

Transformational leadership and market orientation: Implications for the implementation of competitive strategies and business unit performance

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Received 28 June 2006; accepted 7 December 2006

Abstract

Drawing on the resource-based view of the firm, particularly the competency-based view of strategy making, the authors develop and test an integrated model of the source–positional advantage–firm performance chain. The model postulates transformational leadership and market orientation as managerial-based and transformational-based competencies, respectively. Such competencies should lead to marketplace positional advantages through competitive strategies such as innovation differentiation, marketing differentiation, and low cost. In turn, these positional advantages contribute to different firm performance metrics, specifically, effectiveness and efficiency. The authors discuss some implications for competitive strategy theory using a resource- (competency-) based perspective, along with managerial implications.

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Keywords: Market orientation; Resource-based view; Competency; Positional advantage; Transformational leadership; Competitive strategy

1. Introduction

Leading firms possess several different types of competencies that enable them to achieve superior firm performance. Academics and practitioners have long believed that firms need to develop and maintain unique competencies that distinguish them from competitors (e.g., Day, 1994). Specifically, the resource-based view (RBV) of the firm underscores the significance of intangible, tacit, complex, and socially embedded resources as major sources of superior and sustainable firm performance (Barney, 1991; Day and Wensley, 1998; Hunt and Morgan, 1995; Srivastava et al., 2001; Wernerfelt, 1984). Several studies examine the interrelationships among different competencies that firms possess and acknowledge that these intricate relationships lead to competitive strategies, but researchers have not explored the implications of these studies

sufficiently. Moreover, the links between different competitive strategies and different metrics of firm performance, such as efficiency and effectiveness, remain uncertain. Specifically, little research examines *how* resources and competencies affect firm performance (Han et al., 1998).

This article posits that different competitive strategies bridge the gap between competencies and firm performance. Drawing on the conceptual frameworks of Day and Wensley (1998) and Hunt and Morgan (1995), this study develops and tests the source–positional advantage–firm performance (SPP) chain, a conceptual framework that stands in stark contrast with the structure–conduct (strategy)–performance paradigm supported by industrial organizational literature (Bain, 1968). According to the SPP framework, firms develop their strategies internally using resources and competencies rather than on the basis of industry structure. Competitive strategies should enable firms to occupy certain positional advantages, whether through differentiation or cost leadership (Porter, 1980). Therefore, competitive strategies function by showing customers (external constituents) what the firm has to offer in terms of its competencies (internal strengths).

This unique study contributes to marketing strategy literature in several ways. First, by drawing on Lado et al. (1992), it

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conceptualizes transformational leadership as a managerial-based competency and market orientation as a transformational-based competency, then examines the relationship between these two competencies. The term “competency” encompasses both resources and capabilities of organizations, consistent with the definition that appears in marketing and management literature (Fiol, 1991; Lambe et al., 2002). Second, despite the widespread diffusion of market orientation literature, existing studies overlook whether the market orientation construct influences different types of competitive strategies, such as innovation differentiation, marketing differentiation, and low-cost strategies. This study therefore examines how the two competencies can develop different competitive strategies. Third, rather than using a global metric of firm performance, as is typical in the literature, this research divides firm performance into two facets to reflect the nature of different competitive strategies: effectiveness (pertaining to growth) and efficiency (pertaining to maintaining and lowering costs). This dual-metric approach offers a better understanding of how varying competitive strategies may affect firm performance in different ways (Vorhies and Morgan, 2003; Walker and Ruekert, 1987).

2. Theoretical background and hypotheses development

The conceptual model appears in Fig. 1. Lado et al. (1992) propose four different types of competencies—managerial-based, resource-based, transformational-based, and output-based—and for the proposed conceptual model, the most appropriate are managerial-based (transformational leadership) and transformational-based (market orientation) competencies. Transformational leadership and market orientation should lead to marketplace positional advantage, which emerges as low-cost and differentiation strategies enhance superior firm performance.

