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Strategic orientations, marketing capabilities and firm performance: An empirical investigation in the context of frontline managers in service organizations

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ABSTRACT

This study develops and empirically tests a model that links alternative strategic orientations with firm performance, through the mediating effect of marketing capabilities. The influence of environmental forces and organizational characteristics on the decision to pursue lucrative strategic orientations is also examined. Using data collected from 316 bank branch managers, the authors find that market turbulence, intensity of competition, and decentralization in decision making play a pivotal role in determining managerial strategic priorities. Moreover, competitor orientation and innovation orientation contribute significantly to the development of marketing capabilities. In turn, marketing capabilities have a positive impact on firm performance. The authors discuss the managerial implications of study findings and offer directions for future research.

1. Introduction

During the past two decades market orientation has been a focal construct in the marketing literature (Smirnova, Naudé, Henneberg, Mouzas, & Kouchtch, 2011). The work of Kohli and Jaworski (1990) and Narver and Slater (1990) spurred a substantial stream of research focusing on this construct's definition, measurement, antecedents and consequences. The vast majority of these studies investigate market orientation from either a behavioral or a cultural perspective. The behavioral perspective emphasizes specific activities relating to the generation and dissemination of and responsiveness to market intelligence (Kohli & Jaworski, 1990). The cultural perspective focuses on the organizational norms and values that encourage behaviors that are consistent with market orientation and consists of three components: customer orientation, competitor orientation, and interfunctional coordination (Narver & Slater, 1990). Homburg and Pflesser (2000) expanded the cultural perspective by developing a multilayer conceptualization of market-oriented organizational culture, comprising of basic values, norms, artifacts, and behaviors. In a further study adopting a cultural perspective, Gebhardt, Carpenter, and Sherry (2006) identified a four-stage process through which organizations change to adopt a higher level of market orientation. More recently, Zhou, Li, Zhou, and Su (2008) conceptualize market orientation as consisting of both cultural and behavioral elements, indicating that organizational-level market orientation culture affects unit-level market orientation behavior.

The assumed positive relationship between market orientation and business performance has been empirically confirmed in many studies (Cano, Carrillat, & Jaramillo, 2004; Kirca, Jayachandran, & Bearden, 2005). Moreover, this relationship is found to be robust across different environmental conditions (Slater & Narver, 1994), industrial sectors (Cano et al., 2004), and cultural settings (e.g., Selnes, Jaworski, & Kohli, 1996). Despite this evidence, an increasing number of researchers are questioning whether the mere possession of market orientation can provide firms with a sustainable competitive advantage and superior performance. Researchers are particularly concerned that market orientation may lead a firm to focus only on the expressed needs of customers, instead of pursuing a deeper understanding of the latent needs of existing and new customers. They also caution that an overemphasis on customers may hamper innovation and research and development activities and damage a firm's ability to introduce innovative products in the market (Zhou, Yim, & Tse, 2005). Moreover, to the extent that the firm's competitors are also market oriented, not only market orientation fails to provide a competitive advantage, but it becomes a cost of doing business or a failure preventer (Kumar, Jones, Venkatesan, & Leone, 2011).

These observations encouraged a new line of research that emphasizes the need to complement market orientation with other strategic orientations like innovation, organizational learning, quality, productivity, and entrepreneurship (Hurley & Hult, 1998; Marinova, Ye, & Singh, 2008; Menguc & Auh, 2006; Zhou et al., 2005). Zhou et al. (2005) also indicate that strategic orientations do not automatically

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lead to better performance, but bring about certain behaviors that in turn affect performance. There is, therefore, a need to investigate the role of such intervening variables that mediate the relationship between strategic orientations and performance outcomes.

The pertinent literature has primarily adopted a between-firm analysis, emphasizing organizational-level determinants of market orientation (Lam, Kraus, & Ahearne, 2010). However, to enhance positively competitive advantage and performance, top management must effectively diffuse a market orientation culture to each organizational member and across organizational levels. In service organizations in particular, managers are forced to rely on their frontline employees to implement a market oriented strategy and ensure customer satisfaction (Hartline, Maxham, & McKee, 2000). The direct contact of frontline employees with customers makes their performance a key factor in a service unit's effectiveness (Marinova et al., 2008). Frontline employees are often responsible for introducing customers to new service innovation and are actively involved in the implementation of other strategic initiatives (Cadwallader, Jarvis, Bitner, & Ostrom, 2010). Middle managers are also extremely important in strategy implementation as they serve as the link between the top managers to whom they report and the frontline employees who they directly supervise (Lam et al., 2010). Employees' perceptions of the market orientation culture of the organization influences directly the extent to which they integrate market orientation behavior into the process of creating and delivering superior value to customers (Kelley, 1992; Lam et al., 2010). Some authors even suggest that a particular strategic orientation of an organization is what its employees perceive it to be (Lytle, Hom, & Mokwa, 1998; Marinova et al., 2008). Limited empirical evidence indicates a significant relationship between managerial perceptions related to strategic orientations and the development of firm capabilities (Celuch, Kasouf, & Peruvemba, 2002). There is, therefore, a need for further research at the level of customer-contact managers and employees to enhance the current knowledge regarding the transformation of organizational culture elements to specific business processes and behaviors that deliver value to customers.

This study contributes to the extant literature in four ways. First, in response to recent calls for expanding the market orientation framework, it examines four strategic orientations that guide a firm's behavior in the marketplace and have the potential to create superior performance: customer orientation, competitor orientation, internal/cost orientation, and innovation orientation. Second, it proposes that marketing capabilities act as an action mechanism that facilitates the actual implementation of strategic orientations at the customer level, and empirically assesses the mediating effect of marketing capabilities on the relationship between strategic orientations and performance. Third, it investigates the strategic orientations–performance relationship at the level of branch managers in banking institutions. These personnel are responsible for implementing organizational strategies at the branch level, are actively involved in providing valued-added services to important customers, and at the same time they supervise the behavior and activities of frontline employees. Fourth, it examines the role of environmental turbulence and organizational structure in the adoption of specific strategic orientations.

The remainder of this article is organized as follows. The next section outlines the theoretical background of the study. Then, the conceptual model is introduced and research hypotheses are developed. Next, the research methodology is described and the results of statistical analysis are presented. The article concludes by discussing the key findings and implications, addressing study limitations and identifying future research avenues.

2. Research background

Organizations attempt to achieve superior performance by developing and implementing effective business strategies that exploit emerging opportunities in the marketplace while capitalizing on available resources and capabilities (Bharadwaj, Varadarajan, & Fahy, 1993). The multiplicity of strategic and financial objectives they aim to achieve, the idiosyncratic environmental conditions they face, and the unique bundle of organizational resources and skills they possess, direct firms to simultaneously engage in multiple sets of strategic behaviors (Olson, Slater, & Hult, 2005a). For nearly two decades the marketing literature has emphasized the significant benefits associated with market orientation. However, being market oriented may not be comprehensive enough to be used as a strategic beacon for achieving competitive advantage (Han, Kim, & Srivastava, 1998). Firms need to pursue complementary strategic orientations (Zhou et al., 2005). Drawing on this emerging stream of research, and particularly on the work of Olson et al. (2005a), we develop a broad conceptual framework comprising of four strategic orientations. Moreover, the shortcomings of market orientation to solely generate superior competitive advantage (Menguc & Auh, 2006), turned researchers attention on exploring relevant firm capabilities that should be combined with market orientation (and other strategic orientations) to strengthen performance (Smirnova et al., 2011). Morgan, Vorhies, and Mason (2009) have demonstrated that market orientation and marketing capabilities complement one another in ways that contribute to superior firm performance. Therefore, our conceptual framework examines the influence of strategic orientations on building marketing capabilities that in turn drive firm performance.

