

# **The Study of the Effects of Strategic Orientations and Marketing Capabilities on Marketing Unit Performance (Case study: Petrochemical Industry)**

**Mohammad Reza Dalvi, PhD**

Assistant Professor, Management Department, Islamic Azad University, Branch of Dehaghan,  
Iran

Email: M\_dalvi53@yahoo.com

**Fariddeddin Allameh Haery, PhD**

Assistant Professor, Management Department, Islamic Azad University, Branch of Mobarakeh,  
Iran

Email: f.haeri@mau.ac.ir

**Jalal Sharifi<sup>1</sup>**

M.S.C., Business management, Islamic Azad University, Branch of Mobarakeh, Iran

Email: jsh\_1365@yahoo.com

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## **Abstract**

The present investigation, titled as “A Study of the Effects of Strategic Orientations and Marketing Capabilities on the Performance of the Marketing Division” tries to examine a model which links the strategic orientations with the organization’s marketing performance through the mediating role of the marketing capabilities. This is a field survey-descriptive study which has used the library resources to collect the required theoretical data. The population includes all the managers and senior employees of the marketing, production, research and development (R&D), sales, and finance divisions of Esfahan Petrochemical, Persian Gulf petrochemical Industries, Petrochemical Commercial, International Petrochemical Commercial, and Bistoon Petrochemical companies (110 individuals). Since the population is small, there was no need for sampling and the entire population was surveyed through census methods. The data were collected using a researcher-made questionnaire containing 46 items

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1. orresponding Author: M.S.C., Business management, Islamic Azad University, Branch of Mobarakeh, Iran.  
jsh\_1365@yahoo.com

the validity of which was confirmed through advising and consulting professors as well as management experts comments and the reliability of which was calculated using Cronbach's alpha ( $\alpha=95\%$ ). The collected data were analyzed using SPSS and AMOS software programs. Descriptive statistics was used to examine the demographic features of the population; and Kolmogorov- Smirnov test was applied to verify the normality of the population's distribution. The variance analysis of the constructs was performed based on demographic variables. The study model had a good fit, as shown by the values of the fit indices. One main hypothesis (speculating the significant effect of strategic orientations and marketing capabilities on the performance of the marketing division) and 17 sub-hypotheses (speculating the significant effect of market turbulence, intensity of competition and decentralization, each separately, based on strategic orientations, speculating the significant effect of strategic orientations on marketing capabilities and the significant effect of marketing capabilities on performance of the marketing division) were mentioned in the present paper all of which were supported by the findings. The results also indicated that the fifth sub-hypothesis (intensity of competition has a significant effect on customer orientation), with a path coefficient of 0.88, had the highest significance; and the 13<sup>th</sup> sub-hypothesis (customer orientation has a significant effect on marketing capabilities), with a path coefficient of 0.21, had the lowest significance among others.

**Keywords:** Strategic orientations, customer orientation, competitor orientation, cost orientation, innovation orientation, marketing capabilities, marketing performance.

## Introduction

Development of differentiation and pioneer strategies is one of the main interests of today's managers. The use of traditional approaches of strategy development leads that the organizations' strategies approach to each other. It is should be remembered that markets' variable conditions require organizations to upgrade their strategies (Prahalad and Krishnan, 2008).

In today's complex and dynamic environment, the organizations need to design and adopt the strategies by which they can improve organizational performance. The reason is that the organizations that can compete with their competitors and adapt them with dynamic and variable conditions are success organizations in action. In other words, organizations' success and improvement depend on their understanding of intra-organizational factors and recognizing their customers, competitors, and other effective environmental factors. Simons (2006) pointed out that developing and selecting the most effective and the best strategies based on the organizational and environmental conditions is the main factor in their performance improvement. On the other hand, these strategies have been reported as the main interests in several studies and investigations by many authors (Malek Akhlagh and Rajabzade, 2011). Investigating the role of environment in the company competitive capability is the most important field in the strategic marketing area. A large part of marketing literature indicates that it is inevitable to investigate the external environment in developing effective

market strategies (Kotler et al., 2003). In this regard, review of strategic marketing literature reflects the importance of environment role in the process of strategic marketing development. For example, Grosa et al. (1995) suggested a framework for competitive environment and market strategies selection. In this regard, Mc Kay et al. (1984) referred to the market dynamics on the company strategic direction. Slater and Narver (1994) examined the competitive environment mediators on the market performance direction. O'cass et al. (2007) refer to intensity of competition as an effective factor on the type and characteristics of company strategies that result in a better brand for organization.

