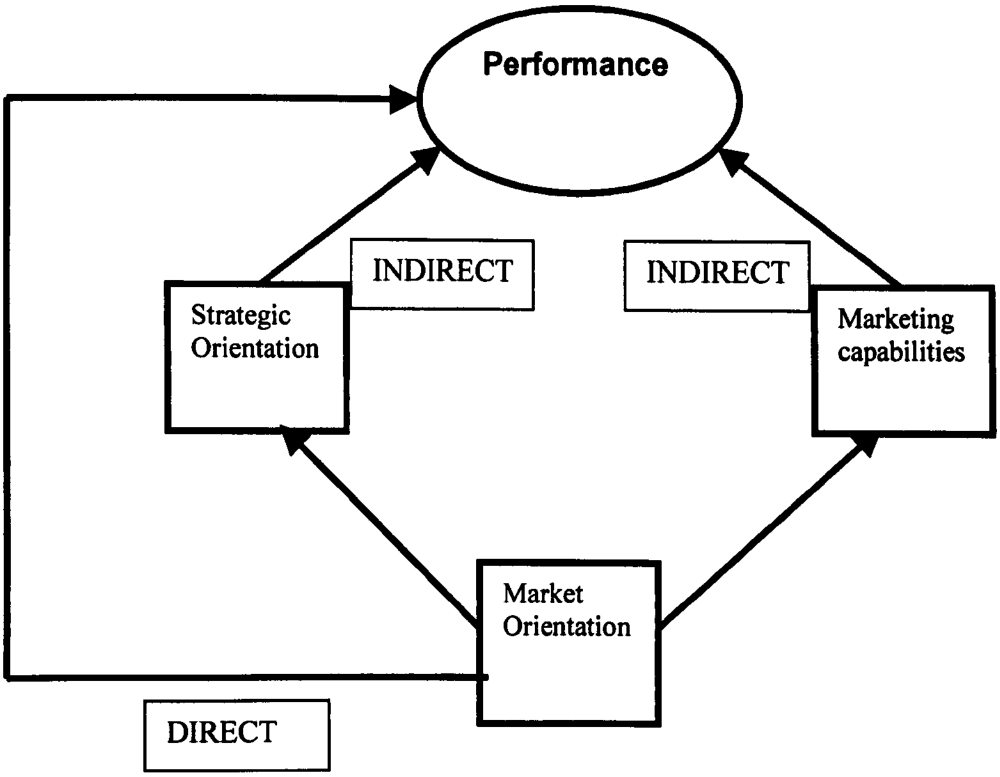
The results of the multiple regression denoted that on the one hand the Defender Orientation and Reactor Orientation as components of strategic orientated behaviour and on the other Marketing Management and Product Development as components of marketing capabilities have the strongest impact on business performance. The total absence of any component of Market orientation in the equation of the impact on business performance is intriguing at first in the light of the strong impact that MO demonstrate when the regression analysis is done using MO alone. But then the very absence of MO in this equation would lead one to suggest that MO is the driver whose impact on performance is manifested through the two groups of variable that is to say the strategic orientation and marketing capabilities. This is better illustrated in the following Figure 9.1.

Thus where there is evidence of direct impact in line with the extant literature, it also seems to be a case of indirect impact through the strategies that MO helps formulate and the capabilities that it help inculcate through the concept of a learning organization. This is exactly in line with similar findings reported by Yoon and Lee (2005) in their study. They state:

"*It was found that market oriented culture does not only affect performance directly, but do so indirectly by affecting marketing strategy making process*" (p.16)

However, overall the results denote that Defender Orientation and Marketing Capabilities should be the focus of attention for managers for their positive impacts on performance and Reactor Orientation and Product Development should be avoided as these indicate negative impacts on performance, which is also, confirmed when individual test were run that have been discussed above.

Figure 9.1 Result of the test of the Integrative Model



In summary, this result points to the definite requirement of further research in this direction for the sake of developing further knowledge and better understanding

9.3.5 Discussion on inter relationship between MO and strategic orientation as well as marketing capabilities

The interrelationship proposition regarding MO and Strategic Orientation is premised on the conceptualization of a 'Learning Organization' (Slater & Narver, 1995) as a source of competitive advantage (Shinkula, 1994; Shinkula et al., 1997; Morgan et al., 1996). Further, as noted above Narver (1996) suggested further studies to understand the link between MO and Strategies.

Learning organization signifies that organizational learning, offers the potential both to respond to and act on, opportunities in the market. At human levels managerial systems and processes need to be established to create and control this knowledge (Hooley et al., 2004). Of special importance to strategy and strategic orientation is the development of knowledge and skills in terms of creating superior value and

Slater and Narver (1995) show that a primary focus of MO is to create superior customer value. This in turn needs knowledge based activities of customer and competitor analysis. The information gathering and information dissemination on which the response of the firm will be based, all form constituent activities of MO.

Slater and Narver (1995) conclude that learning organizations continually gather process and disseminate information about the organizations competitive environments, which is sourced from the firm's stakeholders. This learning enables the organization to anticipate and act on opportunities, which is at the core of business performance. This in turn points to the impact that MO brings to bear on the organizational strategies and its pool of resources.

The result of the canonical analysis points to a strong relationship between MO and Strategic Orientation that the firm adopts. This result is consistent with the above conceptualization of a learning organization. However, a reciprocal causality is also evident. In other words as the firms learn to adopt a specific orientation the firm tends to start focusing more on those activities, which are considered as the most necessary to support that particular strategy. This is consistent with the structure follow strategy framework found in strategic management literature. However, unless MO is allowed to function in a systematic manner, which is adaptive and accommodative of the changing circumstances, there is a danger of the organization becoming path dependent and myopic in its focus and these strategies will soon lose their relevance.

