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Studying the Phenomenon of Competitive Advantage and Differentiation: Market and Entrepreneurial Orientation Perspective

Haseeb Mustafa[1], Khaliq Ur Rehman[1,*], Syed Ahsan Raza Zaidi[2], Fahad Iqbal[3]

[1]School of Business & Economics (SBE), University of Management & Technology (UMT), Lahore, Pakistan
[2]M Phil from National College of Business Administration & Economics (NCBA&E), Lahore
[3]M Phil from University of Central Punjab (UCP), Lahore
*Corresponding author: khaliqcheema@gmail.com

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Abstract The purpose of this paper is to identify and explain how market orientation and entrepreneurial orientation helps a firm in effectively differentiating its product or service offerings in relation to its industry rivals. The discussion in the paper has been done from various perspectives in the light of relevant past and modern researches while keeping the focus towards explaining how market orientation and entrepreneurial orientation practices of a firm allow it to achieve a competitive advantage in the industry by effectively differentiating its products. Market orientation has been discussed as an important antecedent to product differentiation and innovation which lead to greater competitiveness and superior performance in the industry. The findings suggest that market orientation and entrepreneurial orientation have a direct positive relationship with a firm's ability to properly differentiate its offerings against its competitors. They help a firm in analyzing its customers' needs, competitors' strategies, and changing market conditions; reducing preference uncertainty, and understanding the consequences and associated risks with the late strategic moves and product differentiation strategies.

Keywords: *market orientation, entrepreneurial orientation, competitive advantage, product differentiation strategy, competition, etc*

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1. Introduction

In this contemporary business world, organizations have to keep themselves competitive against their industry rivals by incorporating effective strategies at all corporate, business, and functional levels [1]. Competitiveness can best be achieved by creating superior customer value through competitive products and services which cannot only out class the competition, but also build a unique brand identity of the organization in the marketplace [2,3]. In order to achieve competitiveness, or more formally – a competitive advantage in the industry, organizations by and large go for cost leadership, differentiation, or focus (market segmentation) strategies [4,5,6]. For this purpose, they first have to be market-oriented, i.e. the ability to understand the changing market conditions and quickly respond to these conditions in order to give customers the 'value' for their money [7,8].

The purpose of this paper is to discuss the impact of market orientation and entrepreneurial orientation practices of a firm on its ability to effectively differentiate its products and services relative to its industry rivals. The core focus of the paper is towards discussing the importance of market orientation for a firm that wants to achieve a competitive advantage in its industry by espousing product differentiation strategies. The paper starts with a brief introduction to the major concepts and relationships, and proceeds by linking the market orientation and entrepreneurial orientation practices with the firm's ability to effectively differentiate its product or service offerings against its industry rivals. The discussion in the paper has been done from different perspectives in order to explain the importance of market orientation and entrepreneurial orientation for a firm that wants to effectively differentiate its offerings. These perspectives include: effective product differentiation through market-orientation, entrepreneurial-orientation, and customer-orientation; combined impact of marketing orientation and entrepreneurial orientation on differentiation strategies; market orientation as an antecedent to product differentiation and innovation; the rewards and impediments for product differentiation through market orientation; product differentiation through market orientation to achieve long term success; the impact of market orientation on product differentiation and repositioning strategies; the link of market orientation with differentiation, innovation, and new product performance; the consequences of being late in product introduction, differentiation, or innovation; marketing orientation and the preliminary risks in product differentiation and new product development; and the link of market orientation and product differentiation trade-off with buyer behavior. The paper concludes by explicating the managerial implications and limitations of the research study and research directions for future researchers.

2. Market Orientation

Market orientation is defined as a firm's ability to keep itself abreast of the changing market conditions and create superior customer value by consistently offering competitive products and services [7]. More precisely, their definition reflects the importance of conduction and exploitation of market intelligence across all organizational levels where different departments can actively respond to changing market conditions. It is widely believed that market orientation can lead to superior business performance [8,9], greater employee commitment [7], more effective product innovation [10], and most importantly – a higher level of customer satisfaction [11,12,13].