Higher levels of competition in today's world results in many radical changes and in the businesses environment such as increase in the customer choice and also markets instability (Motameni et al., 2011). In this regard, the organizations do not need to create value for their customers solely. In other words, they should cooperate with their customers and consumers to achieve a common and unique experience in customer services by which the value can be formed in a unique manner (Prahalad and Krishnan, 2008). Investigation and analysis of the external environment cannot result in competitive advantage in recognizing strengths and threats singly, but strategic managers should consider their intra-organizational conditions so exactly that recognize internal strategic factors. This means that their recognized strengths and weaknesses show that whether they can exploit opportunities and avoid threats (Hunger et al., 2010).

## **Review of literature**

Every organizations survive depends on satisfying customers' needs and expectations. Therefore, customer loyalty and higher market share is possible through focus on the customers' needs and expectations (Mokhtari, 2012). Based on the marketing management principles, the organizations' success depends on their ability in customer satisfaction in comparison with their competitors. In order to this, marketing strategies not only should consider potential customers' needs and wants, but also pay attention to their competitors' strategies (Moheb Ali et al., 2006). In today's competitive world, the organizations and businesses have to concentrate on the cost management and also consider products diversity as the main market strategies. In other words, every organization should be able to offer better, cheaper, and more innovative products in a short time (Hejazi and Albadvi, 2005).

When organizational performance will be excellence that is focused on the knowledge of improvement, innovation, continuous learning, and organizational culture. Concentration on the improvement, innovation, and continuous learning is one of the main considerations that are focused in all of the excellence tools in organizations businesses (Mokhtari, 2012). It is the performance of marketing departments that is attended in the organizations and businesses. This includes facilitation of inter-organizational exchanges and industrial buyers or final users (certo et al., 2001). In order to develop such exchanges, the organizations should improve their marketing capabilities. In this regard, some authors refer to the importance of combining marketing capabilities and market-orientation (and other strategic directions) for improving organizational performance (Smirnova et al., 2011).

## **Strategic directions**

The strategic directions are coordinative principles that influence marketing efforts and company strategy development (Noble et al., 2002). On the other hand, strategic directions are defined as the especial managerial perception, preparations, desires, motivations, and wants that direct strategic planning and strategic development process.

Many authors present different categorizations for strategic directions. For example, Porter suggests three types of strategic directions. These include cost leadership, differentiation, and concentration. Fred suggests four types of strategic directions such as integration, concentration, diversity, and defensive. He also stresses that each of this direction can be actualized through implementation of different strategies. Bazle et al. (1975) offered three types of strategic directions including strategic construction, maintenance, and exploitation strategies. On the other hand, Youterback et al. (1975) offered three types of strategic directions including performance increase, sale increase, and cost decrease. Hoffer et al. (1978) presented six types of strategic directions including increase in the market share, profit, and market concentration and decrease in the assets, back, and liquidation. Vesper (1979) explained four types of strategic directions including duplication, exclusive, specialization, and liquidation. Visma et al. (1980) presented six types of strategic directions including explosion, development, continuous growth, slip, resection, and integration.

Considering direction as a continuum with two poles including active and passive directions is the most famous strategic direction categorization which has been presented in the management literature. In this regard, active strategic directions refer to creating sustainable competitive advantage in long-term. Indeed, active managers spend a large part of their time and efforts for adapting their organizational resources and skills with market opportunities. They also influence organizational goals and objectives through systematic analysis of opportunities and threats. On the other hand, passive directions refer to a short-term vision that results in a rare value for formal plans. This direction is characterized by lower levels of demand and market analysis (Sadeghian et al., 2011).

The present study is concentrated on four types of customer-orientation, competition-orientation, cost-orientation, and innovation-orientation.

