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## Linking strategic and market orientations to organizational performance: the role of innovation in private healthcare organizations

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### Abstract

Scholars have been extensively researching the link between strategic and market orientations and organizational performance and the link between innovativeness and organizational performance in various different settings. Given the centrality of those orientations and of innovativeness to the organizational performance in both manufacturing and service industries, scholars do not focus on the missing link of innovativeness among the relationship of those orientations with the performance, particularly in a service industry. Thus, this study aspires to be the bridge among those variables in a highly competitive environment in developing country of whose results indicate that innovativeness is largely dependent on market orientation and seems to be playing a mediator role to drive organizational performance in private healthcare organizations. However, it does not support the link between strategic orientation and innovativeness as well as organizational performance. Thus, strategic orientation seems not to be a descriptive variable for and have interaction with organizational performance as well as innovativeness although they are highly correlated to each other.

*Keywords:* Strategic orientation, market orientation, innovativeness, organizational performance

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## 1. Introduction

Several studies have examined the central role that each of strategic orientation, market orientation, innovativeness plays in the success of businesses in terms of organizational performance separately. However, the question of “is innovation the missing link between those orientations and organizational performance?” remains unanswered. Thus, to better understand those relationships, we posed five specific research questions:

Research Question 1: What is the relationship between strategic orientation and innovativeness?

Research Question 2: What is the relationship between market orientation and innovativeness?

Research Question 3: What is the relationship between strategic orientation and organizational performance?

Research Question 4: What is the relationship between market orientation and organizational performance?

Research Question 5: What is the relationship between innovativeness and organizational performance?

To address these questions, we analyze the relevant literature, develop a model and use statistical technics to test the relationships among the variables mentioned above. Although the previous studies shed some light into the relationship between those variables, it is not known whether innovativeness is the missing link in particularly highly competitive service industry settings. This study also contributes the literature by getting done in a developing country from a different perspective.

## 2. Literature Review

### 2.1. Strategic Orientation

Strategic orientation is the guiding principles that influence a firm's marketing and strategy making activities (Noble, Sinha and Kumar, 2002). It reflects the strategic directions implemented by a firm to create the proper behaviors that lead to superior performance (Gatignon and Xuereb, 1997; Slater, Olson and Hult, 2006) and is founded on a firm's philosophy of how to conduct business through a deeply rooted set of values and beliefs (Zhou, Yim and Tse, 2005). A growing stream of research endorses the adoption of strategic orientations including innovation orientation, technology orientation, entrepreneurial orientation, quality orientation and productivity orientation (Gatignon and Xuereb, 1997; Hurley and Hult, 1998; Marinova, Ye and Singh, 2008; Voss and Voss, 2000; Zhou, Yim and Tse, 2005).

However, following a thorough review of the relevant literature under strategic orientation with organizational performance has been empirically established: Customer orientation, competitor orientation, innovation orientation and internal/cost orientation. Customer orientation is a firm's sufficient understanding of its target buyers in order to be able to create superior value for them (Narver and Slater, 1990). Competitor orientation reflects a seller's ability to understand the short-term strengths and weaknesses and long-term capabilities and strategies of both the key current and the key potential competitors (Narver and Slater, 1990). Innovation orientation is a strategic behavior that reflects openness to new ideas as well as the active seeking of such ideas (Olson, Slater and Hult, 2005). Finally, internal/cost orientation reflects a firm's emphasis on efficiency in all parts of the value chain (Olson, Slater and Hult, 2005) and relates to Porter's (1980) cost leadership strategy.

### 2.2. Market Orientation

Given today's uncertain environment, adaptability and competitiveness are critical for the health of any organization. When an organization's market orientation produces value for a customer that is rare and difficult to imitate, it can be a sustainable source of competitive advantage, which will allow firms to outperform their less market-oriented competitors (Liao, et al., 2011).

