Understanding and Practising Market Orientation: Exploring How Managers Cope in Turbulent Environments

by

Geir Grundvåg Ottesen

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Department of Social Science and Marketing
The Norwegian College of Fishery Science
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CONTENTS

OUTLINE OF THE THESIS

The present thesis is about market orientation and how it is understood and practised by firms operating in highly turbulent and competitive environments. The thesis is divided into three parts. In **Part I**, the introduction discusses benefits and challenges related to how market orientation can be practised in "real-life" settings. Then the perspective for the thesis is described, and finally, the research outlined. In **Part II**, a collection of six papers is presented. In **Part III**, the main findings and contributions of the thesis are highlighted.

PART I

Market Orientation: Promises and Challenges

During the last 10 years or so, the construct of market orientation has been the object of considerable interest and attention from researchers. A range of definitions of market orientation have been suggested and refined, and operationalised measures developed (e.g. Deng and Dart, 1994; Deshpandé and Farley, 1998; Kohli and Jaworski, 1990; Matsuno *et al.*, 2000; Narver and Slater, 1990; Ruekert, 1992). Antecedent conditions for, and consequences of, being market-oriented have been examined as well (e.g. Greenley, 1995; Jaworski and Kohli, 1993; Narver and Slater, 1990). Since 1990, more than 150 articles about market orientation have appeared in scientific (peer-reviewed) journals.

How can this strong interest be explained? And what about practitioners – Have they adopted a market orientation? The extent to which business managers and their firms have adopted a market orientation has not been examined widely and is thus uncertain. However, there are compelling reasons to believe that business managers are interested in and motivated to attend to and try out the ideas of market orientation. In today's turbulent and competitive environments, customers are a scarce "resource". To survive and prosper, business firms need to attend to and attract a sufficient number of customers who are willing to purchase their products and services at a price which at least covers the costs involved. Usually, firms also need to pay attention to competitors because competitors' goods and services are likely to influence customers' preferences and choices (Dickson, 1992). A market orientation offers a "lens", believed to provide organisations with a unifying focus and clear vision that will lead to improved access to information and understanding centred around creating superior value for customers (Day, 1994; Kohli and Jaworski, 1990; Slater and Narver, 1995). It is also believed that firms "oriented" toward the market (i.e. customers and competitors) should have good prospects for attracting a sufficient number of profitable customers (Kohli and Jaworski, 1990). Thus, a market orientation is assumed to be highly beneficial for business firms and other types of organisations.

Before managers can develop an interest in, and benefit from, the ideas of market orientation, they must be exposed to the concept and learn how it can be put into practice. During the last decade or so, managers have been widely exposed to "propaganda" in favour of market orientation. For example, market orientation has received much positive attention in management-oriented journals such as the *Harvard Business Review* (e.g. Shapiro, 1988) and *California Management Review* (e.g. Day, 1994). In the Norwegian context from which the current research is derived, the award-winning article by Kohli and Jaworski in *Journal of Marketing* in 1990 has been translated into Norwegian and presented and commented on in a Norwegian management journal (see Rygge, 1998; Sandvik, 1998). Also, a special issue focusing on market orientation was published some years earlier (see e.g. Grønhaug, 1991; Selnes and Hårvik, 1991). The benefits of market orientation are also disseminated to practitioners through marketing seminars, courses and textbooks (e.g. Kotler, 1994). Furthermore, market orientation is a frequently mentioned success criterion or "recipe" emphasised by Norwegian policy makers (e.g. SND, 1994) and governmental bodies (e.g. Fiskeridepartementet, 1998).

For the above reasons, managers responsible for their firm's activities and performance are likely, not only to be exposed to the market orientation concept; they are also likely to find "market orientation" and its underlying intentions both appropriate and appealing.

