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Linking Market Orientation To Strategy Through Segmentation Complexity

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ABSTRACT

Relying on the cultural view of market orientation, we introduce segmentation complexity as a key mediator between market orientation (i.e., customer orientation and competitor orientation) and the strategies of differentiation, cost leadership, and innovation. Customer orientation is positively related to segmentation complexity, differentiation, and innovation, and negatively to cost leadership. Competitor orientation is positively related to all of these strategies. The indirect effects of both customer and competitor orientation are mediated through segmentation complexity, which is positively related to differentiation and innovation, and negatively to cost leadership.

Keywords: Market orientation, segmentation complexity, differentiation, cost leadership, innovation

INTRODUCTION

A firm's strategic behavior and its consequences depend, in the first place, on whether the firm is production-, selling-, or market-oriented. Orientation represents important elements of the firm's culture and philosophy, and governs firm-stakeholder interactions (Noble, Sinha, & Kuma, 2002). Production and selling orientations promote a short-term, transactional exchange mentality, whereas market orientation (MO) contributes to a long-term, relational exchange mindset (Kalwani & Narayandas, 1995). This highlights the importance of research on MO.

Strategies such as differentiation, cost leadership, focus, and innovation have been studied in the light of MO (Deshpande, Farley, & Webster, 1993; Frambach, Prabhu, & Verhallen, 2003; Han, Kim, & Srivastava, 1998; Hurley & Hult, 1998). However, the impact of MO on market segmentation still awaits elucidation. Segmentation research was regarded as one of the most striking developments and fundamental concepts in the study of marketing between 60's and 90's (Claycamp & Massy, 1968; Dickson, 1982; Wind, 1978). Advancements in segmentation methodology were so vigorous that Dickson and Ginter (1987) regarded it as an art and science of its own. Contemporary strategy research, however, rarely attends to segmentation. There is ample need to extend our knowledge of marketing strategy by focusing on the role of segmentation (Day & Wensley, 1983; Dickson & Ginter, 1987; Wind, 1978). This paper focuses on the complexity with which the firm engages in market segmentation and explores how it relates to MO, differentiation, cost leadership, and innovation.

The contribution of this paper is twofold. First, drawing on the findings in two research streams: MO and segmentation, it positions segmentation complexity (SC) in the heart of MO-strategy framework and delineates its relationship with MO. This is important because neglecting segmentation can lead to inferior performance regardless of what other strategies the firm pursues (Yorke, 1984). Second, it introduces SC as a determinant of Porter's (1980) dichotomous typology of strategy (differentiation and cost leadership) as well as innovation. So doing can encourage researchers to (re)examine whether segmentation substitutes or complements differentiation and innovation (Dickson & Ginter, 1987) and explore how SC and cost leadership are interrelated.

This paper is organized as follows. Defining key constructs precedes the development of three sets of propositions revolving around the strategic outcomes of MO, the mediating role of SC, and differentiation-innovation relationship. The proposed conceptual framework and its implications are then discussed and limitations and directions for future research are exposed.

KEY CONSTRUCTS

Market Orientation

A review of the literature reveals at least two different views of MO: cultural and behavioral (Deshpande, 1999). Advocates of the cultural view (Deshpande, et al., 1993; Homburg & Pflesser, 2000; Kohli & Jaworski, 1990) believe that MO is a deep-rooted part of the firm's culture and that it contributes to the creation and maintenance of a set of behavioral norms that govern firm-stakeholder interactions (Deshpande & Webster, 1989). Adherence to the cultural view necessitates the belief that MO guides and influences the process and outcome of strategy selection (Frambach, et al., 2003). In other words, MO, because it is part of the firm's culture, partially determines what combination of strategies the firm will pursue.

Adherents to the behavioral view (e.g., Ruekert, 1992; Walker & Ruekert, 1987) regard MO as a strategic choice or an allocation decision. They define it as 'the degree to which the business unit obtains and uses information from customers, develops strategy which will meet customer needs, and implements that strategy by being responsive to customer needs and wants' (Ruekert, 1992). MO is a quasi-strategy, guided and preceded by more-basic strategies such as cost leadership, differentiation, and focus (Frambach, et al., 2003). Since market-oriented behaviors are reflective of and embedded in the values and norms peculiar to a given organization (Narver & Slater, 1990), we adopt the cultural view.