2.1. Market Orientation as Related to Product Differentiation

Market orientation has a direct relationship with the new product performance. The product innovation strategies which are followed by organizations in order to become more competitive are also the result of their effective information dissemination and quick responsiveness to the changing market conditions [10]. It is widely believed that firms adopt product innovation and differentiation strategies in a view to meet the current and future market needs [14]. The literature on Marketing and Management practices suggests product innovation and differentiation strategies for those firms that wish to keep themselves competitive in the marketplace [10].

2.2. Effective Product Differentiation: Made possible through Market-Orientation, Entrepreneurial-Orientation, and Customer-Orientation

Researchers believe that marketing orientation is not always an ideal choice to become competitive in terms of developing abilities that can effectively differentiate the firm's products in relation to its competitors [10]. Rather, they believe that market orientation must also accompany entrepreneurial orientation which helps organizations in differentiating their products from those of their competitors through innovation strategies. Therefore, it is vital for market-oriented firms to focus on both, product differentiation as well as innovation if they wish to effectively encounter the competitive threats from the industry. However, these strategies may bring certain risks for the market and entrepreneurial-oriented firms; including the threat of product failure (for technology driven products) or non-acceptability of the products by the ultimate customers. In order to encounter these risks, the firms also have to add customer-orientation in their strategic moves. Thus, if a firm wishes to effectively differentiate its product or service offerings in relation to its industry rivals, it must incorporate market orientation, entrepreneurial orientation, and customer orientation at the same time [10].

2.3. Combined Impact of Marketing Orientation and Entrepreneurial Orientation on Differentiation Strategies:

On one side, market orientation helps a firm in effectively satisfying its customers' needs based on market information and quick responsiveness to changing environmental conditions [7,8]; and at the same time, it takes support from entrepreneurial orientation in order to help the firm in finding the ways how it can effectively differentiate its product or service offerings against its competitors [10,15]. Thus, it can be said that market orientation may not solely suffice for firms in becoming competitive in terms of product differentiation since it only focuses on how to satisfy the present and future customer needs [7,8] while missing the fact that firms also need to innovate and differentiate their product and service offerings in order to outclass the competitive threats from the market [16]. Authors of this paper support these arguments by the researchers that both market and entrepreneurial orientation is necessary for firms for gaining a competitive advantage.

While market orientation focuses on responsiveness and market intelligence across organizational departments, entrepreneurial orientation enables the firm to take greater risks, improve its offerings, and beat the competition using proactive approach [10]. Some researchers also believe that market orientation primarily focuses on meeting current customer needs and totally ignores innovation and new product development which are vital for competitiveness and superior performance in the industry [17].

2.4. Market Orientation: An Antecedent to Product Differentiation and Innovation

In contrast to the aforementioned researches, Reference [18] argues that market orientation is directly linked with product innovation, competitiveness, and performance. Their school of thought is also supported by Reference [7] who believe that market orientation allows firms to effectively satisfy the customer needs by keeping an eye on the changing market conditions and disseminating this information across employees at all the organizational levels. As per Reference [7,18], market orientation is directly linked with product innovation and performance. They have supported their arguments by stating that a market-oriented firm is more likely to understand the present and future customer needs which ultimately help it in innovating and differentiating its products according to what customers expect from it. That is, if a firm truly understands the needs of its target customers, it is better able to design, develop, and present its products to these customers exactly according to those needs. Reference [19,20] also support [7,18] by stating that market orientation helps in collecting information and developing capabilities in a firm which are vital to understand the current and future needs of the customers [7,18,19,20]. Having sufficient capabilities and information in hand, the firm is able to quickly respond to the changing market conditions and developing more innovative and differentiated products which can make it stand out among its competitors [13].

