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The Capabilities of Market-Driven Organizations

Considerable progress has been made in identifying market-driven businesses, understanding what they do, and measuring the bottom-line consequences of their orientation to their markets. The next challenge is to understand how this organizational orientation can be achieved and sustained. The emerging capabilities approach to strategic management, when coupled with total quality management, offers a rich array of ways to design change programs that will enhance a market orientation. The most distinctive features of market-driven organizations are their mastery of the market sensing and customer linking capabilities. A comprehensive change program aimed at enhancing these capabilities includes: (1) the diagnosis of current capabilities, (2) anticipation of future needs for capabilities, (3) bottom-up redesign of underlying processes, (4) top-down direction and commitment, (5) creative use of information technology, and (6) continuous monitoring of progress.

The marketing concept has been a paradox in the field of management. For over 40 years managers have been exhorted to “stay close to the customer,” “put the customer at the top of the organizational chart,” and define the purpose of a business as the creation and retention of satisfied customers.¹ Companies that are better equipped to respond to market requirements and anticipate changing conditions are expected to enjoy long-run competitive advantage and superior profitability.

Throughout much of its history, however, the marketing concept has been more an article of faith than a practical basis for managing a business.² Little was known about the defining features or attributes of this organizational orientation, and evidence as to the antecedents and performance consequences was mainly anecdotal. Consequently, managers had little guidance on how to improve or redirect their organizations' external orientation toward their markets.

¹The earliest proponent of the marketing concept was Peter Drucker (1954), who argued that creating a satisfied customer was the only valid definition of business purpose. Subsequent authors described the concept and its benefits, e.g., McKittrick (1957), Felton (1959), Barksdale and Darden (1971), Kotler (1977), Peters and Waterman (1982), Shapiro (1988b) and Webster (1992). These authors do not make careful distinctions among *customer oriented*, *market oriented*, and *market driven*; they lean toward *market driven* to describe the orientation of a firm that stays close to its customers and ahead of its competitors—thus making competitive superiority an explicit element of the concept.

²This state of affairs may explain why the marketing concept has had little influence on other management fields. Thus, a review of “all variables that have been proposed seriously as indices of organizational effectiveness” (Campbell 1977) failed to mention customer satisfaction. Similarly, the notion of a market orientation is nowhere to be found in a discussion of competing principles of management presumed to be causally related to the effectiveness of organizations (Lewin and Minton 1986). During this period, however, discussions of organizational culture gave considerable weight to an “external versus internal emphasis” as an influential aspect of a culture (Reynolds 1986).

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Fortunately, this situation is changing following a “re-discovery” in the late 1980s (Dickson 1992; Webster 1988). In the last five years, a number of conceptual and empirical studies have appeared that more clearly describe what a market orientation is and what it consists of. According to this emerging literature, market orientation represents superior skills in understanding and satisfying customers (Day 1990). Its principal features are the following:

- A set of beliefs that puts the customer's interest first (Deshpandé, Farley, and Webster 1993),
- The ability of the organization to generate, disseminate, and use superior information about customers and competitors (Kohli and Jaworski 1990), and
- The coordinated application of interfunctional resources to the creation of superior customer value (Narver and Slater 1990; Shapiro 1988b).

In addition, a modest but growing body of empirical evidence supports the proposition that a market orientation is positively associated with superior performance (Deshpandé, Farley, and Webster 1993; Jaworski and Kohli 1992; Narver and Slater 1990; Ruekert 1992).

Despite the recent progress in understanding what a market-driven organization does and identifying who they are, troubling gaps and shortcomings remain. Little is known, for example, about the characteristics of successful programs for building market orientation. How should these programs be designed? Should management emphasize fundamental culture change, revised work processes, organizational restructuring, new systems, redirected incentives, or some other set of plausible initiatives? Interestingly, many of these implementation issues have been addressed by parallel work on total quality management (TQM). Like the marketing concept, TQM promises superior performance through an external focus on customer satisfaction and an internal focus on operational excellence. The difference is that TQM offers managers a host of organizational prescriptions and supporting tools.

I address these issues by examining the role of capabilities in creating a market-oriented organization. Capabilities are complex bundles of skills and collective learning, exercised through organizational processes, that ensure superior coordination of functional activities. I propose that organizations can become more market oriented by identifying and building the special capabilities that set market-driven organizations apart. The discussion is divided into three parts. First, I define capabilities in more detail and explore the relationship between a firm's capabilities and its strategy. Next, I argue that market-driven organizations are superior in their *market-sensing* and *customer-linking* capabilities. When these two capabilities are deeply embedded within the organization, all functional activities and organizational processes will be better directed toward anticipating and responding to changing market requirements ahead of competitors. Finally, I derive some lessons on how to apply the capabilities approach to the design of programs to enhance a market orientation.

The Capabilities Approach to Strategy

Two Perspectives on Competitiveness

How does a business achieve and maintain a superior competitive position? This question is at the heart of the strategy development process and largely defines the field of strategic management. One answer given by the emerging capabilities or resource-based theories cites two related sources of advantage: *Assets* are the resource endowments the business has accumulated (e.g., investments in the scale, scope, and efficiency of facilities and systems, brand equity, and the consequences of the location of activities for factor costs and government support); and *capabilities* are the glue that brings these assets together and enables them to be deployed advantageously. Capabilities differ from assets in that they cannot be given a monetary value, as can tangible plant and equipment, and are so deeply embedded in the organizational routines and practices that they cannot be traded or imitated (Dierckx and Cool 1989).

The competitive forces approach (Porter 1980) and the related entry deterrence approach (Ghemawat 1990), which have been the dominant paradigms in the strategy field (Teece, Pisano, and Shuen 1991), have a different answer to the question of how superior performance is achieved. These approaches put the emphasis on the intensity of competition in the industry and market segment that determines the profit potential. The firm seeks a position in an attractive market that it can defend against competitors. Although management's task is then to identify and develop the requisite capabilities, what really matters is achieving a defensible cost or differentiation position in an attractive market and keeping their rivals off balance through strategic investments, pricing strategies, and signals.

The capabilities approach, by contrast, locates the sources of a defensible competitive position in the distinctive, hard-to-duplicate resources the firm has developed (Itami 1987; Rumelt, Schendel, and Teece 1991). These re-

sources, which are made up of integrated combinations of assets and capabilities, are cultivated slowly over time and limit the ability of the firm to adapt to change. Management's task is to determine how best to improve and exploit these firm-specific resources (Mahoney and Pandian 1992), although in times of turbulence the challenge of developing new capabilities comes to the fore (Barney 1991; Wernerfelt 1984).

Defining and Identifying Capabilities

The concept of capabilities is not new. An emphasis on building distinctive capabilities or competencies can be found in Selznick (1957) and Penrose (1959) and is featured in the strengths and weaknesses component of the early business policy frameworks (Learned et al. 1969). Although these early frameworks provide useful insights, the lack of a thorough theoretical understanding of capabilities meant that in practice firms did little more than compile lengthy and indiscriminate lists of strengths and weaknesses.

As noted previously, capabilities are complex bundles of skills and accumulated knowledge, exercised through organizational processes, that enable firms to coordinate activities and make use of their assets.³ Capabilities are manifested in such typical business activities as order fulfillment, new product development, and service delivery. One well-known capability is Wal-Mart's cross-docking logistics system (Stalk, Evans, and Shulman 1992). It is part of a broader "customer pull" system that starts with individual stores placing their orders on the basis of store-movement data. These orders are gathered and filled by suppliers in full truckloads. The loads are delivered to Wal-Mart's warehouses, where they are sorted, repacked, and dispatched to stores. The transfer from one loading dock to another takes less than 48 hours, sharply cutting the usual inventory and handling costs.