Swift (2001) pointed out that customer-orientation includes all of the processes and technologies that an organization uses to recognize, select, motivate, develop, and maintain customer services. On the other hand, Brown (2000) stressed that customer-orientation is business strategy for managing customers' interactions for optimizing their long-term value and satisfaction (Tabanifar, 2012).

Competitor-orientation refers to the sellers' ability in understanding potential and actual competitors' short-term strengths and long-term weaknesses, capabilities, competencies, and strategies (Narver et al., 1990). On the other hand, business units concentrate on the competitors' goals, strategies, activities, suggestions, resources, and capabilities in this strategic direction (Olson, 2005).

Cost-orientation refers to efficiency focus in the value chain sections (Olson, 2005). Cost reduction strategy is one of the main productivity improvements that play an important role in the industrial countries. On the other hand, systematic cost decrease in every organization not only helps it in achieving benefits, but also it can be effective in reinforcing competitive capability considerably (Zenzaboro et al., 2000).

Innovation-orientation is a strategic method in creating new ideas and exploring new ones in an active manner (Olson, 2005). Nowadays, innovation is considered as a sustainable competitive advantage in any organization. Any approach that does not attend today's variable environment is one of the most important interests in the organizations' growth and survives. Indeed, modern innovation approach refers to the formation of customers and consumers' expectations, satisfying their demand and behaviors and experiences continuously (Perahalad et al., 2008).

### **Marketing capabilities**

The organizational resources are the main assets and fundamentals in every organization. These include physical assets such as factory, facilities, place, organizational assets, and human assets. Organizational assets include such organizational culture famous. Human assets include employees' skills. Capabilities refer to the company's abilities in using its resources and include processes that can be used for managing interactions between resources for processing inputs and creating outputs. For example, marketing capabilities exist in the interaction between marketing professionals, information technology, and financial resources (Hunger et al., 2010).

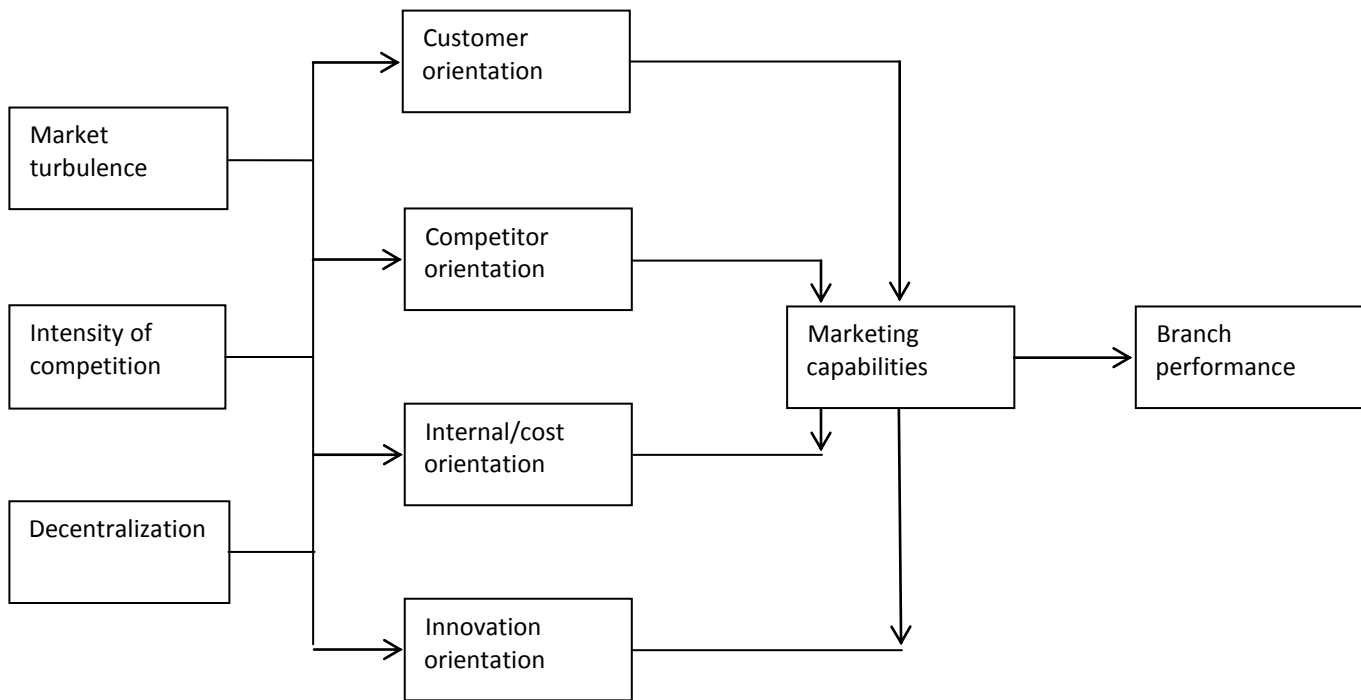
Day (1994) refers to the organizational capabilities as a reflection of synergy between assets and their empowerment as an organizational competitive advantage. Also Dramond et al. (2001) stress that capabilities are organizations' ability in transforming assets for achieving especial goals (Mic, 2010). Indeed, capabilities are a set of skills that make the organizations and businesses for achieving new combinations of resources. Marketing capabilities in the technology-based businesses refer to a process of collecting, interpreting, and using market information (Tajik et al., 2010).