However, present insights regarding *how* firms implement the ideas of market orientation are limited. And, in spite of the assumed benefits and its appealing features, adopting and exploiting the ideas underlying the market orientation construct may not be straightforward. There are several reasons why this may be the case. For example, Hult *et al.* (2001) demonstrate the presence of five "market orientation paradigms". This multitude of perspectives makes it hard to chose the "right" one and may thus be confusing for managers. In addition, a close look at the empirical evidence shows that the benefits of market orientation are disputed. Studies from North America have generally shown a positive relationship between market orientation and several measures of performance (e.g. Atuahene-Gima, 1996; Jaworski and Kohli, 1993; Ruekert, 1992; Slater and Narver, 1994), while European studies have been inconsistent (Diamantopoulos and Hart, 1993; Greenley, 1995). For example, in a study of 240 British firms, Greenley (1995) found no support for a main effect between market orientation and performance variables such as return on investment, new product success rate and sales growth. It should also be noted that, in his study, Greenley identified environmental variables moderating the relationship between market orientation and performance. This led him to conclude that: "…market orientation may not have a direct effect on performance in all national business cultures, as its influence seems to be dependent on the environment" (p.8). Similarly, other studies have found support for factors moderating the effect of market orientation on organisational performance (Jaworski and Kohli, 1993; Slater and Narver, 1994). Therefore, managers considering adopting the ideas underlying market orientation may want to evaluate the "evidence" and consider its implications for their own organisation and context. Undertaking such scrutiny is, however, a substantial task, which may be beyond the capacity and competence of business managers or other practitioners. And, if they do take on this task, they will probably be left with more questions than answers.

Managers interested in market orientation face other problematic issues as well. For example, whereas much research on market orientation has focused on developing and testing theories regarding, e.g. the consequences of market orientation, very little effort has been devoted to understanding how firms and their management can successfully "translate" the ideas of market orientation into practice. This is a highly relevant concern because, as with most theoretical constructs, the concept of market orientation is relatively abstract and may thus require substantial knowledge and motivated effort to put into practice (Grønhaug, 2001). Managers acquiring the market orientation concept may also vary in the extent to which they are exposed to and adopt the "full" theoretical construct, including its conceptual foundations, or if they merely adopt a more or less empty "label". In addition, the broader "theory" of market orientation has become more elaborate and encompasses so many relationships that it has become complex, making it more difficult to exploit (cf. Day and Montgomery, 1999).

For these reasons, managers may find it difficult to apply the ideas underlying the market orientation construct and the "theory" it is part of. What appears to be missing is research into *how* firms and their management can adopt and exploit the market orientation construct in an adequate manner.

An additional factor which may make it difficult to adopt the idea of market orientation is that the "theory" of market orientation is based on more or less implicit assumptions that do not hold true in all contexts/situations. This can be illustrated by a concrete example: It is common wisdom that securing timely and appropriate supplies of critical input factors crucial in order to satisfy customers (and thus to be market-oriented). However, securing supply is almost neglected in the literature on market orientation. There may be several reasons for this neglect, e.g. that past research has primarily been conducted in industries where supply is relatively stable and thus that securing supplies is assumed to be unproblematic in terms of being market-oriented. It seems plausible, however, that firms' ability to satisfy their customers is significantly restricted when they face a highly turbulent supply situation (e.g. they may be unable to serve their customers as agreed upon). Thus, to be market-oriented, they must handle the supply situation adequately. That the research literature offers little insight into how market-oriented firms cope when they face high supply uncertainty suggests that the current "theory" of market orientation is less useful in such situations.

Another limitation regarding past research on market orientation is an almost exclusive focus on firms operating under conditions of oligopolistic competition. That is, the focus in the literature has been on industries with a limited number of dominating firms and where the outcome of a competitive move (e.g. a price change or the introduction of a new product) depends more or less on the reaction of rivals (cf. Porter, 1980). This focus can be seen through the strong emphasis in the market orientation construct on analysing competitors at an *individual* level. For example, according to Narver and Slater (1990) market-oriented firms should analyse key current and potential competitors in terms of their entire set of technologies for satisfying the focal firm's target buyers. Whereas this focus certainly seems warranted in oligopolistic markets, it may not be equally applicable to firms operating in markets where conditions come close to the economist's "ideal" of perfect competition. When the number of suppliers of the same products is multiple, e.g. several hundreds of similar competitors, it becomes almost impossible to take all of them into account – such a task would be far beyond the limits of their time, economic resources, and cognitive capacity. Rather, firms will try to assess some more aggregate market trends. The lack of focus on market orientation in highly competitive, close to "perfect" markets, is surprising. In one of the most cited contributions in the market orientation literature, the authors state that (Kohli and Jaworski, 1990, p.15):

> "…the benefits afforded by a market orientation are greater for organizations in a competitive industry than for organizations operating in less competitive industries."