The competitive dynamics of the markets in the developing economies is the result of new entrants in the shape of MNCs, substitute technologies and shifts in customer preferences. All of these point to the importance of MO as the source of establishing the relevance of strategy to the environment as well as competition in the fast developing and changing competitive situation. Otherwise the competitive advantage that the indigenous firms have will quickly erode. Therefore, managers in these environments must be aware, not only of the important contributions that MO makes in helping develop an appropriate strategy or strategic orientation as also indicated by the results, but they must also be aware of the problems that the organizations will confront if the organizations do not develop the appropriate processes and other capabilities to make the best use of what MO has to offer.

On the other hand, based on the RBV theorizing, the emphasis in strategy literature is to base strategies on the resources and capabilities of the firm. Markets and their requirements change over time and resources and capabilities must change in tandem. The essential task for marketing management is to identify and develop in advance the capabilities and competencies that the firm will need in the future (Hooley et al., 2004). The earlier discussion, therefore, on the concept of learning organization as signified by a firm that practices market orientation, is also relevant to this proposition, which emphasises the interrelationship between MO and marketing capabilities.

The result of the second function of the canonical analysis, which was pointed out as the more relevant based on the conclusions drawn from other results indicate that the most significant of the MO activities are intelligence dissemination and intelligence gathering and responsiveness respectively. This suggested that any improvement in the MO activities will result in improvements in the pricing, channel management and marketing management capabilities. This improvement in MO will on the other hand also reduce reliance on product development and marketing research, which have a negative impact on performance.

This result is intuitively appealing as the components of MO related to information gathering in view of the market sizes and their needs would reduce the needs to involve in both market research and product development. This interpretation, however, must be seen in the present market characteristics. As mentioned earlier the changes in the market structure with possibilities of growing heterogeneous demands and wants will allow for finer segmentations and the focus will shift to other capabilities. It is, therefore, strongly proposed, based on the results of the canonical analysis that those firms who have adopted MO will be in a position to develop the necessary capabilities as well as develop appropriate strategies to meet the new set of requirements.

The underlying logic as mentioned in the above discussion of the results of the canonical analysis is both theoretical and practical. By noting the interrelationships and the strengths a deeper theoretical understanding can be developed as to how these variables interact in a given environment. The more practical aspect of this study is that the managers need to focus on the unique culture or behaviours that would help the firm to develop or create the relevant structure of skills and capabilities for competing effectively. In other words this thesis is recognizing the need to focus on developing an area of a core competency of the firm by proposing that it is a market oriented organization that can effectively develop appropriate strategic orientations as well as lead the organization to develop relevant skills and capabilities, which can be leveraged across product markets. And it will be the respective abilities and the levels achieved in practicing MO, which will result in the performance differences that we will continue to see in the future.

9.4 Theoretical Implications

The major theoretical implication of the study is that it takes a first step in bridging the gap in extant strategic management and marketing literature. This gap exists on the premise that studies and finding of research conducted in developed market environments are applicable in the environments of the developing markets such as India, Pakistan and China etc. These countries constitute about 50% of the world population and are the next generation countries to lead economic growth of the world. As such leaving them out of the research loop is undermining the very bases of development and growth in knowledge (Doktor, Tung, & Von Glinow, 1991; Hofstede, 1990). Few if any studies have been conducted to test and extend theories developed in the developed countries, for their applicability to the developing market environments. Nelson (1990, p.16) clearly laid this out when he suggested that "*Strategy within the Third World environment itself has been largely ignored (emphasis added)*" and Nicholls et al. (1996), suggested that "*Research also needs to be undertaken that compares countries at similar levels of industrialization with each other, as well as with dissimilar stages of industrial development*"

This thesis is based on a comprehensive literature review of strategic management and marketing areas under discussion, as well as themes outside these areas such as globalization and political economy that are germane to the conditions that exist in the environment. These put together, it is hoped, will assist our understanding of the phenomenon that are being studied. The literature review is further supplemented by the insights that were drawn from the exploratory interviews of practitioners in business, to who the findings of this thesis should matter. The test for relationships and interrelationships between variables is necessitated as no study had been undertaken in these areas in a developing market context. A few studies focused on the market orientation-performance relationship, leaving other areas in strategic management and marketing uncovered and wanting in fulfilling the needs of theory development and testing.

This thesis proposed that the assumed logic of generalizations across all cultures and environments, whether in market oriented behaviour and performance relationship (Slater & Narver, 1990; 1993) or strategic orientation and performance relationship (Miles & Snow, 1978), is logically untenable. To develop a more comprehensive view of the applicability of these approaches further studies in the developing market economies are mandated and at this point this thesis, it could be said, makes a significant contribution of be being among the first. Therefore, the thesis tries to significantly contribute in terms of theoretical implications by empirically testing how;

1. Various types of strategic orientations impacted performance
2. Various sub constructs of market orientation affected performance
3. Various marketing capabilities affected performance
4. These significant frameworks and themes interacted and related to each other in terms of developing and influencing parameters and dimensions of the other.

Strategic management has documented the importance of strategic orientation for over three decades, which have been empirically tested[57]. Similarly numerous studies have considered not only the content but the process of these strategies (Tegarden, Sarason, & Banbury, 2003). Studies, especially those focusing on the strategic orientation, have highlighted their relationship to performance. However, it is significant to note in this context that very limited direct evidence to confirm the direct contribution of marketing strategy to the firm's performance is available (Stanley, 1995). Further, this concern for survival and successful growth is more pronounced in the highly competitive markets of the developing world, which is becoming the focus of rapid development and where the success of one is the failure of another (Zaidi, 2004). Thus, studying the dimensions of strategic orientation and testing their relationship with a firm's performance, at least in a developing market context is a step towards establishing the relevance of research in these contexts to strategy literature and is a response to the concern voiced by Stanley (1995).

[57] See chapters 5,6 for details

Further, without empirical analysis of the impacts of the various activities suggested in MO, an assumption could take hold in developing markets that all MO associated activities are equally important for performance, ignoring the possibility that certain situations could need different emphasis on MO activities (Greenley, 1995). These generalized assertions, on the other hand, also might ignore the costs of developing and fostering such activities, cultures and capabilities. In turn, Narver and Slater (1990) were very clear in suggesting that in the shape of a culture of the organization, MO is difficult to implement, is costly and requires long-term commitment.