Strategies, capabilities, and assets are principle fundamentals of any organization in creating value for customers. Indeed, the organizations should answer the following question. Whether the organizations' present strategies and their supportive capabilities result in sustainable excellence position for them? Such an evaluation specifies that the implemented strategy was successful or not and whether they need to be modified or not. In order to achieve excellent and sustainable competitive advantage, the company should investigate its resources and advantages. Such skills and capabilities are the basis of creating technology and products which organization sale it in the market place (Tajik et al., 2010).

### **The conceptual model of study**

The conceptual model of study has been presented in figure 1. The relationships between variables of this model refer to the research hypotheses.

**Fig1: The conceptual model of study**



### Alternative Hypothesis

1. Market turbulence is positively associated with customer orientation.
2. Market turbulence is positively associated with competitor orientation.
3. Market turbulence is positively related to internal/cost orientation
4. Market turbulence is positively related to innovation orientation
5. Competitive intensity is positively related to customer orientation.
6. Competitive intensity is positively related to competitor orientation.
7. Competitive intensity is positively related to internal/cost orientation.
8. Competitive intensity is positively related to innovation orientation.
9. Decentralization is positively related to customer orientation.
10. Decentralization is positively related to competitor orientation.
11. Decentralization is positively related to internal/cost orientation.
12. Decentralization is positively related to innovation orientation.
13. Customer orientation is positively related to marketing capabilities.
14. Competitor orientation is positively related to marketing capabilities.
15. Internal/cost orientation is positively related to marketing capabilities.
16. Innovation orientation is positively related to marketing capabilities.
17. Marketing capabilities are positively related with performance.

## **Research methodology**

### **Statistical population and sample**

The statistical population of this study includes managers and senior employees of marketing, production, research and development, sale, financial departments in Isfahan Petrochemical Company, Khaliye Fars Petrochemical Industry, petrochemical trade Company, International Petrochemical Trade Company, and Bistoon Petrochemical Company. This population includes 110 members. All of the population members have been surveyed because of limitation of population. Therefore, census method has been used rather than sampling one.

### **Data-collection tools and methods**

In order to collect the research data, a self-administrated questionnaire with 51 items has been used. The questionnaire has been developed based on the literature review. The first five questions examine demographic characteristics including gender, marital status, age, job experience, and educational level. The last 46 items refer to research variables. In order to collect the research data, 110 questionnaires have been distributed among population members and they were asked to answer questions. 98 questionnaires have been indicated and referred by respondents and 6 of them could not be used in final analysis because of its defects. Finally, 92 questionnaires have been used in data analysis. So, return percentage of the questionnaire is 83.6%.

## **The reliability and validity of questionnaire**

### **Validity**

In order to examine and test the validity of the questionnaire, face validity method has been used. For this purpose, dear supervisor, director, other professors, and professional experts have been asked to review and modify the questionnaire. The final version of the questionnaire has been developed after their valuable modifications and thereby validity of the questionnaire has been confirmed.