Capabilities and organizational processes are closely entwined, because it is the capability that enables the activities in a business process to be carried out. The business will have as many processes as are necessary to carry out the natural business activities defined by the stage in the value chain and the key success factors in the market. Thus, the necessary business processes of a life insurance company will be different from the processes found in a microprocessor fabricator. Each of the processes has a beginning and end state that facilitates identification and implies all the work that gets done in between. Thus, new product development proceeds from concept screening to market launch, and the order fulfillment process extends from the receipt of the order to payment.

Because capabilities are deeply embedded within the fabric of the organization, they can be hard for the management to identify. One way to overcome this problem is to create detailed maps of the sets of process activities in which

³Distinctions are frequently made between *competencies*, well-defined routines that are combined with firm-specific assets to enable distinctive functions to be carried out, and *capabilities*, the mechanisms and processes by which new competencies are developed (Teece, Pisano, and Shuen 1991). This implies that competencies are largely static, which seems a restrictive and unnecessary condition. Thus, for our purposes the terms are essentially interchangeable.

the capabilities are employed (Hammer and Champy 1993). These maps usually show that capabilities and their defining processes span several functions and several organizational levels and involve extensive communications.

Capabilities are further obscured because much of their knowledge component is tacit and dispersed. This knowledge is distributed along four separate dimensions (Leonard-Barton 1992): First are the accumulated employee *knowledge* and *skills* that come from technical knowledge, training, and long experience with the process. The second dimension is the knowledge embedded in *technical systems*, comprising the information in linked databases, the formal procedures and established “routines” for dealing with given problems or transactions (Nelson and Winter 1982), and the computer systems themselves. Third and fourth are the *management systems* and the *values* and *norms* that define the content and interpretation of the knowledge, transcend individual capabilities, and unify these capabilities into a cohesive whole. The management systems represent the formal and informal ways of creating and controlling knowledge. The values and norms that dictate what information is to be collected, what types are most important, who gets access to the information, how it is to be used, and so forth are a part of the overall culture.⁴

Distinctive Capabilities

Every business acquires many capabilities that enable it to carry out the activities necessary to move its products or services through the value chain. Some will be done adequately, others poorly, but a few must be superior if the business is to outperform the competition. These are the distinctive capabilities that support a market position that is valuable and difficult to match. They must be managed with special care through the focused commitment of resources, assignment of dedicated people, and continued efforts to learn, supported by dramatic goals for improvement.

The most defensible test of the distinctiveness of a capability is whether it makes a disproportionate contribution to the provision of superior customer value—as defined from the customer’s perspective—or permits the business to deliver value to customers in an appreciably more cost-effective way. In this respect a distinctive capability functions like a key success factor. Clearly, for example, Honda’s prowess with fuel-efficient, reliable, and responsive small displacement engines and drive trains adds a great deal of value and sets their cars apart from the competition. Other examples are Motorola’s mastery of continuous quality improvement and rapid product development and Federal Express’s ability to manage integrated transaction processing systems.

Customers are unlikely to be aware of or interested in the underlying processes that yield the superior value they receive. Thus, one of the critical management tasks is to decide which capabilities to emphasize, which is dictated by

how they choose to compete. Consider how Marriott Hotels is able to consistently receive the best ratings from business travelers and meeting planners for high-quality service. They are certainly as capable as Hyatt, Hilton, and others at selecting good sites, opening new hotels smoothly, and marketing them well (Irvin and Michaels 1989). What consistently sets them apart and reveals a distinctive service capability (actually a set of linked capabilities each performed outstandingly well) is a “fanatical eye for detail.” This begins with a hiring process that systematically recruits, screens, and selects from as many as 40 applicants for each position and continues through every hotel operation; for example, maids follow a 66-point guide to making up bedrooms. The effective management of these linked processes, within an organizational culture that values thoroughness and customer responsiveness, creates a distinctive capability that gives Marriott employees clear guidance on how to take the initiative to provide excellent customer service.

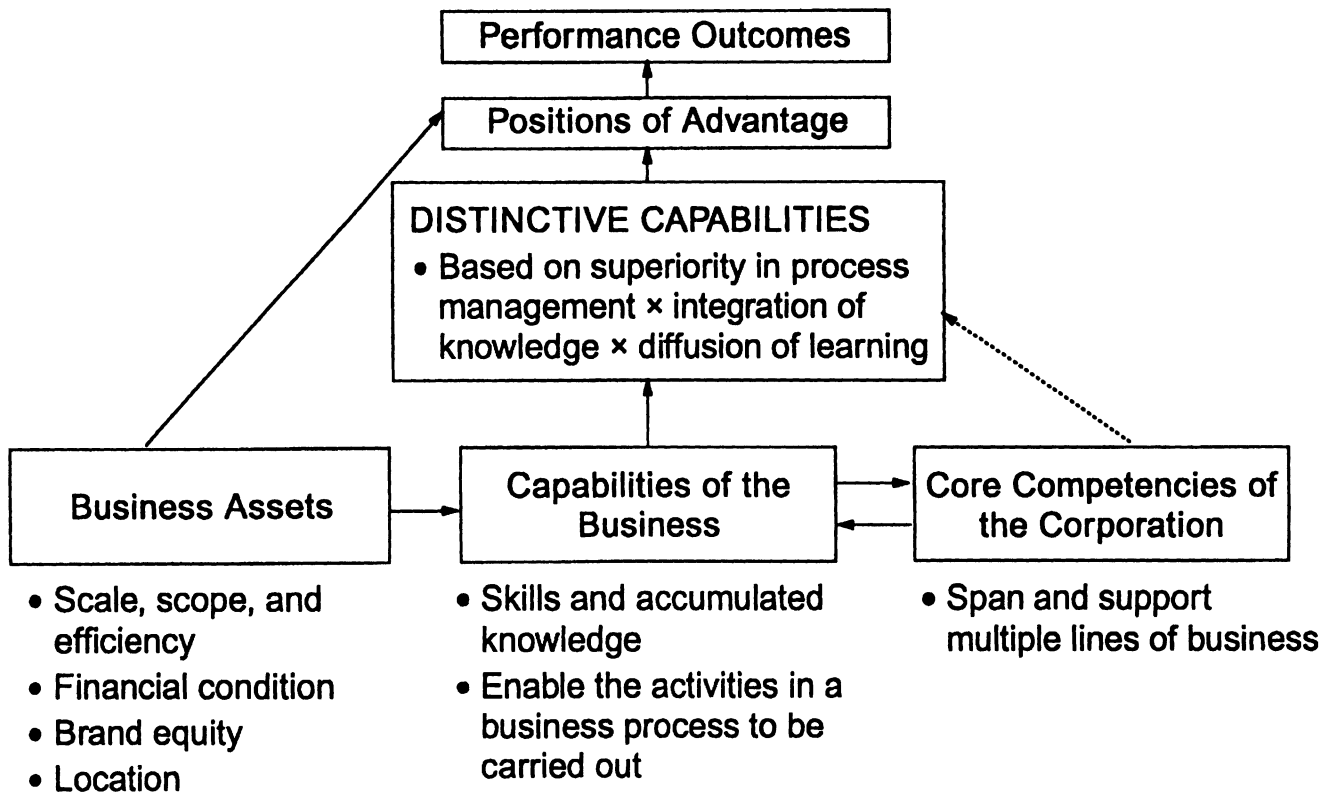
Another test asks whether the capability can be readily matched by rivals. Because distinctive capabilities are difficult to develop, they resist imitation. KMart knows full well what Wal-Mart has accomplished with its logistics system and can readily buy the hardware and software, but it has been unable to match the underlying capability. First, Wal-Mart’s capability is embedded in a complex process that harmonizes an array of skills and knowledge and involves considerable learning over many years. Second, Wal-Mart’s processes are not readily visible because they cut across different organizational units. Third, because much of the collective knowledge that makes up the coordination skills is tacit and dispersed among many individuals, a competitor could not acquire the requisite knowledge simply by staffing with the best available people (Bartmess and Cerny 1993).

