EXECUTIVE SUMMARY

The importance of market-driving strategies as an alternative to market-driven strategies is evident in the marketing literature (e.g., Jaworski, Kohli, and Sahay 2000; Kumar, Scheer, and Kotler 2000). However, there has been no attempt to integrate market-driving strategies into an encompassing framework. The first section of this paper presents an overview of market-orientation, market-driven, and market-driving strategies. The second section provides a framework to better understand the process involved in creating and implementing a market-driving culture. Finally, the last section examines the relationship between market-driving strategies and business performance. To build this framework, the paper relies on extant leadership, organizational culture, innovation, and the marketing strategy literatures.

Overview of market orientation, market-driven and market-driving. Both market-driven and market-driving are encompassed within the more general framework of market-orientation. Market-driven relates to the company’s ability to learn, understand and respond to the market (Jaworski, Kohli, and Sahay 2000). On the other hand, market-driving relates to the company’s ability to change the market (Kumar, Scheer, and Kotler 2000). It is suggested that market-driving organizations are likely to propose offerings more valued by consumers than competitors. This is based on Jaworski, Kohli, and Sahay’s (2000) notion that market-driving organizations are better able to gain a sustainable competitive advantage by changing the structure or composition of a market and/or behavior(s) of its players.

A Framework of Market-Driving. The process of becoming a market-driving organization starts with transformational leadership. Transformational leaders instill the shared values and norms needed for creating and implementing a market-driving culture. Based on the work of Quinn and Rohrbaugh (1983), as well as Deshpandé, Farley, and Webster (1993), it is argued that the creation of a market-driving culture requires an adhocracy-type of culture, whereas the implementation phase requires a market-type culture. An adhocratic-type of culture facilitates the firm’s capacity to innovate through fostering risk taking, innovativeness, and interactive organizational learning. The ability of a firm to translate its capacity to innovate into market-driving is contingent on how well organizational change is handled through the coordination of the firm’s departments. Ultimately, market-driving allows the firm to better match customer value opportunities with its own capabilities.
The Impact of Market-Driving on Business Performance. Opportunities for influencing customer values are enhanced when there is greater customer interaction involved in the business transaction. Therefore, the positive impact of market-driving on business performance is greater for activities that are high on customer interaction.

Numerous implications for managers and directions for future research emerge from this paper. The framework highlights the important role of the human factor in creating and implementing a market-driving culture. This is in line with Pfeffer’s (1995) view that human capital is a critical source of competitive advantage. In addition, the framework provides the basis for future empirical research in market-driving.

Keywords: Market-Driving, Transformational Leadership, Organizational Culture, Innovation, Customer Value, Business Performance.
Market-Driving Organizations: A Framework

More than four decades ago, Levitt (1960) expressed a view in line with the early conceptualization of the marketing concept (Drucker 1954; McCarthy 1960; McKitterick 1957). Levitt (1960) argued that firms are customer-satisfying organisms who buy customers by doing the things that make people want to do business with them. Levitt’s (1960) idea was later understood as hearing the voice of the customer, which led the marketing concept to be described as the firm’s willingness to recognize, to understand, and to adjust the marketing mix elements to satisfy customers’ needs (Houston 1986). This latter view can be characterized as a market-driven strategy (Day 1999a, Day 1999b). However, this is only a partial interpretation of Levitt’s thought. In effect, Levitt (1960) pointed out that in order to survive, firms must act on their customers’ needs and desires and satisfy them. This implies that firms can either follow their customers’ current needs or help shape them. Therefore, firms do not need to strictly follow their customers’ voice; they can also lead their needs in new directions by dramatically increasing the customer value proposition and improving business systems, a strategy best described as market-driving (Harris and Cai 2002; Jaworski, Kohli, and Sahay 2000; Kumar, Scheer, and Kotler 2000). Although market-driving strategies have been the object of many recent research endeavors (e.g., Harris and Cai 2002; Kumar, Scheer, and Kotler 2000; Jaworski, Kohli, and Sahay 2000; Tuominen, Rajala, and Moller 2004), there is no model that integrates market-driving strategies into an encompassing framework. The objective of the present paper is to provide such a framework. It is suggested that the realization of market-driving strategies germinates under the influence of transformational leadership at two different stages separated by a transitory phase: 1) creating a market-driving culture, and 2) implementing that culture. During the creating phase of the market-driving enterprise, the transformational leader must inculcate an informal/external focus to the organization (i.e., adhocracy). An informal culture promotes individual initiative and risk taking as well as out of the box thinking, which facilitates the development of radical innovations. An externally focused culture allows for acquiring information that serves as the basis of an interactive learning process focused on market dynamics. During the implementation phase of the market-driving enterprise, the transformational leader needs to instill a formal/external focus to the organization (i.e., market). The evolution of a market-driving culture from creation to implementation is facilitated through organizational changes and coordination among the firm’s functions. In addition, it is suggested that the positive link between market-driving strategies and business performance increases with the degree of customer interaction that takes place in the value delivery process. As firms increase direct interface with customers, their capacity to lead customer value opportunities improves. The first section of this paper presents an overview of market-orientation, market-driven, and market-driving strategies. The second section contains a conceptual framework of market-driving organizations. Finally, the last section examines the relationship between market-driving strategies and business performance. An analysis of the implications for managers and researchers is also discussed.