Researchers generally concur that MO is a multidimensional construct. However, there is ongoing dispute as to what those dimensions are. Two dominant views are elemental and processual. The elemental view considers three dimensions of customer orientation, competitor orientation, and interfunctional coordination (Han, et al., 1998; Narver & Slater, 1990; Noble, et al., 2002). The processual view, mainly drawn from the works of Kohli and Jaworski (1990) and Jaworski and Kohli (1993), considers intelligence generation, intelligence dissemination, and responsiveness to intelligence as the three dimensions of MO. We adopt the elemental view and, in line with Frambach et al. (2003), exclude interfunctional coordination due to its anomalous behavior in previous studies[1].

Segmentation Complexity

Researchers concur on the nature and aim of segmentation, but diverge on its process. By nature, segmentation is a strategy (Dickson & Ginter, 1987; Frank, Massy, & Wind, 1972; Smith, 1956; Wind, 1978). As a basic strategy, it stands above and guides instrumental strategies (marketing mix) in the planning hierarchy (Segler, 1987). The aim of segmentation is to find homogeneous-within-and-heterogeneous-between groups of customers so that the firm can more precisely respond to customer and competitive requirements (Hustad, Mayer, & Whipple, 1975; Moriarty & Venkatesan, 1978; Smith, 1956; Smith & Beik, 1982). From a resource-based view, segmentation contributes to superior deployment of the firm's limited resources (Yorke, 1984).

There are two perspectives towards the segmentation process. First, Smith (1956, pg. 5) considers it the act of disaggregating markets to 'bring about recognition of several demand schedules where only one was recognized before.' As such, segmentation is a response to disappearing mass markets (Brandt, 1966) and opposes 'being all things to all people' and 'one size fit all' syndromes. Second, Claycamp and Massy (1968, pg. 392) see it 'as a process of *aggregation*' from an individual as a segment towards different levels of micro and macro segments (italics in original). We define segmentation as a basic strategy that uses market information and identifies smaller (larger), actionable, and meaningful market segments by disaggregating (aggregating) the currently-perceived market segments.

There is no single solution to segmentation (Segler, 1987). There are literally millions of ways to partition the market; hence, the task of identifying segments is not easy (Aaker, 1995). Almost every customer variable has been used for segmentation, from gender to donation-proneness to astrological sign (Mitchell & Haggett, 1997;

[1] For instance, interfunctional coordination facilitated the dissemination of intelligence in one but not the other sample of Jaworski and Kohli (1993). Further, Han et al.'s (1998) found it to be an antecedent of neither technical, nor administrative innovation.

Wind, 1978); both cited in Bock and Uncles (2002). Given their state of the art, segmentation practices might range across firms and industries from simple and relatively low cost to sophisticated and relatively high-cost (Coeurderoy & Durand, 2004; Sausen, Tomezak, & Heermann, 2005). Less resourceful firms might invest in and utilize one or a few customer variables with the aid of non-specialized hardware and software (Foedermayr & Diamantopoulus, 2008). More resourceful firms, however, might consider making considerable investments in customer data collection and specialized hardware and software (e.g., data mining software) that incorporate numerous segmentation criteria (Kotler & Armstrong, 2004). Another set of factors that can further complicate segmentation relates to organizational arrangements and dynamics needed to support its implantation (Dibb, 1999; Pierce & Morgan, 1993). We define SC as a composite of the extent of the firm's investment in data collection and specialized hardware and software, the number and nature of segmentation criteria processed and used to identify customer segments, and the degree of organizational adjustment undertaken to implement the strategy. It should be noted that, regardless of the degree of SC, resultant segments must be (a) measurable, ability to assign values to customers based on the variables in focus; (b) accessible, ability to communicate and avail the product to target customers efficiently and effectively; and (c) substantial in terms of existing and potential purchasing power (Kotler & Armstrong, 2004).

Differentiation

Differentiation is distinguishing a product or brand from those of competitors on a relevant or irrelevant attribute (Carpenter, Glazer, & Nakamoto, 1994; Porter, 1985). Smith (1956, pg. 6) defines differentiation as 'securing a measure of control over the demand for a product by advertising or promoting differences between a product and the products of competing sellers.' To differentiate a 'brand image, product feature, customer service, dealer network, or technology' is to shift the firm's demand curve upward (Narver & Slater, 1990; Porter, 1980, pg. 37). In other words, it is the 'bending of demand to the will of supply' (Smith, 1956, pg. 5).