Another attribute of distinctive capabilities is that they are robust and can be used in different ways to speed the firm’s adaption to environmental change (Boynton and Victor 1991; Prahalad and Hamel 1990). Honda, for example, has been able to apply its companywide mastery of engine and drive train technology development and manufacturing processes to create distinctive capabilities in a variety of related markets like generators, outboard marine engines, and lawn mowers. It is less clear whether Honda’s distinctive capability in dealer management (Stalk, Evans, and Shulman 1992), which was used to develop a network of better managed and financed motorcycle dealers than the part-time dealers of competitors, also aided its entry into new markets. On the one hand, Honda’s skill at managing dealers has been of value in the auto market, where Honda dealers consistently receive high ratings for customer satisfaction. It is harder to say whether the logic of Honda’s diversification into related markets was really guided by a desire to exploit this dealer management capability. More likely it was the ability to gain a multiplier effect by integrating both distinctive capabilities that shaped the moves into new markets.

The capabilities of a corporation that span and support multiple lines of business, such as those that Honda has deployed, are commonly called *core competencies*. Each of the separate business units draws on these corporatewide resources to quickly and effectively develop some or all of the distinctive capabilities it needs to attain a superior competi-

⁴This role of culture is consistent with the organizational cognition paradigm from which the competing values model of culture is derived (Quinn 1988; Quinn and McGrath; Smircich 1983). This model has been successfully adapted to the study of cultures of market-driven organizations by Deshpandé, Farley, and Webster (1988).

FIGURE 1
Sources of Competitive Advantage and Superior Performance



tive position in its served markets. These core competencies are also different from both business and corporate assets (see Figure 1).

Capabilities and Performance

The strategic importance of capabilities lies in their demonstrable contribution to sustainable competitive advantages and superior profitability. A sizeable literature has recently emerged to explain how capabilities serve as a source of competitive advantage and also accounts for the durability of these advantages (Amit and Schoemaker 1993; Peteraf 1993). The durability of capabilities-based advantages stems from (1) their scarcity, (2) their relative immobility, either because they cannot be traded or are much more valuable where they are currently employed than they would be elsewhere, and (3) the difficulty that competitors face in understanding and imitating them (Reed and De Fillippi 1990).

What if a business has no distinctive capabilities? In other words, it is no more proficient with any of its essential processes than the average of its rivals and is unable to distinguish itself favorably along any dimensions that are important to its target customers. If the industry is at a stalemate and none of its rivals has a meaningful advantage, then the profits of the business will settle at the level of the industry average (Porter 1980). In the more likely event that different competitors have mastered different capabilities and can offer higher quality, more responsive service, or more innovative products, then a parity business has no recourse but to lower its prices to offset the lack of benefits.

Thus, a direct connection exists between the mastery of distinctive capabilities and superior profitability.

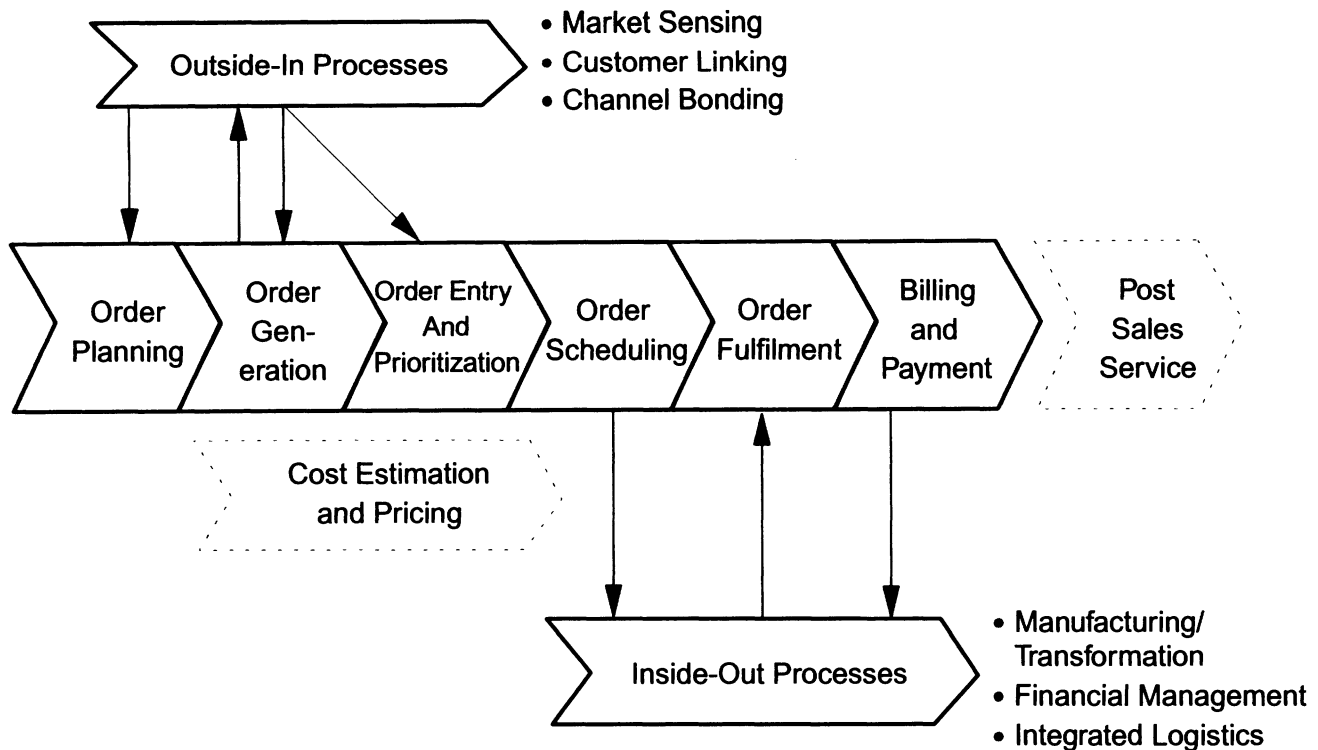
Capabilities in Market-Driven Organizations

Classifying Capabilities

It is not possible to enumerate all possible capabilities, because every business develops its own configuration of capabilities that is rooted in the realities of its competitive market, past commitments, and anticipated requirements. Nonetheless, certain types of capabilities can be recognized in all businesses, corresponding to the core processes for creating economic value.

Some capabilities are easier to identify than others, usually because their activities are contained within the organization. Thus, Pitney-Bowes's ability to solve customers' mail-handling problems and McDonald's Corporation's achievement of unparalleled consistency of service delivery in dispersed outlets are pointed to as distinctive capabilities that explain their durable advantages. The visibility and prevalence of these examples of capabilities that have been successfully deployed from the inside out have led some observers to argue that firms should be defined by what they are capable of doing, rather than by the needs they seek to satisfy (Grant 1991). This perspective is unbalanced, because it is the ability of the business to use these inside-out capabilities to exploit external possibilities that matters.

FIGURE 3
Order Fulfillment Process: Basis of a Critical Spanning Capability



channel bonding capabilities are likely to be poorly understood, badly managed, or deficient.⁵

The Role of Spanning Capabilities

Spanning capabilities are exercised through the sequences of activities that comprise the processes used to satisfy the anticipated needs of customers identified by the outside-in capabilities and meet the commitments that have been made to enhance relationships. Order fulfillment, new product development, and service delivery processes all play this role. Managing these horizontal processes so they become distinctive capabilities that competitors cannot readily match is very different from managing a vertical function in a traditional hierarchical organization.