MARKET ORIENTATION, MARKET-DRIVEN AND MARKET-DRIVING

Market Orientation

Both market-driven and market-driving are encompassed within the more general framework of market orientation. Two streams of research have been dominant in the market orientation literature during the last decade (Gray and Hooley 2002; Noble, Sinha, and Kumar 2002). First, Narver and Slater’s (1990) cultural approach to conceptualized market orientation in terms of fundamental characteristics of the organization (i.e., customer orientation, competitor orientation, and inter-functional coordination). Second, Kohli and Jaworski’s (1990) behavioral approach defined market orientation in terms of organizational behaviors (i.e., generation of information, dissemination of information, and responsiveness to information). Hult, Cravens, and Sheth (2001) offered a conceptualization that synthesizes both perspectives and defines market orientation as the implementation of the marketing concept, which is reflected in the values, beliefs, activities, and behaviors in the organization. Market-driven and market-driving strategies are both consistent with the two fundamental components of the marketing philosophy because they focus on customer’s needs and desires a well as on the concept of profit (Borsch 1978). However, as noted by Jaworski, Kohli, and Sahay (2000), the interpretation of market orientation has been mainly in terms of market-driven strategies that are based on firm’s reaction to
changes in the marketplace. On the other hand, market-driving is about proactively changing some elements in the market.

**Market-Driven**

Two approaches to the definition of market-driven organizations are prevalent in the marketing literature. Day (1999a) stated that market-driven denotes a “superior ability to understand, attract, and keep valuable customers” (p. 5). A problem with Day’s (1999a) definition is that it ignores the other constituents of the market (e.g., competitors, stockholders, firm employees, and the regulator). Jaworski, Kohli, and Sahay (2000) incorporate the other players of the market in their definition of market-driven, “learning, understanding, and responding to stakeholder perceptions and behaviors within a market structure” (p. 47). By incorporating all stakeholders in their market-driven definition, Jaworski, Kohli, and Sahay (2000) implicitly acknowledged that firms’ strategies have to be consistent with the goal of maximizing the value of the firm, which is in keeping with the dominant thought of the marketing discipline (Alderson 1957; Borsch 1978; Rust, Lemon, and Zeithaml 2004). However, the market orientation precept of understanding the market and adjusting to it might be limited in certain market situations (Jaworski, Kohli, and Sahay 2000). Indeed, when a market orientation philosophy is carried out through a market-driven strategy, there is no guarantee that a sustainable competitive advantage can be achieved (Johnston, Lee, Saini, and Grohmann 2003; Slater and Narver 1995). If every actor in the market follows a market-driven strategy and every firm adapts to competitors’ strategic moves and stays aligned with consumers requirements, then no actor will be able to offer a value proposition superior to the competition.

