Developing a Market-Oriented Learning Organisation

by

Mark A. Farrell †

Abstract:
This study integrates the constructs of organisational change strategies, market orientation, top management behaviour, leadership style, learning orientation and business performance. A survey was sent to the top 2,000 organisations within Australia, as defined by annual revenue. Data was analysed using two-stage least squares regression (2SLS). Findings indicate that both planned and emergent change strategies significantly influence market orientation. Results also indicate that top management behaviour, and leadership style significantly impact on a learning orientation. Finally, results indicate that a market orientation is positively related to a learning orientation and that a learning orientation has a stronger significant positive effect on business performance than does a market orientation.

Keywords:
ORGANISATIONAL CHANGE; MARKET ORIENTATION; LEARNING ORIENTATION; LEADERSHIP STYLE; BUSINESS PERFORMANCE.

† School of Management, Charles Sturt University, Wagga Wagga, PO Box 588, NSW 2678.
Email: mfarrell@csu.edu.au

The author gratefully acknowledges comments by the reviewers and the Editor, Mark Uncles.
1. Introduction

During the previous decade, a steady stream of research has developed concerning the market orientation construct. Indeed, companies have been urged to ‘improve the market orientation of their business’ (Jaworski & Kohli 1993, p. 64). However, there is an argument emerging that being market-oriented may not be enough, and that the ability of an organisation to learn faster than competitors may be the only source of sustainable competitive advantage (DeGeus 1988; Dickson 1992; Slater & Narver 1995). Indeed, Lukas, Hult and Ferrell (1996, p. 233) argue that ‘organisational learning is considered by many scholars as a key to future organisational success’. This perspective differs from the neoclassical theory that argues that land, labour and capital are the key ingredients of productivity. In contrast, the resource-based theory of the firm (Hunt & Morgan 1995) argues that information and knowledge are the key ingredients for success (Bell 1973). In short, the ability to learn is a priority for organisations that wish to compete effectively.

Two conclusions emerge from the above discussion. Firstly, that being market-oriented is a source of competitive advantage, and as such organisations should seek to become market-oriented. This is echoed by Day (1994, p. 50) who argues for broad-scale research into change programs that may enhance a market orientation. Indeed, Sinkula, Baker and Noordewier (1997, p. 315) note that there is little work on organisational change within a marketing context. Similarly, Narver, Slater and Tietje, (1998, p. 242) state that ‘given the substantial evidence suggesting a positive relationship between market orientation and performance, the logical next question is how a business can best create and increase a market orientation’.

The second conclusion is that ‘creating a market orientation is only a start’ (Slater & Narver 1995, p. 63). Despite the benefits of being market-oriented that were outlined earlier, there are some limitations. For example, Slater and Narver (1995) argue that market-oriented organisations may not take enough risks, concentrating on what Hamel and Prahalad (1994, p. 83) call the ‘tyranny of the served market’, thus ignoring emerging markets and/or competitors (Argyris 1994; Slater & Narver 1995). It has also been argued (Hayes & Weelwright 1984; Hamel & Prahalad 1994) that a market orientation may result in adaptive learning only, with its focus on the expressed needs, as opposed to latent needs of customers (Slater & Narver 1995, p. 68). Moreover, market-oriented organisations may underestimate the potential contributions of other learning sources that possess knowledge useful to the organisation (Achrol 1991; Dickson 1992; Kanter 1989; Webster 1992). Finally, market-oriented organisations may overlook the possibility of threats from non-traditional competitors (Slater & Narver 1995), for example, the emerging threats to banking institutions from the telecommunications industry in the form of stored value cards. In short, ‘a narrow construction of market orientation could lead to learning only within traditional boundaries’ (Slater & Narver 1995, p. 68).

Given the limitations of the market-oriented organisation, Slater and Narver (1995) argue that organisations should aim to become learning-oriented if they are to compete successfully in the long run. However, given that a ‘market orientation is the principle cultural foundation of the learning organisation’ (Slater & Narver 1995), then we argue that, once organisations are market-oriented, it is but a logical step for them to develop into a learning organisation. Indeed, Slater and Narver (1995, p. 67) state that ‘a market orientation is inherently a learning orientation’. Building upon this
line of argument, Sinkula, Baker and Noordewier (1997, p. 316) call for research that ‘explores relationships between learning orientation, market orientation and organisational performance’. Finally, Slater and Narver (1995, p. 71) argue that ‘the development of a clear understanding of the . . . management practices that facilitate or hinder organisational learning should be a high priority’.

Given the above arguments, this paper addresses the following research questions:

1. What types of organisational change strategies enhance a market orientation? (Day 1994)
2. What specific management practices and behaviours facilitate a learning orientation? (Slater & Narver 1995)
3. Does a market orientation facilitate a learning orientation and is organisational learning associated with superior performance? (Sinkula, Baker & Noordewier 1997)

In addressing the above research questions, this paper makes the following contributions. Firstly, we contribute to the literature by empirically testing the relationship between market orientation and two major organisational change strategies: planned change and emergent change. Secondly, regarding management practices, this study empirically tests the effect of three styles of leadership—transformative, transactional and laissez-faire—and their impact on a learning orientation. The study also examines two aspects of managerial behaviour, risk aversion, and degree of emphasis on a learning orientation to determine whether such behaviour facilitates a learning orientation. Thirdly, the study examines the relationship between a market and learning orientation, and the effect of a learning orientation upon business performance.