For example, most of the previous studies of MO and performance (Bhuian, 1997; Subramanian & Gopalakrishna, 1999 etc) have taken MO as a unidimensional construct and ignored the alternative that it is also a composite of different activities. This is significant when Greenley (1995), identified the possibility of MO being partially implemented suggesting that various forms or levels of market orientation are possible and not all firms are equal in implementing the concept. Thus, studying the impacts of various sub constructs of MO on performance, is an attempt to develop a better understanding of the contribution of MO to performance and strategy development (Narver & Slater, 1996)

In a similar vein, acquisition of marketing capability and their combinations in the firm is considered to generate competitive advantage, which leads to competitive success of the firm. However, no empirical study has been presented to empirically test the view that all capabilities and skills have a positive impact on performance, as applicable in a developing market context. Studying the impact of various types of marketing capabilities and skills on performance, therefore, attempts to fill this gap in the literature in terms of a developing market context with the hope to broaden the scope and applicability of the RBV theory.

The other theoretical implication of is this study is that it explicitly addresses the contents of strategic orientations and behaviours that are applicable in a developing market context. These dimensions, while being based on Miles and Snow (1978) typological descriptions, nevertheless helped in developing an understanding of their relationship to performance. This grouping is not meant to uncover any generic strategy that may exist in a developing market context as that would be impossible to do, rather this approach through quantitative techniques is attempting to understand the strategic behaviours at a point in time, which could be the base for further studies and could be used to develop a relevant theory in the context of a developing market.

The findings of this study also have implications for integrating strategy and marketing themes, which leads in a direction that is different from the one that tends to look at the antecedents to the development of various orientations. For example, previous studies in this stream took environmental factors as one area and attempted to investigate environmental conditions under which these strategic orientations (Covin & Slevin, 1990 etc), market orientations (Hooley et al., 2000) and capabilities (Hooley et al., 1999) grew and developed. This thesis, on the other hand, denotes the possibility of looking at the reciprocal causality to gain an insight as to how these interrelate to one another by framing a new proposition and testing this proposition empirically.

9.5 Managerial Implications

The positive role of Defender and Analyser strategic orientation as well as the negative role of Reactor and Prospector orientation has been demonstrated in this study. This suggests that managers must be very careful in choosing their actions, which must result in a harmonized and a clearly definable strategy. Uncomplimentarity of action will confuse the firm's operative managers and they will tend to react to situations in the absence of guiding strategic frameworks. In a similar fashion managers must be aware of the markets they serve and the extent of prospector behaviour that is desirable in the present market condition in Pakistan and in similar developing countries. Unless they acquire the capabilities to segment the markets in finer details and also acquire the ability to assess the needs of these fragmented segments, the better and natural option is to adopt the Defender Orientation. Similarly Analyser strategic orientation requires both a defender orientation while holding core markets and a prospector ability to enter new markets. This also largely depends on the existing capability of the firm and organization. It should also be understood that most firms in Pakistan and other developing markets have limited resources and capabilities. Therefore, the managers must first rely on understanding the necessary skills or capabilities required to implement a strategy. Putting it another way, the managers must consider the needs and requirements of the market but should not forget to base their strategies on their abilities to serve these needs.

The managers must become aware that global competitive environment has increased the pace of organizational change and also made change management difficult. As the environment changes and newer and more relevant capabilities are acquired the organization must be ready to adjust its strategic activities. This point to the dynamic nature of capabilities in the sense that as market requirements evolve, as it will, in developing market economies, the marketing capability profile will also require to be changed. If the firm wants to compete effectively the management must continuously develop and incorporate those capabilities, which are relevant to the market requirements and base the strategies on these capabilities. However, the management must be wary of sending confusing signals to the internal and external stakeholders especially when a change is underway. Awareness within the organization should grow to ensure that actions are consistent in the direction that best suits the firm's organizational strengths and weaknesses.

It is widely accepted that developing market orientation in the shape of a culture is important for successful performance even in the developing market economies. This is also the findings of this thesis. However, it is important for the managers to understand that this culture should be fostered carefully through specific activities that underlie the behavioural conceptualization of market orientation. As a first step the managers must incorporate a formalized system of information gathering followed by an adequate mechanism of sharing this information throughout the organization. This requires a deliberate attempt to break from the past behaviours, which are based on the practise of keeping all information within a specific circle. Information dissemination followed by an organization wide responsiveness will also bring about a change in the traditional authoritarian style of management in which all decisions are made at the top. This focus on inculcating market orientation as an organizations top priority will create a learning organization, which as suggested by most researchers may well be the most critical factor in sustaining competitive advantage (Dickson, 1992).

The message of the findings of this study in terms of marketing capabilities is also worth noting. It need to be clear to the managers that they will be able to create a list of the firm's capabilities and resources, but some of these will be more useful than others in creating competitive advantage and business performance as demonstrated in this study. The study used six marketing capabilities and the result of the study suggests that not all capabilities positively related to business performance. The study enables the managers to recognize that the most significant capability of the firm is the marketing management, which is defined as the ability to develop, organize combine and mange other capabilities of the firm that are important for the success of the company. Marketing management capability by its nature is an integrative processes designed to apply collective knowledge and skills (Day, 1994). The managers should recognize the fact that a strategic capability such as market orientation and marketing management will strengthen the direction that the firm takes. Given a strong market orientation capability the firm should further invest in marketing management capability, which aims at developing, deploying and coordinating different resources (Amit & Schoemaker, 1993; Grant, 1996; Teece, Pisano, & Shuen, 1997).