2.1. Relationship between competencies

Managerial-based competency refers to the ability of firm leaders to articulate and communicate the firm’s vision, values, and beliefs to its subordinates (Lado et al., 1992; Slater and Narver, 1995). That is, managerial-based competency reflects the purpose, commitment, and direction of its leaders. Because

of its central role for the fate of an organization, managerial-based competency often influences other types of competencies. Transformational leadership represents one such managerial-based competency, because it instills in subordinates a sense of belonging, commitment, inspiration, and stimulation to achieve goals and values that coincide between employees and the organization (MacKenzie et al., 2001). Transformational leadership strives to align the values and goals of employees with those of the organization by influencing or altering their values, beliefs, and attitudes through internalization or identification (Kelman, 1958) and consists of four subdimensions: inspirational motivation, intellectual stimulation, individualized consideration, and charisma (Bass and Avolio, 1994).

In contrast, transformational-based competency represents a competency that converts inputs to outputs (Lado et al., 1992), such as organizational culture, innovativeness, entrepreneurship, and organizational learning, to name just a few (Day and Wensley, 1998; Hurley et al., 1998). Market orientation serves as the focal transformational-based competency in this study, because it comprises the cultural aspects of an organization (Desphande et al., 1993; Hurley et al., 1998). Furthermore, the cultural view of market orientation defines it as an organizational culture in which values and norms exist and enhance customer value and satisfaction (Homburg and Pflesser, 2000; Narver et al., 1998).

According to managerial interpretation (sense-making) theory (Dutton and Jackson, 1987; Jackson and Dutton, 1988), characteristics that epitomize transformational leaders influence how they scan, interpret, and take actions within their social context and thereby ultimately shape and form the surrounding culture. Using cognitive appraisal theory, White et al. (2003) explain how a marketing manager’s cognitive style, perceptions of the organizational culture, and use of information affect his or her interpretation of the market situation, including perceived control and appraisals of opportunities and threats. Culture—or the shared values and norms that guide the attitudes, beliefs, and behavior of an organization—thus reflects the attributes of the top manager (Walsh, 1995).

The influence of top management on strategy formation, strategy implementation, and culture cultivation therefore cannot be overemphasized. Marketing literature underscores the significance of the role of senior management (Webster, 1988); for example, Day (1994, p. 48) asserts that “Senior management leadership is needed to reshape the culture, through such actions as proposing a challenging vision of the future or setting a major performance target like cutting time to market in half”. Narver et al. (1998, p. 44) buttress this position by claiming that “[t]op management plays a critical leadership role in changing a culture in general, and in creating a market orientation in particular”. On a similar note, Harris and Ogbonna (2001) find that participative and supportive leadership facilitate market orientation, and Lado et al. (1992) suggest that managerial-based competency influences organizational culture by developing transformational-based competencies. Furthermore, Narver et al. (1998), studying market orientation, find that transformational leadership can (1) form a powerful guiding coalition to determine market orientation, (2) create a

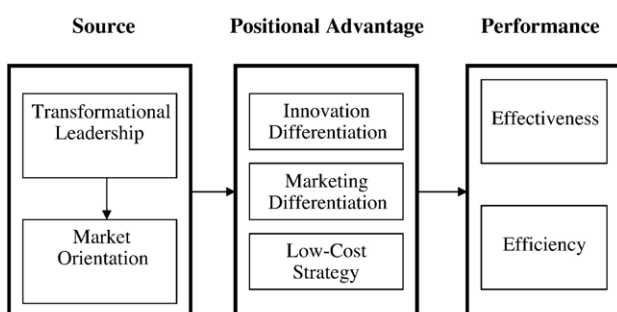


Fig. 1. Conceptual model.

vision of market orientation and a related implementation plan, (3) communicate a market orientation vision, and (d) empower others to act on that vision.

To recapitulate, Narver et al. (1998, p. 45) assert, “Without appropriate leadership, creating a market orientation is simply not possible”. Given the influence that senior management leadership and, in particular, transformational leadership have on market orientation,

H1. Transformational leadership is positively associated with market orientation.

