TOWARD A RESEARCH MODEL OF MARKET ORIENTATION AND DYNAMIC CAPABILITIES

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In the majority of studies on market orientation it is claimed that compelling evidence exists that market orientation has a positive effect on firm performance. It is important to investigate the mediating effect of market orientation on firm performance. Drawing on the dynamic capabilities perspective, in this paper, the view is taken that market orientation is a rare, valuable, and inimitable firm resource; and furthermore is a set of dynamic capabilities. In light of conceptual and empirical advancement, a research model about the impact of market orientation and dynamic capabilities on firm performance is proposed and delineated. With the conceptual model that is developed, the author shows how market orientation can be transformed into dynamic capabilities and it is argued that the competitive value of market orientation is positively mediated by dynamic capabilities. Finally, some research hypotheses for future research are discussed.

Keywords: market orientation, dynamic capabilities, firm performance.

Market orientation involves creating a competitive advantage through a customer-focused enterprise, in which customer values are created (Cano, Carrillat, & Fernando, 2004; Ellis, 2006; Hadcroft & Jarratt, 2007; Jaworski & Kohli, 1993; Kohli & Jaworski, 1990; Narver & Slater, 1990; Slater & Narver, 1994, 1998, 2000). The market orientation construct has been discussed frequently over the last decade. Based upon the marketing concept, market-oriented firms “seek to understand customers’ expressed and latent needs, and develop superior solutions to those needs” (Slater & Narver, 1998). Numerous studies of market
orientation in this field have been published. It has become the central theoretical conception of modern marketing management and strategic management.

Although literature on the subject is replete with theoretical and empirical studies describing the importance of market orientation to firm performance at the organizational level of analysis, there are divergent opinions on the nature and focus of the market orientation. Despite some discussion of market orientation as a firm capability (Day, 1994), the literature does not adequately reflect potential fit within dynamic capabilities (Teece, Pisano, & Shuen, 1997). Teece et al. define dynamic capabilities as the firm’s ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments. Dynamic capabilities thus reflect a firm's ability to achieve new and innovative forms of competitive advantage given path dependencies and market positions (p. 516). The dynamic capabilities concept has resulted in renewed focus on the processes and routines in a firm aimed at developing and renewing its organizational capabilities (Teece & Pisano, 1994; Teece et al., 1997; Wheeler, 2002). One key implication of the dynamic capabilities concept is that firms are competing not only in terms of their ability to exploit their existing resources and organizational capabilities, but also on their ability to renew and develop their organizational capabilities (Teece et al., 1997). In the dynamic markets of today, competitive advantage rests on the ability of a firm to constantly develop organizational capabilities that form the basis for products and services offered.

To be market oriented supersedes the capability to generate and understand the implications of market information; a firm also requires the dynamic capability to coordinate interfunctional strategic responses that reinforce competitive advantage in the marketplace (Jaworski & Kohli, 1993; Ruekert, 1992). When viewed as dynamic capabilities, individual behaviors or routines can set a benchmark for expected market-oriented behaviors across the firm. The purpose of this study was to enhance our understanding of the competitive value of market orientation by drawing on the dynamic capabilities perspective (Eisenhardt & Martin, 2000; Teece, 2007; Teece et al., 1997; Wang & Amhed, 2007).

**THE DEVELOPMENT OF MARKET ORIENTATION**

Kohli and Jaworski (1990) define market orientation as the organization-wide generation of market intelligence pertaining to current and future needs of customers, dissemination of intelligence within an organization and responsiveness to it. These authors, therefore, define this concept through three basic components (processes) dealing with marketing information: generation, dissemination and responsiveness. A slightly different definition was proposed by Narver and Slater (1990) who see market orientation as the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and thus superior performance for business.
These authors put more emphasis on the content (focuses) of the construct, where basic components are: customer orientation, competitor orientation and inter-functional coordination. To these three basic components they also added two decision criteria: long-term focus and profitability. Both decision criteria were not included in the questionnaire designed by Narver and Slater (1990) because of their low levels of reliability.