9.6 Limitations of the Study

As with all empirical research, this study has limitations that lead to questions about its internal and external validity. The first limitation of the study is created by the data collection procedure. This study adopted availability sampling rather than random sampling method (Keppel et al., 1992). Using this method, addresses of business organizations, available with one of the management educational institution in Lahore, were used for survey. As a result it is possible that non-random sampling procedure may present some biases in the data.

For example, since the list of addresses was compiled in Lahore, more firms belonging to the region could have been included and organizations located in Karachi may have been left out. Karachi is the industrial centre of the country where most of the offices of the MNCs are located. Lahore on the other hand has traditionally been the centre of agriculture and agriculturists and is newly developing as an industrial city in the province of Punjab. Thus, it is possible that indigenous companies located in Karachi who have closer contact with MNCs, may have developed behaviours and capabilities that are different from those that are demonstrated by firms located elsewhere in the country. This effect has been demonstrated in a study by Panigrahi et al. (1996) where Indian firms that had closer contacts with MNCs had exhibited different emphasis on marketing research then those, which did not. However, the data in the present study showed that the businesses of the sampled firms were generally consistent with the overall distribution of the business sectors in Pakistan.

The second limitation is that the performance constructs used in the study were conceptualized as perceptual as opposed to objective measures. This conceptualization might be criticized as not applicable in all theoretical contexts. They might, therefore, have been biased by the relative optimism that the managers display (McCarthy, 1992). However, it would be difficult to gather objective measures of performance in Pakistan. Businesses, especially non-listed companies, which form the bulk of the business organizations in Pakistan, do not provide financial and accounting data to the public. The informants were, therefore, asked to compare their relative performance with their competitor. This is more likely to generate information from firms in Pakistan. The use of perceptual data is justified by theoretical implications, and further supported by the practical difficulties associated with data collection in Pakistan.

A further limitation, related to the effects on performance, is that a strong possibility exists where other extraneous factors that are not accounted for in this study may have been responsible for variations in the performance of firms in Pakistan. It would be beneficial to examine other myriad extraneous factors as well as other capabilities such as human resource management or financial management in understanding the relationships hypothesised here.

The third limitation is that cross-sectional data used in the study may not be able to identify the true causal relationships among the variable. The researchers have advocated the importance of longitudinal studies to establish causality. Longitudinal studies could also help to determine whether strategies, marketing activities and capabilities and their relationship with performances change overtime as a result of changed circumstances (Dowling & McGee, 1994; McDougall et al., 1994). However, as Kenny (1979) noted, the careful study of cross sectional relationships is commonly accepted for establishing causal relationships. It is also important to note that cross sectional approach allows the inclusion of a large number of firms at relatively low cost. Nonetheless, due to the exploratory nature of the study, the limitations imposed by the lack of longitudinal data should not be overstated.

The fourth limitation is the use of the single key informant for data collection in this study. It has the potential for providing information that reflects the individual views of the respondents rather than the views of the overall business. It is also likely that the informants may over-report the business performance and marketing strategies as most are owner managers. Thus, researchers have suggested the use of the multiple key informants approach for measuring organizational constructs (Conant, Mokwa, & Varadarajan, 1990; Phillips & Bagozzi, 1986). However, to reduce the possibility of inaccurate recall of the past and biased perceptions, several measurement practices were adopted in the study. These measures included free reporting, asking about simple facts and guaranteeing confidentiality. Thus, as discussed above, the informants were not likely to overstate their ventures performance.

Another limitation could stem from the use of self-report approach. Snow and Hambrick (1980) noted, by using this approach, informants may tend to report their business intended approach (those which are planned by the executives) rather than realized ones (what actually unfolds). Indeed, this limitation is not unique to the current study. As argued by McDaniel and Kolari (1987) this is the common problem in social science research. However, this limitation is mitigated in the current study, given the fact that following the suggestion of Adler et al. (1989), the respondents were explicitly instructed to answer the questions based on real situations and all the respondents were well positioned in their firms to be fully aware of the strategies and activities of the firm.

Limitations may also arise from the development of the research instrument. Given the difficulties in data collections in Pakistan there were financial and time constraints on pre-testing the questionnaires in the country. For example while developing the construct to measure strategic orientation the paragraph descriptions from Miles and Snow (1978) were used. The recommended procedure like using focus groups and prejudging items (Churchill, 1979) was not used and as such these constructs should have been termed 'preliminary' (Ping Jr., 2004). In other words the development of the research instrument may not have been as perfect as desired.

However, these scales were otherwise checked through two separate involvements one from academics and the others business managers. As no changes were suggested and as this study is also exploratory, in the sense that it is exploring the strategic behaviours in the developing market context with no intention to uncover comparative generic strategic orientations and the results of validity and reliability tests were also acceptable, the scale was considered to be suitable to be used in the study. Other studies in the same area may like to use a combination of the Miles and

Snow (1978) paragraph approach as well a multi-item scale to improve the reliability of the results.

Finally, though the research demonstrates interesting findings they are from only a single study. The small sample size (n = 89) need to be acknowledged as a potential limitation. It is difficult to apply confirmatory factor analysis to confirm the underlying structure of strategies and behaviours. This needs to be remedied by using larger samples. Further a wide range of business organizations including SMEs were not sampled here. One could, therefore, question the generalizability of these findings to all types of firms. Moreover, the generalizability of findings to other developing economies could be challenged on the basis of these economies experiencing different learning curves moving them along different trajectories. However, the sample represented a cross-section of firms from a variety of businesses in Pakistan and generalizability of findings to other developing economies is based on similarity in economic, cultural and historical backgrounds, which provides a high degree of external validity to the study.

9.7 Directions for future research

The limitations discussed above offer several interesting opportunities for further research. The following are but a few of the possible avenues for future research. First the sample used in this study did not constitute a random sample because the participation of the top managers was voluntary. To improve the external validity of the research findings, a direction of future research is to replicate the principal features of the study within different industries, regions and/or countries. Emerging market economies have become a global phenomenon and have attracted increasing attention from both academics and practitioners (Golden et al., 1995; Nee, 1989, 1992; Peng & Heath, 1996). Yet research on the relationship between strategy and performance in such economies is lacking in the literature. Replications of such studies as done in the thesis may greatly enhance the understanding of the performance implications of marketing strategies and behaviours in developing market economies.