2.2. Relationship between competencies and competitive strategies

A marketing differentiation strategy provides uniqueness and points of difference through image, customer service, advertising, promotions, distribution, and other marketing-related activities. Whereas an innovation differentiation strategy ensures the functionality, design, performance, and consumption experience are unique and superior, a low-cost strategy achieves low-cost structures through superior refinement, exploitation, and control of facilities and resources. For example, firms often use automation, modernization, capacity utilization, and economies of scale to achieve lower costs. Porter (1980) claims that the effectiveness of differentiation and low-cost strategies requires not only common but also different sets of skills, resources, and competencies. In particular, marketing and customer-linking skills are more relevant for marketing differentiation strategies; research and development and product engineering capabilities are critical for innovation differentiation strategies; and process efficiency and engineering are most important for low-cost strategies.

Behavioral consequences that are derived from transformational leadership include greater encouragement of employees to think creatively to solve present and future problems, take risks, and challenge orthodox ways of conducting tasks. Elenkov and Manev (2005) strongly support the positive effect of transformational leadership on product/market innovation and organizational innovation. Furthermore, intellectual stimulation, one of the dimensions of transformational leadership, should foster greater creativity and experimentation and thereby lead to more innovation differentiation strategies.

Transformational leadership also positively affects a marketing differentiation strategy. Day (1994) argues that senior management plays a critical role in nurturing a market-driven organization and that market-driven organizations possess the capabilities to deliver inside–out, outside–in, and boundary-spanning processes. A marketing differentiation strategy satisfies a significant portion of the three processes that signify market-driven capabilities. Furthermore, transformational leadership enables job flexibility and empowerment by bestowing confidence and motivation on employees. A marketing differentiation strategy therefore demands an atmosphere in which employees have more autonomy to be effective.

Conversely, a low-cost strategy typically demands tight controls on operational functions, which enhance efficiency.

However, low-cost strategies still require mental and motivational identifications, not just state-of-the-art process engineering and technical sophistication, to create common visions and purposes. Alberts (1998) emphasizes the imperative that low-cost strategies must be firmly embedded in a context that values volition, imagination, and drive. In an attempt to refute the “experience curve doctrine”, he asserts that firms cannot achieve lower costs solely through technical engineering. Instead, human resources must complement technical resources, particularly in terms of enthusiasm and will, which encompass the behavioral and psychological nature of dynamic managers. Consequently,

H2. Transformational leadership is positively associated with (a) marketing differentiation, (b) innovation differentiation, and (c) low-cost strategies.

Prior research offers many reasons that market orientation is a critical transformational-based competency for marketing differentiation, innovative differentiation, and low-cost strategies. Market orientation promotes a cultural environment in which customer satisfaction, service quality, and the fulfillment of unmet customer needs appear at the forefront, so a market-driven organization owns exceptional market-sensing and customer-linking capabilities. Such capabilities take an outside–in approach to marketing and facilitate a marketing differentiation strategy (Day, 1994). As an organization’s market-sensing, customer-linking, and channel-bonding capabilities improve, it can better predict and deliver on current and future customer expectations through superior learning and monitoring capabilities. In this respect, market orientation should have a positive influence on marketing differentiation strategies.

With regard to innovation differentiation strategies, Day (1994) notes that market-driven organizations can engage successfully in boundary-spanning processes, such as new product development, and inside–out processes, such as technology development. In a study comparing market-driven to customer- and competitor-driven firms, Day and Nedungadi (1994) show that market-driven firms attain the highest score on strategies that foster innovative features. Support for this assertion also comes from Han et al. (1998), who reveal the positive effect of market orientation on technical and administrative innovation. Similar arguments appear in the work of Slater and Narver (1995) and Hurley et al. (1998), who focus on the importance of market orientation on innovation. Rust et al. (2002) also theorize that a revenue-emphasis strategy generates product innovation.