Deshpande, Farley, and Webster (1993) challenged conceptions of both Kohli and Jaworski and Narver and Slater. They defined market orientation as being synonymous with customer orientation and distinguishable from competitor orientation. Putting customer interests first is the central part of their definition of customer orientation and they argue that competitor orientation can be almost antithetical to customer orientation when the focus is more on the strengths of the competitor than on the unmet needs of the customer. This view is consistent with that of several other authors writing on marketing and strategic management who emphasize a need for a strategic focus on the customer (Christopher, Payne, & Ballantyne, 1991; Day, 1994; Doyle & Wong, 1998; Ruekert, 1992).

Critical discussion has stimulated various efforts to improve conceptualizing and measuring market orientation. Deng and Dart (1994) developed a four-factor instrument, consisting of the three factors of Narver and Slater (1990), to which they added profit orientation as a substantive dimension. Gray, Sheelagh, Boshoff, and Matheson (1998) proposed a five-factor instrument which combines the Kohli and Jaworski (1990) and Narver and Slater (1990) dimensions. The dimensions of their instrument are interfunctional coordination, profit emphasis, competitor orientation, customer orientation and responsiveness. Gray et al. also added distributor orientation and environmental orientation to the concept, and proposed a nine-component model which encompasses two stages of the market orientation process: analysis and strategic actions (each consisting of four components), plus an additional component, intrafunctional coordination.

The Key Elements of Market Orientation

In the present study I have taken an overview of market orientation and categorized eight different approaches to the conception. These approaches are the decision-making perspective (Shapiro, 1988), the market intelligence perspective (Kohli & Jaworski, 1990), the culturally based behavioral perspective (Day, 1994; Deshpande et al., 1993; Slater & Narver, 1995), the strategic focus perspective (Ruekert, 1992), the customer orientation perspective (Deshpande et al., 1993), the system-based perspective (Becker & Homburg, 1999; Hunt & Morgan, 1995), the market-based organizational-learning perspective (Sinkula, Baker, & Noordewier, 1997) and the customer relationship perspective (Baker & Sinkula, 1999a). Each perspective proved interesting for study and further development of the market orientation concept. In this study I have presented
five key elements of market orientation including customer focus, information acquisition, shared information and knowledge, organizational learning, and interfunctional coordination and integration, followed by a synthesis of market orientation from eight different conceptualizations already identified in this paper, and the perspectives.

**Customer Focus** Since market orientation has been defined as the implementation and basic perception of the marketing concept, it follows that the fundamental premise of satisfying the needs and wants of customers should be critical to the enterprise (Hadcroft & Jarratt, 2007; Lafferty & Hult, 2001). Therefore, customer focus is the primary element of market orientation (Lafferty & Hult). Some researchers regard market orientation as an organizational decision-making process, which places priority on a firm’s customers (Shapiro, 1988), upgrades the organization towards customers through the design of the organizational management system (Becker & Homburg, 1999), responds to the needs and wants of customers (Kohli & Jaworski, 1990), continuously creates superior values for customers (Narver & Slater, 1990), implements the strategy (Ruekert, 1992), puts customers’ interests first (Deshpande et al., 1993), satisfies customers’ obvious and potential needs to gain long-term advantage with high learning orientation (Day, 1992; Sinkula, 1994), and establishes long-term relationships by awareness of the changing needs of customers (Baker & Sinkula, 1999a; Hadcroft & Jarratt, 2007).

**Information Acquisition** If customer information acquisition in the market-oriented firm is concerned with understanding exactly what customers value, these results are surprising. One explanation for these findings is provided by Woodruff’s (1997) value hierarchy. Woodruff suggested that learning needs to occur at the consequences level of the customer value hierarchy, indicating the need for organizations to apply information acquisition techniques beyond simple customer satisfaction measurement approaches (Narver, Slater, & MacLachlan, 2004). If information collection, synthesis and response occur at the level of customers’ higher order goals, it is likely that novelty and meaningfulness of new value options will align with customer expectations.