The remainder of the paper is organised as follows. In the following section we examine the literature on creating a market orientation. This is followed by a review of the factors that may facilitate a learning orientation. Specifically, we examine the literature on leadership style, and top management behaviour, particularly risk aversion and emphasis on a learning orientation. There then follows a brief review of the literature on organisational learning, with particular reference to the relationship between organisational learning and performance. Research hypotheses are developed, followed by the research method, data analysis and results. The findings are discussed along with managerial implications and directions for further research. Figure 1 provides the conceptual framework for the study.
2. Creating a Market Orientation

In order to create a market orientation, it must be recognised that a market orientation is not a set of processes and activities, but is a fundamental part of the organisation’s culture (Narver, Slater & Tietje, 1998). Each employee must understand that the whole purpose of the organisation is to create superior value for customers. Narver, Slater and Tietje (1998, p. 243), make the point that if creating a market orientation consisted of simply ordering that certain desired behaviours occur, then we would not see such large numbers of businesses failing in this endeavour. Thus, if a market orientation is to be developed, ‘... nothing short of implanting the appropriate culture will suffice’ (Narver, Slater & Tietje, 1998, p. 243). However, an organisation’s culture may be resistant to change (Deshpande & Webster, 1989; Trice & Beyer, 1993; Narver, Slater & Tietje, 1998). In creating a market-oriented culture, the task is to have individuals accept the core value concerning the importance of being committed to delivering superior value for customers (Narver, Slater & Tietje, 1998).

Building upon the work by Beer, Eisenstat and Spector (1990), Narver and Slater (1991) examined two contrasting organisational change strategies; ‘market back’ (an emergent approach which is a process of continuous learning on how to create value) and ‘programmatic change’ (a planned approach which is ‘top down’). They found a significant positive relationship between a ‘market back approach’ and market orientation, and no significant relationship between a ‘programmatic
approach’ and a market orientation. However, the study by Narver and Slater (1991) consisted of only 36 strategic business units in one organisation.

In developing hypotheses between organisational change strategies and a market orientation, we refer to Kelman’s (1958) theory of influence processes. Briefly, Kelman argued that those influence tactics that are more likely to cause internalisation of favourable attitudes concerning the request should be more successful than those that cause behavioural compliance but are not congruent with the target’s value system. Thus, we argue that top-down or planned change strategies, with their focus on company-wide change programs, and the behaviour of individuals modified to fit in with the culture, are less likely to lead to internalisation of favourable attitudes. Given this, theory would suggest that there would be resistance from employees, which would make it more difficult for the appropriate culture to be implanted (Narver, Slater & Tietje 1998). Conversely, an emergent or bottom-up approach, with an emphasis on empowerment, participation and learning at all organisational levels (Fiol & Lyles 1985), is more likely to produce psychological ownership, or internalisation. It is the emphasis on continuous learning that drives the transformation and the reinforcement of the culture (Narver, Slater & Tietje, 1998). Given the above discussion and the findings by Narver and Slater (1991), we suggest the following hypotheses:

\[ H_1: \] The higher the level of a planned approach to change management, the lower the level of a market orientation.

\[ H_2: \] The higher the level of an emergent approach to change management, the higher the level of a market orientation.

In the following section we examine the management practices and behaviours that may facilitate a learning orientation.

3. Top Management Behaviour

3.1 Top Management Emphasis/Risk Aversion

It is argued that senior managers shape the direction of the organisation, and its values (Felton 1959; Hambrick & Mason 1984; Webster 1988). Jaworski and Kohli (1993) found that the amount of emphasis senior managers place on a market orientation affects both the acquisition of and responsiveness to information, and that a market orientation requires risk taking on the part of senior managers. Bennet and O’Brien (1994) argue that in learning-oriented organisations managers support staff development, encourage risk taking, and share insights and innovations. Slater and Narver (1995, p. 69) also argue that leaders ‘share information readily, motivate people to learn, and challenge their own assumptions and mental models’. The importance of leadership in shaping the values, culture and style of an organisation has been discussed by several authors (Hambrick & Mason 1984; Webster 1988; Senge 1990; Nonaka 1991). Essentially, leaders send signals to the wider organisation regarding the manner in which the organisation is to operate within its given market. Such signals provide employees with an understanding of the environment within which they work and how they are expected to work within it. Clearly, effective leaders are able to articulate the mission of the organisation that
helps in creating a shared set of values. Moreover, Slater and Narver (1995, p. 69) argue that leaders must also be able to play a major role in ‘unlearning’ traditional but detrimental practices. Indeed, Slater and Narver (1995) suggest that ‘the ability to lead unlearning could be the single most important role for the chief executive officer for breaking through the learning boundary to encourage generative learning’. This suggests that reinforcement of the importance of a shared mission, shared information and unlearning of existing practices will lead to a greater learning orientation. In short, senior managers must both support the concept of a learning orientation and be prepared to accept risk as a part of this learning process. Finally, it has been argued that if an organisation places little value on learning, then little learning is likely to occur (Norman 1985; Sackmann 1991; Sinkula, Baker and Noordewier 1997). The above discussion leads to the following hypotheses:

H₃: The greater the top management emphasis on a learning orientation, the greater the learning orientation of the organisation.

H₄: The lower the risk aversion of top management, the greater the learning orientation of the organisation.