**Market-Driving**

This paper shares Dixon’s (1996) view that marketing is “the art and science of creating change (disequilibrium) in markets in such a way that the change benefits the firm (or an alliance of firms), and consequently comparatively ‘disadvantages’ rivals” (p. 102). In addition, Resource-Advantage Theory suggests that it is not enough for firms to passively respond to changing environments by looking for the best fit between the existing resources and market niches (Hunt 2002). In their analysis of the PIMS data, Buzzell and Gale (1987) argued that competitive forces produce a declining differentiation in the products and services that firms offer because competition generates greater similarities in prices and performance. These notions suggest that to achieve a superior business performance, firms need to actively influence the market rather than being only reactive to it (i.e., be capable of driving markets). In our view, business performance goes beyond financial performance (e.g., profitability) and includes other components such as: 1) perceptions of what really matters to customers (e.g., product quality), 2) an ability to excel in internal business processes (e.g., IKEA’s unique delivery system), and 3) sustainability of superior value propositions (e.g., Southwest’s ability to hire and retain high performing employees) (Kaplan and Norton 1992).

Market-driving organizations are better able to gain a sustainable competitive advantage by changing the structure or composition of a market and/or behaviors of its players (Jaworski, Kohli, and Sahay 2000). The market-driving organization is likely to propose offerings more valued by consumers than competitors. In addition, driving markets allows organizations to exploit opportunities that competitors cannot (Hamel and Prahalad 1994). Market-driving organizations may achieve greater performance than market-driven organizations by reshaping the structure of the market according to their own competencies and by exploiting the competitors’ weaknesses.

Prior research on market-driving organizations has focused on the different ways to drive a market (Jaworski, Kohli, and Sahay 2000). As will be subsequently developed according to this view, market structures can be modified either by deconstruction (eliminating competitors in the value chain), construction (adding players into the industry value chain), or functional modification (shift the functions performed by players in a market). Market behaviors can be shaped directly (by either building or removing customer or competitors’ constraints) or indirectly (by creating or reversing new customers or competitors preferences). Another notion is found in Kumar, Scheer, and Kotler (2000) who argue that the two necessary conditions for driving a market are: 1) a leap in customer value proposition, and 2) a unique business system. A company such as Southwest Airlines epitomizes such characteristics by offering competitive prices (leap in customer value) while delivering superior
service through a unique business system. Also, Kumar, Scheer, and Kotler (2000) focused on innovation as the key factor that allows complying with the aforementioned conditions. Although these works give insightful descriptive principles about driving the market, they do not provide a conceptual framework that integrates the organizational processes leading to market-driving. Figure 1 gives a graphical representation of the process involved in creating and implementing a market-driving culture.

FIGURE 1
A Conceptual Framework of Market-Driving Strategy
TRANSFORMATIONAL LEADERSHIP

Top management’s concern for leadership was evident in the 1999 Conference Board study in which twenty-six percent of CEO’s said that developing and retaining potential leaders was one of their three top challenges and twenty-nine percent stated that engaging employees in the companies’ vision and values was one of the top three management challenges (Krass 2000). As depicted in Figure 1, it is proposed that a transformational leadership style is the initiating step toward creating an organizational culture that permits the implementation of market-driving strategies. Transformational leadership goes beyond the simple administration of rewards and punishments found in transactional leadership (Mackenzi, Podsakoff, and Rich 2001). Transformational leadership implies influencing organizational members by aligning their values, goals, and aspirations to facilitate value-consistent work behaviors (Mackenzi, Podsakoff, and Rich 2001). Articulating a vision and providing intellectual stimulation are the means by which the leader can develop a market-driving strategy through the appropriate organizational culture (Podsakoff, MacKenzie, Moorman, and Fetter 1990).

Articulating a Vision

Two perspectives are found in the literature concerning the role of leadership in instilling a vision to an organization. The first perspective considers that strong leadership is a very important factor for articulating the firm’s vision and that leaders impose their own vision on the company. For instance, according to Kumar, Scheer, and Kotler (2000), the leader must transmit his vision to other members of the organization. The leader’s vision represents an ideological goal that organizational members picture as a brighter future (MacKenzie, Podsakoff, and Rich 2001). This is the traditional view that implementing a strategy cannot be accomplished without a high-profile, charismatic leader (Kumar, Scheer, and Kotler 2000). The second perspective considers that the organization’s vision emerges from a process within the company itself rather than the leader. In effect, a charismatic, high profile leader is not required in order to build a visionary company. Indeed, charismatic leaders are found in both visionary and non-visionary companies (Collins and Porras 2002).

The role of the transformational leader is to make organizational members embrace a unified vision whether that vision comes from the leader himself or from the organization (Podsakoff, MacKenzie, Moorman, and Fetter 1990). Transformational leadership is not about the strength of a leader’s personality or charisma but about his/her ability to make the organization adopt a shared vision. In addition, market-driving organizations have the ability to transmit this vision to the market (Kumar, Scheer, and Kotler 2000).