Differentiation differs from segmentation in that the latter is a change in the supply side so that the firm's offering better satisfies customer preferences, while the former is a change in the demand side so that customers distinguish the firm's offering from those of competitors. The two strategies share two traits (Smith, 1956). First, both are consistent with the framework of imperfect competition; hence, they neatly tie in with resource-based view of competition and strategy (see for example, Barney, 1991; Conner, 1991; Hunt & Arnett, 2003; Hunt & Morgan, 1996). Second, both make substantial use of advertising and promotion (Smith, 1956).

Cost Leadership

Cost leadership is the strategy of achieving an above-average return on investment in an industry by means of 'a high relative market share or other efficiency-oriented advantages' (Porter, 1980, pg. 36). Whereas differentiation is an outside-in strategy that alters the demand side, cost leadership is an inside-out strategy that adjusts the supply side (Day, 1994).

Innovation

Innovation involves the identification and implementation of new ideas, products, or processes (Zaltman, Duncan, & Holbeck, 1973). Literature offers several innovation typologies such as reactive-proactive (Hunt & Morgan, 1996), product-process e.g. Damanpour (1988), novelty-meaningfulness e.g. Sheth (1981), and incremental-radical (see Garcia & Calatone, 2002). This paper focuses on the first dichotomy. Reactive innovation is to neutralize and/or leapfrog an advantaged competitor (Schumpeter, 1950) by imitating its new, superior offering or process. Proactive innovation is an entrepreneurial approach to spotting opportunities so the firm can enjoy a temporary monopoly or pioneering advantage (Robinson & Min, 2002) based on its new, superior offering or process.

STRATEGIC OUTCOMES OF MO

MO and SC

Long before segmentation (Claycamp & Massy, 1968; Smith, 1956; Wind, 1973) and MO (Deshpande, 1999; Kohli & Jaworski, 1990; Narver & Slater, 1990) were systematically defined and studied, their relationship was recognized, though with different terminology. Shaw (1912) was probably one of the earlier scholars to emphasize the use of 'marketplace data' in understanding market 'contours.' However, he did not specify the types of data relevant to segmentation decisions, a task left to succeeding researchers (Dickson, 1982; Pottruck, 1987; Smith, 1956; Young, Ott, & Feigin, 1978).

Smith (1956, pg. 7) emphasized that segmentation 'strategy [should retain] at least as much dynamism as is present in the market…through the maintenance of a flow of market information.' By so believing, he grounded segmentation strategy and its complexity within an organization-wide commitment to the collection and utilization of market information. He (1956, pg. 8), also cites an affinity between the degree of customer/competitor orientation and SC, implying that victory lies in appreciating 'customer's preeminence.'

Young et al. (1978) contend that the firm's access to and use of information about environment and competition influence the degree of its SC. They (1978, pg. 405) describe previous research on segmentation as 'disappointing because the segments derived…were not actionable…[due to researchers'] preoccupation with the techniques and methods of segmentation.' They imply that firms would have utilized segmentation more often if research had been better adapted to 'specific competitive structures and environments.' Their use of the term 'environment' is broad and encompasses information about customers. They further identify various circumstances (e.g., extreme dominance of heavy-users' share of total demand) under which partitioning markets would in fact inhibit superior performance; hence, an aggregating segmentation would be suitable. These circumstances, they believe, are understood only by collecting and using market information. Thus, information about customers and competitors can influence the complexity with which the firm leverages segmentation.

Dickson's (1982) seminal work on person-situation interaction suggests that 'segmentation requires an understanding of the what, when, where, how and why of demand.' As routine outputs of customer and competitor orientation, adequate answers to these questions can in part determine SC (Kohli & Jaworski, 1990). These answers can point to opportunities for a fresh look at markets. The immediate result of using all relevant information about customers and situations, Dickson (1982) holds, is the identification of more meaningful segments through aggregating or disaggregating processes. In other words, the absence of market information would reduce the firm's propensity and ability to apply segmentation strategy as well as the complexity of that strategy. As such, he implies that the firm's customer and competitor orientations have the potency to influence its SC.