2.1. Strategic orientations

Strategic orientations are the guiding principles that influence a firm's marketing and strategy-making activities (Noble, Sinha, & Kumar, 2002). They reflect the strategic directions implemented by a firm to create the proper behaviors that lead to superior performance (Gatignon & Xuereb, 1997; Slater, Olson, & Hult, 2006), and are founded on a firm's philosophy of how to conduct business through a deeply rooted set of values and beliefs (Zhou et al., 2005). Research in marketing has mainly focused on maintaining a market orientation, based on the adoption and implementation of the marketing concept (Noble et al., 2002). However, a growing stream of research endorses the adoption of alternative strategic orientations including innovation orientation, technology orientation, entrepreneurial orientation, quality orientation and productivity orientation (Gatignon & Xuereb, 1997; Hurley & Hult, 1998; Marinova et al., 2008; Voss & Voss, 2000; Zhou et al., 2005). These authors contend that firms can maximize their performance by complementing market orientation with other important strategic orientations that fit their environmental context and organizational characteristics.

Following a thorough review of the relevant literature, our study focuses on four strategic orientations that attracted most research attention, and whose relationship with business performance has been empirically established: customer orientation, competitor orientation, innovation orientation and internal/cost orientation. Customer orientation is a firm's sufficient understanding of its target buyers in order to be able to create superior value for them (Narver & Slater, 1990). Customer orientation advocates a continuous, proactive disposition toward meeting customers' exigencies (Han et al., 1998). Competitor orientation reflects a seller's ability to understand the short-term strengths and weaknesses and long-term capabilities and strategies of both the key current and the key potential competitors (Narver & Slater, 1990). Innovation orientation is a strategic behavior that reflects openness to new ideas as well as the active seeking of such ideas (Olson et al., 2005a). Finally, internal/cost orientation reflects a firm's emphasis on efficiency in all parts of the value chain (Olson et al., 2005a) and relates to Porter's (1980) cost leadership strategy.

These strategic orientations are highly relevant and important for the empirical setting of this study, which focuses on the strategic behavior of banking institutions at the local branch level. In line with Olson et al. (2005a) these strategic orientations are not considered mutually exclusive. Moreover, we endorse these authors' position that a firm's behavior may be simultaneously guided by multiple strategic orientations. Therefore, our emphasis is on assessing the degree to which bank branches in our sample pursue each alternative strategic orientation.

2.2. Marketing capabilities

In a highly influential article, Day (1994) discussed the critical role of capabilities in a firm's attempt to achieve competitive advantage and superior performance. Researchers viewed the capabilities theory as a constructive extension of the resource-based view of the firm (RBV). In particular, the RBV posits that resources drive the firm's ability to design, produce, market, and distribute its products and services. Moreover, it suggests that competitive advantage results from the possession of resources that are valuable, rare, non-substitutable, and imperfectly imitable (Barney, 1991). Although Barney (1991) defined resources more broadly to include both assets and capabilities, there was no provision in RBV regarding how such resources are actually transformed to competitive advantages for the firm. In response to this gap, a number of studies propose that the possession of certain resources will only lead to superior positional advantage and performance if the firm takes appropriate strategic actions that capitalize on the resources (Hult, Ketchen, & Slater, 2005; Ketchen, Hult, & Slater, 2007). Furthermore, a firm's ability to deploy resources through organizational capabilities may be more important than absolute resource levels in driving performance (DeSarbo, Di Benedetto, & Song, 2007; Morgan, Vorhies, & Mason, 2009; Vorhies, Morgan, & Autry, 2009).

Capabilities are commonly defined as the glue that brings organizational assets together and deploys them advantageously (Zhou et al., 2008). They differ from assets in that they are not observable, are difficult to quantify, and can not be given a monetary value, as can tangible plant and equipment (Day, 1994). Moreover, capabilities are so deeply embedded in the organizational routines and practices that they can not be traded or imitated. Thus, they are the most likely source of competitive advantage. Research attention in the marketing literature focuses on market-relating capabilities, which facilitate the effective deployment of market-based assets. These capabilities are usually associated with the marketing function, and concern individual "marketing mix" elements, as well as the processes of marketing strategy development and execution (Morgan, Vorhies, & Mason, 2009).

Vorhies et al. (2009) classify marketing capabilities as specialized and architectural. Specialized marketing capabilities reflect task-specific marketing activities (e.g., marketing communications, personal selling, pricing, product development) whereas architectural capabilities provide the planning and coordination mechanism that ensures the effective deployment of these marketing program-level activities. Both types of marketing capabilities, as well as their integration, are significant drivers of market effectiveness (Vorhies et al., 2009). In addition to this broad classification, other researches have examined specific capabilities relating to individual marketing processes including market-sensing capabilities, relational capabilities, brand management capabilities and innovation capabilities (Day, 1994; Menguc & Auh, 2010; Morgan, Slotegraaf, & Vorhies, 2009; Smirnova et al., 2011). The findings of these studies reveal a positive effect of marketing capabilities on business performance, and confirm the significant contribution of marketing capabilities to effective strategy implementation.

Market orientation and other strategic orientations are also considered as firm-level resources and capabilities (Menguc & Auh, 2006; Zhou et al., 2005). Market orientation in particular qualifies as a valuable, rare, difficult to imitate, and non-substitutable capability, as a result of its philosophical underpinnings and the strategic behaviors that it promotes (Zhou et al., 2008). Nonetheless, to drive performance, strategic orientations require complementary organizational capabilities that reflect the specific activities undertaken by firms in order to implement the chosen strategic direction (Hult et al., 2005; Morgan, Vorhies, & Mason, 2009). Drawing on this literature, the present study proposes that the adoption of specific strategic orientations advances the development of important marketing capabilities that in turn enhance business performance.

3. Conceptual model and research hypotheses

Fig. 1 provides an overview of the hypothesized associations investigated in this research enquiry including relationships among environmental factors (market turbulence, competitive intensity), organizational structure elements (decentralization), strategic orientations (customer orientation, competitor orientation, internal/cost orientation, and innovation orientation), marketing capabilities and branch performance. The proposed conceptual framework is founded on an emerging research stream in the strategic marketing and management literatures that emphasizes the need to complement market orientation with alternative strategic orientations to achieve superior

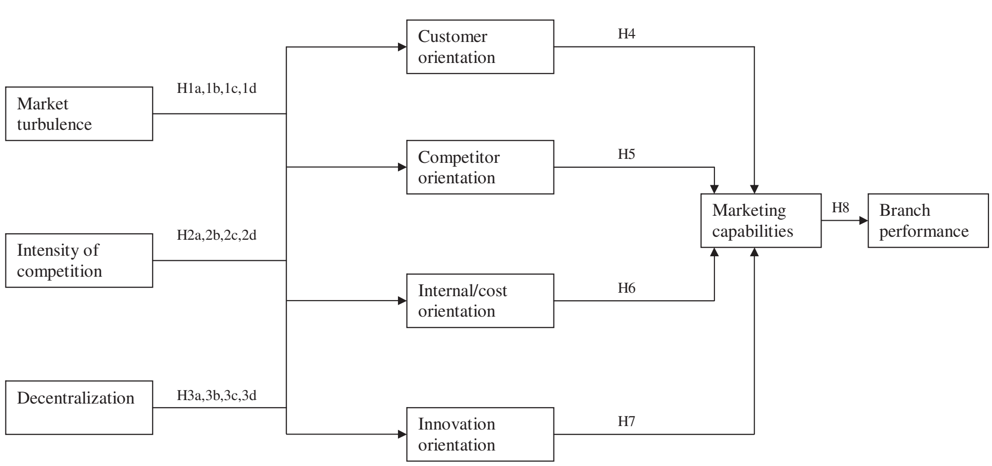

Fig. 1. A conceptual model of strategic orientations, marketing capabilities and performance.

performance. Furthermore, it considers the crucial role of marketing capabilities that act as an effective deployment mechanism facilitating the link between strategic orientations and performance. The research model is also consistent with the main principles of contingency theory which advocates the proper co-alignment between a firm's strategy and the context in which it is implemented.

