Abstract:

Through the process of information and knowledge accumulation a company increases its ability to change its behavior to suit the consumers’ needs. The importance of learning as a source of competitive advantage has given rise to the concept of a learning company as an organization, which has implemented systems, mechanisms and processes that increase its ability to achieve sustainable competitive advantages based on the results of learning on the individual, team and organizational level. While market orientation may lead to adaptive or single-loop learning about customers, competitors, and other constituents, it will not routinely lead to generative or double-loop learning unless accompanied by a strong learning orientation, which is created within the learning company. Learning orientation enables a company to challenge its present assumptions and underlying mental models. Such framework induces the process of experimentation on how a company could meet market expectations more effectively, enabling generative or transformational learning. In this context the learning approach, i.e. the transformation towards a learning company would likely enhance the effects of the market orientation and market information processing activities towards adaptive but also generative learning that has been cited as the true source of sustained competitive advantages.

Keywords: market orientation, learning orientation, organizational learning, unlearning, learning company

Introduction

Companies are continuously trying to create superior value and set themselves apart from the competition. However, entities who ultimately realize the offerings’ value are customers who must be viewed in a wider context including competition, regulation, economic, social, and political forces shaping the market. Market focused intelligence generation results in information on expressed consumer needs and is predominantly aimed at enhancing the company-customer relationship. Relying solely on the basic market research focused on customers, competitors and channels of distribution will provide little benefit in the long run. It must be supported by the strong learning orientation, which can help organizations handle discontinuous changes leading to possible changes of identity.

The purpose of this article is to study the relationship between market orientation and the learning orientation, implemented within the learning company and suggest researchable hypothesis that deserve exploration. The general assertion of the article is that a company
should combine market orientation with a strong learning orientation in order to achieve the highest benefits reflected in the sustained competitive advantages. A number of studies have empirically demonstrated a positive relationship between a company’s market orientation and its successful performance. However, the degree of that relationship is questionable. This article theoretically asserts that a company’s learning orientation and its transformation towards the learning company not only strongly positively affects the overall organizational performance but also improves the benefits of the market orientation. Hence market information processing activities implemented within the learning environment could help achieve the highest synergistic effect.

**Market orientation**

With the threat of new market entrants, companies must constantly renew themselves to protect their customer base and ensure future growth. Parasuraman (1997) contends that the notion of customer value is dynamic because the criteria consumers use to judge value are likely to change both over time and various stages of their relationship with a company. Through the development of customer focused and market oriented approach companies try to maintain capabilities to create superior value.

Market sensing and customer linking capabilities are considered as some of the most valuable features of market-oriented organizations (Day, 1994a). Kohli and Jaworski (1990) define market orientation as the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of intelligence across departments and organization-wide responsiveness to it. Market oriented activities become organization-wide priority, embedded in all actions throughout the value chain, which is in contrast to Porter’s value chain approach which locates sales and marketing at the end of the chain. Concern for customers must permeate the organization and become a part of its identity requiring total organizational commitment. In that sense market orientation can be defined as the aspect of corporate culture that motivates employees to place the highest priority on the creation of superior customer value (Slater, 2001). This assertion is consistent with the organizational culture defined by Deshpande and Webster (1989) as a pattern of shared values and beliefs that help individuals understand organizational functioning and thus provide them with behavioral norms. In that sense market perspective has both cultural and behavioral dimensions.

Many studies have so far demonstrated that a specific market orientation is an internal strength, neither transparent nor transferable. It can therefore be regarded as one of the resources providing competitive advantage. In this respect Day (1994a) mentions capabilities of a market-driven organization: market sensing, market relating and strategic thinking. These capabilities are linked to the underlying values of a company, making them a cultural value. In that sense understanding market orientation as a business culture has its justification. A business culture is a source of competitive advantage only when it is rare, valuable, and difficult to imitate. However, one must keep in mind that even the values that are most difficult to imitate will eventually be duplicated. That is the reason why market orientation should be constantly reassessed and improved according to market conditions. Core values of market orientation must remain solid regardless of changes a company faces, but the means

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1 The terms *market orientation, market driven, and customer focused* are usually viewed as synonymous.
through which the market-oriented company creates new information and responds to it must evolve.