Research in marketing has mainly focused on maintaining a market orientation, based on the adoption and implementation of the marketing concept (Noble, Sinha and Kumar, 2002). During the past two decades market orientation has been a focal construct in the marketing literature (Smirnova et al., 2011). The work of Kohli and Jaworski (1990) and Narver and Slater (1990) spurred a substantial stream of research focusing on this construct's definition, measurement, antecedents and consequences. The vast majority of these studies investigate market

orientation from either a behavioral or a cultural perspective (Theodosiou, Kehagias and Katsikea, 2012). The behavioral perspective emphasizes specific activities relating to the generation and dissemination of and responsiveness to market intelligence (Kohli and Jaworski, 1990). The cultural perspective focuses on the organizational norms and values that encourage behaviors that are consistent with market orientation and consists of three components: (a) customer orientation, the sufficient understanding of target buyers so as to be able to create superior value for them continuously, (b) competitor orientation; understanding the short-term strengths and weaknesses and the long-term capabilities of both current and potential competitors and (c) inter-functional coordination, the coordinated utilization of company resources for creating superior value for target customers (Narver and Slater, 1990).

Homburg and Pflesser (2000) expanded the cultural perspective by developing a multilayer conceptualization of market-oriented organizational culture, comprising of basic values, norms, artifacts and behaviors. In a further study adopting a cultural perspective, Gebhardt, Carpenter and Sherry (2006) identified a four-stage process through which organizations change to adopt a higher level of market orientation. More recently, Zhou et al. (2008) conceptualize market orientation as consisting of both cultural and behavioral elements, indicating that organizational-level market orientation culture affects unit level market orientation behavior (Theodosiou, Kehagias and Katsikea, 2012).

Market orientation generates benefits in various direct and indirect patterns involving for example, innovativeness, customer loyalty, product quality and ultimately firm performance (Grinstein, 2008; Jimenez-Jimenez and Cegarra-Navarro, 2007; Kirca, Jayachandran and Bearden, 2005). Interestingly, literature on the antecedents of market orientation, though also informative, is substantially less expansive; for instance, little is known about key drivers of market orientation from the firm's broader strategic orientation comprised of elements such as risk proclivity, aggressiveness, future orientation, for example (Morgan and Strong, 2003). While market orientation has been itself cast as a strategic orientation (Zhou, Yim and Tse, 2005) and has been juxtaposed with other strategic orientation dimensions to understand its performance implications (Hult and Ketchen, 2001; Noble, Sinha and Kumar, 2002), little is known about how other various strategic orientation dimensions impact or determine market orientation.

### 2.3. Innovativeness

The strategic orientation supports risk taking and enhances the possibility of designing and developing completely new and innovative products (Olson, Slater and Hult, 2005). Innovation offers significant benefits to firms like maintaining or enhancing market share and outperforming competitors (Lisboa, Skarmeas and Lages, 2011; Siguaw et al., 2006). The exploitation of the opportunities becomes even more important in turbulent markets. In particular, instability in customers' preferences and expectations limits significantly a firm's ability to satisfy them by performing minor modifications to existing products or even by introducing incremental innovations (Zhou, Yim and Tse, 2005). Therefore, building on extant literature, it is hypothesized that:

*H1: There is a relationship between strategic orientation and innovativeness.*

Slater and Narver (1994) support that marketing orientation leads organizations to embrace an external focus and commitment to innovation, which results for them to achieve and sustain superior performance. Slater and Narver (1994) propose that innovation is a core value-creating capability that drives the market orientation and performance relationship. Deshpandé, Farley and Webster (1993) further suggest that market orientation might facilitate innovation en route to organizational performance. With market orientation representing organization-wide responsiveness to market information (Kohli and Jaworski, 1990), Jaworski and Kohli (1996) suggest that market orientation is an antecedent to innovation. Market orientation, can thus serve as the catalyst for innovation, since it opens up the firm to new customer needs and new business processes. In other words, market orientation can be a critical part of the innovation (Hurley and Hult, 1998). Therefore, building on extant literature, it is hypothesized that:

*H2: There is a relationship between market orientation and innovativeness.*

### 2.4. Organizational Performance

Many studies reflect a positive relationship of strategic orientation to a more superior performance (Slater, Olson and Hult, 2005). In addition, the strategic orientation determines the firm’s response to changes in the industry environment and becomes a primary driver of the extent and kinds of innovation efforts the organization makes (Kumar et. al, 2012). Therefore, building on extant literature, it is hypothesized that:

*H3: There is a relationship between strategic orientation and organizational performance.*