2.5. Differentiation through Market Orientation: Rewards and Impediments

Reference [21] believes that when a firm is able to properly differentiate its products in relation to its competitors, it increases the barriers to entry for new rivals. Since product differentiation is the result of changing consumer demands, market orientation can be regarded as the major phenomenon behind pursuing product differentiation strategy.

Reducing Preference Uncertainty:

Product differentiation and innovation through market orientation also helps a firm in reducing preference uncertainty among its target consumers which ultimately results in greater competitiveness of the firm against its industry rivals. For example, if the firm is able to effectively analyze the present and future needs of its target customers through proper market research, it can redesign or improve its offerings in a better and more effective way [9, 18, and 20]. Upon success in the market, these differentiated products or services can also achieve a higher level of acceptability among target consumers which eventually becomes core strength of the firm. However, product differentiation locks the product variety and reduces the consumer choice which can give an advantage to the firm's competitors [16].

2.6. Product Differentiation through Market Orientation to Achieve Long Term Success:

Reference [2] has highlighted the importance of market orientation for the long term success of a firm. He states that a firm that wishes to become more customer-oriented needs to focus on its customers' needs and expectations on regular basis. Thus, the long term success of a firm is associated with its activities and endeavors in the short run. These needs and expectations of the customers can only be identified if the firm keeps an eye on the changing market conditions [8], i.e. the competing firm's offerings, increasing and changing customer demands [22], and overall behavior of the industry [23] – the areas covered under market orientation [7,8,18,24,25].

2.7. Product Differentiation and Repositioning: Impact of Market Orientation

Reference [26] has also linked market-oriented behavior of firms with their core marketing strategies like branding, advertising, promotion, distribution, etc. – all of which can help the firms in enhancing their competitiveness. In contrast, repositioning strategy starts this 'war' among competitors from beginning – thus, reducing their competitiveness and product differentiation. As far as the impact of market orientation on a firm's repositioning strategy is concerned, a firm may use market knowledge and internal capabilities to effectively design and improve its offerings [18]; but it has to rethink its marketing approach while presenting its products under repositioning strategy [26]. Therefore, a firm can differentiate its products in an effective way if it adopts marketing orientation approach [27].

2.8. Linking Market Orientation with Differentiation, Innovation, and New Product Performance

Reference [28] believes that an organization's success in the industry is largely dependent on its ability to bring something unique for its customers through creativity and innovative ideas. Their research study, "Market Orientation, Creativity, and New Product Performance in High-Technology Firms" examines the link between market orientation and new product performance. Taking creativity as the leading player in organizational success, Reference [28] has linked market orientation with innovation as one of its major antecedents. Reference [29] also supports the link between market orientation, innovation, and differentiation by stating that the former plays a vital role in enhancing the customer satisfaction and loyalty with the organization. Similar research studies like Reference [30,31] also support the positive impact of market-oriented behavior of firms on their product design, development, and innovation strategies. They believe that a market-oriented firm is better able to introduce creative ideas into its technical section which develops innovative products to outclass the competition in the industry [30,31]. Reference [32]strongly emphasizes on product innovation and differentiation for the purpose of achieving a competitive advantage in the industry. He believes that a firm needs to capitalize on its resources (innovation being an intangible resource) in order to beat the competition and move forward in the industry in the most competitive and profitable fashion. The best way to capitalize on organizational resources is to seek the most potential opportunities in the market, analyze internal capabilities that can be utilized to avail those opportunities, and involving all the organizational members in this process.

Reference [12] considers market orientation as the major determinant in organizational performance achieved through both administrative and technical innovations. They have also emphasized on building a strong corporate culture in addition to being market-oriented or customer-oriented. The arguments presented by Reference [12] in this regard support the research study by Reference [10] who believes that market orientation is not enough to be competitive in the market. Both these groups of researchers argue that the business world has seen drastic changes in each and every aspect of their business environment. Now firms not only have to strive to achieve competitiveness through product innovation or differentiation (generally called as 'technical innovation'), but also have to give an equal focus on their administrative innovation practices (e.g. redesigning the enterprise resource planning systems in order to achieve operational efficiency and control heavy business costs) [12,33]. Marketing orientation also focuses on these areas; which means that it also constitutes technical innovation in its approach.