**Intelligence generation process**

In order to produce superior value intelligence from various sources should be generated. Slater and Narver (1995) argue that the “market” notion referring to the market orientation should be expanded to include all sources of information related to customer value creating capabilities. On the basis of extensive literature review of the works of Garvin, Nevis, DiBella, Day, Hamel and Prahalad etc., Slater and Narver (2000) suggest that intelligence is generated through one of at least four generic strategies: market-focused intelligence generation, collaborative intelligence generation with others such as alliance partners, intelligence generation from experimentation and intelligence generation from repetitive experience.

Market focused intelligence generation provides information on customers’ expressed needs that can best be used in complaint management and lead to customer loyalty. When market focused intelligence generation results with insight into customer latent needs it can be used to exploit an opportunity in terms of a new product development. E-business enabled closer relationships with customers but for many manufacturers the substitution of sales representatives by on-line purchasing systems cuts out valuable information hindering the learning opportunity. Maintaining real connections with customers in a virtual marketplace is the next big challenge for many manufacturers to overcome.

Intelligence gathering through collaboration is especially desired when the knowledge base is complex and sources of expertise are widely dispersed. In such cases the locus of innovation will be found in networks of learning, rather than in individual entities. This is especially the case in industries where technology is so sophisticated and expensive that even the largest companies can’t afford to do it by themselves. Another reason is to gather talents, skills and intelligence that cannot be found in one single company.

When a company is executing processes that fall outside the remit of its normal routines, the intelligence through experimentation is gathered. Experiments are vital when customers have difficulties expressing their latent needs or understanding the benefits of a new technological solution, which is very common in saturated markets. In this type of situation, traditional market research may be of little benefit. Experimentation is a process through which many new products and innovations can be developed but it is also an activity of high risk.

Manufacturing costs in many industries decline at a relatively stable rate with every production increase. This phenomenon was termed the experience curve or the learning curve. This benefit may be the result of improved productivity from more efficient use of people or equipment, or lower investments in the working capital from improved inventory control etc.

From a customer perspective, intelligence gathered from repetitive experience may uncover opportunities for the product quality improvements and/or better customer relations.

Intelligence generation methods may not be universally appropriate. Market focused intelligence generation is valuable for every organization. However, an innovative company can benefit more from experimentation and simulation than from repetitive experience. On the other hand the latter is most valuable for a company pursuing operational excellence. It is advisable that companies perform thorough cost-benefit analysis and determine particular situations suitable for their usage. A decision to allocate resources to these processes is a major business decision considering the fact that they offer no immediate payoff. If an unsuitable technique is employed it may even depress profits in the short term.
Intelligence based customer response capability

For a company to gain sustained advantages over competitors it is not enough to collect market intelligence and share it throughout the company. What is needed is an organization’s effective response capability based on intelligence and knowledge. Jayachandran, Hewett and Kaufman (2004) note that customer orientation need not necessarily result in customer response capability if the propensity to respond is not matched by the corresponding ability to respond. It can be concluded that the market orientation effect is determined by the company’s customer response capability and vice versa. Customer response capability is composed of two aspects: customer response expertise and customer response speed. Customer response expertise refers to the extent to which the organization’s response effectively meets customer needs, while customer response speed refers to the extent to which its response to customer needs is quick. Both components are important: lack of expertise will not solve the customer’s problem, while the delayed reaction may result in an equal dissatisfaction.

A correlation between the intelligence gathering process and the speed of the decision making process can be established. The generated knowledge base allows a more comprehensive understanding of current customer needs and therefore a quicker response. Manager’s uncertainty about the decision outcome often delays the decision making process. Many decisions that could improve customer satisfaction are not implemented because managers are risk averse. Risk propensity reflected in the managers’ willingness to tolerate risk becomes important in determining customer response capability. That risk needs to be managed by collecting more information and analyzing it from multiple perspectives. Weaker customer intelligence generation results in greater uncertainty as a result of lower understanding of customer needs.