Second, the constructs in the study were measured based on self-reports. Though the subjective data used in this study provided empirical support of most of the hypothesized relationships, this should not exclude the use of alternative methodologies. The findings can be strengthened with more objective data. For example, a good direction for future research would be toward validating the self-assessment performance measures with objective indicators.

Third, businesses in developing economies are highly unstable in terms of competitive strategies or behaviours as they are in the early stages of acquiring relevant capabilities and cultures. These approaches to strategy and marketing are taken for granted in the developed market economies. Therefore, a longitudinal approach should be adopted in the future. Using this approach may provide better understanding of how business marketing strategies and behaviours change overtime and can impact business performance. Longitudinal studies are difficult to do and are time-consuming but often they are the best way to assess causality.

Fourth, the dimensions of marketing strategy or strategic orientation and marketing capabilities conceptualized in this study were not exhaustive. To achieve theoretical parsimony, this study focused on dimensions of strategic orientation defined by Miles and Snow (1978) and focused on six marketing capabilities derived from Vohries et al. (1999). However, other strategy and capability dimensions such as quality, productivity etc should be considered in the future research. Interestingly, the exploratory interviews suggested that Pakistani firms tended to view quality as a component of production rather than marketing. Quality becomes a concern of most manufacturers in the current economic scenario. Future research should address this issue in order to better interpret the relationship between strategies, capabilities and performance.

Equally important this study focussed on outcomes of strategic orientations and marketing orientations in terms of performance measures. Future research should explore the antecedents of these orientations. Future research should also explore the barriers to the adoption of market orientation and strategic orientations as well as the processes for developing and reinforcing market orientation and for implementing it through the organizational structure, systems and capabilities. RBV based perspectives are helpful in exploring the antecedents. From the industrial organization perspective (Bane, 1968; Scherer, 1980), a firm's conduct is determined by structure. It seems that internal factors such as organizational structure, product factors etc. and external factors such as market environment and industry structure etc. may have an impact on the adoption of strategic orientation and market orientation in a developing market economy.

According to RBV (Barney, 1991), " *firm resources include all assets, capabilities, organizational processes, firms attributes, information, knowledge, etc. controlled by a firm that enable a firm to conceive of and implement strategies that improve its efficiency and effectiveness*" (p. 101). Typically, firms at the initial stages of start-up are characterized by some unique resources that engender their ability to adopt and implement strategies (MacMillan, Hambrick, & Day, 1982). On the other hand marketing strategy represents an important means to acquire new resources. An attempt has been made in this study to determine the interrelationship between strategic orientation, marketing orientation and capabilities. This study suggests that there exists reciprocal causality between marketing strategy, resources and market orientation. Additional research is needed on how resources affect the adoption of the strategies and how strategies help in resource acquisition. Further it is suggested in this study that market Orientation helps a firm to learn and this learning could extend to the acquisition of necessary capabilities. It would be interesting area to research whether MO leads to a superior learning capability? And what other organizational capabilities are required to enhance the organizational learning.

Sixth, researchers in strategic studies have advocated using the configurational approach to establish typologies of business strategies. As noted by Hambrick (1980), "*the primary strength of typologies is that they endeavour to capture both the comprehensiveness and the integrative nature of strategy*" (p. 572). However, previous studies tended to develop typologies without theoretical foundations (Ketchen & Shook, 1996). Few, if any, studies have theoretically and empirically studied and tested the dimensions used for developing typologies. This study theoretically identified and tested the dimensions of strategic orientations using the descriptions provided in the Miles and Snow (1978) typology. Developing variables from broad descriptive statements may not be truly representative of the dimensions of strategic behaviours or orientations and may have missed features that are more relevant in a developing market. The dimensions of strategic orientation that have been tested in the environment of a developing market in this thesis provide a foundation for future research, in endeavouring to identify the configuration of marketing strategies in developing market economies.

Finally, the failure rate of businesses in developing economy such as Pakistan is fairly high. Though the relationship between the market orientation as well as strategic orientation and business performance is significant as found in this study, other antecedents of performance such as technology, human resources and financial planning and financial strategies are critical. In the view of the thesis it is a rich avenue for exploring the differential effects of marketing, technology, human resources and financial strategies on business performance. These issues should be addressed in the future research.

9.8 Conclusion

The major objective of the study is to investigate the relationship between Strategic Orientation, Market Orientation and Marketing Capabilities with a firm's performance in a developing market economy. Based on these different perspectives a theoretical framework was developed for representing the linkage between Strategic Orientations, Market Orientation and Marketing Capabilities with performance. A perspective on the interrelationship between Market Orientation and Strategic Orientation as well as Market Orientation and Marketing Capabilities was also developed and presented.

Given the nature of this study and a lack of research in strategic orientation and business performance in the developing market context, the dimensions of strategic orientation were extracted from the statements describing the typologies of Strategic Orientation (Miles & Snow, 1978). Thus, the variables to measure Strategic Orientation were delineated and later empirically validated using the broad conceptualization forwarded by Miles and Snow (1978).

On the other hand for market orientation, the study used the constructs based on the Kohli and Jaworski (1990) conceptualization. These construct have generally been found to be robust, valid and reliable, therefore, the variables to measure the marketing orientation constructs provided by Kohli and Jaworski (1990) were used. Finally, the constructs for marketing capabilities that were used in this research were developed and tested by Vohries et al. (1999) based on an earlier study by Möller and Antilla (1987). In all six areas of marketing were included in the study to indicate the existence of relevant capabilities such as market research, pricing, channel management, promotion and marketing management. Further, performance was conceptualized using marketing and financial measures along with an overall business performance measure based on the subjective evaluation by the respondent. These performance measures were conceptualized as one-dimensional and a relative evaluation was sought in relation to the strongest assumed competitor.