3.2 Leadership Style

Besides an emphasis on a learning orientation and a willingness to accept risk, senior managers need to adopt a style of leadership that further promotes the concept of a learning orientation. Slater and Narver (1995, p. 69) argue that a ‘complex environment calls for a complex style of leadership and a transformational or facilitative leader’; that is, leaders who communicate effectively, share information, and generally keep the workforce up to date with important information. Such leaders encourage inquisitiveness and establish a motivating vision for the organisation (Senge 1990). Transformative leaders also encourage individuals to break through learning boundaries (Bass 1985), and motivate people to want to learn (Slater & Narver 1995). There exists a wide body of literature that suggests that a transformational leadership style is effective. For example, previous studies have found that transformational leaders motivate group members to higher levels of collective performance and satisfaction (Shamir, House & Arthur 1993). Research has also found that transformational leaders provide more favourable motivational effects on levels of group performance in terms of technological innovation (Howell & Higgins 1990), total quality management outcomes (Sosik & Dionne 1997), military unit performance (Yammarino & Bass, 1990), organisational unit effectiveness (Hater & Bass 1988; Howell & Avolio 1993), team performance (Avolio, Waldman & Einstein 1988), and idea generation (Sosik 1997), than other leadership styles, such as transactional leadership and laissez-faire leadership. Finally, within the marketing literature, Dubinsky, Yammarino, Jolson & Spangler (1995) found that a transformational leadership style used by sales managers led to sales people being more committed, satisfied and less stressed than when sales managers used a transactional leadership style.

According to Bass and Avolio (1994) transformational leadership is seen when leaders: (a) stimulate interest among colleagues and followers to view their work from new perspectives; (b) generate awareness of the mission or vision of the team and organisation; (c) develop colleagues and followers to higher levels of ability and
potential; and (d) motivate colleagues and followers to look beyond their own interests toward those that will benefit the group. In short, transformative leaders create the environment, in which individuals are able to learn for themselves, and share their learning experiences within the organisation, both inter and intra department. In contrast, transactional leadership style occurs when the leader rewards or disciplines the follower depending on the adequacy of the follower’s performance (Bass & Avolio 1994). In brief, transactional leadership depends on contingent reinforcement or management by exception. The third leadership style, laissez-faire leadership, is essentially the avoidance or absence of leadership, and the most ineffective (Bass & Avolio 1994). The above discussion leads to the following hypotheses:

H₅: The greater the level of transformative leadership, the greater the level of learning orientation.
H₆: The greater the level of transactional leadership, the lower the level of learning orientation.
H₇: The greater the level of laissez-faire leadership, the lower the level of learning orientation.

In the following section, we review briefly the literature on market orientation, and explain the relationship between a market orientation and learning orientation.

4. Market Orientation

Jaworski and Kohli (1993) argue that a market orientation is concerned with behaviours and activities in an organisation. Narver and Slater (1990), Deshpande, Farley and Webster (1993) adopt a cultural perspective, although in subsequent work, Deshpande and Farley (1989) state that market orientation is not a culture but a set of activities. Narver and Slater (1990, p. 21) define a market orientation as:

... the organisation culture that most effectively creates the necessary behaviours for the creation of superior value for buyers and, thus, continuous superior performance for the business.

Narver and Slater (1991, p. 14) also argue that the behaviour and culture of an organisation are interlinked, ‘an organisation’s behaviour is shaped by its culture, and in turn, over time, the culture is shaped by the organisation’s behaviour and performance’. The dominant measures of market orientation, MARKOR, (Kohli, Jaworski & Kumar 1993), and MKTOR (Narver & Slater 1990) are similar in that they both focus on information gathering in order to achieve a competitive advantage. Both are composed of three sub-constructs of equal value. In general, research findings suggest that a market orientation leads to increased business profitability (Narver & Slater 1990).

In line with Slater and Narver (1995) we argue that market-oriented organisations provide the cultural framework from which a learning orientation can develop. As Slater and Narver (1995, p. 71) state, ‘because of its external focus, marketing is well positioned to appreciate the benefits of market-driven learning and be the lead advocate of the market-oriented, entrepreneurial values that constitute the
culture of the learning organisation’. Baker and Sinkula (1999) argue that market orientation facilitates adaptive learning. Adaptive learning state Baker and Sinkula (1999, p. 412) is capable of facilitating incremental innovation. Conversely, state Baker and Sinkula (1999), a learning orientation is capable of facilitating discontinuous innovation. However, add Baker and Sinkula (1999, p. 412), a learning orientation can lead an organisation astray ‘. . . if a strong market orientation is not present to provide grounding’. Finally, state Baker and Sinkula, market orientation is concerned with knowledge producing behaviours, while a learning orientation is concerned with knowledge questioning values.

In agreement with Weick and Westley (1996, p. 442) we propose that conceptualising organisations as cultures is appropriate when examining the constructs of market orientation and organisational learning. Thus we argue that a market orientation is the underlying set of organisational values (Slater & Narver 1995; Narver, Slater & Tietje 1998) from which a learning orientation is developed. That is, we argue that market-oriented firms are effective in producing knowledge, and this culture of knowledge production, inevitably leads to knowledge-questioning values. In short, organisations that are able to appreciate the value of timely and relevant information (market-oriented), will also be intelligent enough to challenge existing assumptions about the way the market operates (learning-oriented). Based on the preceding argument, we suggest the following hypotheses:

H₈: The higher the level of a market orientation, the higher the level of a learning orientation.

H₉: The higher the level of market orientation, the higher the level of business performance.