3.1. Market turbulence and strategic orientations

3.1.1. Customer orientation

Previous research suggests that the environmental context of an organization influences its level of market orientation (Jaworski & Kohli, 1993). Market turbulence refers to the rate of change in the composition of customers and their preferences (Jaworski & Kohli, 1990, p.14) and is a main cause of instability and unpredictability of the external environment (Ruekert, Walker, & Roering, 1985). Business units that operate in turbulent market environments confront a rapid change in customers' needs and preferences and unpredictable requirements and demands. Thus, they have a greater need to be customer oriented because of the evolving needs and expectations of their customers (Jaworski & Kohli, 1990). Market orientation helps firms to track changes in the customer environment and aids in managing demand uncertainty (Grewal & Tansuhaj, 2001). Therefore:

H1a. Market turbulence is positively associated with customer orientation.

3.1.2. Competitor orientation

Competitor orientation focuses on an in-depth assessment of a set of selected competitors (Olson et al., 2005a). Under this type of strategic orientation business units concentrate on competitor's goals, strategies, activities, offerings, resources and capabilities as well as on the dissemination of the information gathered from this assessment (Day & Nedungadi, 1994; Kohli & Jaworski, 1990; Olson et al., 2005a). The monitoring and comparison of competitors' actions generate helpful insights for business units to understand their relative standing within the marketplace, assess their strengths and weaknesses, and construct an effective respond to competitors' strategies (Gao, Zhou, & Yim, 2007; Gatignon & Xuereb, 1997). Thus, unstable market conditions urge business units to pursue a strong competitor orientation in order to adjust themselves to the competitive level of the market in which they operate (Gao et al., 2007).

H1b. Market turbulence is positively associated with competitor orientation.

3.1.3. Internal/cost orientation

Internally oriented business units pursue efficiency in all aspects of their value chain (Olson et al., 2005a,b, Olson, Slater, & Hult, 2005b; Porter, 1985). They concentrate on reducing costs in primary activities including logistics, operations, sales and marketing, as well as in support activities like research and development and administration (Olson et al., 2005a). Business units operating in highly turbulent markets are required to perform frequent modifications in their offerings in order to match the changing customers' demands. This ongoing process of responding to evolving customer needs is likely to result in significant cost increases for the firm. As a consequence, firm's competitiveness in the marketplace will suffer and profit margins will decline. To avoid such undesirable outcomes, firms must place high priority in controlling their costs and enhancing the efficiency of their value chain activities. A low cost structure can also serve as a safeguard against unanticipated changes in customer preferences that may include increasing price sensitivity. Therefore, we expect that market turbulence will result in higher levels of internal/cost orientation.

H1c. Market turbulence is positively related to internal/cost orientation

3.1.4. Innovation orientation

Innovation orientation is a philosophy that promotes openness to new ideas, and reflects a firm's willingness to change through the adoption and implementation of new technologies, resources, skills, and administrative systems (Han et al., 1998; Hurley & Hult, 1998). This strategic orientation supports risk taking and enhances the possibility of designing and developing completely new and innovative products (Olson et al., 2005a). As a strategic direction, innovation orientation is a way of thinking and leading that drives the firm over the long run, keeping it innovative (Siguaw, Simpson, & Enz, 2006, p. 556). Innovation offers significant benefits to firms like maintaining or enhancing market share, and outperforming competitors (Lisboa et al., in press; Siguaw et al., 2006). The exploitation of these opportunities becomes even more important in turbulent markets. In particular, instability in customers' preferences and expectations limits significantly a firm's ability to satisfy them by performing minor modifications to existing products or even by introducing incremental innovations (Zhou et al., 2005). In contrast, demand uncertainty necessitates the adoption of more radical innovations that will meet changing customers' needs and strengthen the firm's competitive position in the marketplace. Therefore:

H1d. Market turbulence is positively related to innovation orientation.

3.2. Intensity of competition and strategic orientations

3.2.1. Customer orientation

Competitive intensity refers to the ability and willingness of competitors to alter marketing mix decisions in order to gain competitive advantage (Song & Parry, 2009). Under conditions of intense competition, customers have too many options and can choose from a wide set of competing alternatives (Augusto & Coelho, 2009; Kohli & Jaworski, 1993). Thus, firms have a higher risk of loosing existing customers (Song & Parry, 2009). To remain competitive and maintain or enhance their performance, firms facing intense competition must be able to create and deliver superior customer value (Zhou et al., 2005). This requires a systematic process of acquiring, analyzing, and disseminating information that uncovers both the expressed and latent needs of customers (Slater & Narver, 1998). Greater understanding of customers enables appropriate product adjustments that satisfy their specific needs and preferences and results in superior perceived value. Therefore, we expect that intensity of competition will result in a higher level of customer orientation.

H2a. Competitive intensity is positively related to customer orientation.

3.2.2. Competitor orientation

Competitive behavior is central to marketing strategy research and practice. The interdependence of firms necessitates them to consider as well as attempt to account for the potential reaction of their rivals while planning and initiating actions (Varadarajan & Jayachandran, 1999). A thorough knowledge and understanding of competitors' strengths and weaknesses as well as the ability to predict their likely reactions to certain firm strategic initiatives are extremely important for creating and sustaining a competitive advantage (Day & Wensley, 1988). To strengthen its competitive position a firm must be able to exceed competitor's strengths and offer superior value to customers through enhanced product quality and other benefits or price reductions (Porter, 1980). Business units that operate in highly competitive business environments have a greater need and incentive to monitor closely competitors' capabilities and strategies (Gao et al., 2007). Therefore:

H2b. Competitive intensity is positively related to competitor orientation.

3.2.3. Internal/cost orientation

In highly competitive markets firms face aggressive attacks from competitors on different strategic dimensions (Gao et al., 2007). Moreover, the potential availability of better purchase options provides customers with motives to revisit and revise their existing decision rules (Song & Parry, 2009). Competitive rivalry commonly results in reduced prices and/or the offering of diverse product alternatives and added services (Porter, 1980). As a result, profit margins get significantly compressed. To remain competitive and deal effectively with the greater pressure that price wars cause, business units facing intensive competition should strive for achieving efficiency in all aspects of their value chain (Zhou et al., 2005). Therefore, we expect that business units operating in environments characterized by intensive competition will be more internally oriented and emphasize cost control.

H2c. Competitive intensity is positively related to internal/cost orientation.