Pottruck (1987) regards market information as an important requisite for and determinant of SC. Whether and to with what degree of complexity the firm should exercise segmentation is largely influenced by the use of a 'customer-driven marketing information' system (Pottruck, 1987, pg. 54). He emphasizes the role that customer database and market intelligence play in motivating firms like Citibank, Spiegel, and Shearson Lehman to treat heterogeneous groups of customers as distinct segments. Therefore, he links the use of market information to SC. Although we propose positive MO-SC links below, some key moderating factors such as market/technological turbulence, level of competition, and firm size can influence the magnitude, or at times even the direction, of these propositions.

P-1: The more customer oriented the firm, the more complex its segmentation strategy.
P-2: The more competitor oriented the firm, the more complex its segmentation strategy.

MO and Differentiation

Frambach et al.'s (2003) behavioral view of MO leads them to assume the firm will decide whether/how much market information is needed only after it has determined what strategy to pursue. This is to say the firm's strategic choice determines its extent of market information use.

We diverge from Frambach et al.'s (2003) conceptualization in two ways. First, we second Narver and Slater's (1990) contention that any contingent use of market information is reflective of, embedded in, and consistent with cultural values and norms of the firm. More specifically, strategy-guided use of MO is, by and of itself, rooted in an organization-wide belief in and commitment to the marketing concept, i.e. customer preeminence. Since MO as part of the firm's culture is the implementation of marketing concept (Kohli & Jaworski, 1990), the cultural view is more tenable.

Second, even with a pure behavioral view, MO can precede strategy selection. Consider a cost-leader firm that uses market information to identify product attributes whose elimination can reduce the unit cost without defecting customers. The collected information might unexpectedly point to a differentiation opportunity within a particular segment. Subsequently, the firm might attempt to enter that segment and tap the opportunity. Alternatively, the information might inform the firm on an intact market niche and encourage a focus strategy. As a conclusion, regardless of whether MO is a set of behaviors or part of the culture, the use of customer and competitor information can encourage the strategy of differentiation.

P-3: The more customer oriented the firm, the more likely it will adopt differentiation.
P-4: The more competitor oriented the firm, the more likely it will adopt differentiation.

MO and Cost Leadership

The literature suggests that customer oriented firms are less likely to select the cost leadership strategy (e.g., Amit, 1986; Dickson & Ginter, 1987). The strategy of cost leadership is more compatible with an inside-out, as opposed to an outside-in focus (e.g., Day, 1994). It aims to enhance competitiveness through increased relative market share, exceptional access to raw materials, or other similar advantages (Porter, 1980). It rests upon economies of scale and product/process standardization. Therefore, production- or selling-oriented firms are more likely to select this strategy than market-oriented firms (Noble, et al., 2002). A customer-oriented firm is unlikely to prefer cost leadership over differentiation. This claim is backed by an abundance of empirical evidence (see Amit, 1986; Coeurderoy & Durand, 2004; Porter, 1985). Contrary to this dominant belief, Frambach et al. (2003) find that a low-cost strategy can coexist and complement other strategies positively correlated with customer orientation. Since no other work confirms the stance Frambach et al. (2003) take, their findings might be attributable to their research idiosyncrasies. Thus, we posit a reverse customer orientation-cost leadership relationship.

P-5: The more customer oriented the firm, the less likely it will adopt cost leadership.

Competitor information is likely to encourage the selection of cost leadership (Coeurderoy & Durand, 2004; Porter, 1985). When the firm continuously generates and utilizes competitor information, it routinely compares its performance against those of competitors in terms of cost, price, and market share. Such comparisons might motivate the firm to increase its market share and reduce its costs and prices (Aaker, 1995). Consequently, the firm is likely to select the strategy of cost leadership.

P-6: The more competitor oriented the firm, the more likely it will adopt cost leadership.

MO and Innovation

It is well-established that a firm's innovation is a function of, among other things, its MO (e.g., Atuahene-Gima, 1995, 1996; Im & Workman, 2004; Narver, Slater, & MacLachlan, 2000; Ottum & Moore, 1997). MO is regarded as the foundation for innovation efforts (Narver, et al., 2000). Innovation is the outcome of a firm's resources and strategic orientation (Gatignon & Xuereb, 1997). For instance, Deshpande et al.'s (1993) and Han et al. (1998), dividing innovation into technical (product) and administrative (process), find support for the relationship between innovation and customer and competitor orientation. Since the positive MO-innovation relationship has been extensively validated, we do not state them as propositions.