5. Organisational Learning

A variety of definitions exist concerning organisational learning: the process of improving actions through better knowledge and understanding (Fiol & Lyles 1985); organisational learning occurs with an organisation skilled at creating, acquiring, and transferring knowledge, and at modifying its behaviour to reflect new knowledge and insights (Garvin 1993); an organisation that has woven a continuous and enhanced capacity to learn, adapt and change its culture (Bennett & O’Brien 1994); the capacity or processes within an organisation to maintain or improve performance based on experience (Nevis, DiBella & Gould 1995). Slater and Narver (1995) simply argue that learning facilitates behaviour change that leads to improved performance. In explaining this, Slater and Narver (1995) state that organisational learning should lead to superior outcomes, such as superior new product success, customer retention, superior growth, and/or profitability, through its ability to focus on understanding and satisfying the expressed and latent needs of customers, through new products, services and ways of doing business (Day 1994; Dickson 1992; Sinkula 1994).

Sinkula, Baker and Noordewier (1997, p. 316) argue that ‘cultivating a learning culture may indeed become one of the primary means to attain and maintain a competitive advantage’. Sinkula, Baker and Noordewier (1997) also argue that the success of the learning activities should be addressed by performance measures (Hamel & Prahalad 1994; Stata 1992). In a recent paper, Baker and Sinkula (1999)
find that a learning orientation is significantly related to business performance. Based on the above discussion, we suggest the following hypothesis:

\[ H_{10}: \text{The higher the level of a learning orientation, the higher the level of business performance.} \]

In the following section we discuss the research method used in the study.

6. Research Method

6.1 Data Collection

The study involved a mail survey of the top 2,000 companies within Australia, as defined by annual revenue, using the Dun and Bradstreet database. Large organisations are chosen because they are more likely to have systematic intelligence gathering, which is vital to a learning orientation. The unit of analysis is the corporation, with the CEO/Managing Director as the key informant. The reason for selecting this unit of analysis is as follows: (i) responsibility for top management commitment is at the corporate level (Webster 1992); (ii) managers are not as well placed as CEO/Managing Directors to have an understanding of the organisation’s overall market and learning orientation; and (iii) the balance of stakeholder interests should be initiated in the corporate mission and culture, which is the responsibility of directors (Webster 1992). Greenley (1995) cites Deshpande, Farley & Webster (1993) who argue that managers may be uncertain about the appropriate culture for a market orientation, and the changes in attitude that would be required. However, this would be understood at the level of CEO/Managing Director (Webster 1992). Finally, this unit of analysis has been used successfully in a similar study (Oczkowski & Farrell 1998).

As with Greenley (1995), a limited pilot study was undertaken to ensure that there were no problems in completing the survey instrument. A questionnaire and a personal letter were mailed to the CEO/Managing Director of the respective organisations. A second mail out two weeks after the initial mail out was conducted to improve the response rate. One hundred and thirty one questionnaires were either returned to sender due to an incorrect address, or the person had left the company. Seventy-three questionnaires were not completed, as it was company policy not to complete such surveys. In total, 268 useable questionnaires were returned, resulting in an effective net response rate of 15%.

Informants were told that the purpose of the survey was to investigate state of the art business practices. No mention was made of either learning orientation, or any other construct. Independent sample \( t \)-tests for differences between means of the key variables were conducted to check for non-response bias. Tests were performed between early and late respondents. As per convention (Armstrong & Overton 1977), it is postulated that the late respondents are relatively dis-interested respondents, similar in nature to non-respondents. All \( t \)-tests indicated an absence of significant differences between the means at a 0.1% level of significance. Thus, the sample appears to be relatively free from non-response bias.
6.2 Measures

The measures chosen for this study relied on several sources. For learning orientation, we use the measure developed by Sinkula, Baker and Noordewier (1997). The measure of market orientation used was MKTOR (Narver & Slater 1990), given its overall psychometric qualities (see Oczkowski & Farrell 1998). The measure of risk aversion was adopted from Jaworski and Kohli (1993). The measure of top management emphasis on a learning orientation was developed based on the scale by Jaworski and Kohli (1993). Essentially, the items were reworded to focus on a learning orientation, as opposed to a market orientation. Measures of transformative, transactional and laissez-faire leadership were adopted from the Multifactor Leadership Questionnaire (MLQ) scale developed by Bass and Avolio (1994). These leadership scales have been used extensively in the leadership literature. For the measures of planned and emergent change, new scales were developed, following Churchill’s (1979) guidelines. In short, items were developed after a comprehensive literature review. The scales were then sent to a panel of academic experts, familiar with the literature. Modifications were made to some of the items, and the scales were then sent to several CEO’s/Managing Directors for comments. The final result was a six-item scale for planned change, and a five-item scale for emergent change. Scale items are reported in the appendix.

There are five dimensions of business performance relative to all other competitors in the organisation’s principal served market segment over the past year: (a) customer retention; (b) new product success; (c) sales growth; (d) return on investment; and (e) overall performance. These five dimensions served as indicators in a five-item summated scale named business performance. As with previous studies (Narver & Slater 1990; Oczkowski & Farrell 1998), several variables were also included as control variables in analysing the effect of a market and learning orientation on performance. In brief, these variables were as follows, relative size, relative cost, ease of entry, supplier power, buyer power, market growth, competitive intensity, market turbulence, and technological turbulence (see Oczkowski & Farrell 1998, p. 355, for a detailed explanation). Note that the scales for leadership are subject to copyright, and are therefore not reported.