First, process management emphasizes external objectives. These objectives may involve customers' satisfaction with the outcome of the process, whether quality, delivery time, or installation assistance, or may be based on competitive performance benchmarks (e.g., cycle time, order processing time). This helps ensure that all those involved with the process are focused on providing superior value to external or internal customers. These objectives become the basis for a measurement and control system that monitors progress toward the objective.

⁵The difference between market-driven and internally oriented organizations that we describe here is similar to the notion of organizational intrusiveness proposed by Daft and Weick (1984). They contrast organizations that actively search the environment for answers with passive organizations that accept whatever information the environment gives them, do not engage in trial and error learning, and interpret the environment within accepted terms.

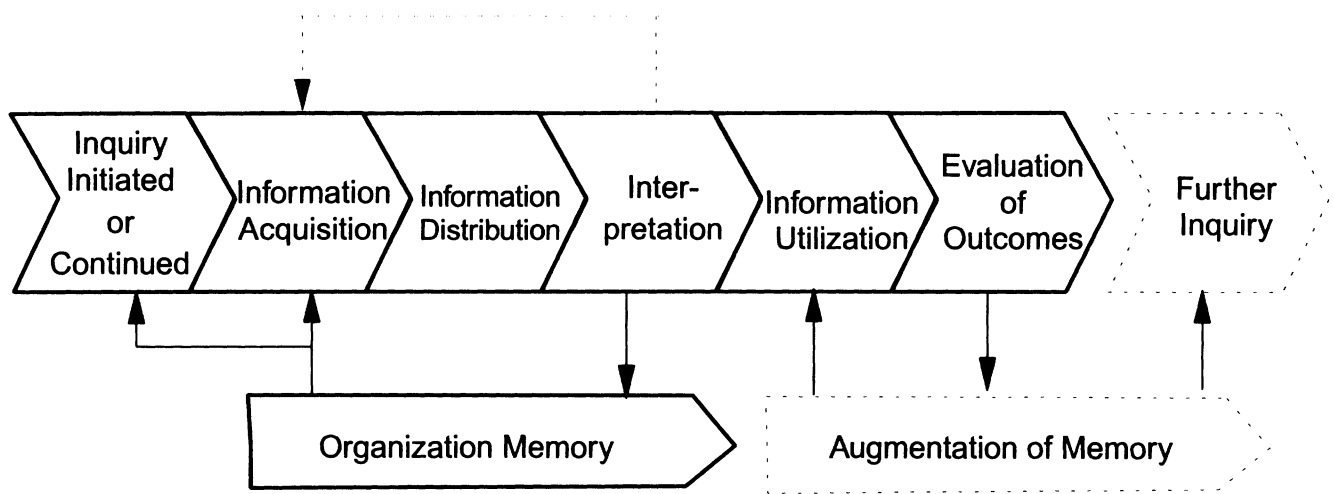
Second, in coordinating the activities of a complex process, several jurisdictional boundaries must be crossed and horizontal connections made. These interactions require an identifiable owner of the process who can isolate sources of delay and take action to eliminate them. When no one understands the total flow of activities in an order-entry process, for example, critical time-consuming steps such as credit checks may be undertaken separately in sequence when they could have been done in parallel to save time.

Third, information is readily available to all team members, unfiltered by a hierarchy. If a question arises concerning order requirements, delivery status, or parts availability, everyone who is affected by the answer can get the information directly without having to go through an intermediary.

The order fulfillment process in Figure 3 illustrates both the problems and benefits of managing a process so it becomes a distinctive capability rather than simply a sequential series of necessary activities. Often this process is obscured from top management view because it links activities that take place routinely as sales forecasts are made, orders are received and scheduled, products are shipped, and services are provided (Shapiro, Rangan, and Sviokla 1992). Things can go awry if unrealistic promises are made to customers, these promises are not kept, blame is passed around, and inventories expand as each function seeks to protect itself from the shortcomings of another (in part because no one incurs a cost for holding excess inventories).

Furthermore, the order fulfillment process has a wealth of connections to other processes. It brings together infor-

FIGURE 4
Market Sensing: Processes for Learning About Markets



mation from the outside-in processes and depends on their ability to forecast and generate a flow of orders. It depends even more on the inside-out manufacturing and logistics processes to fulfill the scheduled orders or have capacity in place to service requests and transactions. Finally, there is the allied process of cost estimation and pricing of orders. The management of this activity will significantly improve profitability, if the customer value of each order is clearly recognized and the costs of filling each order are known.

Market Sensing as a Distinctive Capability

Every discussion of market orientation emphasizes the ability of the firm to learn about customers, competitors, and channel members in order to continuously sense and act on events and trends in present and prospective markets. In market-driven firms the processes for gathering, interpreting, and using market information are more systematic, thoughtful, and anticipatory than in other firms. They readily surpass the ad hoc, reactive, constrained, and diffused efforts of their internally focused rivals.

A behavioral definition of a market orientation as “the organization-wide generation of market intelligence, dissemination of its intelligence across departments, and organization-wide responsiveness to it” (Kohli and Jaworski 1990, p. 6), captures the essence of a market sensing capability. Each element of this definition describes a distinct activity having to do with collecting and acting on information about customer needs and the influence of technology, competition, and other environmental forces. Narver and Slater (1990) offer another definition in the same spirit. They distinguish three behavioral components: *customer orientation*—the firm’s understanding of the target market; *competitor orientation*—the firm’s understanding of the long-run capabilities of present and prospective competitors; and *interfunctional coordination*—the coordinated utilization of company resources to create superior customer value.

An alternative to this behavioral perspective holds that a market orientation is part of a more deeply rooted and pervasive culture. For this purpose, Deshpandé and Webster

(1989, p. 3), following Davis (1984), define culture as “the pattern of shared values and beliefs that gives the members of an organization meaning, and provides them with the rules for behavior.” A market-driven culture supports the value of thorough market intelligence and the necessity of functionally coordinated actions directed at gaining a competitive advantage. An absence of these shared beliefs and values would surely compromise the activity patterns advocated by the behavioral perspective.

The process of market sensing follows the usual sequence of information processing activities that organizations use to learn (Day 1994; Fioles and Lyles 1985; Huber 1991; Levitt and March 1988; Sinkula 1994). The stylized sequence in Figure 4 can be initiated by a forthcoming decision or an emerging problem, such as explaining why performance is declining. In addition, established procedures for collecting secondary information may prompt further market-sensing activity. This step leads to the active acquisition and distribution of information about the needs and responses of the market, how it is segmented, how relationships are sustained, the intentions and capabilities of competitors, and the evolving role of channel partners. Before this information can be acted on, it has to be interpreted through a process of sorting, classification, and simplification to reveal coherent patterns. This interpretation is facilitated by the mental models of managers,⁶ which contain decision rules for filtering information and useful heuristics for deciding how to act on the information in light of anticipated outcomes. Further learning comes from observing and evaluating the results of the decisions taken on the basis of the prior information. Did the market respond as expected, and if not, why not? Organizational memory plays sev-

⁶A growing body of literature suggests persuasively that it is the structure and content of these simplified cognitive portrayals of environments (mental models) that actually drives strategic decisions (see, e.g., Pfeffer and Salancik 1978; Porac and Thomas 1990; Weick 1979). Day and Neundgadi (1994) show that the mental models used by managers to represent their competitive advantage are a sensible adaptation to their environment and strongly influence the pattern of information usage.

eral roles in this process: It serves as a repository for collective insights contained within policies, procedures, routines, and rules that can be retrieved when needed; a source of answers to ongoing inquiries; and a major determinant of the ability to ask appropriate questions.