In spite of this, the extant literature says very little about market orientation in industries that are close to "perfect" markets, i.e. probably the most competitive situation a firm can be in. This is an important void in the literature because many industries face conditions that come close to the ideal of "perfect" competition. For example, in industries based on natural resources, products (e.g. certain types of seafood) have relatively few attributes and are thus rather homogeneous. In such industries there are often multiple sellers and buyers, information flows easily, and transaction costs are rather low. An intriguing and under-researched question is how firms operating in highly competitive "perfect" markets perceive and practise market orientation.

Furthermore, in current research on market orientation it is often assumed that information about the marketplace can rather easily be collected, understood and exploited by the market-oriented firm. For example, Kohli and Jaworski (1990, p.6) define market orientation in the following way:

> "Market orientation is the organizationwide *generation* of market intelligence pertaining to current and future customers needs, *dissemination* of the intelligence across departments, and organizationwide *responsiveness* to it".

This definition and the underlying discussion provided by the authors (pp.4-5) suggests that the market-oriented firm is perceived as *the* active part "monitoring" and "scanning" its current and future market(s). This view is reflected in other contributions as well. For example, Day (1994, p. 9) claims that: "market-driven firms stand out in their ability to continuously sense and act on events and trends in their markets". Whereas some firms will clearly be better than others in such informational activities, the perspective offered seems somewhat unrealistic. There are several reasons for this. First, the information-processing capacity of managers and their organisations is rather limited. In an increasingly competitive and turbulent environment, firms and their management are exposed to far more information (data) than they can possibly assimilate and comprehend. This relates to the fact that managers are busy people, continuously confronted with a wide range of tasks and demands (cf. Mintzberg, 1973). And, as other people, managers (and their firms) are restricted by the limits of their cognitive capacity, i.e. their capacity to notice, interpret, store and make use of data is restricted (Simon, 1957). Thus, although they may try to the best of their abilities to actively collect, interpret and make use of market data, their limited time and cognitive capacity make it difficult to be such "proactive" agents, monitoring and scanning their markets, as portrayed in the market orientation literature. Second, firms depend on a range of constituencies for critical resources such as labour, capital, raw materials, information, and markets willing to buy their output (Pfeffer and Salancik, 1978). Thus, they must allocate their limited informational capacity to attend to and understand the needs and wants of a range of sectors - not only customers and competitors (cf. Greenley and Foxall, 1996; Kimery and Rinehart, 1998). Third, firms' informational activities can be restricted by their strategic networks (cf. Gulati *et al.*, 2000). To obtain necessary inputs and to provide competitive outputs, firms *interact* with a range of different actors in their surrounding environments. For example, firms obtain valuable information about external opportunities and threats through interactions with customers, consultants, research universities, and other knowledgeable actors. However, due to their limited informational capacity, firms only have time and resources to interact with a *limited* number of actors at any point in time, which means that firms, by making choices to interact or ally with some partners also exclude others. According to Gulati *et al.*, (2000), the result is that firms are locked in or "captured" in their existing networks, and thus locked out of other networks. Even very loose relationships or single encounters with external actors draw on the limited time and resources that organisations possess. This implies that the structure of firms' networks is crucial, both because networks provide access to resources and information, and because networks may impair firms' access to significant actors, which may have emerged through recent environmental changes. In rapidly changing and increasingly complex environments, it may be difficult for management to sort out the actors or environmental sectors that are really significant to the firm. And, importantly, in dynamic environments, choosing with whom to interact may not always be a matter of deliberate choice, as external actors may be the ones who initiate interactions, *not* the focal firm. Such initiatives may be unexpected and come and go in accordance with the changing needs and demands of the *other* actors. For example, consumers are less willing to be passive participants in the marketing process (Day and Montgomery, 1999). This is illustrated by the fact that consumers, and other types of customers, frequently express their opinions via complaint behaviour. It should also be noted that customers often play an active role in product development (see e.g. Kristensen, 1992; von Hippel, 1986).