While the customer response speed is important it will not solve the problem effectively unless matched by adequate expertise. Market-focused intelligence generation may not result in adequate expertise unless it is part of a systematic knowledge base. Hence, market-focused intelligence generation should be a part of a wider learning process with learning systems and processes using market-focused intelligence as an input in forming response expertise. On the other hand intelligence generation raises the possibility for effective learning, improving the level of expertise employed in responding to customers and generating certain behavioral outcomes.

Learning effects of market orientation

Market orientation is primarily directed at improving the organizational performance through quality improvements and effective complaint management. Simmonson (1993) offers a more realistic approach: he concluded that consumer preferences are often fuzzy and imprecise, and consequently susceptible to a wide variety of seemingly irrelevant influences. There is no psychological theory that marketers can apply to determine the consumer behavior, which greatly limits the potential of the market orientation.

The problem with market orientation is also the fact that it facilitates behavior characterized by adaptive organizational learning directed at achieving short-term benefits. Adaptive or single loop learning does not involve changes in the organizational norms or mental models. Such learning is sufficient to motivate tactical adjustments in operations, production and planning and is therefore vital for making operating decisions (Senge, 1990). It occurs within a set of constraints that represent the company’s assumptions about itself and its environment.
The principal assumption underlying such behavior, the desire to serve the market and defend the position, requires the development of core capabilities in response to market needs, as well as organizational structure and culture to support these goals. However, it is possible that these capabilities constrain the development of the company. Such core capabilities can become core rigidities that inhibit innovation (Slater and Narver, 1995).

In many companies adaptive learning dominates and is restricted only to the struggle to adapt to market changes in a reactive way. It is true that adaptive learning may facilitate the innovation process but that innovation process will likely be incremental rather than discontinuous in nature. The defensive, reactive and imitative position makes companies vulnerable to fundamental shifts in the underlying dynamics of the marketplace. That is the reason why market orientation simply will not do in the long run. Another argument is the work by Pitta et al. (1996). They found a positive but weak link between market orientation and subjective measures of performance. Their conclusion that market orientation accounts for about 10% of business performance gives rise to another cause of concern (Henderson, 1998). If market orientation has such a relatively small impact on outcomes, then the costs of its higher development might be greater than attendant costs and opportunity costs at lower levels of market orientation than assumed. Marketing scholars can therefore be admonished for excluding the significance of other orientations such as employee orientation or production/cost orientation and thus failing to identify dysfunctional elements of increasing market orientation.

Even though superior market orientation is externally focused, directed at creating superior customer value by capitalizing on market intelligence, it is by itself not sufficient for long-term optimal organizational performance unless it is combined with the learning orientation. That means that apart from market based intelligence companies must also take benefit from other sources of knowledge as stated in the previous chapter. Companies should apply their internally and externally gathered knowledge transformationally to come up with product and system improvements and innovations. This conclusion stimulates interest in the synergic results obtained from a balanced approach.

While market orientation prioritizes market information processing activities resulting in adaptive learning, learning orientation stimulates the company’s propensity to generative learning. More precisely, market orientation is reflected by knowledge producing behaviors, while learning orientation is reflected by a set of knowledge questioning values (Sinkula et al. 1997). Following the resource-based view of the firm (Barney, 1991) superior resources and capabilities enhance the performance of the firm. In this regard, customer response, measured not only in complaint management, but also in the innovation rate can be considered a core capability. The basis for effective customer response is the intelligence generation process resulting with the process of learning. Learning enables companies to maintain long-term competitive advantages by continuously improving market information processing activities at a faster rate than competitors and is therefore preeminent over other resources as stated by Dickson (1996). The underlying concept enabling the effective customer response is therefore the process of adaptive and generative (Argyris and Schoen, 1978) organizational learning.