Market-driven firms are distinguished by an ability to sense events and trends in their markets ahead of their competitors. They can anticipate more accurately the responses to actions designed to retain or attract customers, improve channel relations, or thwart competitors. They can act on information in a timely, coherent manner because the assumptions about the market are broadly shared. This anticipatory capability is based on superiority in each step of the process. It is achieved through opened-minded inquiry, synergistic information distribution, mutually informed interpretations, and accessible memories.

Open-minded inquiry. All organizations acquire information about trends, events, opportunities, and threats in their market environment through scanning, direct experience, imitation, or problem-solving inquiries. Market-driven organizations approach these activities in a more thoughtful and systematic fashion, in the belief that all decisions start with the market. The most distinctive features of their approach to inquiry are the following:

- *Active scanning*—All organizations track key market conditions and activities and try to learn from the departures from what is normal and expected. However, this learning is usually a top-down effort because information from the frontline employees is blocked. In market-driven organizations, these frontline contacts, who hear complaints or requests for new services and see the consequences of competitive activity, are motivated to inform management systematically.
- *Self-critical benchmarking*—Most firms do regular tear-down analyses of competitors' products and occasionally study firms for insights into how to perform discrete functions and activities better. Market-driven firms study attitudes, values, and management processes of nonpareils.
- *Continuous experimentation and improvement*—All organizations tinker with their procedures and practices and take actions aimed at improving productivity and customer satisfaction. However, most are not very serious about systematically planning and observing the outcomes of these ongoing changes, so those that improve performance are adopted and others are dropped.
- *Informed imitation*—Market-driven firms study their direct competitors so they can emulate successful moves before the competition gets too far ahead. This investigation requires thoughtful efforts to understand why the competitor succeeded, as well as further probes for problems and shortcomings to identify improvements that would be welcomed by customers. Here the emphasis is more on what the competitor was able to achieve in terms of superior performance, features, and so forth, and less on understanding the capabilities of the competitor that resulted in the outcome.

Synergistic information distribution. Firms often do not know what they know. They may have good systems for storing and locating "hard" routine accounting and sales data, but otherwise managers have problems figuring out where in the organization a certain piece of information is known or assembling all the needed pieces in one place.

This is especially true of competitor information, in which, for example, manufacturing may be aware of certain activities through common equipment suppliers, sales may hear about initiatives from distributors and collect rumors from customers, and the engineering department may have hired recently from a competitor.

Market-driven firms do not suffer unduly from organizational chimneys, silos, or smokestacks, which restrict information flows to vertical movements within functions. Instead, information is widely distributed, its value is mutually appreciated, and those functions with potentially synergistic information know where else it could be used beneficially.

Mutually informed interpretations. The simplifications inherent in the mental models used by managers facilitate learning when they are based on undistorted information about important relationships and are widely shared throughout the organization (Senge 1990). These mental models can impede learning when they are incomplete, unfounded, or seriously distorted—by functioning below the level of awareness, they are never examined. A market-driven organization avoids these pitfalls by using scenarios and other devices (DeGeus 1988) to force managers to articulate, examine, and eventually modify their mental models of how their markets work, how competitors and suppliers will react, and the parameters of the response coefficients in their marketing programs.

Accessible memory. Market-driven inquiry, distribution, and interpretation will not have a lasting effect unless what is learned is lodged in the collective memory. Organizations without practical mechanisms to remember what has worked and why will have to repeat their failures and rediscover their success formulas over and over again. Collective recall capabilities are most quickly eroded by turnover through transfers and rapid disbanding of teams. Data banks that are inaccessible to the entire organization can also contribute to amnesia. Here is where information technology can play an especially useful role.

Customer Linking as a Distinctive Capability

As buyer-seller relationships continue their transformation, a customer-linking capability—creating and managing close customer relationships—is becoming increasingly important. At one time, standard purchasing practice emphasized arm's length adversarial bargaining with suppliers, aimed at achieving the lowest price for each transaction or contract. Not surprisingly, suppliers focused on individual transactions and gave little attention to the quality of the interface with the customer. They had little incentive to be open with buyers or develop superior or dedicated capabilities because they could easily lose the business to a competitor. The buyer, in turn, was unlikely to be aware of a supplier's costs and capabilities.

Now customers, as well as major channel members⁷ such as Ikea and Wal-Mart, are seeking closer, more collab-

⁷The customer-linking capability has many features in common with the channel bonding capability. Thus we expect the same skills, mechanisms, and processes could be readily transferred between those related domains.

orative relationships with suppliers based on a high level of coordination, participation in joint programs, and close communication links. They want to replace the adversarial model, which assumes that advantages are gained through cutting input costs, with a cooperative model that seeks advantage through total quality improvement and reduced time to market. This way of doing business suits their better suppliers, who confront intense competition that quickly nullifies their product advantages and powerful channels that control access to the market.

Despite recent emphasis on the establishment, maintenance, and enhancement of collaborative relationships, few firms have mastered this capability and made it a competitive advantage. Successful collaboration requires a high level of purposeful cooperation aimed at maintaining a trading relationship over time (Frazier, Spekman, and O'Neal 1988; Spekman 1988). The activities to be managed start with the coordination of inside-out and spanning capabilities, although these are not the means by which the relationship is managed. Instead, new skills, abilities, and processes must be mastered to achieve mutually satisfactory collaboration. These include the following.

Close communication and joint problem solving. Suppliers must be prepared to develop team-based mechanisms for continuously exchanging information about needs, problems, and emerging requirements and then taking action. In a successful collaborative relationship, joint problem solving displaces negotiations. Suppliers must also be prepared to participate in the customer's development processes, even before the product specifications are established.

Communications occur at many levels and across many functions of the customer and supplier organizations, requiring a high level of internal coordination and a new role for the sales function. When the focus is on transactions, the salesperson is pivotal and the emphasis is on persuading the customer through features, price, terms, and the maintenance of a presence. The sales function adopts a very different—and possibly subordinate—role in a collaborative relationship. It is responsible for coordinating other functions, anticipating needs, demonstrating responsiveness, and building credibility and trust.

Coordinating activities. In addition to the scheduling of deliveries, new management processes are needed for (1) joint production planning and scheduling, (2) management of information system links so each knows the other's requirements and status and orders can be communicated electronically, and (3) mutual commitments to the improvement of quality and reliability.

Manufacturer-reseller relations has become a fertile area for the development of collaborative management capabilities, with the major grocery product firms taking the lead. The objective of each party used to be to transfer as much of their cost to the other as possible. This approach led to dysfunctional practices such as forward buying to take advantage of manufacturer's promotional offers, resulting in excessive warehousing expenses and costly spikes in production levels. Traditionally, contacts between parties were limited to lower-level sales representatives calling on buyers who emphasized prices, quantities, and deals. Increasingly,

manufacturers like Procter & Gamble and retailers like KMart are assigning multifunctional teams to deal with each other at many levels, including harmonizing systems, sharing logistics and product movement information, and jointly planning for promotional activity and product changes. The objectives of this collaborative activity are to cut total system costs while helping retailers improve sales.

Firms that have developed a distinctive capability for managing collaborative relationships find they have more integrated strategies. The integration begins with a broad-based agreement on which customers serve collaboratively (Anderson and Narus 1991). No longer is this choice left to the sales function, without regard to the impact on the manufacturing and service functions. The cross-functional coordination and information sharing required to work collaboratively with customers enhances shared understanding of the strategy and role of the different functions.

Although collaborative relationships are becoming increasingly important, they are not appropriate for every market or customer. Some customers want nothing more than the timely exchange of the product or service with minimum hassle and a competitive price. And because of the effort and resources required to support a tightly linked relationship, it may not be possible to do this with more than a few critical customers (Shapiro 1988a). Yet even when most relationships are purely transactional, there are still possibilities for gaining advantages by nurturing some elements of a linking capability within the organization. This process begins by analyzing which customers are more loyal or easier to retain and proceeds by seeking ways to maintain continuity with these customers through customized services or incentives.