Slater and Narver (1994, 1998) suggest that proactive innovators are necessarily customer oriented. Access to and effective use of customer information makes it possible for proactive firms to conceptualize and implement

innovative programs in response to customers' manifest and latent needs (Montoya-Weis & Calatone, 1994). Customer information continuously guides proactive innovators throughout idea generation, prototype development, pilot-testing, and launch stages (Gruner & Homburg, 2000).

P-7: Proactive innovators are more customer-oriented than competitor-oriented.
P-8: Proactive innovators are more customer-oriented than reactive innovators.

Competitor information often inspires reactive innovation (Schnaars, 1994). Reactive innovators engage in either 'me-too' or 'second-but-better' innovations (Frambach, et al., 2003). By benchmarking their products and processes against those of competitors, me-too innovators might directly imitate a new market offering, technology, or process. Second-but-better innovators await competitors' new products, assess their current and potential performance, and then create superior versions of those products (Nadler, 1991). Both of these reactive innovators specialize in making quick and smart copies of competitor actions rather than learning genuinely new ideas from customers.

P-9: Reactive innovators are more competitor-oriented than customer-oriented.
P-10: Reactive innovators are more competitor-oriented than proactive innovators.

Note that, certain environmental conditions coupled with factors internal to the firm might actually reverse the nature of the links posited in propositions 9 through 12. We conceptualize all positive links for these propositions because, first, positive links seem to be relatively more dominant and, second, we allow some theoretical simplification at this stage of synthesis and modeling. Empirical research, however, should address both negative and positive possibilities.

STRATEGIC OUTCOMES OF SC

SC and Differentiation

Literature offers two general views of the segmentation-differentiation relationship: as substitutes (Samuelson, 1976; Smith, 1956) and as complements (Bowman & McCormick, 1961; Dickson & Ginter, 1987; Hustad, et al., 1975). As substitutes, segmentation and differentiation would have a reverse relationship. As complements, they would correlate directly.

Samuelson (1976) holds that segmentation and differentiation are distinct in that the latter, but not the former, creates 'artificial' product distinctions. He argues that the firm might apply either a real (segmentation) or an artificial (differentiation) strategy to achieve competitive advantage. As such, he believes that segmentation can substitute differentiation.

Smith's (1956) pioneering article provides a contingency view. He (1956, pg. 5) regards segmentation as a substitute for differentiation 'where intensive promotion designed to differentiate the company's products was not accomplishing its objective;' and asserts,

While successful product differentiation will result in giving a horizontal share of the broad and generalized market, equally successful application of the strategy of segmentation tends to produce depth of market position in the segments that are effectively defined and penetrated. The differentiator seeks to secure a layer of the market cake, whereas one who employs segmentation strives to secure one or more wedge-shaped pieces.

Smith (1956, pg. 5) regards the two strategies also as complements and believes that 'strategies of segmentation and differentiation may be employed simultaneously, but more commonly they are applied in sequence.' As such, he sees segmentation as a 'momentary' or one-shot phenomenon that results in a redefinition of market, which in turn fuels differentiation strategy.

Dickson and Ginter (1987), drawing on the works of Shaw (1912), Chamberlain (1965), and Porter (1985), distinguish between segmentation, on the one hand, and segment development strategy and differentiation strategy,

on the other. Using a scenario-based analysis, they show how segmentation necessitates, and combines with, each of the other strategies to indicate the firm's position in a given market. Hence, Dickson and Ginter (1987) imply that differentiation results from and complements segmentation. Segler's (1987) study of basic strategies seconds this viewpoint as well as extends its applicability to multinational and global corporations.

Hustad et al. (1975, pg. 34) argue that understanding market structure and exploring contingent segments should be performed before positioning the product in the marketplace. Possibilities for differentiation, they say, emerge from and should accord to the characteristics of specific segments. They refute that differentiation can take place without referring to any target audience (i.e., to any specific segment). Therefore, the firm differentiates after having decided on its segmentation strategy.