Many studies examining market orientation have investigated a direct relationship with performance. However, a few others have inferred innovation as a moderating variable between market orientation and performance (e.g. Deshpandé, Farley and Webster, 1993; Hurley and Hult, 1998 and Jaworski and Kohli, 1996). These studies conceptualize innovation as the actual mechanism that transforms market orientation into superior performance. Thus, it is hypothesized that:

*H4: There is a relationship between market orientation and organizational performance.*

*H5: There is a relationship between innovativeness and organizational performance.*

**3. Literature Review**

*3.1. Research Goal and Scope*

It is aimed in this study to present the relationships among strategic orientation, market orientation, innovativeness and organizational performance hypothesized above in private healthcare organizations in Turkey. In this respect, the relevant literature is reviewed and a scale is developed to test those hypotheses. The developed scale has been sent to all operating private healthcare organizations (N = 650 as of February 10<sup>th</sup>, 2013) in Turkey without any sampling process. Those 650 private hospitals have been contacted via email or phone whether to or not to participate in the survey, 74 of whose data are obtained yielding a response rate of 11.32% (= 74 / 650).

*3.2. The Scale*

The hypothesized measurement model is shown below in Figure 1. The data are obtained through a developed questionnaire with subsections of strategic orientation (Deshpande and Farley, 1998; Narver and Slater, 1990; Olson, Slater and Hult, 2005; Porter, 1980; Homburg, Workman and Krohmer, 1999), market orientation (Jing and Yanling, 2010; Morgan, Vorhies and Mason, 2009) innovativeness (Altuntaş, 2010) and organizational performance (Avci, Madanoglu and Okumus, 2011; Altuntaş and Dönmez, 2010) with 5-point Likert scales and demographic information regarding both respondent and the participant healthcare organization. The gathered data from questionnaires are analyzed through a factor analysis of principal component extraction method with a Varimax-rotation in SPSS 21.0, yielding 11 items for strategic orientation, 15 items for market orientation, 11 items for innovativeness and 9 items for organizational performance with factor loadings over 0.50 as in Table 1 as coded 5: “Definitely Agree” and 1: “Definitely Disagree”.

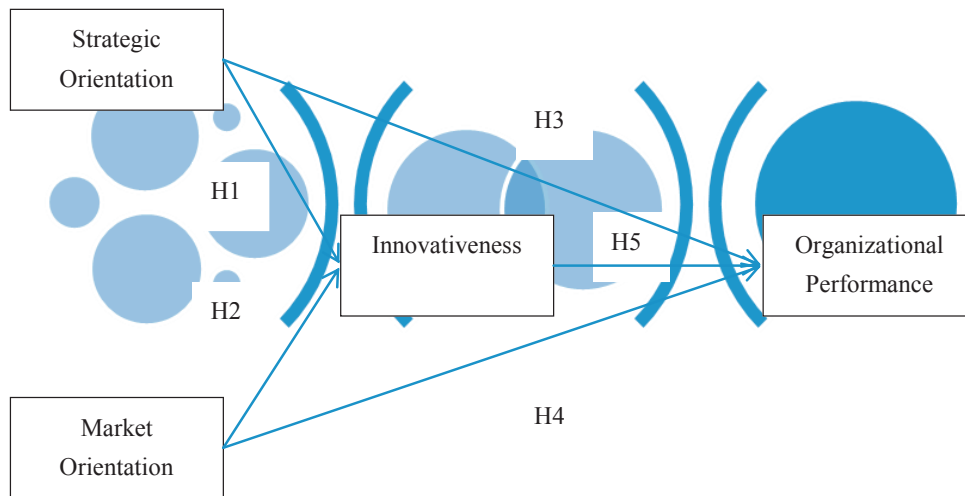
Table 1. Results of factor analysis for constructs used in the questionnaire.

<b>Construct</b>	<b>N. of Items</b>	<b>Total Variance Explained (%)</b>	<b>Cronbach’s Alpha</b>
Strategic Orientation (SO)	11	69,796	,956
Market Orientation (MO)	15	64,911	,960
Innovativeness (IN)	11	62,468	,939
Organizational Performance (OP)	9	69,329	,940

*3.3. The Model*

The research is based on an explanatory-model to present the relationships among those constructs with above-developed hypotheses as in Figure 1.

Figure 1.The Model.