Finally, Day and Nedungadi (1994) support the proposition that market-driven firms balance their emphasis on customers and competitors. This dual focus is consistent with the subcomponents defined by market orientation literature (Narver and Slater, 1990). Specifically, Day and Nedungadi (1994) find that market-driven firms emphasize low-cost processing strategies more than their counterparts who engage purely in a customer or competitor orientation. This difference exists because market-driven firms effectively employ inside–out processing competencies, such as cost control, financial management, and manufacturing processes. Thus,

H3. Market orientation is positively associated with (a) marketing differentiation, (b) innovation differentiation, and (c) low-cost strategies.

2.3. Relationship between competitive strategies and firm performance

The next set of hypotheses relate to the association between marketplace positional advantages, as manifested in competitive strategies, and firm performance. According to Day and Wensley (1998) and Hunt and Morgan (1995), firms that obtain positional advantages are equipped to reap superior performance. This study treats firm performance as twofold, consisting of an effectiveness dimension and an efficiency dimension. This binary view is consistent with the views of marketing and organizational scholars, who suggest a dual-metric approach to organizational performance that considers effectiveness in terms of market share growth, sales growth, or new product growth and efficiency in terms of return on assets (ROA), return on sales (ROS), or return on investments (ROI) (Vorhies and Morgan, 2003; Walker and Ruekert, 1987).

Innovation differentiation strategies combine learning and innovation. That is, whereas learning occurs through research and development, innovation uses that learning to produce groundbreaking products and processes that differ from those of the competition, and innovation differentiation strategies enable firms to reinvent themselves and stay ahead of the competition constantly by penetrating existing markets or expanding into new markets. Thus, innovation differentiation strategies effectively contribute to growth in terms of firm performance. Companies such as 3M, Apple, and The Sharper Image provide excellent examples of firms that engage in innovation differentiation strategies. However, because innovation can put a strain on operational efficiency and adversely affect cost management, innovation differentiation strategies likely do not relate to the efficiency metric of firm performance.

H4a. Innovation differentiation is positively associated with business unit effectiveness but not efficiency.

Marketing differentiation, unlike innovation differentiation, does not try to create a unique position in the minds of customers on the basis of unique product features but rather works to deliver greater exchange value through branding, advertising, sales force, and other unique marketing techniques. In this respect, marketing differentiation refers to the market-sensing and customer-linking capabilities that firms use to connect customers to the firm (Day, 1994). Marketing differentiation therefore should fuel growth in new markets and contribute to sales growth and market share growth. For example, Starbucks increased its sales growth and market share by expanding its distribution channels (e.g., Internet, grocery stores) to offer greater accessibility to customers who otherwise would not have purchased its coffee. Marketing differentiation strategies also contribute to operational efficiency. For example, marketing practices such as database marketing and customer relationship management contribute to more precise customer targeting and enable the firm to improve its efficiency. Cao and

Gruca (2005) show that firms can reduce their adverse selection rates through appropriate customer relationship management practices, which enhance their cost savings. Firms also invest in innovative marketing techniques, such as advanced marketing research tools, that enable them to reach customers more efficiently with superior results. In short, a positional advantage acquired through marketing differentiation strategies drives not only effective firm performance in terms of various growth metrics but also higher returns on investments, which improves firm efficiency.

H4b. Marketing differentiation is positively associated with both business unit effectiveness and efficiency.

Finally, with a cost-leadership strategy, firms focus on reducing costs through operational efficiency. For example, they might exploit existing facilities and learn how to reduce costs through automation, modernization, capacity utilization, or economies of scale. Efficiency, control, planning, and variance reduction represent the key elements of a cost-leadership strategy, and a typical example of a cost-leadership strategy involves the implementation of an experience curve, on which cumulative production determines reductions in unit production costs. Firms engage in economies of scale and economies of scope when they apply their knowledge and facilities from existing product lines to product line extensions. To this end, Rust et al. (2002) argue that a cost emphasis pertains to standardization and operational efficiency. Because the focus is on cost maintenance and reduction, cost leadership should not contribute to growth but rather should underscore streamlined operations that reduce “fat” in business practices.

H4c. A low-cost strategy is positively associated with business unit efficiency but not effectiveness.