**Shared Information and Knowledge** Sinkula, Baker, and Noordewier (1997) stated that marketing strategies can be influenced by market information in market-orientated enterprises. In some research the view is expressed that it is a good idea to collect information from customers (Narver & Slater, 1990; Ruekert, 1992) to develop strategies by analyzing current and potential competitors and evaluating their short-term weaknesses and strengths and long-term capacities and strategies (Narver & Slater). Kohli and Jaworski (1990) also agree with the importance of information to the organization and investigate intelligence generation, dissemination of the intelligence across departments, and responsiveness within the framework of market orientation.
**Organization Learning** Some researchers have claimed that the potential and obvious needs and wants of customers can be satisfied efficiently and long-term competitive advantages can be achieved through new products, and services from an organization with a high organizational learning capacity (Day, 1992; Sinkula, 1994). According to Sinkula, a learning-orientated organization can gain advantages by creating information. Slater and Narver (1995) regard market orientation as an organizational culture which can promote organizational learning. Other researchers, such as Sinkula et al. (1997), propose that correct organizational learning can lead to well-organized members who are eager to collect, respond to and transfer the marketing information. This is also viewed as a marketing philosophy in that it works by providing better value for customers than competitors do (Baker & Sinkula, 1999a).

**Interfunctional Coordination and Integration** The fifth element of market orientation is the interfunctional dissemination of information, and the interaction, cooperation and relationship of marketing activities in the organization. Ruekert (1992) stressed the need for interaction, cooperation and a relationship of marketing strategies to satisfy customers’ needs. The design of organizational structure is also emphasized by Becker and Homburg (1999). By means of communication horizontally among the members of the organization, every department is able to understand the marketing information (Kohli & Jaworski, 1990) and interfunctional mediation can facilitate the sale and coordination of all sorts of resources (Narver & Slater, 1990). Deshpande et al. (1993) also stated that the continuing needs and wants of customers can be satisfied by strengthening the interfunction and intercooperation of different departments. They further emphasized that interfunctional coordination is consistent with customer demands. These researchers have also suggested that strategies and decisions should be made through the open decision-making process to gather a range of expertise and experience.

**Critical Review of the Dynamic Capabilities Perspective** The concept of dynamic capabilities was first formulated by Teece and Pisano (1994); and further explored by Teece et al. (1997), who asserted that in a dynamic environment a firm’s competitive advantage will rest on its internal processes and routines, which enable the firm to renew and change its stock of organizational capabilities, thereby making it possible to deliver a constant stream of innovative products and services to customers. Dynamic capabilities can, therefore, be perceived as the routines in a firm that guide and facilitate the development of the firm’s organizational capabilities by changing its underlying resource base (Eisenhardt & Martin, 2000). Both dynamic and organizational capabilities can be seen as organizational routines, but their outcomes are different. Organizational capabilities enable the firm to produce goods and
services, whereas dynamic capabilities ensure the renewal and development of organizational capabilities. Interest in research on dynamic capabilities has created a study focus on the processes within a firm that are aimed at developing and renewing its resource bases (Dosi, Nelson, & Winter, 2000; Teece & Pisano, 1994; Teece et al., 1997; Wheeler, 2002). The key implication of the concept of dynamic capabilities is that firms are competing not only in terms of their ability to activate and exploit their existing resources and organizational capabilities, but also in terms of their ability to renew and develop these.