3.2.4. Innovation orientation

Firms can develop a competitive advantage by adopting an innovative behavior (Hurley & Hult, 1998). Several researchers consider innovativeness as the best way for a firm to gain a competitive edge and renew competitive advantage (Olavarrieta & Friedmann, 2008). Nevertheless, conflicting arguments exist in the literature regarding the exact influence of competitive intensity on innovativeness. On the one hand, innovative firms can outperform competitors by effectively modifying existing products or introducing new products to the market that provide superior benefits to customers (Deshpandé, Farley, & Webster, 1993). On the other hand, intensive competition that takes the form of a price war may discourage firms from investing in innovations. Instead, they may decide to imitate competitors' innovations in order to reduce their costs (Olavarrieta & Friedmann, 2008; Zhou et al., 2005). However, a broader definition of innovation includes not only product or service innovations but also innovations in production processes and technologies and administrative processes which can contribute toward significant cost reductions and operational efficiency (Gatignon & Xuereb, 1997; Han et al., 1998). Furthermore, Siguaw et al. (2006) argue that a firm's long term success may rely more on an overall firm-level innovation orientation that produces capabilities that spawn innovations and less on specific innovations. Therefore, we posit that firms operating in highly competitive markets can gain significant benefits in the long run by encouraging an innovation culture that promotes openness to new ideas (Hurley & Hult, 1998) and by adopting an innovative behavior that is directed toward improving the quality of their offerings to customers as well as toward enhancing the efficiency of their value-chain activities.

H2d. Competitive intensity is positively related to innovation orientation.

3.3. Decentralization and strategic orientations

Centralization is considered as a key dimension of an organization's structure. As defined by Aiken and Hage (1968), it refers to the inverse of the amount of delegation of decision-making authority throughout an organization and the extent of participation by organizational members in decision-making. Previous research (Deshpande & Zaltman, 1982; Jaworski & Kohli, 1993) suggests that centralization has a negative effect on market orientation, by lowering intelligence generation, intelligence dissemination, and responsiveness to market intelligence. Moreover, Auh and Menguc (2007) report a significant negative effect of centralization on customer orientation. In the strategic marketing literature centralization is associated with lower levels of cross-functional integration and communication quality, and a decline in strategic awareness and understanding in the middle and lowers levels of the organization, where strategies are implemented (Menon, Bharadwaj, Adidam, & Edison, 1999). Thus, centralization is likely to result in limited knowledge about customer needs and preferences and competitors strategies and actions, and prevent the adoption of customer and competitor oriented strategic behaviors. In contrast, decentralization involves employees from different organizational levels and functions in activities designed to improve customer satisfaction, and urges lower level managers to appreciate the value of information acquisition and dissemination (Pelham & Wilson, 1996). Given that information management processes are conducive to a firm becoming more customer oriented and competitor oriented, we posit the following:

H3a. Decentralization is positively related to customer orientation.

H3b. Decentralization is positively related to competitor orientation.

The sharing of views and experiences among managers and employees from different departments and functions within an organization may also contribute toward significant improvements in operational efficiency and cost control. In particular, middle and lower level managers can gain a better understanding of how the various value-chain activities and the operational linkages between them add to the overall cost of the firm. Therefore, they are able to coordinate their efforts in order to enhance the efficiency of various business processes, exploit available resources and capabilities, and eliminate unproductive expenses. Furthermore, in complex business environments, decentralization is more likely to be effective as it empowers managers close to an issue to make decisions and implement them rapidly (Olson et al., 2005b). Front-line managers who are responsible for performing value-adding activities at the customer level are in the best position to make rational decisions that streamline the relevant business processes and overcome costly bureaucracies. Thus:

H3c. Decentralization is positively related to internal/cost orientation.

The pertinent literature also suggests that decentralization promotes a healthy exchange of thoughts and constructive criticism that lead to the emergence of a variety of ideas from different groups of employees (Olson et al., 2005a; Ruekert & Walker, 1987). In contrast, centralization has the potentials to ignore the diverse and rich cognitive resources of human capital within an organization, confining such capital to a selected tier. As a result, creative and diverse thoughts are excluded from the decision-making process (Auh & Menguc, 2007). According to Hurley and Hult (1998) participative decision making, support and collaboration, and power sharing are important antecedents of an innovation orientation. Thus:

H3d. Decentralization is positively related to innovation orientation.

3.4. Strategic orientations and marketing capabilities

Marketing is the only business functions whose primary role is to understand the perceived needs, wants and preferences of customers and deliver the desired satisfaction better than the competition.

Therefore, marketing capabilities can be viewed as the organizational competencies that support market sensing and customer linking (Day, 1994; Krasnikov & Jayachandran, 2008). Likewise, customer oriented and competitor oriented firms emphasize the systematic and continuous generation and dissemination of information about customer needs and preferences and competitors strategies and actions (Narver & Slater, 1990). Changing market conditions require firms to increase their market intelligence efforts in order to be able to implement new strategies that match customer demands and offer them superior value in terms of additional benefits and/or lower prices. In particular, to achieve customer satisfaction and loyalty in the long run, a firm must provide a unique blend of product, service, price, distribution, and communication elements that appeals to the needs and tastes of its particular target segment (Slater & Narver, 1998). This strategic marketing planning process assists customer and competitor oriented firms in developing appropriate marketing capabilities which are necessary for the actual deployment of chosen strategic behaviors into the marketplace (Morgan, Vorhies, & Mason, 2009). Stated differently, the process of actually implementing a customer oriented and competitor oriented strategic behavior in the marketplace both requires and facilitates the development of appropriate marketing capabilities. Therefore, we expect that customer orientation and competitor orientation have a positive relationship with marketing capabilities.

H4. Customer orientation is positively related to marketing capabilities.

H5. Competitor orientation is positively related to marketing capabilities.

3.4.1. Internal/cost orientation and marketing capabilities

Internal/cost oriented firms pursue efficiency in all parts of their value chain (Olson et al., 2005a,b). The primary objective of these firms is to reduce costs in all value chain activities. Lower costs allow firms to charge lower prices and thus maximize their sales volume, or maintain a constant price level and enhance their profit margin (Porter, 1985). Some researchers suggests that firms emphasizing efficiency in value-chain activities do not need a high level of marketing capabilities and therefore are likely to devote less resources in developing such capabilities (Slater & Olson, 2001). A different perspective, however, argues that even when firms emphasize cost control they still need to implement an appropriate marketing program (Golden, Johnson, & Smith, 1995). In particular, they need to inform customers about the existence of the product or service, explain the characteristics of the offering, secure adequate distribution, and communicate and support the delivered customer value (Vorhies et al., 2009). Following this line of reasoning we can argue that a preoccupation with efficiency and cost control may urge firms to improve their marketing capabilities in order to be able to achieve critical marketing objectives like sales volume and customer satisfaction by deploying more effectively the limited financial and other resources available to them (Slotegraaf, Moorman, & Inmann, 2003). Therefore, we expect a positive relationship between internal/cost orientation and marketing capabilities.

H6. Internal/cost orientation is positively related to marketing capabilities.

3.4.2. Innovation orientation and marketing capabilities

Innovation-oriented firms value change and support creativity, making employees feel less threatened when they devote their efforts to new ideas (Augusto & Coelho, 2009). These firms are also more likely to be open-minded and think outside the box (Zahra, Nash, & Bickford, 1995). Hurley and Hult (1998) argue that firms with greater capacity to innovate are more successful in responding to their environments and developing new capabilities that lead to competitive advantage and superior performance. Moreover, the organizational capability literature indicates that strategic orientations, including market orientation and innovation orientation, have only potential value and will only lead to competitive advantage if a firm successfully develops relevant capabilities that serve as a market-related deployment mechanism (Ketchen et al., 2007; Morgan, Vorhies, & Mason, 2009). Accordingly, the possession of marketing capabilities is necessary for firms that wish to successfully introduce product and service innovations into the market and capture a significant market share before the competition has the opportunity to develop a planned reaction. Therefore, we expect that innovation orientation has a positive influence on the development of marketing capabilities.