From the above discussion it follows that, although the market orientation construct can be beneficial to firms, there is a substantial lack of insight regarding whether and how firms and their management adopt and make use of the ideas of market orientation. In addition, the market orientation construct as we know it from the research literature might not "fit" the contextual realities facing firms operating in, for instance, highly competitive "perfect" markets and/or facing highly turbulent supplies of critical input factors. The research literature also seems to be overly optimistic in terms of firms' ability to collect and exploit market information. Thus, an interesting question underlying this thesis is whether managers can sort out the "mismatch" between abstract "theory" and their contextual realities in order to benefit from the ideas of the market orientation construct.

The thesis addresses the criticism and questions raised above. This is done by focusing on how managers understand the market orientation concept, including how their understanding is influenced when they operate in turbulent supply environments and/or in highly competitive "perfect" markets, and in turn how this affects their goal-directed behaviours. In this way, it is possible to gain insights into how firms and their managers perceive and practise market orientation, as well as how this is done in two types of environments not covered by previous research. The thesis also addresses how firms and their management can engage in knowledge-enhancing activities in order to compensate for their limited informational capacity.

Perspective

This section describes the perspective which underlies the present research. The perspective relates to the discussion presented above, and provides a framework that has guided and directed the research. The perspective is presented in Figure 1.

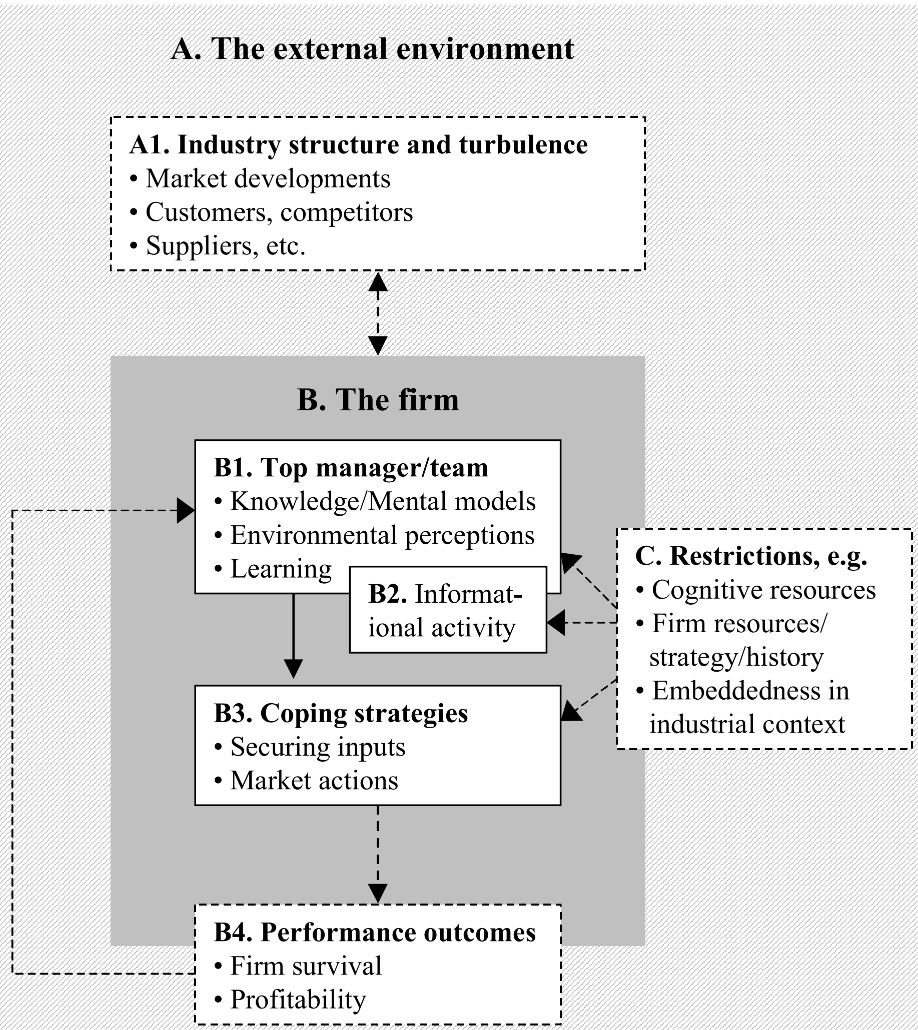

Figure 1. Perspective for the thesis. Solid lines indicate the main focus of the research - dotted lines indicate related issues, which are important but not directly examined in the present research