Bowman and McCormick's (1961) study of the differentiated Aureomycin© chlortetracycline targeted at agricultural firms is an evidence for complementary relation between segmentation and differentiation. They view segmentation as part of the definition of every strategic problem, especially when the firm is pondering how/where to differentiate. They contextualize differentiation decisions in specific segments and allow segment characteristics to determine whether/how differentiation takes place.

As an inherent problem with viewing segmentation and differentiation as substitutes, the assumption that segmentation is an all-or-none activity is untenable because it inaccurately holds that the firm either adopts or abandons segmentation as a strategy. Even if such an assumption was somewhat relevant in mid 20th century, the necessity and technological possibilities of segmentation in the 21st century encourage and invite most, if not all, businesses to draw on this strategy and to identify and target meaningful market segments. However, the complexity with which firms practice segmentation depends first and foremost on the resources they can and will invest in collecting and processing customer data. Because the reverse relation between the two strategies is less tenable (Dickson & Ginter, 1987), we adhere to the recent scholars' stance and postulate segmentation and differentiation as complements. Specifically, the complexity with which the firm practices segmentation is directly related to the number and quality of untapped opportunities for differentiation.

P-11: The more complex the firm's segmentation, the more likely it will adopt differentiation.

SC and Cost Leadership

Cost leadership is viewed as diametrically different from and incompatible with the strategies of segmentation, differentiation, and innovation (Segler, 1987). Cost leadership revolves around the concept of economies of scale (reduced costs plus increased revenues; Porter 1985), whereas segmentation is a departure from economies (increased costs) in search of superior performance (increased revenues; Frank, et al., 1972).

The total market for almost any product comprises various groups of customers with heterogeneous preferences. Adopting the strategy of cost leadership would entail producing and distributing one or more standard product at the lowest cost and price in the market. While a number of customers usually purchase the least-expensive brand, other customers base their purchase decision on more than just the price. In fact, marketing as a discipline has traditionally concerned itself with non-price factors that drive customer behavior. A cost leader, while aware of this point, continues its emphasis on economies of scale and efficiency enhancement. What if a cost leader believes, and acts upon the belief, that superior performance results from implementing strategies other than cost leadership in the non-price-sensitive segment? This comprises a departure from standardization and economies of scale, and changes the firm's strategic stance from cost leadership to segmentation and/or differentiation (Carpenter, et al., 1994). Therefore, the SC-cost leadership relationship is reverse.

P-12: The more complex the firm's segmentation, the less likely it will adopt cost leadership.

SC and Innovation

Although no past research has focused on the impact of SC on innovation, many have implied a positive link between the two (Moriarty & Venkatesan, 1978; Segler, 1987; Wind, 1978; Yorke, 1984). The ultimate goal of

segmentation is to help the firm adapt to its ever-changing environment (Simon, 1993). As a primary means of adaptation, innovation is influenced by the complexity of the segmentation strategy.

Referring to Germany's inability to sustain its position in international markets for watch, computer, TV, and video recorder, Segler (1987) suggests that segmentation guides product and process innovation decisions. German manufacturers' mistake, he argues, was the failure to explore the segmentary lineage of international markets. Such exploration would delineate what new products to sell at premium prices in affluent segments and what new products to sell at competitive prices in other segments. He argues that German manufacturers have traditionally pursued a segmentation strategy, but their segmentation practices have remained largely less complex than what today's turbulent environment requires. As such, the commitment to satisfy specific preferences of each segment and higher SC can enhance innovation.

Wind (1978, pg. 333) believes, 'the translation of segmentation findings into new product ideas (and strategies) is usually limited only by the creativity of the users.' He implies that with a sufficiently complex segmentation strategy, the firm can identify the sources of customer dissatisfaction with the firm's offerings, which in turn point to novel modifications undergirding product innovation.

Moriarty and Venkatesan (1978) Yorke (1984) and Pierce and Morgan (1993) argue that (a) segmentation enables the firm to spot opportunities in the marketplace and quickly respond to those opportunities in the form of new market offerings; and (b) the more sophisticated the firm's segmentation strategy, the more likely that such untapped opportunities will be uncovered. They imply that the information generated by segmentation is a key input throughout new product development process, especially in the preliminary stage of idea generation.

P-13: The more complex the firm's segmentation, the better prepared it will be for innovation.