Transformational leadership is optimally efficient in conveying the leader’s vision to others (MacKenzie, Podsakoff, and Rich 2001). According to Jaworski, Kohli, and Sahay (2000), transformational leadership allows for the leader’s vision to be translated into consumer offerings that do not only address existing consumers’ needs and desires but are also likely to reveal new ones. In order to induce changes in the behaviors of customers and competitors, simply being receptive to current market trends through market sensing abilities is not sufficient (Jaworsky, Kohli, and Shay 2000; Johnston, Lee, Saini, and Grohmann 2003). A market-driving firm needs to apply its ideas to the market. This is consistent with the “forward sensing” approach advocated by Kumar, Scheer, and Kotler (2000) in which market sensing is aimed at acquiring state of the art knowledge. This knowledge allows firms not only to be responsive but also to generate new concepts and ideas that alter the market structure (Harris and Cai 2002).

Providing Intellectual Stimulation

According to Podsakoff, MacKenzie, Moorman, and Fetter (1990), intellectual stimulation from the leader encourages followers to reexamine assumptions about their work and to find creative ways for improving their performance. Employees’ creativity is critical because successful market-driving strategies often come from breakthrough innovations that deeply reshape business systems and have the potential to improve the value proposition to customers (Kumar, Scheer, and Kotler 2000). There are six ways in which an organization can foster a creative atmosphere (Kumar, Scheer, and Kotler 2000):

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1) Allowing space for serendipity (curiosity driven ideas as opposed to problem driven ideas)
2) Selecting and retaining creative employees
3) Empowering entrepreneurial employees and giving them opportunities for innovations
4) Establishing competitive teams
5) Favoring new ideas that allow cannibalizing the firm’s own products
6) Encouraging experimentation and tolerating mistakes

The above discussion suggests that the transformational leader’s ability to intellectually stimulate employees has a direct impact on the innovative capacity of the firm. Transformational leaders have a primary role in creating an organizational culture that encourages innovativeness. In fact, Schein (1991) suggests that the only thing of real importance that leaders do is to create and manage organizational culture. As a consequence, in our analysis, the impact of transformational leadership on the development of a market-driving strategy is assumed to take place through important changes in the organization’s culture.

**ORGANIZATIONAL CULTURE**

Theorists from diverse disciplines such as organizational behavior, management, and marketing agree on the strong influence of organizational culture on effectiveness (Deshpandé and Webster 1989). The impact of culture on business performance has been the object of many studies (e.g., Desphandé, Farley, and Webster 1993). In spite of this, no research has investigated the role of culture in creating and implementing market-driving strategies.

Organizational culture results from the knowledge acquired by its employees and can be defined as “the pattern of shared values and beliefs that help individuals understand organizational functioning and thus provide them norms for behavior in the organization” (Deshpandé and Webster 1989, p. 4). From a marketing perspective, organizational culture varies along two dimensions: 1) an informal-formal dimension that relates to the firms’ degree of structure (e.g., flexibility, spontaneity, facilitation of individual initiatives), and 2) an internal-external dimension that focuses on the maintenance of the organization’s internal sociotechnical system and on the improvement of its competitive position within the external environment (Deshpandé, Farley, and Webster 1993; Moorman 1995). Four different types of cultures result from these two dimensions: clan (internal/informal), adhocracy (external/informal), hierarchy (internal/formal), and market (external/formal). We argue that the leader must instill an adhocracy type of culture during the creation phase of a market-driving organization followed by a market type of culture during the implementation phase.

**Adhocracy Type of Culture**

In order to create a market-driving culture, the leader must strengthen the external/informal focus of the organization (i.e., adhocracy). An external focus implies that the organization strives for improving its competitive position in the market. On the other hand, an informal focus allows the organization to be flexible and spontaneous. This paper suggests that the creation of market-driving strategies is facilitated in adhocratic cultures. This is because adhocratic cultures foster the creativity, risk taking, and entrepreneurship of employees (Zaltman, Duncan, and Holbek 1973). Adhocratic cultures usually embrace business objectives such as growth, innovation, and the development of organizational resources (Desphandé, Farley, and Webster 1993; Quinn and Rhorbaugh 1983). Therefore, as shown in Figure 1, adhocratic culture strengthens the firm’s capacity to innovate, which is at the heart of market-driving.