### **Reliability**

In order to examine reliability of the questionnaire, Cronbachs' Alpha Coefficient has been measured for questionnaire. For this purpose, the coefficient has been measured for indicated questionnaires in the primary stage. The coefficient was 0.95 for our questionnaire. As we know, coefficient of 0.7 is an acceptable value for reliability, so reliability of our questionnaire has been confirmed. Also the coefficient was measured for each of the questionnaire variables autonomously.

**Table 1: scale, frequency of the questions, and Cronbachs’ Alpha coefficient of the questions**

Variables	Scale type	Number of questions	Cronbachs’ Alpha coefficient
Market turbulence	Likert five-point	3	0.78
Intensity of competition	Likert five-point	2	0.84
Decentralization	Likert five-point	6	0.81
Customer orientation	Likert five-point	5	0.72
Competitor orientation	Likert five-point	10	0.94
Internal/cost orientation	Likert five-point	5	0.81
Innovation orientation	Likert five-point	4	0.76
Marketing capabilities	Likert five-point	6	0.80
Branch performance	Likert five-point	5	0.79
Total	Likert five-point	46	0.95

## Data analysis

### Measurement model

Generally, two main models are tested in the structural equation models. The first is measurement model for latent variables. This model refers to the factor loadings of observed variables for latent variables. The goodness of fit measures has been indicated in the following table for all of the latent variables. As indicated in table 2, all of the goodness of fit indexes is in acceptable and in desirable range.

**Table 2: the goodness of fit indexes for structural equation modeling**

The fit indices	indexes	Secondary model
	NPAR	38
	DF	7
	P >0.05	0.370
Implicit	CMIN (Chi Square)	7.588
	AGFI >0.9	0.887
	GFI >0.9	0.982
Comparative	TLI > 0.9	0.992

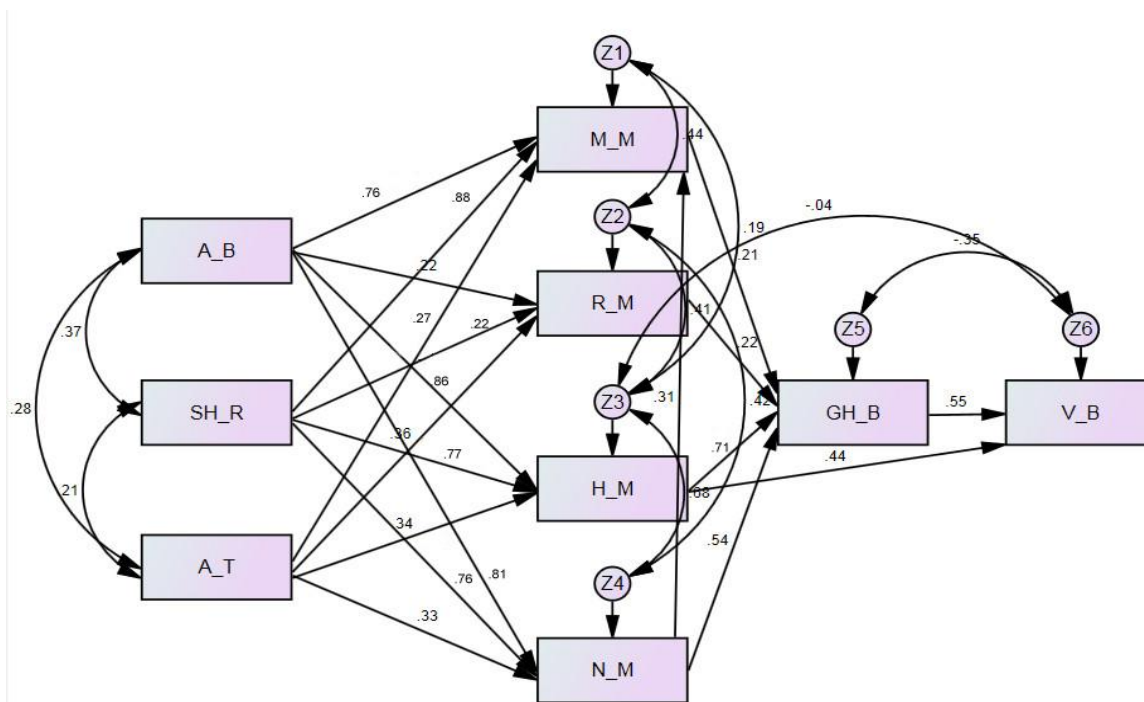


<b>Thrifty</b>	NFI > 0.9	0.981
	CFI > 0.9	0.998
	PNFI > 0.5	0.191
	PCFI > 0.5	0.194
	RMSEA < 0.08	0.030
	CMIN/DF < 0.5	1.084