Developing the Capabilities of Market-Driven Organizations

Initiatives to enhance market sensing and customer linking capabilities are integral to broader efforts to build a market-driven organization. The overall objective is to demonstrate a pervasive commitment to a set of processes, beliefs, and values, reflecting the philosophy that all decisions start with the customer and are guided by a deep and shared understanding of the customer's needs and behavior and competitors' capabilities and intentions, for the purpose of realizing superior performance by satisfying customers better than competitors.

Many firms have aspired to become market driven but have failed to instill and sustain this orientation. Often these aspirants underestimate how difficult a task it is to shift an organization's focus from internal to external concerns. They apparently assume that marginal changes, a few management workshops, and proclamations of intent will do the job, when in fact a wide-ranging cultural shift is necessary. To have any chance for success, change programs will have to match the magnitude of the cultural shift.

Preliminary insights into how to design change programs come from empirical research on why some organi-

zations are more market oriented than others.⁸ For example, Jaworski and Kohli (1993) confirm the long-standing belief that top management commitment is essential. Strong affirmation of the notion that market-driven organizations have superior capabilities comes from three of their findings. First, they found that formal and informal connectedness of functions facilitates the exchange of information whereas interdepartmental conflicts inhibit the communications that are necessary to effective market sensing. This confirms the desirability of managing this capability as a set of organization-spanning activities. Second, there was solid evidence that centralization was antithetical to market orientation. This mind-set appears to flourish when there is delegation of decision making authority and extensive participation in decision making. Finally, the use of market-based factors such as customer satisfaction for evaluating and rewarding managers was the single most influential determinant of market orientation.

Further guidance into how to develop outside-in capabilities in the context of a broader change program comes from parallel efforts to introduce TQM and applies methodologies such as business process reengineering (Davenport 1993). Although this background is helpful, the key is to tailor programs to the culture, environment, and competitive position of the business. This requires the following steps: (1) diagnosing current capabilities, (2) anticipating future needs for capabilities, (3) bottom-up redesign of the underlying process, (4) top-down direction, and (5) continuous monitoring of progress. First, however, let us see what TQM can teach us about change management.

Lessons from TQM

Like market orientation, TQM explicitly focuses on customer satisfaction. A distillation of quality statements would yield a definition of TQM as "a set of concepts and tools for getting all employees focused on continuous improvement, in the eyes of the customer—the next process as well as the final consumer" (Schonberger 1990, 1992, p. 52). Surprisingly, there have been few efforts in marketing⁹ to take advantage of the tools, frameworks, and implementation methods associated with TQM. This is not to imply that TQM invariably prevails. Regrettably, TQM faces many of the same acceptance and implementation problems as the marketing concept. Recent studies have found that lack of results has led to the demise of as many as two-thirds of TQM programs that are less than two years old. Arthur D. Little surveyed 500 companies using TQM and found that only 36% believed it was significantly boosting their competitiveness (*Business Week* 1992).

⁸There is mounting evidence showing that the importance of a marketing orientation varies with the environmental context (Doyle and Hooley 1992; Jaworski and Kohli 1993). The degree of introversion, the sources of uncertainty in the market, and especially whether the dominant coalition is marketing, finance, or technology (Workman 1993) will dictate what actions are needed, desirable, and feasible.

⁹Marketers who have explored TQM have largely focused on the usefulness of TQM techniques for managing marketing activities (Locander 1989) or the role the marketing plays in supporting organizationwide quality programs (Morgan and Piercy 1992). Of course, marketers have long contributed to the measurement of quality from the customer's perspective (Parasuraman, Zeithaml, and Berry 1985).

Many explanations have been advanced for the uneven results of TQM programs: lack of sustained top management commitment, impatience, and poor understanding of the principles (Jacob 1993). There is a persistent tendency to believe that merely implementing techniques such as benchmarking will produce bottom-line results. Despite the avowed interest in satisfying customers, the reality is that most of the TQM effort is directed internally (Kordupleski, Rust, and Zahorick 1993). Too often firms use standard versions of TQM without adapting it to their circumstances. Indeed, TQM does not seem to work in all circumstances. It appears to be best suited to relatively small, flat organizations with CEOs who are strong supporters and are actively involved in adapting it to their firm's culture. Total Quality Management also suffers from having a strong functional home. Originating in manufacturing and operations management, quality practices have evolved from statistical process control to quality assurance to aspire to be organizationwide. In reality TQM is usually applied within functions or departments, but the problems tend to be much broader in scope (Kaplan and Murdock 1991).

At the heart of TQM is the concept of an organization as an interrelated collection of processes rather than an interacting set of functional units. Although processes such as order fulfillment or service delivery may reside in one function, the sequence of activities necessary to complete the process usually crosses functional lines several times. The objective of TQM is to optimize the flow of activities to reduce cycle time, prevent defects, and enable continuous improvement.

Customer or competitive orientation. All definitions of TQM are anchored in the concept of customer satisfaction; the customer is the ultimate arbiter of quality (Garvin 1987). Although marketers welcome this perspective, because it avoids the pitfalls of internally based definitions such as conformance to specifications, the resulting metric can be ambiguous. TQM commentators are justly concerned about whether it means satisfying current requirements or anticipating future expectations, which customers' expectations are to be met, whether expectations should be met or exceeded, and the consequences of relying on customer perceptions rather than objective facts.

The only explicit role of competition is found in the emphasis on benchmarking. However, the message from TQM advocates is to look past direct competitors and concentrate on emulating the so-called best practices of organizations that excel at a given business process or activity. Managers are advised to go to Walt Disney Company for facilities management, L.L. Bean for order fulfillment processes, and Hewlett-Packard for hints on how to improve new product development processes. Furthermore, it appears that only after a company has mastered other quality principles and has an infrastructure in place is it worth trying to adopt best practices. Otherwise the effort is disruptive and counterproductive.

Implementing change. Here it is useful to compare and contrast the capabilities approach to strategy and TQM on the matter of how to achieve change. Under the capabilities approach, change is broadly conceived and flows from the

top down. TQM, by contrast, seeks incremental change from the bottom up.

Two themes infuse the discussion of capabilities-based change: the power of a coherent and shared vision and the need for fundamental rethinking and radical redesign of core processes. A vision or strategic intent (Hamel and Prahalad 1989) is a shared understanding of how the environment will unfold and what the business intends to become in the future. Its purpose is to focus the attention of the organization on a desired leadership position—to ensure that all functions are contributing to the distinctive capabilities needed to win. Effective visions, of course, are not solely top down. They are best formed through collaboration between a business team and a leader who is both an articulator and a sponsor. Nonetheless, strong leadership is essential to mobilizing the cross-functional capabilities to carry out the vision. Similar top-down guidance is needed to restructure the organization around capabilities. This means designing the organization around the flow of value-adding activities rather than by distinct functions.

TQM change programs emphasize individual empowerment and “management by fact” to achieve continuous improvement of existing processes. The reason for implementing change through the empowerment of employees is that frontline sales, operations, and service personnel are potentially in the best position to make better and faster operational decisions because of their direct involvement with customers and activities. For empowerment to work, employees need (1) cross-training in their own and related functions, (2) extensive skill-building to enable them to perform more broadly defined jobs, (3) information that helps them monitor, improve, and control their performance, and (4) recognition and rewards for improved performance (Schoenberger 1992). Above all, they need greater authority, which means supervisors and middle managers must yield some of their authority.