Reference [7,8,18,24], and [25] also support the above arguments while discussing the significance of market information generation, dissemination, and responsiveness of the firms towards changing market conditions under market orientation phenomenon. Reference [33] has beautifully explained the relationship between product differentiation through market orientation and the firm's success in its industry. They support the arguments given by Reference [7,8,18,24], and [25]. They suggest that a firm which effectively utilizes its knowledge and understanding of the changing market conditions and quickly responds to those changes through its internal capabilities and human resources is better able to develop meaningful and effectively differentiated products in relation to its competitors [25,33]. Therefore, it can be said that market orientation (which mainly combines innovative thinking and quick responsiveness or pro-activeness to the changing market conditions) is the major player that enables the firms to properly differentiate their products (or service offerings) against their competitors.

Reference [34] states that market orientation strategies of firms largely affect the overall market structure. For example, if a group of competing firms in an industry enter into a cold war with each other by adopting all competitive strategies like cost leadership, differentiation, market segmentation, etc; they change the market structure to monopolistic competition to perfect competition and vice versa. They adopt different strategies to keep themselves competitive against their industry challengers. In contrast, Reference [35] believes that the firms which are able to strengthen their brands over the period of time gradually reduce their product differentiation, new product development, and turnover strategies. This argument by Reference [35] is strongly opposed in the research studies of Reference [7,8,18,24,25,36,37,38]. Reference [36] opposes Reference [35] by stating that successful organizations constantly rely on a stable overall competitive strategy; they seldom change their strategies which can give them a competitive advantage against industry rivals.

Consequences of Being Late in Product Introduction, Differentiation, or Innovation:

Reference [37] strongly emphasize on new product development, innovation, differentiation, and other product strategies for the success of a firm in its industry. They believe that a firm must be well-abreast of the changes in its competitive landscape. If a firm ignores these changes and delays its product differentiation or innovation strategies, it has to face the music in the form of low sales growth, poor profit margins, and decreased selling prices [37]. They further argue that any delay in product innovation, differentiation, or new product development can bring more critical results if the firms are operating in a competitive environment. That is, if a firm is poorly oriented towards market patterns, customer needs and expectation, and competitors' strategies, it fails to achieve satisfactory sales and financial performance [39]. Reference [37] has also linked product strategies with the growth rate of the industry. They state that a firm operating in a fast growing industry cannot afford to be late in its product innovation, development, or differentiation strategies. If it does so, it can lose both new and existing customers in a very short period of time. The sales lost against these new and existing customers cannot be regained in the future unless and until the firm opts to become market oriented in its approach; i.e. decides to participate in the industry as an active competitor by developing and innovating its products according to the changing customer demands [8,37,40]. In order to mitigate the risks associated with being delay in introducing, differentiating, or innovating products and services, and beating the competition in the most effective and profitable way, a firm must keep in view the three major determinants of market-orientation abilities of a firm as discussed by [8]. These determinants are: (i) it must have updated knowledge and deep understanding of what its competitor firms are doing to compete in the industry [25,37,41], (ii) what are the current and future needs of the most potential customers that can be best fulfilled using internal resources, capabilities, and competencies [7,8,38] and (iii)what is the right time to introduce new products or differentiate and improve the existing products [42]. Focusing on these three core areas cannot only help the firm in regaining its market share, sales performance, and customer loyalty, but can also become a strong source of achieving a competitive advantage [43,44,45].

Reference [46] has explained the link between market orientation and a firm's ability to differentiate its products from those of its competitors in a more specific manner. They have linked brand orientation to firm performance instead of the wider concept (i.e. market orientation). They support the market orientation and product differentiation trade-off by arguing that a firm which is market-oriented (or more specifically – brand-oriented) in its approach is better able to differentiate its products and services by emphasizing on the functional attributes which are the leading purchase decision parameters for customers [46]. They also believe that brand orientation creates a unique image of the product in the minds of the customers which makes their future buying decisions easier than ever before. When a brand gets successful in creating this unique or differentiated image of the product, it supports competitive positioning and value creation strategies of the firm [25,46]. As a result, the firm is able to achieve a strong competitive advantage in the industry through these product differentiation strategies [34].