**Market Type of Culture**

Although an external focus is still required for the implementation phase of a market-driving culture, a shift from an informal to a formal culture is necessary to transform a creative-innovative environment into a decisive, achievement oriented organization. To ensure the success of this transformation, formal information systems are required to continuously monitor the marketplace, understand customer needs, and guide decision-making.
Market type culture is oriented toward the accomplishment of well-defined goals as well as toward enhancing productivity and efficiency (Deshpande, Farley, and Webster 1993). Market type cultures allow for successful communication of innovations and coordination of activities between departments. The formality of communications and inter-functional coordination facilitates the implementation of innovations (Zaltman, Duncan, and Holbek 1973), which is the key for adding value to customers (Kennedy, Goolsby, and Arnould 2003; Rust, Lemon, and Zeithaml 2004).

CAPACITY TO INNOVATE

Figure 1 suggests that the capacity to innovate depends on the interplay among three factors: 1) the propensity to take risk, 2) the extent to which risk taking fosters innovativeness, and 3) the ability to manage risk through interactive organizational learning. Researchers have characterized risk taking as an important antecedent of market-driving strategies (Kumar, Scheer, and Kolter 2000). Risk taking is an essential aspect of a firm’s innovative capacity that can impact market structure and the behavior of its actors. In addition, organizational learning and innovativeness are important factors of performance, especially when the market is highly competitive (Hurley and Hult 1998). In effect, organizational learning and an innovating capacity result in the acquisition of resources that may constitute a differential advantage (Hunt 2002).

Risk taking can be conceptualized as the willingness to undertake actions that can jeopardize something of value but that can increase the value of something (Ben-Ari, Florian, and Mikulincer 1999). A high-risk strategy can potentially lead companies to drive the market (Kumar Scheer, and Kotler 2000). Market-driving companies take risks because they offer products or services that do not necessarily correspond to existing consumers’ needs (Kumar Scheer, and Kotler 2000). A firm’s innovative culture results from a conscious and purposeful search for innovative opportunities (Drucker 2002; Gatignon and Xuereb 1997; Johnston, Lee, Saini, and Grohmann 2003). An innovative culture is required to build a market-driving organization (Jaworski, Kohli, and Sahay 2000). Innovativeness occurs either in terms of the value proposition made to customers or in terms of the uniqueness of the business systems used in the creation, production, and delivery of value (Kumar, Scheer, and Kotler 2000).

Market knowledge is an important driver of innovativeness (Drucker 2002; Hurley and Hult 1998). Market directed organizational learning is the means by which market knowledge is obtained and is the fundamental basis for developing a competitive advantage (Day 1994; Sinkula 1994; Sinkula, Baker, and Noordewier 1997). Companies that successfully drive the market will be able to manage the risk associated with radical innovations through interactive organizational learning. The literature suggests that organizational learning decreases the probability of loss, increases the probability of gain, and is closely related to market sensing activities. Market sensing allows the organization to understand market characteristics and changes (Day 1994, 1999a). In the case of market-driven strategies, market-sensing activities refer to reactive learning (adapting to customer needs) or proactive learning (adapting to anticipated customer needs). As previously indicated, market-driving firms engage in forward sensing of the market (Kumar, Scheer, and Kotler 2000). The activity of forward sensing implies that market-driving firms strive for understanding the market not only in order to respond to it but also in order to modify its structure and the behaviors of customers and competitors through interactive learning.

Interactive learning is a two way process: first, the firm learns from the market, and latter, the market learns from the firm. Interactive learning reduces the chances of failure of innovations and increases payoff. As a consequence, interactive learning will optimize risk-taking strategies. Through interactive learning, market-driving firms are successful at launching radically new products because they are able to educate consumers about the existence and value of the innovations (Kumar, Scheer, and Kotler 2000). Once a firm has improved its capacity to innovate, important changes occur during a transitory phase toward market-driving.
In order to implement a market-driving strategy, firms need to go through important organizational changes that will lead to customer value opportunities in new directions. Market-driving strategies also require the firm to design unique human- and physical-based business systems. These organizational changes have to be orchestrated among the different functions of the firm in order to optimize the transitory process.