Organizational learning comprises four dimensions (Huber, 1991): information acquisition, information distribution or dissemination, and information interpretation. The sources for information acquisition can include customers, suppliers, distributors and others acting as learning partners. Managers should develop multiple credible sources of information both inside and outside the company. Information dissemination is a process of sharing that requires information to be transmitted to all real and potential decision makers in an organization. That implies the benefit of introducing an organic and network structure. Any internal barriers to information flow or information understanding hence reduce the possibility of effective intelligence exploitation. Establishing a shared interpretation requires
the consensus on the information understanding. This phase is about extracting meaning from the data whereby some discrepancies among the sources that fore close examination are highly possible. In this phase the information is given meaning and transferred into knowledge through knowledge management system, the process by which the information and knowledge are stored for further use.

It is evident that market information processing activities provide invaluable input for organizational learning. Without the accurate information learning would either take the wrong course or would not happen at all. Research by Morgan et al. (1998) shows that companies with strong market orientation also tend to possess greater learning capability. It can be concluded that the market orientation is an underlying foundation of the learning orientation.

**Synergistic effect of market orientation and learning orientation on organizational performance: the conceptual model**

The conceptual model underlying the research is shown in Figure 1. The model establishes a set of hypotheses linking market orientation, learning orientation implemented within the learning company framework with the organizational performance.

*Figure 1: Synergistic effect of market orientation and learning orientation on organizational performance*

Organizational performance can be estimated according to several quantitative and qualitative elements. The quantitative elements account for sales growth, change in market share relative to the firm’s largest competitor, return on assets, new product success measured in its revenues and market share. The qualitative elements account for the increase in flexibility, adaptability, effective change management, customer satisfaction, customer loyalty, innovativeness, employee satisfaction and the level of satisfaction of other stakeholders.

As stated previously, market orientation is focused on the acquisition, dissemination and securing response to information obtained from market constituents. It is aimed at speeding
and intensifying these activities, but not necessarily contributing to the quality of the response capability. However, considering the influence of the market orientation on the customer response capability in terms of customer response expertise and customer response speed, a positive effect on dimensions of the overall organizational performance can be established. The following hypotheses can be generated:

**H1:** There is a positive relationship between the market orientation and the following quantitative dimensions of the organizational performance: sales growth, change in market share relative to the firm’s largest competitor.

**H2:** There is a positive relationship between the market orientation and the following qualitative dimensions of the organizational performance: customer satisfaction, customer loyalty, flexibility, and adaptability.

The quality of market information processing activities can be improved not only by a strong market orientation but also by increasing the emphasis on learning. This conclusion is consistent with Day’s (1994) assertion who notes that success depends not only on the acts of acquiring, disseminating, and responding to market information in a timely manner. It also depends on the ability of managers to question the organizational norms and processes to determine WHAT information is acquired, disseminated and acted upon, and more importantly HOW such information is interpreted to draw implications for future organizational actions.

Learning orientation is directed at stimulating adaptive and introducing generative learning as corporate core competencies. It accentuates the propensity to generate intelligence and knowledge and ensures its organization-wide understanding and implementation. Companies that are implementing the learning orientation constantly question the implemented procedures, assumptions and courses of action embedded in mental models. According to Baker and Sinkula (1999) a learning orientation is conceptualized as a set of values that influence the degree to which an organization is satisfied with its theories in use, mental models, and dominant logics, which may or may not have their base in the marketplace. Learning orientation is a mechanism that affects a firm’s ability to challenge old assumptions and facilitate new techniques and methodologies. A learning oriented firm would collect knowledge about market and non-market factors such as knowledge about some new technology, knowledge from employees about their attitudes toward the organizational culture, or knowledge about internal financial issues. In this case, a market orientation is a sub-set of a learning orientation. A company could hypothetically be learning oriented but not emphasize the management of knowledge about the market and vice versa. In this paper it is assumed that a market oriented company is directed at collecting intelligence only on market factors, which will eventually result in output improvements but will not lead to breakthrough innovations that would change the market. To challenge the market setup, detect latent needs and provide superior value a company must implement a learning orientation. The following hypotheses can be stated:

**H3:** There is a positive relationship between the learning orientation and flexibility, adaptability, higher degree of innovativeness, effective change management, and employee satisfaction.