INNOVATION: THE STRATEGIC OUTCOME OF DIFFERENTIATION

Although the majority belief is that MO positively influences innovativeness, a few studies argue that firms can, and perhaps should, attempt innovation without MO (e.g., Workman, 1993). That customers are useful sources of radically novel ideas has been disputed; more surprisingly, customer and competitor orientation are said to create an 'innovation myopia' (Berthon, Hulbert, & Pitt, 1999; Christensen & Bower, 1996). Recent research indicates that a non-market-oriented differentiation strategy has the potency to inspire and guide innovation endeavors (Frambach, et al., 2003). In fact, the quintessence of a new-product-development team's duty is the implementation of the firm's plan to differentiate its products or processes from those of competitors.

Previous and contemporary scholars alike have acknowledged that differentiation strategy contributes to innovation in the form of new product development or (administrative) process improvement (e.g., Frambach, et al., 2003; Porter, 1980). Firms that use cutting-edge technology to differentiate their products are better poised to leverage innovations (Hamel & Prahalad, 1991; Miller, 1986). The firm's determination to differentiate its technology can lead to the invention of superior, radical products (Gatignon & Xuereb, 1997) or more efficient and/or effective organizational processes. Therefore, a differentiator firm is likely to develop a strong innovative capability.

P-14: Compared with cost leadership, differentiation is more conducive to innovation.

DISCUSSION

Some researchers have relied on the behavioral view of MO to conclude that MO is an outcome, rather than a determinant, of the firm's strategic choice (Frambach, et al., 2003; Ruekert, 1992). This paper considers the behavioral view as a necessary but insufficient condition for that conclusion. The firm's strategic choice is influenced by MO, regardless of the researcher's viewpoint towards MO. The cultural view, however, affords a more direct and salient impact of MO on strategic choice.

Customer orientation has a non-mediated, positive influence on each of SC, differentiation, and innovation. The non-mediated relationship between customer orientation and cost leadership is negative. The indirect influence of customer orientation on each of differentiation, cost leadership, and innovation strategies are mediated through SC. Of these mediated relationships, the customer orientation-cost leadership link is negative while the other two links are positive. Competitor orientation has a non-mediated influence on each of SC, differentiation, cost leadership, and innovation. All of these non-mediated relationships are positive. The indirect influence of competitor orientation on each of differentiation, cost leadership, and innovation strategies are mediated through SC. All of these mediated relationships are positive. Finally, whereas proactive innovation is more consistent with a strong customer orientation, reactive innovation requires extensive competitor orientation. As a result, proactive (reactive) innovators are more customer (competitor) oriented than are reactive (proactive) innovators.

In summary, MO has both mediated and non-mediated effects on various strategies, with SC serving as the key mediator of the MO-strategy relationships. These contentions are in line with the literature's several hints that (1) segmentation is probably the first strategy to be prompted by the firm's responsiveness to market information (e.g., Dickson & Ginter, 1987; Smith, 1956); and (2) neglecting segmentation and its degree of sophistication can lead to inferior performance regardless of what other strategies the firm pursues (Yorke, 1984).

SC can influence the strategies of differentiation and innovation. As such, differentiation and innovation do not replace, but complement, segmentation. It is eminent that differentiator and innovator firms create customer value by offering high-quality or updated products supported by good service at premium prices (e.g., Walker & Ruekert, 1987). The possibility of reducing costs through differentiation and innovation, however, has been disregarded (Segler, 1987). Such cost savings can be due to factors such as technology adjustments, changes in customer tastes, and introduction of radically novel products. Whether differentiation and innovation enhance or inhibit the firm's efficiencies depends on the relative upward or downward adjustments of various cost items (Segler, 1987). The effectiveness aspect of performance depends on how well the firm can balance the costs and benefits of its market offerings for the customer (Slater & Olson, 2001). Given influential variables such as firm actions, market peculiarities, and industry conditions, effectiveness-enhancing strategies such as differentiation and innovation might also serve as efficiency-enhancement strategies simultaneously and/or in the long-run.

The reader should note that enhancing efficiencies through cost-saving does not necessarily comprise a cost leadership strategy. Cutting on cost can be implemented by cost leaders, differentiators, and innovators alike. However, cost leadership, as a strategy, is in practical trade-off with segmentation, differentiation, and innovation (Smith, 1956). Implementing segmentation, for instance, can contradict with cost leadership by pointing to specific portions of the total market where a low-cost strategy would be ineffective.