3. Research method

3.1. Sample and data collection

A private databank company provided a list of the names and addresses of the CEOs/senior executives and marketing managers of the 980 largest strategic business units (SBUs) in a variety of industrial sectors. The questionnaire packet sent to these potential respondents contained a personalized letter, a questionnaire, and a postage-paid return envelope. Four weeks after the first mailing, nonrespondents received a follow-up letter and an additional copy of the questionnaire. Two hundred sixty usable returned questionnaires, a response rate of 26.5%, provide a relatively adequate sample size; meta-analytic assessment of market orientation by Kirca et al. (2005) suggests a median sample of 147 firms across studies.

The average firm size is 676 full-time employees, and the sample firms operate in a variety of sectors, including food, machineries, automotives, construction materials, and chemicals. Fifty-one percent of firms are freestanding, and 68% are business-to-business companies. Sixty-eight percent of the respondent CEOs had a marketing/sales background.

To ensure key informant quality, a single-item question asks respondents whether they are knowledgeable about the issues being studied (1 = very limited knowledge; 7 = very substantial knowledge). The mean for the respondent CEOs is 6.41; for marketing managers, it is 6.75, which indicates a high level of key informant quality.

The test for the likelihood of nonresponse bias compares the demographics (e.g., firm size, firm type, industry) of firms that participated with those that did not. The *t*-tests of the two groups for each variable reveal no significant differences, in support of the assumption that respondents do not differ significantly from nonrespondents.

3.2. Measures

Previously developed and well-established scales serve as measures of this study's constructs (Table 1). Market orientation and transformational leadership scales use reflective scales, whereas the three types of competitive strategies, firm performance, and environmental uncertainty employ formative scales. All scales have a Likert format (1 = strongly disagree, 5 = strongly agree) unless otherwise noted.

The measure of *market orientation* is a higher-order factor comprised of customer orientation (6 items), competitor orientation (4 items), and interfunctional coordination (5 items), as suggested by Narver and Slater (1990).

The Multifactor Leadership Questionnaire (MLQ) Form 5X-Short, by Bass and Avolio (2000), measures *transformational leadership*, operationalized as a higher-order factor that consists of inspirational motivation (3 items), intellectual stimulation (3 items), individualized consideration (3 items), and idealized influence (or charisma) (6 items). Copyright protections prevent the reporting of more than five of the items used to measure the four subdimensions of transformational leadership, so this study provides sample items for each: inspirational motivation ("Our CEO articulates a compelling vision of the future"), intellectual stimulation ("Our CEO seeks differing perspectives when solving problems"), individualized consideration ("Our CEO treats us as individuals rather than just a member of a group"), and charisma ("Our CEO emphasizes the importance of having a collective sense of mission"; "Our CEO specifies the importance of having a strong sense of purpose").

The measures of *marketing differentiation* (4 items), *innovation differentiation* (4 items), and *low-cost strategy* (3 items) use five-point, formative scales taken from Spanos and Lioukas (2001). Respondents indicated the extent to which their firms used each learning method on five-point scales (1 = much less than competitors; 5 = much more than competitors).

Firm effectiveness refers to profit growth, sales growth, and market share growth, whereas *firm efficiency* relies on profitability, ROI, ROS, and ROA (Li and Atuahene-Gima, 2001). Respondents indicated their firm's performance during the past 3 years relative to their principal competitors (1 = much worse; 5 = much better).

With regard to the two control variables, *SBU size* equals a log transformation of the number of full-time employees, and

environmental uncertainty uses a five-item scale taken from Jaworski and Kohli (1993).