H7. Innovation orientation is positively related to marketing capabilities.

3.5. Marketing capabilities and performance

The relationship between marketing capabilities and firm performance has received heighten research attention in recent years (Krasnikov & Jayachandran, 2008; Morgan, Slotegraaf, & Vorhies, 2009; Murray, Gao, & Kotabe, 2011; Vorhies et al., 2009). Overall, the findings of these studies support a positive relationship between capabilities and performance, which is consistent across diverse research contexts (Krasnikov & Jayachandran, 2008). The conceptual rational for this relationship is based on the recognition that capabilities encompass skills that are embedded deeply in organizational routines and practices and represent knowledge that has been accumulated over the years. As a result, capabilities are difficult to trade, imitate, or duplicate, offering a sustainable source of competitive advantage (Day, 1994; Teece, Pisano, & Shuen, 1997). Moreover, as previously discussed, marketing capabilities enable firms to effectively implement strategic orientations which are designed in order to match the faced market conditions and achieve specific performance objectives (Morgan, Vorhies, & Mason, 2009). Therefore, we posit the following:

H8. Marketing capabilities are positively related with performance.

4. Research method

4.1. Research context

The banking industry serves as the empirical setting for this study. In particular, we examine the strategic orientations and marketing capabilities of bank branches, as perceived by branch managers. We chose this particular context for a number of reasons. First, front-line managers' perceptions of organizational strategies, norms and values are directly related to their behavior when carrying out their job duties and responsibilities (Kelley, 1992). Since organizations can only be as effective as the people that comprise them, individual attitudes and behaviors directly affect the nature and quality of service delivery and customer interaction (Lytle et al., 1998). Second, banking institutions are organized around a network of local branches. Therefore, branch managers play a critically important role in implementing organizational strategies at the local market level, by providing appropriate guidelines, directions and support to front-line employees, as well as through their personal interaction with customers and prospects. In such service contexts, strategic orientations will succeed only insofar as the branch manager and customer-contact employees embrace, execute, and promote them (Cadwallader et al., 2010). Third, previous research suggests that managerial perceptions is a key factor in accounting for different decision frameworks and resulting strategies in objectively similar environments (Anderson & Paine, 1975; Olson et al., 2005a). Therefore, the bank branch provides a suitable level for investigating the actual mechanism through which organizational strategic orientations translate into specific work-related attitudes and behaviors that drive marketing capabilities and enhance business performance.

4.2. Sample and data collection procedures

We collected data by means of a mail survey, using a highly structured questionnaire. The key informant in this study is the bank branch manager. These personnel were selected because they are responsible for implementing organizational strategies at the customer level as well as for guiding and directing the activities of branch employees toward accomplishing branch objectives. Therefore, they should be knowledgeable about the strategic orientations that their organization pursues, the marketing capabilities possessed, and branch performance. At the same time, their perceptions regarding organizational strategic orientations determine the actual strategic behaviors undertaken at the branch level.

Our sampling frame consisted of the branches of banking institutions operating in Greece. To enhance the participation of branch managers in our survey, we initially obtained the cooperation and support of the Helelenic Banks Association (HBA). Subsequently, a formal letter, signed by the principal investigator and endorsed by the HBA, was sent to the head of the Human Resources department of the 27 banks that operate in Greece and are members of the HBA, asking them to participate in the survey. Five banks, which operate 630 branches in Greece, agreed to participate. A mailing package, including a cover letter, the questionnaire, and a pre-addressed postage free envelope was sent to the 630 branch managers. The cover letter explained the objectives and importance of the study, promised strict confidentiality of responses, and emphasized the fact that the survey was fully supported by the upper management of each bank and endorsed by the HBA. We received 316 completed and usable questionnaires, for a response rate of 50.16%. The majority of respondents are males (62%), hold a bachelor's degree or higher (58%), and have between five and ten years of experience in the position of bank branch manager (64%). Approximately 46% of respondents are between 40 and 49 and another 40% between 50 and 59 years of age.

We tested for non-response bias using Armstrong and Overton's (1977) guidelines. In particular, we performed a series of *t*-tests, comparing early respondents (the first one-third) with late respondents (the last one-third) on all study constructs. No significant differences were found between the two groups, indicating that non-response bias is not an issue of concern in this study. We also performed several cross-checks to assess key-informant quality (Huber & Power, 1985). In particular, the last section of the questionnaire included four statements that assessed respondents': (1) knowledge regarding the activities of the bank; (2) involvement in the activities of the branch; (3) responsibility for the activities of the branch; and (4) confidence in answering the questions of the survey instrument. The mean scores for these statements range between 5.75 and 6.58 (on a seven-point scale anchored by “Low” and “High”), indicating that potential bias attributable to the key-informant is negligible.

4.3. Measurement

We measured all study constructs using multi-item scales that we obtained from the literature. Table 1 presents a list of measurement items and their sources, and response formats. A first draft of the questionnaire was initially developed in English, then translated in Greek and back translated into English. This procedure ensures that the English and the Greek versions of the questionnaire contain equivalent measures. Subsequently, a number of bank branch managers assessed the appropriateness and the clarity of questions and measurement items and provided valuable feedback that assisted the refinement of certain questions. Moreover, several academic researchers served as expert judges to assess the questionnaire's face validity. Finally, 15 branch managers pre-tested the revised version of the questionnaire. No particular problems appeared regarding the clarity of questions or questionnaire's length.

5. Analysis and results

5.1. Measure validation

Following Gerbing and Anderson (1988), we initially examined the internal consistency of the scales, using a combination of exploratory factor analysis and item-to-total correlations. As a result of these procedures we dropped nine items that exhibited low item-to-total correlation or loaded on multiple factors. With the remaining items we performed confirmatory factor analysis (CFA) using the EQS 6.1 program (Bentler, 1995). CFA enables us to test how well the measured variables represent the constructs and assess construct convergent and discriminant validity. Convergent validity is the degree to which multiple measures of the same construct share a high proportion of variance in common, and can be assessed by determining whether each measure's estimated pattern coefficient on its posited underlying construct is significant. Discriminant validity is the degree to which measures of different construct do not correlate highly, indicating that a construct is truly distinct from other constructs (Hair, Black, Babin, & Anderson, 2010).

We estimated two separate CFA models. The first CFA model included the three exogenous constructs, namely market turbulence, competitor orientation, and decentralization. Fit statistics indicate a close fit to the data ($\chi^2_{(24)} = 34.40$, $p < .10$; χ^2/d.f. = 1.43; comparative fit index [CFI] = .99, nonnormed fit index [NNFI] = .98, and root mean square error of approximation [RMSEA] = .037). The second CFA model included the remaining study constructs, namely customer orientation, competitor orientation, innovation orientation, internal/cost orientation, marketing capabilities, and branch performance. The results obtained form this analysis indicate a good model fit ($\chi^2_{(545)} = 1232.94$, $p < .001$; χ^2/d.f. = 2.26; comparative fit index [CFI] = .97, nonnormed fit index [NNFI] = .97, and root mean square error of approximation [RMSEA] = .063).