This paper separated the propositions dealing with customer orientation from those of competitor orientation. However, developing a sustainable competitive advantage requires a balanced mix of customer and competitor orientations (Day & Wensley, 1988). A complete reliance on either of these orientations often leads to advantage-erosion (Han, et al., 1998). We recommend the holistic strategy (proactive innovation, coupled with reactions to proactive innovations of competitors), especially when the firm implements a differentiation or innovation strategy (Kohli & Jaworski, 1990).

MANAGERIAL IMPLICATION AND DIRECTIONS FOR FUTURE RESEARCH

This research has important managerial implications as it positions SC within the MO strategy and delineates how these two relate to each other and to other basic strategies. We concur with Narver and Slater (1990) that MO is embedded in the firm's organizational culture. Decision-makers at various organizational levels should be cognizant of MO's mediated and non-mediated relationships with segmentation, differentiation, cost leadership, and innovation. Customer orientation and competitor orientation do not have identical strategic consequences and managers who seek the right balance between these two orientations for their organizations or business units should take into account the differential effects of these orientations on their choice between cost leadership and differentiation. If the firm's long-run strategic choice entails a primary emphasis on an efficiency-based competitiveness in the marketplace, it should critically assess the differential effects of customer orientation and competitor orientation on cost leadership. This research suggests that while collecting and processing data on

competitors and using the resultant information in decision-making is integral to the strategy of cost leadership, disproportionate emphasis on customer orientation might deter the firm from its efficiency-based focus. On the other hand, should the firm aim to stress effectiveness through differentiation and innovation (as opposed to efficiency) in its long-run strategic path, both customer and competitive orientations might prove conducive to such strategic ends and thus require parallel attention.

Managers should also heed the mediated effects of MO on differentiation, cost leadership, and innovation, with the mediation stemming from the strategy of segmentation and the degree of its complexity. Although both customer and competitor orientations might promote an increase in the complexity with which segmentation is conceived and implemented, the degree of this complexity does not exhibit a constant relationship with various strategic foci. Specifically, firms with ample orientations toward customers and competitors and sophisticated segmentation practices might be better poised and thus, more inclined to seek competitiveness through differentiation and innovation strategies. This is implicated by the propositions pertaining to MO's mediated and non-mediated effects on cost leadership; i.e., that both customer orientation and SC negatively correlate with the strategy of cost leadership.

Firms cannot neglect segmentation as it comprises one of the basic strategies that relate the firm to the market. How firms go about establishing and implementing their segmentation strategies varies from very simple, intuitive to highly sophisticated, fact-based approaches. In implementing market segmentation, firms should consider three aspects of strategic market segmentation (Sausen, et al., 2005): 1) the goals for SC must be in line with the firm's overall business and marketing strategy, 2) the SC that the firm selects must be accessible and measurable, and 3) the objectives of market segmentation need to support the overall firm's strategic goals.

The foremost limitation of this study is the lack of empirical corroboration of the propositions. While the relationships between MO, differentiation, cost leadership, and innovation have been previously tested (e.g., Han, et al., 1998; Hurley & Hult, 1998), the antecedents and consequences of segmentation remain unexamined. Because the proposed model contains a mix of causal and mediating effects, an SEM approach can provide valuable information about its overall tenability (Bagozzi, 1979; Joreskog & Sorbom, 1982).

Second, the only segmentation variable we considered was the extent to which segmentation is employed. Other variables, such as SC, however, deserve research attention. Although the influence of MO on SC has not been directly tested, several works (e.g., Pottruck, 1987; Smith & Beik, 1982; Wind, 1978; Young, et al., 1978) have implied a positive link between the two constructs. Further, SC might impact the selection and implementation of cost leadership, differentiation, and innovation (Blattberg & Sen, 1974; Clancy & Roberts, 1992; Roscitt & Parket, 1988; Smith & Beik, 1982; Sweitzer, 1975). Future research can consider incorporating SC as a function of the amount of information processed and used throughout segmentation process, the number of variables used to assign customers to segments, and the techniques and methods by which such assigning is performed.

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