In the dynamic markets of today, competitive advantage rests on the ability of a firm to constantly develop and renew the organizational capabilities that form the basis for products and services offered. Building on previous research on the resource-based view of the firm (Barney, 1991, 2001; Wernerfelt, 1984) the dynamic capabilities concept has added to understanding of the challenges involved in following a resource-based approach to strategy. Strategy should not be just a battle for strong market position but should include battling for sustained development of a firm’s organizational capabilities (Teece et al., 1997). In the long run it is insufficient to have strong resources and organizational capabilities, the firm must also possess strong organizational routines for developing and renewing these resources and organizational capabilities. This is especially true for companies competing in dynamic markets (Wheeler, 2002). Dynamic capabilities can be seen as an extension of the resource-based view where the firm is conceived as a collection of resources, such as technologies, skills, and knowledge-based resources. Competitive advantage originates from the creative integration and subsequent exploitation of these resources in the marketplace (Teece, 2007; Teece et al., 1997). Furthermore, within the resource-based view, it has been emphasized that the key to achieving a sustainable competitive advantage from the firm’s stock of resources lies in the ability to integrate different resources to form strong organizational capabilities (Grant, 1996; Verona & Ravasi, 2003; Zollo & Winter, 2002).

Empirical research on dynamic capabilities has begun to fill the vacuum of the transformational mechanisms. After a review of available literature I have identified five important agendas. They are the nature and component factors of dynamic capabilities (Eisenhardt & Martin, 2000; Teece, 2007; Teece et al., 1997; Wang & Amhed, 2007), the formation process of dynamic capabilities (Newbert, 2005; Zollo & Winter, 2002), the influential factors of dynamic capabilities (Griffith & Harvey, 2001; Helfat, 1997; King & Tucci, 2002; Petroni, 1998), the impact of dynamic capabilities on performance (Priem & Butler, 2001; Roy & Roy, 2004; Zott, 2003), and other applications (Chang & Hou, 2007; Luo, 2000).
In summary, the emergence of the concept of dynamic capabilities has enhanced the resource-based view by addressing the evolutionary nature of a firm’s resources and capabilities in relation to environmental changes and by enabling identification of firm- or industry-specific processes that are critical to the evolution of that firm or industry.

THE CORE COMPONENTS OF DYNAMIC CAPABILITIES

Capabilities are complex bundles of skills and knowledge that are exercised through organizational processes. Capabilities thus describe the effectiveness of a firm in undertaking processes relative to the competition (Nelson & Winter, 1982). In the literature a close link has also been shown to exist between capabilities and their underlying processes (Sambamurthy, Bharadwaj, & Grover, 2003). In this paper, I proposed a set of core components to capture the effectiveness in undertaking the key processes of dynamic capabilities, in terms of effectively undertaking the reconfiguration process. These components are: sensing capability, absorptive capability, integrative capability and innovative capability.

The preceding identification of the core components of dynamic capabilities and the proposed distinction between goal and enabling processes allows me to propose a more descriptive definition of dynamic capabilities:

Dynamic capabilities are the ability of a firm to deploy new configurations of operational competencies relative to the competition by effectively sensing the environment, as well as absorptive, integrating, innovative activities.

With this definition my aim is to bring more clarity to the dynamic capabilities literature by articulating the four core components that compose the nature of dynamic capabilities. Nevertheless, the proposed enabling processes are not posited as necessary or sufficient conditions for reconfiguration to occur, but rather as important means that facilitate the deployment of new configurations of operational competencies. Table 1 summarizes the core components of dynamic capabilities as defined and described in several studies.

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**Sensing Capability** Sensing capability reflects the ability to sense the environment and understand customer needs and market dynamics better than competitors. Sensing capability captures the effectiveness in sensing the environment, defined as the ability to effectively generate (Galunic & Rodan, 1998), disseminate (Kogut & Zander, 1996), and respond to (Amit & Schoemaker, 1993) market intelligence on customer needs.

**Absorptive Capability** Cohen and Levinthal (1990, p. 28) refer to absorptive capacity as “the ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends … the ability to evaluate and utilize outside knowledge is largely a function of the level of prior knowledge”. Firms with higher absorptive capability demonstrate greater ability to learn from partners, to integrate external information and to transform it into firm-embedded knowledge (George, 2005; Salvatos, 2003; Verona & Ravasi, 2003; Woiceshyn & Daellenbach, 2005).