6.3 Data Analysis

The scales were refined using the responses to the main survey. To confirm the adequacy of each measure, each factor was subjected to a confirmatory factor analysis. In general, the properties of the measures are acceptable, with the majority of key constructs having overall acceptable fit indices (see table 1). With regard to convergent validity, learning orientation, market orientation, top management emphasis, emergent change, risk and technological turbulence all measures had indices close to or above 0.50, which suggests that the variance captured by the underlying latent construct is greater than variance due to measurement error (Fornell & Larcker 1981). The average variance extracted of the remaining variables was as follows: planned change, 0.42; transformational leadership, 0.37; transactional leadership, 0.31; laissez-faire leadership, 0.23; and business performance, 0.42, which indicates moderate support for convergent validity. With regard to discriminant validity, we employed the test recommended by Fornell and
Table 1
Means, Standard Deviations, Correlations and Measurement Properties of the Constructs used in this Study

| Constructs              | Mean | Standard Deviation | V1  | V2  | V3  | V4  | V5  | V6  | V7  | V8  | V9  | V10 | V11 | V12 | V13 | V14 | V15 | V16 | V17 | V18 | V19 |
|------------------------|------|-------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 1. Learning Orientation | 4.9059 | 0.8860 (0.91) | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   |
| 2. MKTOR               | 5.1077 | 0.8998 | 0.639** (0.90) | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   |
| 3. Planned Change      | 4.3707 | 0.4516 | 0.314** -0.296** (0.71) | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   |
| 4. Emergent Change     | 4.4673 | 0.5954 | 0.404** 0.315** 0.310** (0.78) | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   |
| 5. Risk                | 4.1367 | 1.0035 | -0.347** -0.276** -0.133** -0.291** (0.70) | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   |
| 6. Top Management      | 4.5023 | 1.1475 | 0.619** 0.440** 0.505** -0.283** (0.85) | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   |
| 7. Transformational    | 3.1817 | 0.3926 | 0.385** 0.380** 0.256** 0.289** -0.163** 0.308** (0.82) | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   |
| 8. Transactional       | 2.1390 | 0.3836 | 0.245** 0.263** 0.166** -0.106 0.311** 0.266** (0.51) | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   |
| 9. Laissez-Faire       | 0.5814 | 0.5349 | -0.227** -0.239** -0.074 -0.141* -0.310** 0.097 (0.53) | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   |
| 10. Performance        | 4.8728 | 1.1271 | 0.360** 0.326** 0.161 0.344** -0.221** 0.282** 0.248** 0.006 -0.125 (0.75) | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   |
| 11. Comp’e Intensity   | 4.8992 | 1.5478 | -0.159** 0.306** 0.136** 0.123 -0.171** 0.217** 0.200** 0.187* -0.053 -0.161* (0.78) | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   |
| 12. Technological      | 4.8457 | 1.5478 | -0.133** 0.234** 0.084 0.096 -0.061 0.165** 0.140* 0.003 -0.084 -0.111 0.250** (0.89) | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   | –   |

Note: Cronbach alpha’s in Parentheses. Single item measures do not have a corresponding alpha score.

Because there were three indicators for the constructs of Competitive Intensity and Market Turbulence, the measurement model was identified completely and fit statistics were not computed.

** Correlation is significant at the 0.01 level (2-tailed); and
* Correlation is significant at the 0.05 level (2-tailed).
Larcker (1981). In this test, a construct is empirically distinct if the average variance explained by that construct’s items is greater than the construct’s shared variance with every other construct (i.e. the square root of the inter-correlation). For example, learning orientation demonstrates discriminant validity because its average variance extracted (0.65) is greater than the square of its correlations with MKTOR (0.63² = 0.39); planned change (0.31² = 0.09); emergent change (0.40² = 0.16); risk (34² = 11); and top management emphasis (0.61² = 0.37). Analysis of the data provides strong evidence of discriminant validity with the average variance of all constructs being greater than the construct’s shared variance with every other construct. Finally, with respect to reliabilities, the Cronbach alpha of almost all of the variables exceeded the cut-off score of 0.70 recommended by Nunnally (1978). The only exceptions to this were the measures of transactional leadership and laissez-faire leadership, which had reliabilities of 0.51 and 0.53 respectively. However, Nunnally (1967, p. 226) states that reliabilities of 0.50 to 0.60 are sufficient for early stages of basic research. Given this, the overall evidence regarding construct validity and the theoretical importance of the variables, it was decided to retain the variables in the study.

The data was analysed using two-stage least squares multiple regression (2SLS). This differs from full estimation indicators such as maximum likelihood (ML), generalised least squares (GLS), and weighted least squares (WLS), in that 2SLS requires fewer distributional assumptions (Bollen 1996). Bollen (1996, p. 109) also makes the point that ML, GLS, and WLS incorporate information from throughout the system in developing estimates, which may lead to specification error in one part of the system spreading bias to other parts of the model. Conversely, 2SLS estimators restrict bias to fewer parts of the model. 2SLS does not require specialised software to implement it, ‘requiring only regressions thus avoiding the need to implement numerical (ML or GLS) optimisation algorithms’ (Oczkowski & Farrell 1998). Bollen (1996) cites Kennedy (1985, p. 134) who states that ‘Monte Carlo studies have shown it (2SLS) to have small sample properties superior on most criteria to all other estimators. They have also shown it (2SLS) to be quite robust’. Similarly, Hägglund (1982) found that 2SLS works better than ML methods for small samples and that ML does not seem to outperform 2SLS in large samples. Recent work in the market orientation literature (Oczkowski & Farrell 1998) also uses the 2SLS technique in a similar study.