Organizational Change
Marketing researchers have long investigated the role of organizational change in the implementation and the development of strategies that are based on the marketing concept (Felton 1959). Successful organizational change is not possible without the commitment of top management leaders who play a key role in shaping the organization’s norms, customs, values, and behaviors (Day 1999a; Harris and Ogbonna 2001; Jaworski and Kohli 1993; Kasper 2002; Locander, Hamilton, Ladik, and Stuart 2002). Therefore, senior leadership commitment is the first step for initiating the changes that are needed for creating a market-driving culture (Day 1994; Locander, Hamilton, Ladik, and Stuart 2002). As Greenewalt (2000) stated, “a business leader must acquire the spiritual qualities which will induce the people under his direction to put forth their best efforts in the interests of the enterprise as a whole” (p. 24). The leader’s individual spirit and purpose are the forces that motivate corporate change (Locander, Hamilton, Ladik, and Stuart 2002). Also, top management’s worldview is critical in the formation of business strategies (Frankwick, Ward, Hutt, and Reingen 1994). Therefore, organizational changes leading toward market-driving strategies are greatly facilitated by transformational leadership.

Only after transformational leaders have adopted a market-driving culture they will be able to invite and lead middle-level leaders into the new organizational community (Locander, Hamilton, Ladik, and Stuart 2002). This cascading process of invitation into community continues until all members of the organization embrace the advocated market-oriented strategy (Locander, Hamilton, Ladik, and Stuart 2002). The process usually takes years and requires the involvement of all organizational functions. Locander, Hamilton, Ladik, and Stuart’s (2002) view is consistent with Bennis’ (2000) conceptualization of business leaders as having the capacity to convey meaning by example. As a result, the firms will be in an optimal position for driving the market by sharing a vision not only with its members but the marketplace (e.g., MacKenzie, Podsakoff, and Rich 2001; Podsakoff, MacKenzie, Moorman, and Fetter 1990).

Inter-Functional Coordination
Previous research has shown that inter-functional coordination is critical for the implementation of organizational changes (Kennedy, Goolsby, and Arnould 2003; Locander 1989). As defined by Narver and Slater (1990), inter-functional coordination refers to the utilization of company resources to create superior value for target customers. In effect, when a market-driving culture has been created and the organization’s capacity to innovate is at its optimal level, innovative energy needs to be efficiently focused toward actually driving the market. In order to achieve this goal, the organization’s efforts for implementing a market-driving strategy must emanate from all the organizational stakeholders (e.g., Locander 1989; Narver and Slater 1990). Marketing is the primary function responsible for this coordination and must be receptive to the needs of the other departments. Indeed, marketing management is critical for understanding the market’s needs as well as its characteristics and has the responsibility of coordinating the decision processes with other business functions, such as production, finance and personnel (Locander 1989). All stakeholders must coordinate their efforts toward what customers value the most (e.g., product quality, closeness to customers, service, economy, quality of employees, market leadership, and innovativeness) (Day 1999a).

Market-driving companies are able to match customer value opportunities with their capabilities precisely because they drive the structure of the marketplace. As previously indicated, this is achieved by a greater capacity of
market-driving firms to influence the behaviors of customers and competitors (Jaworski, Kohli, and Sahay 2000). Such capacity results from an organizational culture that fosters the creation and implementation of innovations.

**Matching Customer Value Opportunities and Firm’s Capabilities**

A successful match between customer value opportunities and the organization’s capabilities is considered to be one of the most important marketing activities (Cravens, Greeley, Piercy, and Slater 1998). The matching of customer value opportunities with the firm’s capabilities is necessary to create superior products and services through the identification, development, and deployment of key resources (brands, sales forces, customer trust) (e.g., Day 1994; Johnston, Lee, Saini, and Grohmann 2003, Locander 1989). Market-driving firms do not simply match customer value opportunities with their internal capabilities. They design entirely new business systems that enhance their relative advantage over competition. This allows them to drive customer value opportunities in new directions. The enhancement of the firm’s capabilities and the creation of new customer value opportunities correspond with the two dominating perspectives on market-driving: 1) an internal focus that refers to the strengthening of the firm’s ability to create innovative products delivered through unique business systems (Kumar, Scheer, and Kotler 2000), and 2) an external focus that consists of the firm’s ability to disrupt the market (Jaworski, Kohli, and Sahay 2000).