### Structural model

It is necessary to test the structural model after testing the measurement model. It is possible through structural equation modeling. In order to this, the Amos has been employed. The conceptual model of this study has been showed in figure 2. In order to use Amos, it is should be remembered that  $\gamma$  refers to the effects of external variables on the internal variables and the  $\beta$  refers to the effects of internal variables on each other. In order to examine significance of  $\beta$  and  $\gamma$ , it is necessary to examine t-value of every path. If the t-value is more than 2 and is significant, it can be said that all of the paths are confirmed. Therefore, it can be said that all of the research hypotheses are confirmed and all of the paths are significant.

**Fig2: the model of study (path analysis model)**



The coefficient of path can be examined through P-value. If the value is less than 0.05, the coefficients are acceptable and vice versa. Therefore, it can be said that all of the research hypotheses are confirmed. The results of examining direct and indirect effects of independent variables on dependent variable have been indicated in table 3.

**Table3. Examining direct and indirect effects of independent variables on dependent variable**

	Secondary hypotheses	Standard coefficient	Standard error	C.R. Critical ratio	p-value	Result
Market turbulence→Customer orientation	H1	0.76	0.123	9.251	***	Is confirmed
Market turbulence→ Competitor orientation	H2	0.22	0.083	2.344	0.019	Is confirmed
Market turbulence→ Internal/cost orientation	H3	0.86	0.074	13.045	***	Is confirmed
Market turbulence→Innovation orientation	H4	0.81	0.156	7.145	***	Is confirmed
Intensity of competition→ Customer orientation	H5	0.88	0.067	13.380	***	Is confirmed
Intensity of competition→ Competitor orientation	H6	0.22	0.070	2.387	0.017	Is confirmed
Intensity of competition→ Internal/cost orientation	H7	0.77	0.100	9.687	***	Is confirmed
Intensity of competition→ Innovation orientation	H8	0.76	0.107	9.464	***	Is confirmed
Decentralization→Customer orientation	H9	0.27	0.082	2.864	0.004	Is confirmed
Decentralization→Competitor orientation	H10	0.36	0.083	3.970	***	Is confirmed
Decentralization→Internal/cost orientation	H11	0.34	0.117	3.186	0.001	Is confirmed
Decentralization→Innovation orientation	H12	0.33	0.102	3.210	0.001	Is confirmed
Customer orientation → Marketing capabilities	H13	0.21	0.098	2.316	0.021	Is confirmed
Competitor orientation → Marketing capabilities	H14	0.22	0.095	2.387	0.017	Is confirmed
Internal/cost orientation → Marketing capabilities	H15	0.71	0.348	5.291	***	Is confirmed
Innovation orientation → Marketing capabilities	H16	0.54	0.094	5.584	***	Is confirmed
Marketing capabilities→Branch performance	H17	0.55	0.308	2.016	0.044	Is confirmed
*** P is less than 0.001						

In order to examine the direct and indirect effects of independent variables on the dependent variable, it is necessary to examine the total, direct, and indirect effects for internal variables.

## **Findings**

As indicated in the every research methodology textbook, it is possible to measure path coefficient through P-value. If this value is less than 0.05, the coefficients will be acceptable and vice versa. Based on the results of this study, it can be said that all of the research hypotheses are supported. The results of this study have been showed in table 3. It is should be remembered that these results are based on the direct and indirect effects of independent variables on the dependent variable. Based on these results it can be said that all of the hypotheses are supported and all of the paths are confirmed. In order to examine direct and indirect effects of independent variables on the dependent one, it is necessary to measure total, direct, and indirect effects for all of the variables.