In operationalising the 2SLS estimator, the researcher specifies which of the observed indicators is to act as the scaling variable. In practice, there is little guidance from theory. Thus, Bollen (1996, p. 117) suggests that one can regress each item against all other items, selecting as the scale, that item that produces the highest \( R^2 \). This ensures that ‘the instruments for the chosen scale are the best which can be found given the data set’ (Oczkowski & Farrell 1998). In short, the 2SLS procedure specifies a scaling variable as a regressor, the remaining items for the latent construct enter as instruments for the regressor. Finally, multicollinearity was determined by examining the variance inflation factors (VIF) for each of the regression coefficients. All of the VIF scores were well below the cut-off of 10, ‘suggesting that multicollinearity is not a likely threat to the substantive conclusions drawn from the parameter estimates’ (Neter, Wasserman & Kutner 1990).
7. Findings and Discussion

The following discussion is based on the results in tables 2, 3 and 4. The results for H₁ indicate that there was a statistically significant relationship between a planned approach to change management and a market orientation ($b = 0.34$, $p < 0.01$). This contradicts the hypothesis that a planned approach to change would result in a lower level of market orientation. For H₂, emergent change was found to have a positive impact on a market orientation, ($b = 0.33$, $p < 0.01$). This supports the hypothesis that an emergent or bottom-up approach to change management is likely to produce psychological ownership, or internalisation, thus leading to a higher level of learning orientation.

**Table 2**

The Effect of Planned Change and Emergent Change on a Market Orientation

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Hypothesised Relationship</th>
<th>Beta Value</th>
<th>t</th>
<th>Sig t</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned Change</td>
<td>–</td>
<td>0.35</td>
<td>2.636</td>
<td>0.0089</td>
</tr>
<tr>
<td>Emergent Change</td>
<td>+</td>
<td>0.34</td>
<td>2.645</td>
<td>0.0087</td>
</tr>
</tbody>
</table>

Note: $R^2 = 0.17$; $F = 25.76$; and $Sig f = 0.0000$.

**Table 3**

The Effect of Top Management Behaviour and a Market Orientation on a Learning Orientation

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Hypothesised Relationship</th>
<th>Beta Value</th>
<th>t</th>
<th>Sig t</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Orientation</td>
<td>+</td>
<td>0.32</td>
<td>4.92</td>
<td>0.0000</td>
</tr>
<tr>
<td>Transformational Leadership</td>
<td>+</td>
<td>0.20</td>
<td>2.82</td>
<td>0.0052</td>
</tr>
<tr>
<td>Transactional Leadership</td>
<td>–</td>
<td>ns</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laissez Faire Leadership</td>
<td>–</td>
<td>ns</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Aversion</td>
<td>–</td>
<td>-0.13</td>
<td>-2.757</td>
<td>0.0063</td>
</tr>
<tr>
<td>Top Management Emphasis</td>
<td>+</td>
<td>0.58</td>
<td>8.58</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Note: $R^2 = 0.48$; $F$ value = 55.23; and Signif $F = 0.0000$.

Results for H₃ provide strong support that a top management emphasis on a learning orientation affects the level of a learning orientation ($b = 0.58$, $p < 0.01$). Similarly, for H₄, the level of risk aversion of top managers was found to significantly affect the level of learning orientation ($b = -0.13$, $p < 0.01$). This
## Table 4

The Effect of Market Orientation and Learning Orientation on Organisational Performance

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Learning Orientation</th>
<th>Market Orientation</th>
<th>Supplier Power</th>
<th>Entry Barriers</th>
<th>Buyer Power</th>
<th>Relative Size</th>
<th>Technological Turbulence</th>
<th>Market Turbulence</th>
<th>Competitive Intensity</th>
<th>Relative Cost</th>
<th>( R^2 )</th>
<th>( F ) Statistic</th>
<th>Sig F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Performance</td>
<td>0.32</td>
<td>0.22</td>
<td>ns</td>
<td>ns</td>
<td>ns</td>
<td>0.16</td>
<td>ns</td>
<td>–0.23</td>
<td>ns</td>
<td>ns</td>
<td>0.20</td>
<td>8.32</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Note: \( t\)-values in parentheses; and
ns = not significant.
supports the expectation that senior managers must both support the concept of a learning orientation, and be prepared to accept risk as part of the learning process. With regards to management behaviour, transformative leadership was found to affect the level of learning orientation, $H_5$, ($b = 0.20, p < 0.01$). This further supports the argument developed by Slater and Narver (1995) that the style of leadership is crucial in encouraging individuals to learn, reach their full potential, and break through learning boundaries. For $H_6$ and $H_7$, the leadership styles of transactional and laissez-faire did not have a statistical effect on the level of learning orientation. This is inconsistent with theories of leadership, in which one would expect a negative relationship with a learning orientation. For $H_8$, results provide strong support that a market orientation affects the learning orientation of an organisation ($b = 0.32, p < 0.01$). This is consistent with the argument that a market orientation is the underlying set of organisational values from which a learning orientation is developed (Slater & Narver 1995). Finally, the results provide supporting evidence for $H_9$, that a market orientation affects performance ($b = 0.22, p < 0.01$), and also find support for $H_{10}$, that a learning orientation affects organisational performance ($b = 0.32, p < 0.01$), which is consistent with the study hypotheses.