TQM also offers a rich library of tools that enable management by fact. Some of these tools are designed to support the day-to-day activities of workers, managers, and teams. Companies use them to run meetings, reach consensus, and display the results of quality initiatives. Extensive use of wall charts, for example, is characteristic of successful TQM practitioners such as Milliken and Company, Xerox, and Corning, Inc. Another set of tools is used to isolate the causes of problems and solve problems: flow charts, scatter diagrams, Pareto and fishbone charts, and statistical progress charts. Finally, TQM has spawned tools such as quality function deployment to aid the integration of customer requirements into the design process and measure the cost of quality.

Although TQM has a strong bottom-up emphasis, those organizations that use the tools effectively and show a sustained commitment to empowerment also have a strong top management team willing to lead by example. Yet, even when the strengths of TQM and the capabilities approach are combined, they will not suffice to build a market-driven organization. The associated concepts, methods, and frameworks of both the TQM and capabilities approaches work best with repetitive and internally contained processes.

However, the reach of market-driven processes and their embedded skills must extend beyond the bounds of the organization.

Diagnosing the Current Capabilities

The assessment of the outside-in capabilities takes place in a broader context of the adequacy of all capabilities. The unit of analysis is the relevant process, and performance is gauged in terms of the desired outcome or result from the process.

Each process must be mapped to reveal where and how each of the activities is located. Mapping will also identify disconnects at hand-off points (where information, questions, and decisions are transferred within and between processes), delays and unnecessary work, and sequences of activities that can be done in parallel. An important consideration is the locus of responsibility for each of the activities in the process, with a view to revealing dispersed ownership and lack of focus.

Mapping is difficult, because the relevant process seldom appears as a neat package of distinct and sequential activities. For example, market-sensing processes are likely to be fragmented, obscured by the dispersal of critical activities throughout the organization, and woven into other processes. It may be necessary to have different classes of market-sensing processes that vary in complexity and frequency. Processes will differ depending on whether the focus is on using routine tracking information, undertaking continuing inquiries to support other ongoing processes such as product ideation, or making nonrecurring inquiries into new opportunities or threats.

A useful next step is to benchmark the capabilities of direct competitors, anticipated competitors, and the best-of-breed industries facing comparable challenges. This should provide realistic targets for improvement and yield suggestions for how to proceed. More important, the widespread recognition of a competitive gap in these capabilities that can hurt long-run performance will help mobilize support and ensure that motivation does not flag.

Anticipating Future Needs for Capabilities

The diagnostic stage will reveal a portfolio of capabilities; some will be distinctive sources of competitive advantage, others will be done poorly, but most will be done at a parity level that neither hinders nor enhances the competitive position. Some will urgently demand dramatic action, others will be candidates for continuous improvement efforts, and many can safely be sustained at parity with competition. The choice of where to allocate resources will be dictated by the market, the centrality of the capability to the strategy, and the opportunity cost of not taking remedial action.

The structure, texture, and dynamism of the expected market will strongly influence whether the business should invest in building distinctive market sensing and customer linking capabilities. Fragmentary evidence suggests that when competition is limited, market preferences are stable, technology is changing fast, and the exchange relationship is purely transactional, heavy investments in improvement

might not be justified (Kohli and Jaworski 1990).¹⁰

A compelling argument can be made for investing in the market-driven capabilities even when the environment seems inauspicious. It is precisely these seemingly static circumstances, in which new or established rivals can upset the competitive balance, customers can begin to wield their latent power, and mobility barriers may be lowered, that warrant new capabilities. Ironically, the failure to anticipate a change in competitive forces or customer requirements results from a deficient market-sensing capability or inadequate links to key customers. As customers narrow down their roster of suppliers, it may be too late for many suppliers to shift from an adversarial to a partnership stance before the account is lost.

Strategies that emphasize creating customer value all depend on building distinctive market-sensing and customer-linking capabilities and using these capabilities to guide the internal processes. Treacy and Wiersema (1993) make the case that superior strategies are based on delivering customer value in one of three distinct ways:

1. *Operational excellence*, through price and convenience leadership, requires business processes that minimize overhead and internal transaction costs and manage close links to customers and channel partners;
2. *Customer intimacy* strategies emphasize the ability to continuously tailor products and services to increasingly fine customer definitions; a highly developed market sensing capability is essential so that shifting requirements can be identified as early as possible; and
3. *Product leadership* is attained with a continuous stream of innovative products and services. Here again, a market-sensing capability—recognizing emerging needs, rapidly assessing customer response, and designing rapid market entry strategies—is a key contributor to the success of this strategy.

Designing the Change Program

Once a candidate process has been designated as the basis for a potential distinctive capability, because of its strategic centrality, the presence of a committed capable sponsor, and a favorable history of change, the first question is whether to adopt a radical reengineering approach to change (Hammer and Champy 1993) or a more gradual continuous improvement approach based on TQM. The choice depends on the magnitude of the needed change, the feasibility of it, and the resources required to accomplish it (Davenport 1993). Because most firms are capital constrained, this may limit the scope of reengineering. However, because the capabilities and TQM approaches share certain principles and adopt a process perspective, it is possible to offer some general propositions on managing change. These propositions are consistent with recent evidence (Jaworski and Kohli 1993) that market-driven behaviors require steadfast top management commitment and are fostered through cross-functional activities, shared objectives, externally oriented incentives,

and the decentralization of decision making to a point as close to the customer as possible. Achieving these ends requires a combination of bottom-up redesign and top-down direction.

Bottom-up redesign. The redesign effort usually requires forming teams that are responsible for the process outcome and appointing an owner of the process. At the same time the team is given more accountability, senior managers must loosen their control by eliminating tight specifications of procedures and forgoing detailed reports. This action makes it clear that the team is responsible for continuous improvement in satisfying external and internal clients. These changes must be supported with investments in distributed information systems, incentives for improvement, training so that members of the team know each other's role and can understand and use the information that is available, and forums for discussing progress. These bottom-up initiatives will not succeed on their own, because there still must be links between processes (e.g., who is going to be responsible for pricing of orders) and boundaries placed on behavior so that energy is not diffused. Furthermore, not every process requires a dedicated team—that would spread key personnel too thinly. Thus, some processes must be managed by task forces that are formed to solve particular performance problems and then disbanded. The result is that the organization structure becomes flatter and more flexible, but a clear hierarchy remains. What, then, must happen at the top of the hierarchy to guide the bottom-up changes?

Top-down direction. For an organization to enhance its market orientation and thus to develop superior market sensing and customer linking capabilities, top management must make an unequivocal commitment to putting customers first. This commitment is mainly signaled by deeds and time spent. Words have their place, but without the deeds to back them up, the rest of the organization would soon learn the real priorities and behave accordingly.

Senior management leadership is needed to reshape the culture, through such actions as proposing a challenging vision of the future or setting a major performance improvement target like cutting time to market in half. Further influence can be exercised through the strategy development process—to ensure broad participation, understanding, and acceptance of the chosen direction. A rigorous strategy review focusing on pivotal issues and critical assumptions about the ability of the business to compete can further support the process.

The enabling role of information technology. A process perspective on management problems, leading to the decentralization of decisions, is not new. Skeptics contend that it tends to prevail during economic downturns. What is new, however, is the potential of information technology (IT) to enable organizations to do things they could not do before and thus develop new capabilities and skills.