**Superior Firm’s Capabilities**

Market-driving firms have the ability to generate intra-firm innovations valued by customers (Kumar, Scheer, and Kotler 2000). Radical innovations strengthen the capabilities of the firm through two dimensions: 1) a leap in value proposition made to customers, and 2) a unique business system (Kumar, Scheer, and Kotler 2000). The leap in customer value is produced by innovations that translate into superior technological and/or marketing capabilities. For example, Starbucks success resides in its exploitation of the latent need for gourmet coffee in a European-like coffee house. Sony has mainly relied on its unique technological capabilities. This allowed Sony to drive the markets of videos (Betamax), small tapes (Walkman), floppy disks (3.5”Micro Floppy Disk System), and videogames (Playstation).

Unique business systems require superior capabilities that are hard to obtain (Kumar, Scheer, and Kotler 2000). For instance, IKEA completely disrupted the traditional business system of the furniture market by simplifying its processes (Kumar, Scheer, and Kotler 2000). IKEA relies on in-house and plain designs to reduce cost. They adopted a modular and interchangeable product and shifted the function of assembly to the customer. By developing these capabilities, IKEA created market barriers that competitors found hard to penetrate.

**Driving Customer Value Opportunities**

From an external perspective, market-driving organizations are able to shape the market structure and behaviors of the market players. By doing so, organizations are able to improve customer value and achieve superior business performance (Jaworski, Kohli, and Sahay 2000). Jaworski, Kohli, and Sahay (2000) identified three approaches for shaping the market’s structure: 1) deconstruction, 2) construction, and 3) functional modification. The deconstruction approach involves the elimination of players in the value chain (e.g., suppliers, wholesalers, distributors, and key influencers). The success of this strategy lies in the firms’ ability to provide more value to customers than the eliminated actor (Anderson and Narus 1998). For example, Dell eliminated players in the retail channel and generated customer value by asking customers to give up in-store service for lower prices and other value-added services. The construction approach consists of adding players into the value chain (e.g., adding new service suppliers and forming strategic alliances). An example of this approach is Apple’s strategy of building a new set of partners in the wholesale market to compete against Wintel. Third, the functional approach consists of changing the functions performed by market players. This approach is often implemented by forward or backward integration of the channel functions. Virgin Megastore is an example of forward integration by offering a unique retail environment with music, kiosks, and a contemporary in-store atmosphere (Jaworski, Kohli, and Sahay 2000).
Jaworski, Kholi, and Sahay (2000) proposed that behaviors on the market could be shaped directly or indirectly. There are four strategic options for shaping the behavior of the market directly: 1) building customer constraints, 2) removing customer constraints, 3) building competitor constraints, and 4) removing competitor constraints. First, real or imagined constraints can be built into customers’ experience in order to impact their behaviors. For instance, IKEA forces customers to follow a particular path in the store and makes sure they spend as much time as possible in the store aisles; thus, maximizing purchases (Jaworski, Kohli, and Sahay 2000). Second, customer constraints can be removed. For example, internet-based plane ticket search engines such as expedia.com or orbitz.com removed the barrier of imperfect price information by decreasing searching costs and allowing consumers to engage in price comparisons. Third, companies such as Microsoft have built competitor constraints by designing systems that are not compatible with competitor products. Fourth, market players can remove competitor constraints. An example of this is the lobbying of Southwest Airlines to change regulations allowing competition into the highly regulated regional air travel market.

On the other hand, there are four possible strategies to shape market behavior indirectly: 1) create new customer preferences, 2) reverse existing customer preferences, 3) create new competitor preferences, and 4) reverse existing competitor preferences (Jaworski, Kholi, and Sahay 2000). First, new customer preferences can be formed either by introducing benefits that customers have not encountered before by introducing a new concept (e.g., reality TV shows) or by introducing new benefits to existing products (e.g., DVD writer on a computer). Second, existing customer preferences can be reversed from a negative to a positive evaluation. The rebirth of the Adidas brand is an example of this phenomenon. Third, new competitor preferences can be created by affecting the structure of competitors in their market. For instance, when Sony announced it would introduce a new Playstation twice as powerful as their competitors, Microsoft and Nintendo had to adopt the same technology in order to stay competitive. Fourth, the use of appropriate strategic moves can reverse existing competitor preferences. Procter and Gamble’s everyday low prices policy forced the competition to abandon existing high/low pricing approaches and to follow their strategy.