8. Conclusion

8.1 Managerial Implications

The purpose of this study was to undertake the following: (a) examine two types of organisational change strategies and their effect on a market orientation; (b) test what specific management practices and behaviours facilitate a learning orientation; and (c) test whether a market orientation facilitates a learning orientation, and examine whether organisational learning is associated with superior performance.

This study has found that a planned or ‘programmatic’ approach to change strategy has an impact upon the learning orientation of an organisation. Although this contradicts the study hypothesis, it supports the proposition by Narver, Slater and Tietje (1998) that a highly focused programmatic approach may have a marginal positive effect on a market orientation. The proposition by Narver, Slater and Tietje (1998, p. 248) is based on the idea that a programmatic approach may be successful if it is strictly focused on preparing for effective experiential learning to create superior value for customers. While the results of this study provide tentative support for this proposition, it must be noted that the measure of planned change employed did not examine whether the change program was focused on effective experiential learning and creating superior value for customers. Given this, caution must be exercised in the interpretation of this result.

The study found that organisations might also adopt an emergent approach to organisational change if they are to become more market-oriented. This is consistent with Kelman’s (1958) theory of influence processes, and also supports the tentative findings by Narver and Slater (1991) and the proposition by Narver, Slater and Tietje (1998) that a market back (or emergent) approach is positively related to market orientation. This is based on the argument that an emergent approach to change emphasises empowerment, participation in learning at all organisational levels and is more likely to produce psychological ownership or internalisation. Thus, managers
may have to change their mental models of change management to one that also promotes change from below, rather than from above only.

The results clearly indicate that perhaps the most important determinant of a learning orientation is the emphasis placed on it by top managers. This supports the argument by Sinkula, Baker and Noordewier (1997, p. 315) that ‘creating a conducive learning environment cannot be done without commitment from the top’. In other words, if organisations are to become learning-oriented, it is essential that top management emphasise the importance of being learning-oriented. Indeed, Slater and Narver (1995) state that the leader must communicate a well crafted, motivating vision for the organisation. Furthermore, argue Sinkula, Baker and Noordewier (1997, p. 315), ‘such leaders have a personal high commitment to learning. They view learning as a key ingredient in achieving competitive advantage. They motivate and instil a learning orientation in those around them’. In short, they get personally involved in facilitating a learning organisation in their own organisations (Slater & Narver 1995). The results did not provide evidence that a transactional or laissez-faire style of leadership has a negative relationship with a learning orientation. Caution should be exercised in interpreting this result. It should be pointed out that the measures of these variables had poor psychometric properties, which may have affected the results.

Besides emphasising the importance of a learning orientation, the results suggest that top managers should also be prepared to take more risk in their decision making. For example, one such risk is the ability to lead unlearning, having the courage to challenge existing practices, to break through any learning barriers. In short, senior managers will have to be skilled at articulating the vision by which to shape cultures and values, communicate effectively and play a major role in the task of unlearning detrimental but traditional practices. In sum, the challenge is for senior managers to develop a learning orientation through the skilful use of transformative leadership.

The study has clearly identified that if organisations are to become more learning-oriented, they can do so if they have a market-oriented culture. The results suggest that a market orientation facilitates a learning orientation. This study is the first to empirically test the relationship between a market and a learning orientation, and confirms the hypothesis that a market orientation is the underlying set of organisational values/culture, and that learning orientation is the manifestation of such values/culture. The findings from this study support the proposition by Slater and Narver (1995, p. 67) that a market orientation is the principal cultural foundation of the learning organisation, and provide strong evidence that a learning orientation is based in a market orientation. The findings also support the proposition by Baker and Sinkula (1999) that a market orientation provides a grounding for a learning orientation.

Finally, the study has found that both a market orientation and a learning orientation have a significant positive impact on the performance of an organisation. It is worth noting that, as evidenced by the respective beta values, a learning orientation has a stronger positive relationship with business performance, than did a market orientation. This finding is consistent with that by Baker and Sinkula (1999) and provides further support that being market-oriented may not be enough and that organisations should aim to be learning-oriented if they are to compete successfully.
in the long run (Slater & Narver 1995). Simply put, this finding provides further support for the arguments that organisational learning may be the only source of sustainable competitive advantage (DeGeus 1988; Dickson 1992; Slater & Narver 1995), and that organisational learning may be the key to future organisational success (Lukas, Hult & Ferrell 1996).

8.2 Limitations and Future Research Directions

The first limitation concerns some of the measures used in the study. As stated earlier, the measures for transactional leadership and laissez-faire leadership had poor levels of reliability, 0.51, and 0.53 respectively, which is well below the cut-off score of 0.70 recommended by Nunnally (1978). However, as was also stated earlier, Nunnally (1967 p. 226) states that reliabilities of 0.50 to 0.60 are sufficient for early stages of basic research. Nevertheless, these scores indicate some limitations with respect to the overall quality of the measures, despite their extensive prior use in the management literature.

Also, although we measured learning orientation, the cross-sectional nature of the data does not permit us to determine whether organisations have actually learned. Also, as with all cross-sectional data, care must be taken not to misinterpret correlation as causation. Clearly the key measures of a market and learning orientation measure the perceptions of one key informant, at a specific moment in time. Given this, it would be revealing to determine an organisation’s current level of these key constructs, and then track any changes with use of a longitudinal study. This would provide us with a much clearer picture of the nature of organisational learning and how it evolves over time.