For all measurement items, the standardized loadings obtained from CFA analysis were large and significant, providing evidence of convergent validity (see Table 1). We performed three tests for discriminant validity. First, we assessed all possible pairs of constructs in a series of two-factor confirmatory models. Each model was run twice. Once containing the phi coefficient to 1.0, and once freeing the parameter. A significantly lower chi-square value for the unconstrained model indicates that the two constructs are distinct (Anderson & Gerbing, 1988). For all pair-wise comparisons, the unconstrained model had a significantly better fit ($\chi^2_{(1)} > 3.84$), indicating discriminant validity between the constructs. Second, we estimated the confidence interval (± two standards errors) around the correlation estimate of all pairs of constructs. In none of the cases did the confidence interval contained 1.0, which provides further evidence of discriminant validity (Anderson & Gerbing, 1988). Third, we calculated the shared variance (i.e., the squared intercorrelations) between all possible pairs of constructs and verified that they were lower than the average variance extracted for the individual constructs (Fornell & Larcker, 1981). On the basis of this more restrictive test we conclude that study constructs are distinct from one another.

We assessed construct reliability by estimating Cronbach's alpha coefficient, composite reliability score, and average variance extracted. As Table 1 shows, all constructs have alpha values and composite reliabilities scores that are equal to or exceed .7. Moreover, the average variance extracted for all constructs is equal to or greater than .5, satisfying the recommended thresholds (Bagozzi & Yi, 1988; Fornell & Larcker, 1981). Thus, all measurement scales possess good

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Table 1
Measurement scales, confirmatory factor analysis results, and reliabilities.

Constructs and measurement items	Standardized loadings[a]
Market turbulence (α = .75; CR = .76; AVE = .51) (Jaworski & Kohli, 1993) (seven-point scale, anchored by "Strongly Disagree" and "Strongly Agree")	
In the banking sector, customers' product preferences change quite a bit over time	.72 (11.32)
Our customers tend to look for new products all the time	.79 (12.38)
We are witnessing demand for our products and services from customers who never bought them before	.62 (9.69)
Intensity of competition (α = .70; CR = .70; AVE = .54) (Jaworski & Kohli, 1993) (seven-point scale, anchored by "Strongly Disagree" and "Strongly Agree")	
Price competition is a hallmark in our industry	.76 (7.18)
One hears of a new competitive move almost every day	.72 (7.05)
Decentralization (α = .78; CR = .79; AVE = .50) (Olson et al., 2005a) (seven-point scale, anchored by "Strongly Disagree" and "Strongly Agree")	
The individual decision maker has wide latitude in the choice of means to accomplish goals	.60 (9.54)
Branch managers are allowed flexibility in getting work done	.71 (11.61)
Many important decisions are made at the branch level, rather than centrally	.74 (12.16)
Middle- and lower-level managers have substantial autonomy	.76 (12.70)
Customer orientation (α = .84; CR = .84; AVE = .51) (Narver, Slater, & MacLachlan, 2004) (seven-point scale, anchored by "Strongly Disagree" and "Strongly Agree")	
We continuously try to discover additional needs of our customers of which they are unaware	.66 (11.16)
We incorporate solutions to unarticulated customer needs in our new products and services	.74 (12.88)
We brainstorm on how customers use our products and services	.75 (13.17)
We innovate even at the risk of making our own products obsolete	.62 (10.26)
We measure customer satisfaction systematically and frequently	.80 (14.48)
Competitor orientation (α = .92; CR = .92; AVE = .53) (Narver & Slater, 1990) (seven-point scale, anchored by "Strongly Disagree" and "Strongly Agree")	
Employees throughout the organization share information concerning competitors' activities	.62 (10.71)
We rapidly respond to competitive actions that threaten us	.65 (11.34)
We evaluate the strengths and weaknesses of key competitors	.76 (13.88)
We target customers where we have an opportunity for competitive advantage	.66 (11.48)
Our salespeople regularly collect information concerning competitors' activities	.66 (11.43)
We diagnose competitors' goals	.78 (14.37)
We track the performance of key competitors	.76 (13.89)
We identify the areas where the key competitors have succeeded or failed	.76 (13.97)
Top management regularly discusses competitors' strengths and weaknesses	.79 (14.70)
We attempt to identify the strategy employed by our competitors	.79 (14.60)
Internal/cost orientation (α = .87; CR = .88; AVE = .59) (Homburg, Workman, & Krohmer, 1999) (seven-point scale, anchored by "Strongly Disagree" and "Strongly Agree")	
Improving the operating efficiency of the bank is a top priority	.62 (10.60)
We have a continuing overriding concern for operating cost reduction	.79 (14.61)
We continuously seek to improve operational processes so that we can lower costs	.90 (17.70)
Achievement of economies of scale or scope are important elements of our strategy	.80 (14.66)
We closely monitor the effectiveness of key operational processes	.71 (12.46)
Innovation orientation (α = .88; CR = .88; AVE = .65) (Hurley & Hult, 1998) (seven-point scale, anchored by "Strongly Disagree" and "Strongly Agree")	
Innovations based on research results are readily accepted	.79 (14.41)
Management actively seeks innovative ideas	.87 (16.82)
Innovation is readily accepted in program/project management	.86 (16.33)
Employees feel free to express their innovative ideas	.71 (12.45)
Marketing capabilities (α = .91; CR = .91; AVE = .60) (Vorhies & Morgan, 2003) (seven-point scale, anchored by "Not very well" and "Very well")	
New product development	.73 (13.10)
Advertising	.72 (12.76)
Public relations	.82 (15.38)
Sales promotions	.84 (16.09)
Environmental scanning	.62 (10.61)
Developing marketing plans	.83 (15.76)
Implementing marketing plans	.85 (16.24)
Branch performance (α = .86; CR = .87; AVE = .63) (Cravens, Ingram, LaForge, & Young, 1993) (seven-point scale, anchored by "Much worse" and "Much better")	
Sales	.85 (15.86)
Market share	.82 (15.20)
Profitability	.86 (16.11)
Customer satisfaction	.61 (10.13)

[a] *t*-values are in parentheses.

levels of reliability. Table 2 presents the correlation matrix and descriptive statistics for the study constructs.

5.2. Common method bias

Common method bias is a concern in studies that rely on a single respondent for measuring exogenous and endogenous constructs. We used Harman's one-factor test (Podsakoff & Organ, 1986) to test for common method bias. The rational for this test is that if common method bias poses a serious threat to the analysis, a single latent factor would account for all measured variables. First, we performed a principal components analysis of all constructs examined in this study. The unrotated solution resulted in nine factors with eigenvalues greater then 1.0, accounting for 70.03% of the variance. No general factor emerged, whereas the first factor explained only 15.19% of the variance. Second, we employed a CFA approach to Harman's one-

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Table 2
Descriptive statistics and correlation matrix.

	1	2	3	4	5	6	7	8	9
1. Market turbulence	–								
2. Intensity of competition	.27	–							
3. Decentralization	.18	.04	–						
4. Customer orientation	.40	.24	.39	–					
5. Competitor orientation	.34	.24	.36	.64	–				
6. Internal/cost orientation	.34	.24	.29	.47	.62	–			
7. Innovation orientation	.35	.23	.34	.54	.69	.58	–		
8. Marketing capabilities	.33	.09	.46	.50	.64	.51	.61	–	
9. Branch performance	.12	.06	.20	.28	.30	.29	.26	.31	–
Mean	5.05	6.32	3.63	4.78	4.99	5.81	4.79	4.25	5.26
Standard deviation	1.06	.75	1.16	1.10	1.06	.91	1.16	1.17	.98

Note: Correlations greater than .11 are significant at $p<.05$.
Correlations greater than .17 are significant at $p<.01$.

factor test (Mossholder, Bennett, Kemery, & Wesolowski, 1998). In particular, a CFA model was estimated, in which all measurement items were restricted to load on a single factor. The results obtained from this analysis indicate a poor fit: $\chi^2_{(902)}=4472.14$, $p<.001$; CFI = .83, NNFI = .82, and RMSEA = .12. Although the Harman's single-factor test has several limitations, these results provide an indication that common method bias does not pose a serious problem in our investigation.

