RECONSIDERING MARKET ORIENTATION: A STRATEGIC VALUE CHAIN PERSPECTIVE

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ABSTRACT

Over the course of the last decade, the benefits of the development of a market orientation reflecting the customer focus of the marketing concept have become almost dogma among marketing scholars (Narver and Slater 1990). Unfortunately, much of the normative advice regarding the appropriate foci of market orientation as well as the precise nature of the relationship between market orientation and performance was not grounded in empirical research (Kumar, Subramanian, and Yauger 1998). The continued interest in this topic has generated several major theoretical and empirical studies in the marketing literature addressing the concept of market orientation and its consequences for organizational performance (e.g., Kumar, Subramanian, and Yauger 1998; Slater and Narver 1994). The result has been the generation of a substantial body of literature that suggests a positive relationship between market orientation and organizational performance (Slater and Narver 1994). Generally, it is held that businesses that focus on the needs of their customers and strive to continually meet these needs through the provision of superior value will experience consistently positive performance outcomes.

However, as part of this surge in attention, recent findings of several researchers (e.g., Kumar, Subramanian, and Yauger 1998; Slater and Narver 1994) suggest potentially serious shortcomings in accepted conceptualizations of market orientation, which remain either far too broad, or too narrow, to be of optimal value from a strategic perspective. Moreover, current models of market orientation fail to consider possible antecedents to its formation with organizational performance, which in the literature is itself consistently defined in overly general profit terminology. In short, despite recent efforts to clearly explicate the concept of market orientation, it remains an appealing but superficial slogan which both scholars and practitioners alike have yet to fully understand or utilize.

The purpose of this study was to develop and enhance understanding of the market orientation-performance relationship. In contrast to previous efforts, the research vested the effects of market orientation on performance as direct, with business strategy acting as an antecedent to market orientation. Furthermore, these effects were proposed to be contingent upon similarities across organizations in their markets and in their approaches to providing value for their customers, as indicated by the business unit's position along its respective industry's value chain (cf. Porter 1985). That is, an organization's generic strategic orientation (i.e., overall low cost (OLC), market-based differentiation, and innovation-based differentiation) may be considered a significant predictor of the nature of that organization's market orientation (i.e., supplier-based, competitive-based, and external customer-based factors). In other words, we expect an organization's strategy to predispose the organization to attend to different sectors of its operating environment. For example, an organization employing an OLC strategy is likely to focus its market intelligence generation, dissemination and response activities (cf. Jaworski and Kohli 1990) on sources of input or supply such as the vendors and means of transport through which the raw materials used in its value-enhancing process are obtained (Ravenscraft 1983).

Using a strategic, supply-chain perspective (Galbraith and Kazajian 1986), the elements of the environment on which an organization focuses—how it orients itself to its environment—were proposed to impact the dimensions of performance in a differential fashion. Specifically, pursuit of a supply-based market orientation was proposed to lead to increases in market effectiveness as measured by increased long-term sales (e.g., research and development, sales growth, and advertising expenditures). Meanwhile, both competitive-based and external customer-based market orientations were expected to lead to enhanced efficiency as captured by performance measures such as return-on-assets or return-on-investment.

Method

The sample of firms used to test the hypotheses was gathered through a mail survey of respondents located in the pulp and paper industry. The targeted respondents were CEOs. Factor analysis was used to capture the dimensions of an organization's generic strategy, market orientation, and organizational performance. A linear regression model was employed to test the proposed relationships.

Discussion and Conclusion

The nature and content of market orientation remains a source of disappointment in the marketing literature, particularly from a strategic perspective. The findings of this research continue this pattern of mixed findings. For example, Kumar, Subramanian, and Yauger (1998) argue that market orientation does have a strong positive relationship with performance for organizations operating in the hospital industry. Conversely, the findings of this paper suggests that market orientation is not associated with organization performance (i.e., both long- and short-term performance) in the pulp and paper industry. Thus, these findings may suggest that industry may play a more critical role then previously expected in this relationship (Powell 1996). Similarly, the position of the organization along the industry's supply chain in relation to the type of generic strategy that the organization employs does influence its ability to adopt a specific marketing orientation. Upstream organizations, which utilize an OLC strategy, do have a strong association with a supplier-based marketing orientation but not with competitive- and external customer-based market orientations. For downstream organizations, a strong linkage was found between value chain position, generic strategy, and supplier-based and competitive-based market orientations, but not with external customer-based market orientation. This could suggest that external customer-based market orientation is not as important as supplier-based and competitive-based market orientation for firms operating downstream in this industry.

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