**Integrative Capability** Integrative capability has been described as the ability to capture the effectiveness in “integrating patterns of interaction” by specifying the organizing principles by which individual input is integrated (Grant, 1996). It is defined as the ability to integrate disparate patterns of interaction through heedful contribution, representation, and interrelation (Okhuysen & Eisenhardt, 2002).

**Innovative Capability** Innovative capability refers to a firm’s ability to develop new products and/or markets, through aligning strategic innovative orientation with innovative behaviors and processes (Deeds, DeCarolis, & Coombs, 1999; Delmas, 1999; Lazonick & Prencipe, 2005; Petroni, 1998; Tripsas, 1997; Wang & Amhed, 2004).

In the current paper, I argue that conceptually, sensing capability, absorptive capability, integrative capability and innovative capability the most important components of dynamic capabilities and underpin a firm’s ability to integrate, reconfigure, renew and recreate its resources and capabilities in line with external changes. In support of this view a research model is proposed and delineated in Figure 1. The four components are correlated, but conceptually distinct. Each has a particular emphasis: sensing capability stresses a firm’s ability to generate market information, and adapt itself in a timely fashion through flexibility of resources and aligning resources and capabilities with environmental changes. Hence, the focus of sensing capability is to align internal organizational factors with external environmental factors. Absorptive capability highlights the importance of taking in external knowledge, combining it with internal knowledge and absorbing it for internal use. Integrative capability impacts on dynamic capabilities by effectively allocating resources, assigning tasks, and synchronizing activities. Innovative capability effectively links a firm’s inherent innovativeness to marketplace-based advantage in terms of new products and/or markets. Thus, innovative capability links a firm’s resources and capabilities with its product market.
The purpose of this study is to enhance our understanding of the competitive value of market orientation by drawing on the dynamic capabilities perspective (Eisenhardt & Martin, 2000; Teece, 2007; Teece et al., 1997; Wang & Amhed, 2007). Unlike past research that has examined the competitive value of market orientation under the lens of the external environmental conditions, the research addresses the competitive value of market orientation through dynamic capabilities. To this end, the study proposes and delineates a research model (see Figure 1).

**Figure 1.** A research model of market orientation and dynamic capabilities.

**MARKET ORIENTATION AND DYNAMIC CAPABILITIES**

One of the fundamental propositions of the resource-based view of market orientation is that a firm’s valuable, rare, socially complex and inimitable resources (Day, 1994; Hunt & Morgan, 1995) generate a competitive advantage and thereby an above-normal rate of return (Barney, 1991; Wernerfelt, 1984). Thus, the heterogeneity of resources across firms explains their comparative differences and competitive advantage in the marketplace. By definition, market orientation describes such actions as listening to customers and delivering solutions on the basis of the interests and desires of these customers (Deshpande
et al., 1993; Slater & Narver, 1995). The concept of market orientation also takes into account competitors’ moves by sharing information about competitive forces to deter market-positional erosion (Day & Wensley, 1988; Peteraf & Bergen, 2003). Market-oriented firms follow specific and identifiable routines and processes, such as generating information about customers through monitoring and assessing their changing needs and desires, disseminating that information throughout the firm, and revising business strategies to enhance customer value (Kohli & Jaworski, 1990; Narver & Slater, 1990).

In high velocity – that is, highly uncertain – markets, dynamic capabilities rely more on real-time information, cross-functional relationships and intensive communication among those involved in the process and with the external market (Eisenhardt & Martin, 2000; Teece, 2007). Again, these information acquisition and dissemination behaviors are the focus of market-oriented activities. Market-oriented routines create a sensitivity and response to the market by providing superior market information and understanding, thereby decreasing uncertainty and increasing the probability of proper response to market changes. Therefore, it is logical that market orientation is an important capability in high velocity markets. In line with these arguments, I propose, in this paper, dynamic capabilities as a critical complementary capability that, when bundled together with market orientation, will enhance the performance impact of market orientation (Ho & Tsai, 2006; Menguc & Auh, 2006).