Data was collected from a cross section of industries representing the overall business organizations of Pakistan. The responding sample included 89 organizations. The key informant approach is used in collecting questionnaire responses. The main statistical techniques used include:

1. Exploratory and principal component factor analysis (CFA)
2. Simple and multiple regression analysis using enter as well as stepwise approaches
3. Cluster Analysis
4. Canonical Correlation Analysis

The data showed that Market Orientation, Strategic Orientation and certain Marketing Capabilities have a significant influence on performance of firms in the business environment of a developing country such as Pakistan. The study, however, also showed that not all the various sub constructs of Market Orientation and Strategic Orientation had a direct and positive influence on firm's performance. Rather, contrary to the accepted belief, some of these showed an inverse relationship to firm's performance. For example the result suggested that in the current market conditions in Pakistan, the most appropriate strategic orientation will be Defender Orientation. On the other hand Reactor Orientation should be avoided in all situations and Prospector Orientation should be avoided at least in the present market environment in Pakistan.

In terms of the results of MO and performance relationship, there is a clear indication that overall the Market Orientation has a positive influence on the various performance measures. On the other hand in terms of the positive influence of various sub constructs and activities of Market Orientation on business performance, the most important areas to focus in the context of Pakistan, are Intelligence Gathering and Intelligence Dissemination. Further, Responsiveness is an activity that requires thoughtful application to avoid being reactive, with its negative undertones. This may become more pronounced if the organization lacks the necessary ability to create an organization wide response mechanism including participatory management, employee empowerment etc.

The results, based on Marketing Capabilities and their impact on performance of companies in the business context of Pakistan, suggest that not all capabilities are important for all organizations except marketing management capability. The rest of the capabilities must be seen in the context of the organizations objectives as well as product market scopes. In this regard the results demonstrate the insignificant impacts of pricing as well as promotion on the performance of the firms in general and it is best to avoid new product development in the limited market conditions especially. It is also to be noted that the need for acquiring capabilities will change with changing business market environments.

Finally, the results demonstrate the reciprocal causality between Market Orientation and Marketing Capabilities as well as Strategic Orientation. The results suggest that as a firm becomes more market oriented the firm will learn to acquire new capabilities; however, as the firm learns to acquire capabilities it will tend to push the organization to emphasize one or the other constituent activity of market orientation. The same reciprocal causality is evident in Market Orientation and Strategic Orientation. The more emphasis is placed on a specific activity the more a firm will start to exhibit dimensions of a particular strategic orientation. For example over emphasis on Responsiveness will create Reactor Orientation overtime, while Intelligence Gathering focused on the competitors could lead to strong Defender Orientation and more information on the customers could result in a Prospector Orientation.

Implications for executives and managers are clear. There is a need for the managers to prioritise the need to develop an understanding of the effects of Market Orientation on firm strategic and functional behaviours. The thesis uses the words of Morgan and Strong (1997, p. 1067) to drive this message home:

"Priorities need to be established to understand that the effects of market orientation are manifest in the form of strategic orientations adopted by the organization. Consequently, the firms that do not recognise the value of pursuing activities and behaviours commensurate with a market orientation may also be suffering from a poor outlook in competitive strategy terms by lacking a proactive spirit, adopting a decision making approach that may be misguided and being preoccupied with immediate and short- term issues".

Despite the significance of the study, its exploratory nature is acknowledged. This type of study is however, necessary as there is lack of theory development in developing market economy contexts for which this thesis can be constituted as a major step. This research, it is hoped will become a building block of a framework of middle range theory that would make such studies more rigorous both theoretically and methodologically in the future.

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APPENDIX A

RESEARCH QUESTIONNAIRE

University of Nottingham

Project Title: Marketing Capabilities and competitive strategies

Respondent:

Date:

Dear Respondent

Thank you for taking some time out for filling this questionnaire. It will take approximately 20 minutes of your time but would be a great help in achieving the goal of my PhD thesis, which is to understand the ways successful businesses operate in developing countries. I am grateful and assure you that all information provided will be kept **completely confidential** and will only be used for the purposes of research. Thank you once again

Section A. Market Orientation

Q: To what extent do you agree or disagree with the following statements about market orientation based activities in your firm.

"**1**" means **Strongly Disagree** and "**7**" means **Strongly Agree**

Intelligence Generation								
A1	In this business unit we meet with the customers often to find out what products or services would they need in the future.	1	2	3	4	5	6	7
A2	Individuals from our production department interact directly with the customers to learn how to serve them better.	1	2	3	4	5	6	7
A3	In our company we do a lot of in-house market research.	1	2	3	4	5	6	7
A4	We are slow to detect changes in our customers' product preferences.	1	2	3	4	5	6	7
A5	We survey end users at least once a year to assess the quality of our products and services.	1	2	3	4	5	6	7
A6	We often talk or survey those who can influence our end users purchases, e.g. retailers and distributors.	1	2	3	4	5	6	7
A7	We collect industry information by informal means, e.g. lunch withindustry friends, talk with trade partners etc.	1	2	3	4	5	6	7
A8	In our company several departments generate information on competitors independently.	1	2	3	4	5	6	7
A9	We periodically review the likely effect of changes in our business environment, e.g. regulation on our customers.	1	2	3	4	5	6	7
A10	We are slow to detect fundamental changes in our industry, e.g. technology regulation competition	1	2	3	4	5	6	7