An integrated IT approach has many elements: shared databases, high-speed communication networks, decision-support systems, automatic product identification and tracking, and large-scale computing. These elements can be com-

¹⁰This interpretation must be made cautiously, however, because it is based on the moderating effect of the environment on the relationship of market orientation to business profitability, which finds that coefficients may be smaller in some settings, although always positive (Slater and Narver 1992).

bined to fundamentally transform both the market sensing and customer linking capabilities:

- Large-scale market research databases facilitate the integration and coordination of dispersed marketing, sales, and service groups and enhance learning by disseminating information rapidly and holding it ready in central memories for easy access (Cespedes 1993).
- Closer customer and channel links are now possible because information networks have dramatically reduced the cost of handling what were formerly paper transactions between parties. This permits much closer and error-free integration of customer and supplier functions.
- Grocery product firms are now able to integrate scanner data on consumer buying behavior with the purchase patterns and lifestyle profiles of shoppers in each of 30,000 stores. With this data they can tailor marketing programs for national accounts to clusters of stores or individual stores catering to the needs of customers and the different merchandising philosophies of the retailers.
- Marketing and sales productivity systems permit linking together marketing databases with the distribution system as well as direct marketing, telemarketing, and other sales systems. These integrated systems permit careful monitoring of all sales and distribution processes, plus track the lifetime value of customers to guide resource allocation decisions.

These examples demonstrate what leading firms are doing to reconfigure their marketing processes and hint at the possibilities for the future. Their competitors will eventually have to match or exceed these capabilities to meet their customers' expectations of minimum acceptable performance. In the meantime the innovator has gained a first-mover advantage and a platform from which to apply the latest in IT advances to offer new services.

Monitoring progress. Within TQM circles there is an adage, "If you don't measure it, you can't improve it." The final step in the improvement program is to decide which key performance indicators (KPIs) to monitor. For each KPI there are periodic measurements and a series of time-based targets to reach, so problems and shortfalls can be quickly recognized and corrective action taken. For example, Colgate-Palmolive has developed a series of measures to align the entire company to trade satisfaction. In addition to relative trade satisfaction, they routinely measure the number of orders delivered on time, number of orders delivered complete, accuracy of matching of invoices and deliveries, and shelf movement. They believe these reflect what the grocery trade is looking for and will reveal to the organization whether sufficient progress is being made.

Summary and Conclusions

It is almost an article of faith within marketing that superior business performance is the result of superior skills in understanding and satisfying customers. This proposition has been partially validated by a growing body of research on the impact of a market orientation on business performance. This work has helped give a fuller picture of the attributes of market-driven organizations, highlighting the roles of culture, information utilization, and interfunctional coordination. These insights are not sufficient for managers, because they do not reveal how the superior skills were developed.

All we see is the results of the organizational transformation. Now managers seek guidance on how to enhance the market orientation of their organization.

The emerging capabilities approach to strategy offers a valuable new perspective on how to achieve and sustain a market orientation. This approach seeks the sources of defensible competitive positions in the distinctive, difficult-to-imitate capabilities the organization has developed. The shift in emphasis to capabilities does not mean that strategic positioning is any less important (Porter 1991). On the contrary, the choice of which capabilities to nurture and which investment commitments to make must be guided by a shared understanding of the industry structure, the needs of the target customer segments, the positional advantages being sought, and the trends in the environment.

Two capabilities are especially important in bringing these external realities to the attention of the organization. One is the market sensing capability, which determines how well the organization is equipped to continuously sense changes in its market and to anticipate the responses to marketing actions. The second is a customer-linking capability, which comprises the skills, abilities, and processes needed to achieve collaborative customer relationships so individual customer needs are quickly apparent to all functions and well-defined procedures are in place for responding to them.

Guidance on the design of effective programs to enhance these capabilities comes from the capabilities approach to strategy and TQM. Both these approaches share a conception of an organization as an interrelated collection of processes, and each has an associated set of methods and programs for seeking improvement. By combining the two approaches with prior empirical work on why some organizations are more market-oriented than others, a comprehensive change program was proposed with the following elements:

- Diagnosis of current capabilities, using mapping and benchmarking methodologies,
- Anticipation of future needs for capabilities in light of the strategy for creating customer value,
- Bottom-up redesign, based on the formation of teams responsible for continuous improvement or radical redesign of underlying processes,
- Top-down direction from senior managers, who demonstrate a clear, continuing commitment to putting customers first,
- Use of information technology to enable the organization to do things it could not do before, and
- Monitoring of progress toward improvement targets.

This change program must be undertaken in conjunction with other actions aimed at enhancing a market orientation. Indeed, the market sensing, customer linking, and channel bonding capabilities cannot be nurtured or productively utilized without concurrent attention to the values, beliefs, and behaviors of the members of the organization and being supported by changes in the organization structure, system, control, incentives, and decision processes.

An Agenda for Research

Many research topics are suggested by the need to improve understanding of the implications of the process versus

functional perspectives on marketing decisions suggested by the capabilities approach. There also remains a pressing need for researchers to examine the attributes of change programs that have been and could be effective in enhancing a market orientation.

Identifying distinctive capabilities. We have proposed that most businesses have only a few superior capabilities that enable them to outperform the competition. As yet little is known about how to identify these distinctive capabilities. One useful avenue for research would be to study the links between positional advantages (such as superior order processing speed and cost as judged by customers) and a corresponding capability embedded in the order fulfillment process, for example.

The sustainability of distinctive capabilities. One of the defining features of distinctive capabilities is that competitors find them difficult to understand and imitate. Theory would suggest that is especially true with complex, multi-stage processes, in which there is a large amount of tacit knowledge widely dispersed throughout the organization.

Diagnosing the market-sensing capability. Several market-sensing capability issues demand research attention: Can replicable maps of the market learning process be created, and what areas for improvement would be revealed? What is the role of the organizational culture in supporting the capability? Do market-driven organizations scan more widely and tap more diverse sources of information? How do the mental models that managers hold about the structures and behavior of their markets differ? Do strongly held mental models increase the risk of myopia and insensitivity to weak signals from unexpected sources? What is the effect of advances in information technology on the dissemination of market information and the enhancement of organizational memory?

Diagnosing the market-linking capability. The notion that close relationships are the outcome of a process that

represents a series of activities raises several questions that are not readily addressed by the available research. What are the most important attributes of a distinctive linking capability? When are close collaborative relationships most prevalent, and when are they likely to be a strong source of competitive advantage? How do firms choose which customers to link with? What is the effect of demand volatility and market fragmentation on the closeness of relationships? How does this capability mesh with the inside-out and spanning capabilities?

Indicators of market-driven behavior. Underlying the change program outlined here are several propositions suggesting that market-driven behaviors are more likely when (1) there is a committed and involved top management team, (2) the culture is supportive, (3) objectives and rewards are aligned with external market performance, and (4) the locus of decision making is as close to the customer as possible. These propositions have already received research attention. What has not been studied is the underlying proposition of this article, that such behaviors are more likely when core activities are organized around processes with identifiable owners and a focus on customer value creation.

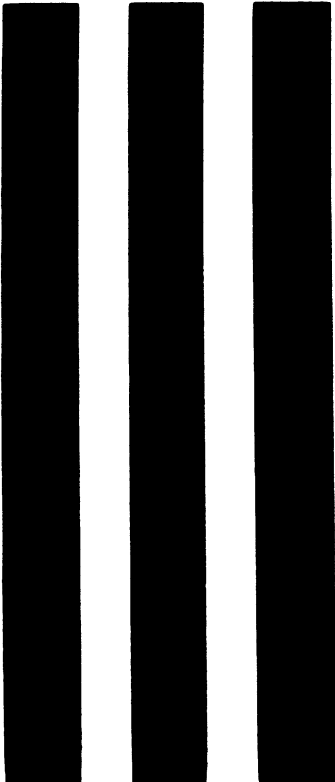
Managing the change program. The largest payoff will surely come from thoughtful clinical investigations of best practices and failed transformation efforts, supplemented by broad-scale research into the determinants of effective change programs. What actions are most productive? What triggers seem to impel organizations to seriously pursue an improvement in their orientation to the market? How long does it take to realize meaningful change? Are benefits worth the costs? Which tools and techniques from business reengineering and TQM could be most effectively adapted? We believe this entire line of enquiry can be effectively guided by the capabilities perspective adopted here.

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