**Hypothesis 1** Market orientation positively relates to dynamic capabilities.

**Hypothesis 1a** The key element of market orientation, in terms of information acquisition, will positively affect sensing capability.

**Hypothesis 1b** The key element of market orientation, in terms of shared information and knowledge, will positively affect absorptive capability.

**Hypothesis 1c** The key element of market orientation, in terms of organizational learning, will positively affect absorptive capability.

**Hypothesis 1d** The key element of market orientation, in terms of organizational learning, will positively affect integrative capability.

**Hypothesis 1e** The element of market orientation, in terms of interfunctional coordination and integration, will positively affect integrative capability.

**Hypothesis 1f** The element of market orientation, in terms of interfunctional coordination and integration, will positively affect innovative capability.

**CORE COMPONENTS OF DYNAMIC CAPABILITIES AND FIRM PERFORMANCE**

Having identified the nature of dynamic capabilities, the proposed contribution/impact of each of the core components of dynamic capabilities is described below:
Sensing Capability and Dynamic Capabilities

Sensing capability impacts on dynamic capabilities by effectively generating, disseminating, and leveraging market intelligence. First, effectively generating market intelligence raises the probability of identifying new market opportunities for reconfiguration (Zahra & George, 2002). Second, effectively disseminating market intelligence helps New Product Development (NPD) units build market responsiveness (Day, 1994). Third, effectively leveraging market intelligence promotes innovation and facilitates the development of successful new products (Jaworski & Kohli, 1993). Overall, sensing capability facilitates dynamic capabilities. Therefore, I hypothesize:

Hypothesis 2 The greater the dynamic capabilities a firm demonstrates, the more likely it is to create sustainable competition that leads to superior firm performance.

Hypothesis 2a Superior sensing capability is positively related to dynamic capabilities.

Absorptive Capability and Dynamic Capabilities

Woiceshyn and Daellenbach (2005) found that a firm’s absorptive capability is critical for success in the face of external technological change. They found that, when adopting new horizontal drilling technology, firms with greater absorptive capability experience a relatively efficient adoption process leading to positive performance outcomes, while firms with a lesser absorptive capability encounter significant difficulties. In other empirical studies (Salvato, 2003; Verona & Ravasi, 2003) it was found that a firm’s ability to acquire external, new knowledge, to assimilate it alongside existing, internal knowledge and to create new knowledge were important factors in several industries. The more a firm demonstrates its absorptive capability, the more it exhibits dynamic capabilities. Therefore, my hypothesis is:

Hypothesis 2b Superior absorptive capability is positively related to dynamic capabilities.

Integrative Capability and Dynamic Capabilities

Zollo and Winter (2002, p. 340) define dynamic capability as a collective activity, arguing that adapting in a disjointed way is not a demonstration of dynamic capability. Integrating capability impacts on dynamic capabilities through effective contribution, representation and interrelation. First, effective contribution helps in the collection and diffusion of individual input and knowledge. Second, effective representation builds a shared understanding, creates a common ground, and develops new perceptual schema (Weick & Roberts, 1993). Third, since reconfiguration necessitates a new logic of organizing and interrelating interaction patterns, effective interrelation helps
initiate the routinization of new configurations of resources (Helfat & Peteraf, 2003; Okhuysen & Eisenhardt, 2002). Moreover, Weick and Roberts (1993) argue that groups with better integrated capabilities have the capacity to anticipate how to react in novel situations and reconfigure themselves. Therefore, my hypothesis is:

**Hypothesis 2c** Superior integrative capability is positively related to dynamic capabilities.

**Innovative Capability and Dynamic Capabilities**

There has been a considerable amount of research carried out on the impact of innovation on firm performance over a long period. Wang and Ahmed (2004) have addressed the concern of effectively measuring organizational innovative capability, and multiple indicators have been developed to measure the dimensions of innovative capability (i.e. strategic innovative orientation, behavioral, process, product and market innovativeness). In other studies it has also been found that, in several industries, firms’ innovative capability is a critical factor for their evolution and survival in light of external competition and change. The more innovative a firm is, the more it possesses dynamic capabilities (Deeds et al., 1999; Lazonick & Prencipe, 2005; Tripsas, 1997). Therefore, I hypothesize that:

**Hypothesis 2d** Superior innovative capability is positively related to dynamic capabilities.

**Market Orientation, Dynamic Capabilities and Firm Performance**

In many studies it has been claimed that market orientation has positive effects on business performance (e.g., Jaworski & Kohli, 1993; Narver & Slater, 1990). Between 1990 and 2002, Langerak (2003) carried out a comprehensive review and examined the relationship between market orientation and business performance. He found that there is no unequivocal evidence as to if and when market orientation has a positive impact on business performance. There is, however, some unequivocal proof of how market orientation influences business performance. In line with his findings, researchers have pursued an understanding of the link between market orientation and business performance by investigating: a direct relationship (e.g., Pelham, 1999; Ruekert, 1992); a moderated link (e.g., Greenley, 1995; Pelham, 1997); and a mediated relationship (e.g., Baker & Sinkula, 1999b; Han, Kim, & Srivastava, 1998).

The critical aspect of the framework of the resource-based view is reinvestment in resources and capabilities, or a combination of resources as opposed to discrete resources, to maintain and enhance superior firm performance. Without
continuous innovativeness, any barriers to imitation will be neutralized and eroded (Bharadwaj, Varadarajan, & Fahy, 1993; Day & Wensley, 1988). In the conceptual model of Bharadwaj et al., the authors inserted a feedback loop that emphasized reinvestment in resources and skills to replenish depleted capabilities. Subsequently arguments were advanced by Day and Wensley (1988) and Hunt and Morgan (1995), positing that investment in innovation and capabilities that constantly force competitors into "catch-up" mode will prolong a firm’s competitive advantage. I argue that market orientation, in isolation, is unlikely to qualify as a dynamic capability; it needs to be complemented by other internal resources that will lift its competitive value (Moorman & Slotegraaf, 1999). In other words, complementary resources strengthen the dynamic capability – generating capacity of market orientation.

In line with these arguments, I have proposed dynamic capabilities as being important mediating variables which, when bundled together with market orientation, will enhance the performance impact of market orientation. Hence, I contend that any competitive advantage to be derived from the implementation of market orientation is likely to depend on the resource configurations that firms build using the complementary resources available to them. Unlike past research in which the competitive value of market orientation has been examined under the lens of the external environmental conditions, in my paper I have addressed the competitive value of market orientation through dynamic capabilities. Therefore, I hypothesize that:

**Hypothesis 3** The impact of market orientation on sustainable competitive advantage and firm performance is positively mediated by dynamic capabilities.

**CONCLUSION**

In this paper I have compiled an overview of market orientation, and have addressed five key elements including customer focus, information acquisition, shared information and knowledge, organizational learning, and interfunctional coordination and integration. I have proposed a set of capabilities that will most effectively capture the core processes of dynamic capabilities. They are sensing capability, effectiveness in absorptive capability, effective integrative capability, and effective innovative capability.

The majority of previous researchers have focused on the antecedents and consequences of a market orientation, as well as on the variables that might moderate the relationships between market orientation and its consequences. Although recent findings are inconsistent regarding the relationship between market orientation and business performance, the dominant view is that market orientation does improve business performance (Deshpande et al., 1993; Jaworski & Kohli, 1993; Narver & Slater, 1990). Drawing on the dynamic capabilities
perspective, in this paper I have viewed market orientation as a set of dynamic capabilities, and I have argued that the competitive value of market orientation is mediated by dynamic capabilities. For this purpose, in this paper I have proposed and delineated a research model to explore the relationships among market orientation, dynamic capabilities and firm performance.

REFERENCES