With regard to the relationship between organisational change and a market orientation, it would be interesting to measure the actual time it takes for organisations to become more market-oriented. This study focused on the type of change strategy, but did not measure either the time-scale for such changes, nor the upheaval that may be necessary. Moreover, the organisational change literature is replete with examples of change models that require organisations to downsize, if they are to perform better. However, it is not clear what impact this may have on market orientation and organisational learning, particularly organisational memory, which may be affected negatively with a sudden loss of key personnel.

Further research may also investigate whether learning actually reduces the cost of organisational processes. Similarly, as one reviewer pointed out, such research may examine whether change strategies act as mediators between market orientation/learning orientation and performance. In other words, it may be argued that change occurs through environmental learning and adaptation, which itself may be a function of the ability of the organisation to gather information (market orientation) and critically question such information (learning orientation).

Finally, given the strong relationship between a top management emphasis and a learning orientation, future research should examine the process by which top managers are able to engender a learning orientation successfully throughout an organisation. This would be of enormous benefit for practitioners, and may also shed light on the nexus between market and learning orientation as keys to organisational success.
References


Appendix

Measures

**Market Orientation (Alpha 0.90)**

1. Our business objectives are driven by customer satisfaction
2. We monitor our level of commitment and orientation to serving customers’ needs *
3. Our strategy for competitive advantage is based on our understanding of customer needs #
4. Our business strategies are driven by our beliefs about how we can create greater value for customers
5. We measure customer satisfaction systematically and frequently
6. We give close attention to after-sales service
7. Our salespeople share information within our business concerning competitors’ strategies
8. We respond to competitive actions that threaten us
9. We target customers and customer groups where we have, or can develop, a competitive advantage *
10. The top management team regularly discusses competitors’ strengths and strategies
11. Our top managers from every function visit our current and prospective customers
12. We communicate information about our successful and unsuccessful customer experiences across all business functions *
13. All of our business functions (e.g. marketing/sales, manufacturing, R&D, finance/accounting, etc.) are integrated in serving the needs of our target markets
14. All of our managers understand how everyone in our company can contribute to creating customer value

**Learning Orientation (Alpha 0.91)**

1. Managers basically agree that our organisation’s ability to learn is the key to our competitive advantage
2. The basic values of this organisation include learning as key to improvement #
3. The sense around here is that employee learning is an investment, not an expense
4. Learning in my organisation is seen as a key commodity necessary to guarantee organisational survival
5. There is a commonality of purpose in my organisation
6. There is total agreement on our organisational vision across all levels, functions and divisions
7. All employees are committed to the goals of this organisation
8. Employees view themselves as partners in charting the direction of the organisation
9. We are not afraid to reflect critically on the shared assumptions we have made about our customers
10. Personnel in this enterprise realise that the very way they perceive the marketplace must be continually questioned
11. We rarely collectively question our own biases about the way we interpret customer information *

**Planned Change (Alpha 0.71)**

1. Emanates from senior management
2. Occurs through company-wide change programs *
3. Occurs through changing individual knowledge and attitudes
4. Occurs in an unplanned fashion @
5. Occurs through a systematic process of well-managed events #
6. Is monitored through regular progress surveys
Emergent Change (Alpha 0.79)
1. Occurs through continually learning about our environment
2. Occurs by encouraging employees to understand and adapt to changing circumstances in our environment
3. Is part of an ongoing process of adapting to our environment#
4. Is a slow process, which emerges over time*
5. Is about matching the organisation’s capabilities to the business environment*

Top Management Emphasis on Learning (Alpha 0.86)
1. Top managers repeatedly tell employees that this organisation’s survival depends on its ability to learn
2. Top managers often tell employees to continually learn about our customers
3. Top managers often tell employees to continually learn about our competitors*
4. Top managers keep telling people that they must be effective at learning new ideas
5. According to top managers here, continually learning is the most important things our organisation does#

Risk Aversion (Alpha 0.70)
1. Top managers in this company believe that higher financial risks are worth taking for higher rewards*
2. Top managers in this company like to take big financial risks*
3. Top managers here encourage the development of innovative marketing strategies, knowing well that some will fail@
4. Top managers in this organisation like to ‘play it safe’ @#
5. Top managers in this organisation like to implement plans only if they are certain that they will work@

Market Turbulence (Alpha 0.78)
1. In our kind of business, customers’ product preferences change quite a bit over time#
2. Our customers tend to look for new product all the time
3. We are witnessing demand for our products and services from customers who never bought them before*
4. New customers tend to have product-related needs that are different from those of our existing customers
5. We cater to many of the same customers that we used to in the past*

Competitive Intensity (Alpha 0.78)
1. Competition in our industry is cutthroat#
2. There are many ‘promotion wars’ in our industry
3. Anything that one competitor can offer, others can match readily*
4. Price competition is the hallmark of our industry*
5. One hears of a new competitive move almost every day
6. Our competitors are relatively weak@*

Technological Turbulence (Alpha 0.89)
1. The technology in our industry is changing rapidly
2. Technological changes provide big opportunities in our industry
3. A large number of new product ideas have been made possible through technological breakthroughs in our industry#
4. Technological developments in our industry are rather minor

Note: * = Denotes deleted item
       @ = Denotes reverse scored
       # = Denotes scaling item