Reference [47] believes that differentiation for existing products becomes more difficult when the market is highly competitive. In order to survive in the industry, firms have to come up with some highly effective strategy for their offerings. In some cases when no future potential is predicted for the existing products, firms tend to introduce more innovative products in line with their existing products. These innovative products either compliment, or otherwise make the existing products outdated [47]. In all these cases, firms must have an updated knowledge of what is happening in their internal and external environment, i.e. does it possess sufficient resources, capabilities, and competencies which can bring out an outclass product for the target customers; and what are the current strategic moves of its competing firms against similar product lines [41]. Therefore, firms first have to be market oriented in their approach in order to understand its internal capabilities and external (competitive) forces before going for product differentiation, innovation, or new development [25,31].

While various researchers have identified and discussed the link between market orientation and product differentiation, [33,34,37,46,48] have highlighted the trade-off between strategic orientation and competitive strategies (more specially – product differentiation and low cost leadership). They believe that strategic orientation is equally important as market orientation as it enables the firm to properly analyze the potential opportunities and threats from the market and choose its competitive strategies accordingly. From this, it can be drawn that strategic orientation complements market orientation when firms have to understand the external environment in a view to pursue one among the most suitable competitive strategies [48,49].

2.9. Marketing Orientation and the Preliminary Risks in Product Differentiation and New Product Development:

The biggest risk which firms generally face when they decide to adopt product differentiation strategy or simply go for new product development is the product failure [39]. It has been empirically proved that new and differentiated products fail when they do not satisfy the target customers' present needs [30,50,51]. This risk can be effectively mitigated if the firm is market-oriented, customer-oriented, and entrepreneurial-oriented at the same time [10]. Reference [52] specifically explains the significance of market orientation in eliminating the risk of failure in product differentiation and new product development. The researchers believe that a market-oriented firm is more vigilant, cautious, practical, and proactive in its approach [52,53]. It adopts strategies which are purely backed up by comprehensive market analysis and extensive industry and competitor knowledge [33]. Thus, they carry out all the steps in product differentiation and new product development processes on the basis of prior knowledge and understanding [28]. If the market conditions are favorable, they continue implementing the differentiation or innovation strategy [52]. In contrast, they postpone and wait for the conditions to get better in the near future [10]. This proactive approach shows that they are more market-oriented than those competitors who prefer to stick to their existing product strategies [8,9].

2.10. Market Orientation and Product Differentiation trade off linked with Buyer Behavior

In order to meet the present and future needs of their customers in an effective and efficient way, firms have to keep themselves abreast of the changes in these customers' behavior over time [2,33,39]. The buyers' behavior, product choice, and preferences are affected by a large number of factors, e.g. product design, brand name or labeling, packaging, price, quality, origin, manufacturer, etc [54,55,56]. In order to find and evaluate some product in the light of these buying decision parameters, customers have to expend certain amount of money; commonly called as buyer search cost [57]. While designing their product differentiation strategies, firms also have to keep an eye on the buyer search costs. Reference [57] believes that low buyer search costs for price (which is one of the major purchase decision parameters) increases the price competition among industry rivals. In order to encounter this issue, firms have to adopt differentiation strategy for its product design. A highly distinctive product design results in lower buyer search costs. It may affect the firm's performance in both positive and negative way. Positively, the product easily develops its unique identity in the minds of the customers which ultimately leads to strong brand image and high sales performance of the firm. Conversely, highly differentiated products lock in the customer choice [16] – giving them very limited attributes to make their pur chase decision[54]. For customers, it is beneficial in terms of decreased search costs as found and explained by [57].