**H4:** Learning orientation exhibits a positive relationship with the overall organizational performance in the long run measured in quantitative elements such as new product success, higher return on assets, sales growth, change in market share relative to the firm’s largest competitor etc.

Improvements in the market orientation do not require much effort and are expected to have an immediate or quick positive impact on the company’s performance measured in sales and profits. If members of an organization have an enhanced learning orientation, they will not only gather and disseminate information but also constantly examine the quality of their
interpretative and storage functions and the validity of the dominant logic embedded in the mental models that guide the entire process. Baker and Sinkula (1999) view learning orientation as the qualitative engine behind market orientation that prevents rigidity. If a company is determined to enhance its ability to learn, creating a strong market orientation is only a beginning. Following this rationale these hypotheses can be stated:

**H5: Strong market orientation is a prerequisite towards achieving the highest benefits of learning.**

**H6: Companies with lower learning capabilities show an inflexible construction of the market orientation.**

Companies with a high market orientation may be more likely to engage in imitative rather than innovative learning practices. They may exercise product line extensions, instead of pursuing deep understanding of the customers’ latent needs. By implementing a strong learning orientation and understanding latent needs of the customers, a company does not have to rely entirely on direct signals from the market to lead a new product development process. It can therefore be argued that a strong learning orientation is likely to reduce an organization’s reliance on market feedback as a route to innovations.

It should be noted that the desired resultant of the market as well as the learning orientation is the effective strategic orientation as a tool implemented to create continuing performance improvements. The proactive behavior is a core strategic constituent of organizational performance in general and in terms of innovativeness. Proactiveness harnesses the strong research and development capabilities leading to innovations (Morgan and Strong, 1997). To achieve strong innovation capabilities organizations must encourage strong inter-functional cohesiveness and direct their efforts towards the market focus. Following this rationale the following hypothesis can be established:

**H7: Market orientation is positively related to corporate proactiveness in strategic orientation.**

However, creating a market orientation is only a start for a company directed to maximize its ability to learn about markets. Hamel and Prahalad (1991) state that restricting the attention to existing customers and competitors’ results in “tyranny of the served markets” where efforts are too narrowly focused on the expressed needs of the customer at the expense of neglecting the latent needs of both existing and potential customers. Even though information utilization about customers and competitors is pivotal in leveraging market orientation, adequate analysis is necessary to ensure that market focused activities support organizational learning and problem solving. Proactiveness in the strategy formulation is narrowly connected with employee participation, informality, teamwork, failure tolerant culture and vision consensus, which are basic characteristics of a learning organization.

**H8: Learning orientation developed within the learning company is positively related to the analysis in strategic orientation leading to increased organizational performance through breakthrough innovations.**

The benefits of the learning environment versus the market orientation can be summarized as follows: market information processing activities can be easily duplicated by the competition, as they almost never involve complex structures and/or systems. The learning environment that organizes, gives meaning to and translates the output of such activities into the specific organizational behavior is much more complex and cannot be easily copied. A superior learning environment, will therefore leverage the use of all resources available, including the outcomes of the market orientation. Such environment can be achieved within the learning company context suggesting an integrative concept of market based organizational learning. Combining the arguments stated previously the following hypothesis could be stated:

**H9: The stronger the learning orientation, the greater are the benefits from the market orientation resulting in the positive relationship between the synergistic effects of the**
market and learning orientation and the company’s overall performance through innovative strategic orientation.