**Customer Interaction and Market-Driving Strategy**

Empirical evidence indicates that market-oriented strategies work even better in service firms than in manufacturing markets (Cano, Carrillat, and Jaramillo 2004). In fact, according to Gray and Hooley (2002), the relationship between market orientation and business performance should be stronger for service firms when compared to manufacturing companies. This is due to the greater dependence on person-to-person interactions that are predominant in the service sector (e.g., Singh, 2000; McNaughton, Osborne, and Imrie, 2002). This paper suggests that a greater customer interaction strengthens the relationship between a market-driving strategy and business performance. This is because customer value opportunities are enhanced when the amount of customer interaction is a predominant part of the business transaction.

**CONCLUSION**

A primary goal of managers is the identification of variables that explain business performance. This paper suggests that a market-driving strategy is a means to superior business performance. The role of top management in the process of becoming a market-driving organization is critical. In order to build a market-driving company, the transformational leader must create an adhocracy culture during the initial phase of the strategy. This process ensures that the innovative culture of the company is strong enough to generate significant innovations. Then, organizational changes and inter-functional coordination will constitute a transitory phase toward the implementation of the innovations. The role of the transformational leader is then to promote a market-type culture during the implementation phase. As a result, the company will be able to strengthen its capabilities and lead customer value opportunities in new directions by altering the structure of the market and influencing the behaviors of its actors (competitors and customers).

The process discussed above is possible when the leader is able to communicate a shared vision to all members of the organization. This emphasizes the importance of hiring, retaining, and training individuals with
transformational leadership abilities. This is consistent with the view that human capital can be a critical source of competitive advantage (Pfeffer 1995). This paper suggests that successful firms not only react to the market but also are able to shape it when they fully understand the primary role of the customer. As a consequence, firms must allocate resources in order to efficiently manage and shape customer’s needs.

Overall, this paper highlights the important role of marketing in coordinating the different business functions necessary to successfully implement a market-driving culture. In addition, it provides a conceptual framework that integrates organizational factors that lead to driving the market and lays the groundwork for further promising theoretical development into the nature of market-driving.

**FUTURE RESEARCH**

Future research can be guided by the following three questions: When does a driving-market approach work? How much can market behaviors be changed? How do competitors react to a firm’s market-driving strategy?

Our model suggests that the link between a market-driving strategy and superior business performance becomes stronger as the opportunity for customer interaction increases. Our paper provides anecdotal evidence of the effectiveness of market-driving strategies of firms that are in close contact with customers such as Starbucks Coffee, Southwest Airlines, and IKEA. However, future empirical research is needed to test for the moderating effect of customer interaction in the relationship between market-driving and business performance.

Several factors may impact the extent to which the behavior of customers and competitors can be changed. Our framework suggests that market-driving strategies influence the behavior of market players. The importance of these changes is contingent on three factors: 1) the firm’s capacity to innovate through interactive learning, 2) the ability of the firm to reduce the duration of the transitory phase from an adhocratic- to a market-type culture, and 3) the extent to which the firm’s capabilities are used to drive customer value opportunities. Future research could investigate these issues.

A possible starting point for addressing the degree to which competitors react to a market-driving strategy may be found in Von Neumann and Morgenstern’s (1954) Game Theory. Game Theory is built on the premise that individuals and institutions pursue their self-interests. In the pursuit of self-interests, their behaviors are similar to those of game players, who take into account the plausible actions and reactions of the other players before making a decision. For example, if a company starts a marketing campaign (to increase sales), competitors will do what they can to neutralize the campaign (Davis 1997). Therefore, according to Game Theory, if a firm adopts a market-driving strategy, other firms may attempt to copy that strategy. Future research is needed to understand these complex dynamics.

As discussed, our market-driving framework triggers numerous research questions. A critical next step is the creation of measures for some of the constructs included in this paper, particularly market-driving. An initial attempt is found in Tuominen, Rajala, and Möller (2004) who used the degree of organizational proactiveness to assess market-driving. However, an effort to develop a scale to measure market-driving as a construct is yet to be undertaken. This would allow further empirical investigations that might provide insight into understanding the mechanisms underlying market-driving organizations.
REFERENCES


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