### 3.4. Analysis

Having established the reliability, the next step is to test the hypotheses developed before. Thus, a Pearson correlation analysis has been conducted to present the proposed relationships among the constructs of strategic orientation, market orientation, innovativeness and organizational performance with descriptive statistics for all variables. Right after Pearson correlation analysis, a linear regression analysis has been done to put forth the effects of strategic orientation and market orientation on innovativeness as well as of strategic orientation, market orientation and innovativeness on organizational performance as well as.

## 4. Results and Discussion

Innovativeness is significantly correlated with strategic orientation ( $r = 0,731$ ;  $p < 0,05$ ) and market orientation ( $r = 0,768$ ;  $p < 0,05$ ). Organizational performance is also significantly correlated with strategic orientation ( $r = 0,603$ ;  $p < 0,05$ ), market orientation ( $r = 0,672$ ;  $p < 0,05$ ) and innovativeness ( $r = 0,725$ ;  $p < 0,05$ ). Finally, strategic orientation is significantly correlated with market orientation ( $r = 0,879$ ;  $p < 0,01$ ). Overall, being all the correlations are positive, all hypotheses are accepted.

Table 2. Correlations and descriptive statistics of study variables.

No.	Construct	Mean	Standard Deviation	1	2	3	4
1	Strategic Orientation (SO)	4,0627	1,02719	1			
2	Market Orientation (MO)	3,9207	,99182	,879**	1		
3	Innovativeness (IN)	3,6351	,94362	,731**	,768**	1	
4	Organizational Performance (OP)	3,7447	,94061	,603**	,672**	,725**	1

\* Correlation is significant at the 0.01 level (2-tailed)

\*\* Correlation is significant at the 0.05 level (2-tailed)

Following Pearson correlation analysis, a linear regression analysis has been done to find any interaction among variables. First, organizational performance has been taken as dependent variable and strategic orientation, market orientation and innovativeness as independents to develop a model to present the effect of independent variables on the dependent one as in Model 1. As can be seen in Table 3, linear regression analysis reveals that the effect of market orientation is 0,337 ( $p < 0,05$ ) and of innovativeness is 0,518 ( $p < 0,01$ ) for organizational performance whereas there

is no interaction between strategic orientation and organization performance. When innovativeness is taken as dependent variable, there seems for market orientation to have an effect of 0,518 ( $p < 0,005$ ) on the innovativeness as in Model 2. Excluding strategic orientation and market orientation as in Model 3 to identify solely the interaction between innovativeness and organizational performance, the effect of innovativeness is 0,725 ( $p < 0,01$ ) on organizational performance. Finally, when the construct of strategic orientation is excluded since there is no effect of it on (although it is correlated to) all others, there seems for market orientation and innovativeness to have significant effects such as 0,282 ( $p < 0,05$ ) and 0,508 ( $p < 0,01$ ) respectively on organizational performance.

Table 3. Model summaries of linear regression analysis.

Model No.	Model 1 OP*	Model 2 IN (Excluding OP) *	Model 3 OP (Excluding SO, MO)*	Model 4 OP (Excluding SO)*
R	,747	,777	,725	,747
R Square	,559	,604	,525	,557
Adjusted R Square	,540	,593	,518	,545
Model F	29,525**	54,089**	79,578**	44,720**
Standardized Coefficient (B) for SO	-,071	,243	-	-
Standardized Coefficient (B) for MO	,337***	,555**	-	,282***
Standardized Coefficient (B) for IN	,518****	-	,725**	,508**
Degrees of Freedom	73	73	73	73

\* Predictors (Constant): Strategic orientation, market orientation and innovativeness

\*\*  $p < 0,01$

\*\*\*  $p < 0,05$

\*\*\*\*  $p < 0,10$

The research indicates that innovativeness is largely dependent on market orientation and seems to be playing a mediator role to drive organizational performance in private healthcare organizations as parallel to the previous researches (e.g. Narver and Slate, 1994; Deshpande, Farley and Webster, 1993; Jaworski and Kohli, 1996; Hurley and Hult, 1998). However, strategic orientation seems not to be a descriptive variable for and have interaction with organizational performance as well as innovativeness although they are highly correlated to each other unlike previous literature (e.g. Olson, Slater and Hult, 2005; Kumar et. al, 2012)

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