Intelligence Disseminations								
A11	A lot of informal "chat" in our organization concerns our competitors' tactics or strategy.	1	2	3	4	5	6	7
A12	We have interdepartmental meeting at least once a quarter to discuss market trends and developments.	1	2	3	4	5	6	7
A13	Marketing personnel of our company spend time discussing customers future needs with other functional departments.	1	2	3	4	5	6	7
A14	Our company periodically circulates documents, e.g. reports newsletters etc that provide information on our customers	1	2	3	4	5	6	7
A15	When some thing important happens to a major customer of the market, the whole company knows about it within a short period	1	2	3	4	5	6	7
A16	Data on customer satisfaction are disseminated at all levels in this unit on a regular basis.	1	2	3	4	5	6	7
A17	There is minimal communication between marketing and the manufacturing departments concerning market developments.	1	2	3	4	5	6	7
A18	When one department finds something important about competitors it is slow to alert other departments.	1	2	3	4	5	6	7
Responsiveness								
A19	It takes us quite a while to decide how to respond to our competitors' price changes.	1	2	3	4	5	6	7
A20	Principles of market segmentation drive new product development efforts in our organization.	1	2	3	4	5	6	7
A21	For one reason or another we tend to ignore changes in our customers product or service needs.	1	2	3	4	5	6	7
A22	We periodically review our product development efforts to ensure that they are in line with what customers want.	1	2	3	4	5	6	7
A23	Our business plans are driven more by technological advances than by marketing research.	1	2	3	4	5	6	7
A24	Several departments get together periodically to plan a response to changes taking place in our business environment.	1	2	3	4	5	6	7
A25	The product lines we sell depends more on internal politics than real market needs.	1	2	3	4	5	6	7
A26	If a major competitor were to launch an intensive marketing campaign targeted to our customers, we would implement a response immediately.	1	2	3	4	5	6	7
A27	The activities of different departments in this organization are well coordinated.	1	2	3	4	5	6	7
A28	Customer complaints are normally ignored in this organization.	1	2	3	4	5	6	7
A29	Even if came up with a great marketing plan we probably would not be able to implement it in a timely fashion	1	2	3	4	5	6	7
A30	We are quick to respond to significant changes in our competitors pricing structures.	1	2	3	4	5	6	7

A31	When we find that customers are unhappy with the quality of our service we take immediate corrective action.	1	2	3	4	5	6	7
A32	When we find customers would like us to modify a product or service the department involved makes concerted efforts to do so.	1	2	3	4	5	6	7

Section B. Marketing Capabilities

Q: To what extent do you agree or disagree with the following statements about market capabilities based activities in your firm.

"**1**" means **Strongly Disagreed** and "**7**" means **Strongly Agreed**

Market Research								
B1	Our marketing research abilities help us find more new customers than do our competitors.	1	2	3	4	5	6	7
B2	Market research skills help us develop effective marketing programs.	1	2	3	4	5	6	7
B3	We use our marketing research information more effectively than our competitors use their own marketing research information.	1	2	3	4	5	6	7
B4	Our marketing research expertise helps us develop better marketing programs than our competitors.	1	2	3	4	5	6	7
Pricing								
B5	Pricing has a major impact on marketing program success.	1	2	3	4	5	6	7
B6	Our pricing approach is more effective than our competition's.	1	2	3	4	5	6	7
B7	We know competitors pricing tactics better than they know ours.	1	2	3	4	5	6	7
B8	Our prices our comparatively lower than our competition's prices.	1	2	3	4	5	6	7
Product Development								
B9	We do a better job of developing new products/ services.	1	2	3	4	5	6	7
B10	Our product/service development often falls short of its goals.	1	2	3	4	5	6	7
B11	Our product/service development gives us an edge in the market.	1	2	3	4	5	6	7
B12	Our product/service development efforts are more responsive to the customers needs than those of our competition.	1	2	3	4	5	6	7
Channel Management								
B13	We have better relationships with distributors than do our competitors.	1	2	3	4	5	6	7
B14	Our distribution system is more efficient than our competitors.	1	2	3	4	5	6	7
B15	We work more closely with distributors and retailers than do our competitors.	1	2	3	4	5	6	7
B16	Our distribution programs are vital for marketing success.	1	2	3	4	5	6	7

Promotion								
B17	Advertising is a vital component of our promotional program.	1	2	3	4	5	6	7
B18	Our sales promotions (coupons, free samples etc) are more effective than those of our competitors.	1	2	3	4	5	6	7
B19	Our advertising programs are more effective than those of our competitors.	1	2	3	4	5	6	7
B20	Our promotional campaign is a very important component of our competitiveness in the market.	1	2	3	4	5	6	7
Market Management								
B21	Our abilities to segment and target-market help us compete.	1	2	3	4	5	6	7
B22	We manage our marketing programs better than our competitors.	1	2	3	4	5	6	7
B23	Our marketing management skills give us a competitive advantage.	1	2	3	4	5	6	7
B24	Our ability to coordinate various departments in this organization helps us to respond to market conditions faster than our competitors.	1	2	3	4	5	6	7

Section D. Strategic Type

Q: To what extent do you agree or disagree with the following statements about Marketing/Business Strategy based activities in your firm.

"**1**" means **Strongly Disagreed** and "**7**" means **Strongly Agreed**

D1	Our organization attempts to locate and maintain a secure niche in a relatively stable product or service area.	1	2	3	4	5	6	7
D2	Our firm tends to offer a more limited range of products and services than its competitors.	1	2	3	4	5	6	7
D3	Our firm tries to protect its product market by offering higher quality product/superior service and or lower prices etc.	1	2	3	4	5	6	7
D4	Our firm is often not in the fore front of developments in the industry--- it tends to ignore industry changes that have no direct influence on current areas of operation and concentrates on doing the best job possible in a limited area.	1	2	3	4	5	6	7
D5	Our firm typically operates within a broad -product market area that undergoes periodic redefinition	1	2	3	4	5	6	7
D6	Our firm values being the 'first in' in new product and market area even if not all of these efforts prove to be highly profitable.	1	2	3	4	5	6	7
D7	Our organization responds rapidly to early signals concerning areas of opportunity and these responses often lead to a new round competitive action.	1	2	3	4	5	6	7
D8	However our firm may not maintain market strength in all market that it enters.	1	2	3	4	5	6	7
D9	Our firm attempts to maintain a stable, limited line of products or services.	1	2	3	4	5	6	7