## **Conclusion**

The present study was aimed to investigate main three variables that have considerable effect on the organizations' marketing performance. Environmental forces and organizational characteristics is the first variable. Marketing capabilities is the second one. Indeed, marketing capabilities refer to the effective and comprehensive mechanisms facilitate implementation of strategic directions in order to improve organizational performance. Finally, strategic direction is the third variable that should be attended as an important critical factor in the marketing performance development.

## **Organizational characteristics, environmental forces, and strategic directions**

The results of this study in terms of organizational characteristics and environmental forces and their effects on the strategic directions revealed that environmental forces influence managers' strategic directions decisions. The results also indicated that any change in the consumers' preferences and desires and changes and evolution in the competitors' competitive efforts show necessity of responding market conditions change. In other words, the organization should show higher levels of reactions in the market segments in which the organization face competitors' offensive efforts. Such reactions require controlling competitors seriously, recognizing their strengths and weaknesses, and developing competitive strategies and effective marketing plans so exactly that challenges competitors' competitive efforts.

The results of this study also show the positive role of decisions decentralization in the strategies development. Indeed, decentralization in decisions facilitate strategic behaviors acceptance and also necessitate participation of organizational managers from different levels in the designed strategic efforts and activities for achieving organizational goals. Centralization in decision making prevents from strategies development and implementation. It requires open communications, ideas sharing, and marketing information sharing across the organization. It is suggested that delegate more responsibilities and authorities for their subordinates in lower level so that minimize decision making and implementation time of marketing strategies and

efforts. As much as managers' information about marketing performance, it will be possible share their efforts and abilities and improve efficiency of different organizational processes.

### **Strategic directions and marketing capabilities**

The results of this study in terms of strategic directions and marketing capabilities revealed that strategic directions influence marketing capabilities significantly. The effect of cost-orientation and innovation-orientation is more than other aspects of strategic directions. Indeed, cost-orientation through increasing efficiency of production process and providence in production resources make the organization able to decrease products prices through decreasing its costs. Therefore, the organization will achieve considerable successes in terms of competition. Innovation-orientation facilities the organizations' ability in creating new ideas by which the organization will be able to do more effective marketing efforts and activities. The creativity-based organizations are more success in responding their environment and develop new abilities and capabilities which result in their competitive advantage and better performance. It is suggested that the organizations measure their customers' satisfaction continuously and systematically. They also should be able to target the consumers who result in a competitive advantage for organization as an opportunity. On the other hand, they have to respond the competitors' competitive efforts rapidly and evaluate the market segments in which key competitors success or fail at here. It is suggested that they consider improvement of operational efficiency as a priority and follow operational processes improvement continuously. As a result, advanced technologies and up-to-date knowledge minimize production costs. Organizational managers should attempt to search new ideas actively and pave the ground for employees' freedom in expressing their ideas.

### **Marketing capabilities and marketing performance**

The results of this study in terms of marketing capabilities and marketing performance revealed that marketing capabilities are a potential source of competitive advantage. In other words, as much as marketing capabilities are richer in the organization, its marketing performance will be improved. So, it is suggested that the organizations make marketing decisions based on the customer information and also pave the ground for customer loyalty through supporting customer values. They also should consider organizational learning in all of the organizational levels and thereby make capabilities for themselves that promote their competition ability in comparison with competitors. They also should attempt to recognize company resources and classify them based on the strengths and weaknesses and then select the strategies by which use external opportunities.

### **The limitations of study and suggestions for suture studies**

Every comprehensive and perfect study has its own limitations. Authors of this study like to other researchers had several limitations and difficulties in the research process. These limitations lead that the author cannot generalize their results to comprehensive population. Recognition of such limitations helps the authors in explaining results in better manner.

The authors of this study faced different limitations such in inaccessibility to senior managers. On the other hand, managers' sensitivity to questionnaire is another main limitation of this study that the authors faced it in different stages. It is suggested that the future authors study operational capabilities beside the marketing capabilities and investigate its effects on the organizational performance. Organizational culture and organizational structure are important variables that influence the relationship between strategic directions and marketing capabilities. Therefore, it is suggested that the mediating effect of these variables is studied in the future studies. Finally, it is suggested that the researchers and authors study this subject in other industries for comparing their results.

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