4. Analyses and results

4.1. Measurement validation

Principal component analysis investigates all the scale items. The exploratory factor analysis results in 13 factors with eigenvalues greater than 1.0, which explain 91% of the total variance. The first factor explains 25% of the variance, and no

Table 1
Measurement validation

Constructs	Effectiveness model		Efficiency model	
	Item weight	<i>t</i> -value	Item weight	<i>t</i> -value
Transformational leadership				
Charisma	.30	12.64	.30	13.34
Motivation	.34	16.75	.34	16.82
Intellectual stimulation	.28	14.10	.28	13.30
Individualized consideration	.19	6.21	.20	6.75
Market orientation				
Customer orientation	.33	13.58	.33	14.90
Competitor orientation	.47	13.61	.46	14.90
Inter-functional coordination	.41	16.36	.42	16.64
Marketing differentiation				
Innovations in marketing techniques	.30	13.06	.35	12.38
Emphasis on marketing dept. organization	.32	13.82	.36	12.80
Advertising expenditures	.23	6.12	.21	4.61
Emphasis on strong sales force	.44	13.05	.36	13.57
Innovation differentiation				
R&D expenditures for product development	.21	6.20	.16	3.17
R&D expenditures for process innovations	.24	6.79	.21	4.59
Emphasis on being ahead of competition	.43	9.96	.48	9.08
Rate of product innovations	.37	9.99	.39	9.39
Low-cost strategy				
Modernization and automation of production processes	.40	17.33	.43	17.08
Efforts to achieve economies of scale	.34	15.70	.37	15.89
Capacity utilization	.42	15.51	.35	13.66
Effectiveness				
Profit growth	.34	13.40		
Sales growth	.43	26.49		
Market share growth	.41	14.86		
Efficiency				
Profitability			.32	22.89
ROI			.25	24.10
ROS			.29	25.80
Overall efficiency of operations			.23	16.36
Environmental uncertainty				
In our kind of business, customers' preferences change quite a bit over time.	.39	3.84	.21	6.09
Our customers tend to look for new product all the time.	.37	3.62	.26	6.31
Competition in our industry is cut-throat.	.37	3.41	.30	7.46
There are many promotion wars in our industry.	.46	4.03	.43	7.75
One hears of a new competitive move almost every day.	.35	3.37	.27	5.47

Note: *t*-values are significant at $p < .05$.

Table 2
Intercorrelations and descriptive statistics

Variables	1	2	3	4	5	6	7	8	9
1. Leadership									
2. Market orientation	.38								
3. Marketing differentiation	.35	.39							
4. Innovation differentiation	.25	.50	.43						
5. Low-cost strategy	.45	.27	.41	.59					
6. Effectiveness	.14	.32	.40	.30	.35				
7. Efficiency	.03	.25	.20	.35	.25	.61			
8. Environmental uncertainty	.02	.03	-.09	-.04	-.12	-.36	-.37		
9. SBU size	-.02	-.13	.08	-.04	.10	-.05	-.09	.06	
Mean	3.70	3.66	3.38	3.15	3.59	3.57	3.52	3.23	2.57
Standard deviation	.74	.55	.80	.83	.84	.81	.91	.76	.46

Correlations above .12 are significant at $p < .05$.

general factor exists in the unrotated factor structure. These findings suggest that common method bias is not a significant threat to interpreting the results of the hypotheses (Podsakoff and Organ, 1986).

Of particular interest are the market orientation and transformational leadership constructs, which represent higher-order constructs. The measures of their subdimensions use reflective scales, so confirmatory factor analysis first checks for factor characteristics. For the three subdimensions of market orientation and four subdimensions of transformational leadership, all the items load on their respective factors and show no significant cross-loading(s). All item loadings are statistically significant, composite reliability estimates are greater than .70 (Gerbing and Anderson, 1988), and the average variance extracted (AVE) values are greater than .50 (Bagozzi and Yi, 1988). These findings support aggregating the first-order dimensions of the respective constructs to create higher-order constructs of market orientation and transformational leadership. Therefore, in subsequent analyses, these higher-order constructs appear as formative constructs (Jarvis et al., 2003).