5.3. Structural model estimation

We tested our research hypotheses by estimating the structural model shown in Fig. 1, using EQS 6.1. Table 3 presents hypothesis testing results, along with parameter estimates, *t*-values, and fit statistics. The hypothesized model has a good fit to the data ($\chi^2_{(885)}=1794.64$, $p<.01$; χ^2/d.f. = 2.03; comparative fit index [CFI] = .97, nonnormed fit index [NNFI] = .97, and root mean square error of approximation [RMSEA] = .057). Moreover, the standardized coefficients and corresponding *t*-values reported in Table 3 provide support for 15 out of the 17 hypotheses examined in this study.

In particular, our findings indicate that the three antecedent factors (market turbulence, intensity of competition, and decentralization in decision making) have a significant positive effect on the four strategic behaviors (customer orientation, competitor orientation, internal/cost orientation and innovation orientation). Therefore, H1a–H1d, H2a–H2d, and H3a–H3d are supported. Regarding the relationship between strategic orientations and marketing capabilities, results are mixed. On the one hand, competitor orientation and innovation orientation have a significant positive effect on marketing capabilities, providing support for H5 and H7. On the other hand, the relationship between customer orientation and internal/cost orientation with marketing capabilities is positive but insignificant. Therefore, no support is provided for H4 and H6. Finally, the effect of marketing capabilities on branch performance is positive and significant, providing support for H8.

5.4. Rival models

The structural model presented in Fig. 1 (hereafter referred to as the proposed model) is a fully mediated model. In particular, it captures only the indirect effect of strategic orientations on branch performance through the mediating effect of marketing capabilities. To investigate the possibility of a significant direct effect of the four strategic orientations on branch performance we estimated two rival models. Rival Model 1 examines the direct effect of strategic orientations on branch performance, excluding marketing capabilities entirely from the analysis. Rival Model 2 is a partial mediation model that captures both the direct influence of strategic orientations on branch performance, as well as an indirect influence through the mediating effect of marketing capabilities. Table 4 presents fit statistics, standardized coefficients and *t*-values obtained from the estimation of the rival models.

The structural coefficients (and corresponding *t*-values) of the paths linking antecedent factors with strategic orientations (Rival Models 1 and 2), and strategic orientations with marketing capabilities (Rival Model 2) are identical to those obtained from the estimation of the proposed model (see Fig. 1 and Table 3) and therefore are omitted. Fit statistics indicate that both rival models have a close fit to the data. However, the fit of the partial mediation model (Rival Model 2) is not better than the fit of the proposed model ($\Delta\chi^2=4.77$, Δd.f. = 4, $p>.30$). Moreover, as Table 4 reports, the parameter estimates of the four structural paths linking strategic orientations and branch performance are not statistically significant in either rival model. Based on these results, we infer that the proposed model represents more accurately the nature of interrelationships between strategic orientations, marketing capabilities, and branch performance. Therefore, we do not suggest any modifications to the proposed model.

Table 3
Standardized path coefficients and *t*-values for the structural model.

Hypothesized paths	Expected sign	Standardized coefficient	*t*-value	Hypothesis test
H1a Market turbulence → Customer orientation	+	.38	4.81*	Supported
H1b Market turbulence → Competitor orientation	+	.27	3.75*	Supported
H1c Market turbulence → Internal/cost orientation	+	.30	3.92*	Supported
H1d Market turbulence → Innovation orientation	+	.29	3.95*	Supported
H2a Intensity of competition → Customer orientation	+	.52	2.72*	Supported
H2b Intensity of competition → Competitor orientation	+	.80	2.80*	Supported
H2c Intensity of competition → Internal/cost orientation	+	.58	2.74*	Supported
H2d Intensity of competition → Innovation orientation	+	.66	2.82*	Supported
H3a Decentralization → Customer orientation	+	.42	4.93*	Supported
H3b Decentralization → Competitor orientation	+	.35	4.48*	Supported
H3c Decentralization → Internal/cost orientation	+	.29	3.75*	Supported
H3d Decentralization → Innovation orientation	+	.35	4.54*	Supported
H4 Customer orientation → Marketing capabilities	+	.14	1.83	Not supported
H5 Competitor orientation → Marketing capabilities	+	.30	3.03*	Supported
H6 Internal/cost orientation → Marketing capabilities	+	.06	.84	Not supported
H7 Innovation orientation → Marketing capabilities	+	.33	3.82*	Supported
H8 Marketing capabilities → Branch performance	+	.35	5.07*	Supported

Note: Fit statistics for structural model: $\chi^2_{885}=1794.64$, $p<.01$; χ^2/d.f = 2.03; CFI = .97; NNFI = .97; RMSEA = .057. *$p<.01$.

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Table 4
Standardized path coefficients and *t*-values for the rival models[a].

Hypothesized paths	Expected sign	Standardized coefficient	*t*-value
Rival model 1			
Customer orientation → Branch performance	+	.16	1.59
Competitor orientation → Branch performance	+	.07	.61
Internal/cost orientation → Branch performance	+	.16	1.74
Innovation orientation → Branch performance	+	.03	.23
Fit statistics: $\chi^2_{613} = 1274.61$, $p < .01$; χ^2/d.f = 2.08; CFI = .96; NNFI = .96; RMSEA = .059			
Rival model 2			
Customer orientation → Branch performance	+	.14	1.36
Competitor orientation → Branch performance	+	.02	.17
Internal/cost orientation → Branch performance	+	.15	1.65
Innovation orientation → Branch performance	+	−.04	−.32
Marketing capabilities → Branch performance	+	.18	1.85
Fit statistics: $\chi^2_{881} = 1789.87$, $p < .01$; χ^2/d.f = 2.03; CFI = .97; NNFI = .97; RMSEA = .057			

[a] The beta coefficients (and *t*-values) of the paths linking antecedent factors with strategic orientations (Rival models 1 and 2), and strategic orientations with marketing capabilities (Rival model 2) are identical to those obtained from the estimation of the proposed model and therefore are omitted from this table.

6. Discussion and implications

The main objective of this study is to examine the influence of strategic orientations on firm performance, and the important mediating role that marketing capabilities play in this relationship. Overall, we provide an empirical test for 17 research hypotheses, using data collected from front-line managers in banking institutions. This study contributes to the extant literature in four ways. First, it broadens the market orientation framework by highlighting the importance of complementing customer and competitor orientations with innovation orientation and internal/cost orientation. Second, it demonstrates that marketing capabilities are effective deployment mechanisms that enable the implementation of strategic orientations, leading to enhanced performance. Third, it indicates that environmental forces and organizational characteristics have a significant influence on front-line managers' decision to pursue specific strategic behaviors. Finally, it emphasizes the need to devote greater attention on the crucial role that font-line managers in service organizations play in the implementation of strategies at the local market level.