Reference [58] suggests that product differentiation strategy should be recognized as linked with consumer choice instead of the product itself. His argument reflects the firm's action when they believe that their customers no more consider their products 'incomparable'. In such situations, they opt to implement product differentiation strategy. Thus, it can be said that differentiation strategy is successful for those firms which truly understand the strengths, weaknesses, future potentials, and threats for their products. This information comes from nowhere but through effective marketing orientation [41]. In all this phenomena, the firm has to figure out the exact time to pursue product differentiation strategy which can lead to superior sales performance as compared to its industry competitors. For this purpose, they have to be market-oriented in their approach, i.e. they must have updated information of the changing customer preferences and competitors' strategic moves and tactics [8,25]. This information allows them to properly differentiate their offerings according to the changing customer demands and in rivalry to their competing products [7,8,24,25]. Reference [59] has also linked product location choice and differentiation strategy of the firms. They state that a firm tends to place its products farther from each other and from rival products when a stiff price competition exists in the market. It reflects the firm's strategy to differentiate its products from those of its competitors. This strategy is adopted by firms which are highly market-oriented, i.e. they have enough knowledge of the buyer behavior and the current marketing mix strategies of their competitors [59].

3. Conclusion

The purpose of this paper was to identify and explain the link between market orientation, entrepreneurial orientation, and a firm's ability to effectively differentiate its product or service offerings in relation to its competitors. After a comprehensive discussion in the light of relevant literature, it can be concluded that market orientation and entrepreneurial orientation have a direct positive relationship with a firm's ability to differentiateits offerings and achieve greater competitiveness and superior performance as compared to its industry rivals. The authors of this paper support the authors who believe that market orientation and entrepreneurial orientation are both necessary for gaining a competitive advantage using differentiation strategy.

Market orientation allows the firms to analyze their external environment in a view to understand the consumer preferences, competitors' strategies, and changes in the overall market situation. On the basis of these analyses, the firms are able to effectively differentiate, position, design, and improve their products and services. The paper suggests a number of approaches which a firm can adopt to take advantage from this positive relationship between market orientation and its own ability to effectively differentiate its products in relation to its competitors. For example, it suggests that firms can get even better results if they also focus on being entrepreneurial-oriented and customer-oriented in addition to market-oriented in their approach. Where market orientation focuses on understanding the market patterns and disseminating this information across organizational departments; entrepreneurial orientation allows the firm to take risks, improve their products and services, and compete with their industry rivals in a more proactive fashion. The paper also discusses market orientation as an antecedent to product differentiation and innovation by explaining that a market-oriented firm is better able to understand the present and future needs of its customers which are ultimately helpful for it in innovating and differentiating its offerings in relation to its competitors. Moreover, market orientation reduces preference uncertainty, helps in achieving long term success and understanding buyer behavior, consequences of late strategic moves, and associated risks with the product differentiation.

4. Managerial Implications

This paper has implications for the business managers and entrepreneurs around the globe due to the potency of its analyses and subsequent recommendations that can be applied in all types of manufacturing and services industries. In the light of recommendations and concluding thoughts at the end of every section, the managers can be acquainted with what different researchers suggest in different market situations and what are the rewards and impediments of pursuing the discussed strategies.

5. Limitations and Research Directions

Although this research paper identifies and explains the trade-off between market orientation, entrepreneurial orientation, and the firm’s ability to effectively differentiate its offerings in a very comprehensive manner; there are certain limitations which can be noted and exerted in the future researches. For example, the relationship between market orientation, entrepreneurial orientation, and a firm’s ability to properly differentiate its offerings is not empirically tested for any industry – the whole discussion is based on numerous past and modern research studies. Secondly, the relationship of market orientation and entrepreneurial orientation is discussed for only one generic strategy (i.e. differentiation); future researches can be done using other competitive strategies (e.g. low cost leadership, focus or market segmentation, etc.), or elements from marketing mix as the dependent variables. Moreover, mediating and moderating variables can be identified and explained which impact this relationship in a positive or negative way.

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