Formative scales violate the rule of normality, which is a necessary condition for testing the reliability and validity of scales using covariance-based structural equation modeling (Chin, 1998). The measure validation tests therefore use Partial Least Squares (PLS Graphic Version 3.0), but no established technique indicates how to assess the validity of formative scales, mainly because conventional estimates such as Cronbach's alpha, composite reliability, and AVE are not appropriate for formative scales (Diamantopoulos and Winklhofer, 2001). Based on Chin's (1998) work, Ravichandran and Rai (2000, p. 397) suggest that

[F]or formative indicators, which have a regression-like relationship with the latent construct, only the weights (and not the loadings) need to be considered in assessing the measurement model. While no minimum threshold values for indicator weights have been established, the statistical

significance of the weights can be used to determine the relative importance of the indicators in forming a latent variable.

Consequently, PLS weights represent a comparable influence for formative constructs. In line with the two dimensions of performance (i.e., efficiency and effectiveness), two measurement models capture any differences in terms of item weights and corresponding t -values. Table 1 indicates that the weights of the formative scale items are statistically significant, in support of the validity of the constructs. Table 2 displays the descriptive statistics and intercorrelations for all constructs.

4.2. Hypotheses tests

The hypotheses testing relies on PLS, with statistical significance determined by a bootstrapping of 500 (Chin, 1998). As in the measurement model, both effectiveness- and efficiency-based models indicate whether parameter estimates vary across the two models. Because PLS does not provide suitable statistics, this investigation uses the variance explained (i.e., R^2) to assess the nomological validity of the models.

Table 3 indicates that transformational leadership relates positively and significantly to market orientation in both the efficiency and effectiveness models, in support of H1. Transformational leadership relates positively and significantly to marketing differentiation and low-cost strategies but not to an

Table 3
PLS results

Hypothesized path	Effectiveness model		Efficiency model	
	b	t -value	b	t -value
Transformational leadership → market orientation	.38	5.60**	.38	5.55**
Transformational leadership → marketing differentiation	.26	3.54**	.23	3.17**
Transformational leadership → innovation differentiation	.07	.85	.06	.83
Transformational leadership → low-cost strategy	.40	5.24**	.40	5.14**
Market orientation → marketing differentiation	.30	3.90**	.31	4.11**
Market orientation → innovation differentiation	.47	6.77**	.50	7.16**
Market orientation → low-cost strategy	.13	1.68	.13	1.67
Marketing differentiation → performance	.37	7.22**	.28	5.63**
Innovation differentiation → performance	.25	3.46**	.07	.76
Low-cost strategy → performance	.06	.97	.17	2.46*
<i>Controls</i>				
Environmental uncertainty → performance	-.28	-6.00**	-.33	-6.64**
SBU size → performance	-.13	-2.96*	-.07	-1.35
R^2				
Market orientation	.14		.14	
Marketing differentiation	.20		.20	
Innovation differentiation	.26		.26	
Low-cost strategy	.21		.21	
Performance	.34		.34	

* $p < .01$; ** $p < .001$.

innovation differentiation strategy in both models. Therefore, these results support H2a and H2c but not H2b. Market orientation relates positively and significantly to marketing differentiation and innovation differentiation but not a low-cost strategy in both models, in support of H3a and H3b but not H3c. H4a posits that innovation differentiation is positively associated with SBU effectiveness but not efficiency; the results support this claim by showing that innovation differentiation relates positively and significantly to effectiveness but not efficiency. Also in support of H4b, marketing differentiation relates positively and significantly to both effectiveness and efficiency. Finally, the results reveal that a low-cost strategy relates positively and significantly to efficiency but not to effectiveness, in support of H4c.

5. Discussion and implications

This article attempts to conceptualize and empirically test the SPP chain and thereby contribute to current knowledge in the field. Using two sources of competencies, namely, transformational leadership as a managerial-based competency and market orientation as a transformational-based competency, this investigation unearths support for the idea that transformational leadership positively affects market orientation, consistent with the widely shared belief that top management support and focus contributes to market orientation (Slater and Narver, 1995). This finding also supports the contention that developing a market orientation entails a top-down rather than bottom-up process. Furthermore, this result implies that one way to build market orientation is to either nurture or hire a transformational leader.