The beneficial synergistic effects between market and learning orientation can also be viewed through impediments to the development of market orientation such as: structural impediments, strategic obstacles and systemic barriers (Harris, 2000). Lichtenthal and Wilson (1992) find that structural resistance has two main forms: first the development of high levels of market orientation is significantly impeded by the lack of appropriate complementary role relationships which accept the subordinate function of developing market orientation. Second, structural distance influences the potential and speed of market oriented change to the extent that structurally distinct organizational components may be unaffected by efforts of change. Following the work by Lear (1963), Lichtenthal and Wilson (1992) and some of the findings by Jaworski and Kohli (1993) the following hypothesis can be stated:

H: **Market orientation is positively related to high structural connectedness, structural decentralization and negatively related to high degree of structural formalization.**

The extent of connection between the functions or corporate units influence the ability to generate market information, distribute and act upon it. Similarly, a centralized structure is known to contribute to the efficient decision-making but also hinders market response due to centralized information-sharing channels. Formalized structures are known to focus on internal issues rather than on external orientation impeding market intelligence gathering and adequate organizational response. High structural connectedness, structural decentralization and a low degree of structural formalization are all traits of a learning organization leading to the conclusion that the effectiveness of the market orientation is immensely increased when implemented in the learning environment of a learning company.

In accordance with the assertions stated above limited inter-functional coordination systems can act as impediments to higher levels of market orientation. There are also other system barriers to market orientation such as limited budgeting systems and training procedures. Two-way communication between employees and strategy makers also contribute to the proactiveness in strategy formulation. Market oriented change should therefore entail particular attention to system modification. The following hypothesis can be stated:

H: **Market orientation is positively related to the higher degree of organizational integration, and broad employee education in order to improve market focus.**

Following the advances in understanding the market orientation it is evident that the lack of a holistic analysis of systems, structures and policies can be overcome by the implementation of the learning organization philosophy considering the fact that the stated impediments of the market orientation are learning organization constituents by default.

The outcome of lessons learned though encounters with the marketplace constituents are organizational routines. Routines are the final outcome of learning, deeply ingrained in the organization and difficult to imitate. The primal task of a learning organization is to facilitate the process of unlearning or triple loop learning. The unlearning process attempts to rearrange organizational values, norms and behaviors by changing cognitive structures, mental models, dominant logics and core assumptions that guide behavior (Sinkula, 2002).

Market orientation output serves as the input in the learning process in terms that the processed information lead to changes in key routines or behaviors. If a company implements solely market orientation, not complementing it with the learning orientation its current market success may inhibit learning. Effectiveness of past actions may cause complacency and raise resistance to routine adaptation. Such complacency could lead to rejection of information that conflicts with conventional wisdom and previous beliefs about cause and effect relationships undermining the mere market orientation and leading to declining organizational performance. Managers should avoid the times of crisis to question the existing routines because that could lead to the collapse of the organizational system as a whole. This
problem can be overcome by prioritizing the gathering of deficient information and developing organizational learning mechanisms.

**H: Market orientation implemented in the learning company context facilitates new routine formulation through unlearning, favoring future superior value creation.**

**Conclusion**

A company is market oriented when the entire organization embraces the values of generating intelligence from market constituents and when all business processes are directed at creating superior customer value. The market-orientation outcome can achieve maximum effectiveness if supported by the learning culture, organizational systems and processes that enable learning, *i.e.* the transformation of intelligence into knowledge towards the organizational change in terms of a desired organizational behavior. Learning orientation involves the overall organizational engagement and reflects the value the company places on promptly responding to environmental changes but also constantly challenging the patterns, procedures, systems and mental models that direct the company’s relationship with the environment. Organizational learning is a process that is best conducted in the stimulating learning environment provided by the learning company concept. Learning company is an organization, which has implemented systems, mechanisms and processes that increase the ability of achieving sustainable competitive advantages based on the results of learning on the individual, team and organizational level, enabling companies to stay alert to changing customers’ preferences and providing insight into latent opportunities for product development. The basis for that process must be provided by the marketing information processing activities in order to achieve the highest synergistic effect. In this context the learning approach, *i.e.* the transformation towards a learning company would likely enhance the effects of the market orientation and marketing information processing activities towards adaptive but also generative learning that has been cited as the true source of sustained competitive advantages and the organizational competence. Although conceptual in nature, the proposed model has strong theoretical background while the hypotheses urge to be a subject of further empirical testing.

**References**