D10	Our firm is also quick to move out quickly to follow a carefully selected set of more promising new developments in the industry.	1	2	3	4	5	6	7
D11	Our firm is seldom 'first in' with new products or services.	1	2	3	4	5	6	7
D12	Our firm carefully monitors the actions of major competitors in areas compatible with our stable product market base, and we are frequently the 'second in' with a more cost-efficient product or service.	1	2	3	4	5	6	7
D13	Our firm does not appear to have a consistent product-market orientation.	1	2	3	4	5	6	7
D14	Our firm is usually not as aggressive in maintaining established products and markets as some of its competitors, nor our we willing to take as many risks as other competitors.	1	2	3	4	5	6	7
D15	Our firm normally responds in those areas where it is forced to by environmental pressures	1	2	3	4	5	6	7

Section E. Business Performance

Q: In the last three years, relative to your closest competitor how well or poorly do you perceive your firm has performed on the performance measures?
"**-3**" means **Much Worse**, "0" means **About the Same** and "**+3**" means **Much Better**

E1	Over all business performance	-3	-2	-1	0	1	2	3
E2	Market share	-3	-2	-1	0	1	2	3
E3	Sales Growth	-3	-2	-1	0	1	2	3
E4	Customer satisfaction	-3	-2	-1	0	1	2	3
E5	Profitability	-3	-2	-1	0	1	2	3
E6	Return on Investment	-3	-2	-1	0	1	2	3

Section F. Company Information

F.1 Name of Organization:

____

F.2 Company Address:

____

____

____

____

____

F.3. When was your company incorporated? 19__ or 200_

F4. When did your company start its operations? 19__ or 200_

F5. Where is the plant located? (If applicable)

____

F6. What is the company's paid up capital in million Rupees? Tick if appropriate

0 - 50	
51-75	
76-100	
Above 100	

F7. What is the company's approximate turnover in million Rupees? (Optional) Tick if appropriate

0 - 100	
101-500	
501-750	
Above 750	

Please tick up to three of the following consumer goods that belongs to your company...

Consumer Goods Type	Choice 1	Choice 2	Choice 3
Food			
Beverages			
Textiles			
Garments			
Furniture			
Paper and Paper Board			
Leather Goods			

Thank you for your valuable time. If you are interested in receiving the findings of the research please tick ______. The findings will be mailed to the address given above.

Appendix B

Exploratory Interview Questionnaire

Introduction

The main research theme is to understand what types of strategies local indigenous firms undertake in competing against multi nationals? The interviewer is required to explore two additional associated areas of interest without asking leading questions.

1. What aspects of the firm's behaviour and its internal environment influences performance.
2 What sort of capabilities are considered important which, enable a firm to compete effectively against multinationals.

This questionnaire is meant to guide the interviewer. Since the interview is meant to be open ended due to the nature of the issue being investigated, there are some prompts to be followed by the interviewer, if required. The interviewer can also use his/her discretion in prompting the interviewee keeping in mind the major thrust of the subject under investigation.

Could you tell me something about your company?

Prompts:

When was it incorporated?

Has the corporate structure been changed?

Why?

What is the relative size of the company i.e. approx. turnover, number of workers, number of managers etc.?

What the company's product market scope?

Prompt:

Does it operate in a single product market or does it have multiple products?

What is the product? And what is its market?

How would you define the market and what are its characteristics?

Prompt:

Level of technological change, Fixed cost structure in relation to the overall cost structure, level of competition, maturity of the products using the PLC concept, buyer and supplier power, threats of new entrants and barriers to entry if any.
Are there any specific issues that currently confront your company?

Can you tell me something about yourself?
Prompts:
How long have you been in this business? What made you come into this business? What were you doing before you came into this business? What is your educational background and qualifications?

- Who do you consider to be your major competitors?
  Prompt:
  Multinationals, Local indigenous firms or joint ventures firms
- How is your firm performing in comparison with your competitors?
  Prompt:
  Is their performance better equal to or weaker than the competitors and in what areas?
  Are they better or weaker than the competitors i.e. how is performance defined? What do they mean by performance? Do they see it in terms of financial performance, market share, quality and customer satisfaction or is it some thing else?
- What explains this performance?
  Prompt:
  If the company is doing well, what are the possible reasons for its good performance? And if the company is not doing well what are the possible reasons?
  Possible reasons could be the market demand, the economic environment, the competitive situation, weak resource base, lack of required resources such as properly trained work force skilled management, attitudes etc.
- How would you describe your competitive marketing strategy? And what are the attributes of your marketing strategies within the over all business strategy?
  Prompt:
  Use of price and quality etc in order to acquire and retain customer
- What element of the marketing mix forms the basis of your competitive marketing strategy?

Prompt:

What does the company emphasize in the marketing strategy, its product and its unique features/attributes or quality? Or price, promotion, service etc?

- What do you think is the core competence under laying your marketing strategy? Or what do you think is your company's critical strength in terms of capabilities?
- Has there been any change in your marketing strategy over the past years?

  Prompt:

  What areas of your marketing strategy have changed?
- What made you change the marketing strategy of the firm?
- Has your industry been affected by the entry of the multinational firms?
- Did the entry of the multinational force the industry to change in any substantial way? What type of change has taken place?

  Prompt:

  What is more important to the market now in terms of the marketing mix?
- What do you think is the future of the local firms in your industry?
- Why?
- What do think are the key success factors in your industry?
- Have these changed over the years?
- Do you think they will change again in the near future? In the long term?
- Do you think your company has the critical strengths to meet these requirements? And what type of capabilities do you think will be required to compete effectively in the future?
- How do you train your employees? Will the training requirements change in the future in any way?
- How does your firm approach environmental scanning?
- How do you seek market information?

  Prompt:

  Do you rely on your own knowledge of the market? Or do you regularly hire market research or do you have any other formal method of gathering market/customer information?

  In what form is the information provided and who all in the company get the information on a regular basis? How is the information recorded and maintained?
- How does the company respond to this information?