Transformational leadership also positively influences marketing differentiation and low-cost strategies but not innovation differentiation. A possible explanation for this result could be that a curvilinear relationship exists between transformational leadership and innovation differentiation, such that a moderate level of transformational leadership is the best choice.

Market orientation positively influences marketing differentiation and innovation differentiation but not cost leadership. The positive link between market orientation and an innovation differentiation strategy is consistent with Han et al. (1998) and implies that market orientation fosters a prospector type of organization that competes on the basis of innovation differentiation. Conversely, the lack of a link with low-cost strategies suggests that market orientation is not an ideal culture when a firm's goal is to compete on the basis of low cost. Instead, a production orientation, with its focus on operations and efficiency, may be more successful in this context. This finding also implies that market orientation may not be the appropriate organizational culture for a defender type of organization, whose core competency lies in operational efficiency.

Collectively, these findings indicate that marketing differentiation represents the only competitive strategy that is bolstered by both transformational leadership and market orientation. This encouraging information assures marketers investing in transformational leadership and market orientation

that these competencies will lead to positional advantage in the marketplace through marketing differentiation.

The final link in the SPP chain relates to the associations among the three competitive strategies and the different metrics of firm performance, such as effectiveness and efficiency. The results reveal that an innovation differentiation strategy enhances effective firm performance, whereas cost leadership contributes to efficient firm performance. Only a marketing differentiation strategy strengthens both effective and efficient firm performance. Consequently, if a firm wants to be a well-rounded performer with a balanced output, marketing differentiation seems to be the superior choice. Innovation differentiation and cost leadership provide only unidimensional firm performance benefits, whereas the marketing differentiation satisfies a multidimensional view. Firms that desire to be prospectors and defenders at the same time (i.e., analyzers) may receive handsome rewards if they invest in marketing differentiation strategies. This finding successfully extends the work of Walker and Ruekert (1987) by providing an empirical test of their claim that different performance measures (e.g., effectiveness, efficiency) apply better to different business strategy types (e.g., prospectors, defenders).

This study therefore reinforces the importance and benefits of a marketing differentiation strategy. Senior management support and leadership, coupled with a market orientation, lead to superior marketing differentiation strategies. Moreover, such strategies contribute to various business growth metrics and higher ROI and ROA. This study thus also emphasizes the significance of marketing for an organization, as well as how firms can thrive by using marketing as a differentiation strategy to elevate their status in the marketplace. Managers should take advantage of these competitive strategies and will do so if their incentives align with firm performance. For example, if a firm rewards its managers' performance according to firm growth metrics, managers would benefit by implementing an innovation differentiation strategy. Conversely, if they receive compensation based on their efficient control of business operations, they should affect a low-cost strategy. However, a versatile marketing differentiation strategy offers managers the best of both worlds.

This study is not without limitations. First, though marketing manager respondents replied to the transformational leadership items, CEOs answered all other questions, which raises the possibility of common method bias; some relationships in the model may be inflated as a result. Further studies should employ a multiple key informant structure to minimize such threats. Second, the cross-sectional nature of the data prevents any assessments of how firms make reinvestments on the basis of performance results (Bharadwaj et al., 1993; Day and Wensley, 1998). A dynamic model should incorporate such effects using a longitudinal design. Third, the sources for the SPP model are rather limited in scope, because they include only transformational leadership and market orientation. Other intangible sources, such as top management team diversity or brand (corporate) reputation, along with more tangible sources, such as firm history (in years) or degree of diversification, may enrich the model's interpretive power.

Another area worthy of investigation involves the mediating role of positional advantage in the SPP chain. As a resource-based framework, the SPP suggests sources and positional advantages developed within the firm, rather than as a result of external forces. Additional research should integrate external influences into an internally oriented framework to determine whether industry structure, competitive intensity, or another market-based factor moderates the extent to which positional advantage mediates the source–performance relationship.

Acknowledgement

The authors acknowledge the support of the Research Grants Committee of the Faculty of Economics and Commerce, University of Melbourne. The authors thank Professor Wynne W. Chin for providing PLS Graph Version 3.0.

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