6.1. Environmental and organizational antecedents of strategic orientations

Previous research on market orientation has mainly considered environmental factors as moderating the relationship between market orientation and performance. Empirical evidence, however, provides only limited support to such moderating effects. The results of this study indicate that environmental forces (e.g., competitive intensity, market turbulence) have a direct influence on the extent to which front-line managers pursue specific strategic orientations at the local market level. For instance, as competitive intensity increases, bank branches are forced to initiate adaptive responses in order to counteract competitors' strategies and avoid negative consequences, not only for the local branch but for the whole organization. Further, the study findings are highly consistent with previous empirical evidence (Song & Parry, 2009) which indicated that the rapid or unanticipated changes in customer preferences and competitive actions make it critically important for firms to respond by adjusting their strategies to the changing conditions of the marketplace. Therefore, in local markets where banking institutions face aggressive attacks from competitors on different strategic dimensions, they must exhibit a high level of market responsiveness. This requires a close monitoring of competitors, the identification of their strengths and weaknesses, and the development of effective competitive strategies and marketing programs that will successfully challenge the current and anticipated competitors' actions (Gatignon & Xuereb, 1997).

Moreover, our study reveals the positive role of decentralization on strategy formulation. In particular, decentralization in decision-making facilitates the adoption of strategic behaviors and enables bank branch managers to get involved in strategic activities designed to improve customer satisfaction, beat the competition, take advantage of emerging market opportunities, and promote the long term survival and growth of the banking institution (Pelham & Wilson, 1996). Our results are generally consistent with previous research that indicates that centralization hinders intelligence generation and dissemination and impedes the development and implementation of strategies that require the systematic acquisition and dissemination of relevant market information and the open communication and sharing of ideas throughout the organization (e.g., Auh & Menguc, 2007; Jaworski & Kohli, 1993).

6.2. Strategic orientations and marketing capabilities

Study findings highlight the positive influence of innovation orientation and competitor orientation on marketing capabilities. Innovation orientation facilitates a banking institution's capability to generate and implement new ideas that result in more efficient marketing activities and processes and the delivery of improved services to customers. In line with Hurley and Hult (1998), these results suggest that innovation-oriented firms will be more successful in responding to the environment and developing new capabilities that lead to competitive advantage and superior performance. Thus, innovation orientation is an important construct that should be included in models of market orientation and performance (Hurley & Hult, 1998; Menguc & Auh, 2006). Competitor orientation has also a strong positive impact on marketing capabilities. The highly intensive competition that prevails in the banking industry forces firms to closely monitor competitors' actions and invest available resources in developing appropriate marketing capabilities that will enable them to offer superior value to customers.

Contrary to expectations, neither customer orientation nor internal/cost orientation relate to marketing capabilities. The insignificant relationship between customer orientation and marketing capabilities in particular is quite surprising, considering the important benefits that a firm can derive from devoting resources on understanding the expressed and latent needs of its customers and responding through the development of appropriate value-adding capabilities and the offering of valuable products and services (Day, 1994; Olson et al., 2005a). It should be noted, however that other studies which examined the direct effect of customer orientation on performance also find insignificant results. For instance, Gatignon and Xuereb (1997) conclude that customer orientation has a positive influence on product innovation performance in highly uncertain markets, but detracts performance when demand uncertainty decreases. Similarly, Gao et al.'s (2007) findings reveal a negative effect of customer orientation on performance when demand uncertainty is high. Moreover, Noble et al. (2002) report that customer orientation does not relate to performance. Therefore, more research is necessary to shed light on the exact influence of customer orientation on marketing capabilities and performance outcomes. Regarding the relationship between internal/cost orientation and marketing capabilities we expected that an emphasis on operational efficiency would urge firms to develop further their marketing capabilities in order to be able to perform the relevant tasks more competently and using fewer resources. Results, however, do not confirm this assumption. Perhaps an internal/cost orientation has a more significant influence on strengthening other types of organizational capabilities. This is an issue that future research should try to clarify.

6.3. Marketing capabilities and performance

Our results reinforce the premise that marketing capabilities is a source of enduring competitive advantage that leads to superior performance (Day, 1994). Marketing capabilities support critical business processes like market sensing and customer linking. Moreover, as Krasnikov and Jayachandran (2008, p. 3) argue, marketing capabilities are likely to be immune to competitive imitation and acquisition because of the distributed, tacit, and private nature of the underlying knowledge. Thus, they represent a key differentiator for banking institutions in order to achieve and retain competitive advantage (Vorhies et al., 2009). Firms that possess higher levels of marketing capabilities are in a better position to identify and respond to existing and latent customer needs and establish long-term profitable customer relationships. Our findings are consistent with Krasnikov and Jayachandran's (2008) meta-analysis which revealed that compared to other capabilities, marketing capabilities have the strongest impact on firm performance. A positive impact of marketing capabilities on dimension of market and financial performances is also reported by Morgan, Vorhies, and Mason (2009), Morgan, Slotegraaf, and Vorhies (2009) and Vorhies et al. (2009). Overall, our findings demonstrate the important contribution of marketing capabilities in the effective implementation of strategic orientations that ultimately leads to enhanced performance.

6.4. Managerial implications

This study provides several implications for managers responsible for developing and implementing strategic orientations at the local market level. First, managers should continuously monitor and assess environmental conditions in order to be able to identify changes in customer needs, preferences and purchasing incentives and anticipate competitors' actions and reactions. The analysis of these external factors will enable firms to pursue appropriate strategic directions that offer superior value and customer satisfaction and lead to competitive advantages. Second, upper management in banking institutions should work toward establishing a decentralized organizational structure, as this facilitates the adoption of performance-enhancing strategic orientations. In particular, top management should remove cross-functional barriers that discourage horizontal communication and decision making within the organization. Moreover, they must try to enhance the level of empowerment and accountability of branch managers, since these personnel are involved in strategy execution on a daily basis, and therefore effectiveness in performing their job duties and responsibilities could significantly enhance the performance of their branch. Third, an emphasis on competitor orientation and innovation orientation enhances the level of marketing capabilities. Thus, managers must encourage specific behaviors that enhance the understanding of the strength, weaknesses, and strategies of existing and potential competitors, and promote the development of new ideas. Finally, marketing capabilities play a pivotal role in the successful implementation of lucrative strategic orientations. Therefore, the development or acquisition of the necessary marketing capabilities should form an integral part of the strategic planning process. Many excellently designed strategies fail because of poor execution, and therefore investing resources in developing high levels of marketing and other organizational capabilities is essential but also highly rewarding.

7. Limitations and future research avenues

As with any research effort, this study is subject to several limitations. First, we adopt a cross sectional research design and as a result inferences regarding causality cannot be drawn. Future studies following a longitudinal design could provide a more dynamic perspective and contribute further to this stream of research. Second, since our data were collected from a single industry, the ability to generalize these findings to other industrial sectors is limited. Third, data for this study were provided by a single respondent in each bank branch included in our sample. Future studies should attempt to collect data from multiple respondents that will represent different organizational levels (i.e., top managers, middle-level managers, frontline managers, and employees) in order to enhance our understanding regarding strategy development, organization-wide dissemination, and implementation. Fourth, this study utilizes only perceptual measures of bank branch performance. Knowledge in the area would certainly benefit from research using both objective and subjective indicators of performance. In particular, the investigation of relationships between objective and subjective indicators of performance would be enlightening. Fifth, this study considers the role of marketing capabilities in the relationship between strategic orientations and performance. Future research should examine different types of organizational capabilities (e.g., organizational learning capabilities). Finally, the conceptual model proposed in this study should be expanded with the inclusion of other relevant constructs which are likely to influence strategy execution at the business unit level (e.g., top management support, management control system). The execution of such studies would facilitate theory development and contribute to the advancement of management practice in the field.

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