The perspective in Figure 1 is explained in the following. Firms are embedded in ever-changing environments (A). To operate effectively and thus to perform well, firms need regular inputs. This follows from the input – throughput – output paradigm, which states that firms' value creation is brought about by transforming input factors (e.g. capital, labour, technology and information) into valuable products and services that can stand up to the competition in the output market (cf. Katz and Kahn, 1978). Firms' external environment (A) can be characterised and described in various ways, for instance, in terms of turbulence (A1). Turbulence refers to more or less unanticipated changes in the external environment. This implies instability, which may make the acquisition of various input factors uncertain. Uncertainty is a fundamental problem for organisations, because firms' performance depends heavily on adequate utilisation of capacity, imposing fixed costs (Thomson, 1967).

A prime reason for environmental turbulence can, as noted in the foregoing discussion, be that the supply of critical input factors is unstable and unpredictable. Another factor that may cause turbulence in the environment is that multiple actors depend on various inputs to operate effectively. Such inputs are seldom in abundance. Therefore, actors in their goal-directed efforts to perform well, try to "secure" their necessary inputs. This leads to competition, which often implies turbulence. There are several reasons for this. For example, when firms operate under oligopolistic market conditions, it is often difficult to foresee competitors' moves and reactions, which may produce unintended outcomes, which in turn leads to more or less unpredictable actions and reactions and thus turbulent conditions (Porter, 1980). In highly competitive industries consisting of a large number of independent firms, the individual firm is not affected by the actions of other individual actors, but rather responds to overall market conditions (Porter, 1980). Such markets are seldom stable. Rather, they are characterised by fluctuations caused by a large number of relatively insignificant actors who try to anticipate and take advantage of market changes. In this situation, each individual actor reacts to the signals he or she gets. For example, in the Norwegian salmon farming industry, several organisations provide regular (weekly) data on industry and market trends, e.g. production volume and market prices. This information is easily available to all actors. When such information shows, e.g. that supply is increasing and that price trends point downwards, the individual producer is likely to hold back on sales in anticipation of higher prices. When multiple actors react similarly, supply will decrease below demand and lead to higher prices. This in turn attracts a surplus of products so that supply exceeds demand, again resulting in lower prices. In this way, highly competitive markets may become rather unstable and turbulent.

Competition may create turbulence, not only in the product market, but also when actors compete for other types of resources as well. Firms compete for a wide range of inputs, e.g. the best available technology, the most reliable and competent suppliers, or they compete for the most timely, reliable and relevant information[1]. Competition in different arenas between actors with different resources and motivations leads to turbulent conditions, making it difficult to obtain needed inputs.

In this thesis, the prime focus is on top managers (B1). The main reason for this focus is that top managers are assumed to play a central role in guiding and directing their firms (Cyert and March, 1963; Hambrick and Mason, 1984). This holds true in particular in small- and medium-sized firms, which are focused upon here. In such firms, the top manager is the prime decision-maker, has everything at his or her fingertips, and knows what is going on. Thus, by focusing on how the top management think and act, it is possible, at least to some extent, to "capture" how the firms think and act.

In small- and medium-sized firms, upper management usually consists of a managing director, whose main responsibility is to run the company. Managers responsible for different functional areas (e.g. finance, marketing and production) usually assist the top manager in decision-making. In this way, the top manager and his or her functional managers may constitute a top management team. The number of team members depends on several factors such as the size of the firm and the complexity of its operations.

To guide and direct their firms in a successful manner, managers acquire and use two principle types of knowledge. First, knowledge about how to proceed in a given situation is needed, e.g. how to adequately analyse customers and their needs and wants. This is referred to as *procedural* knowledge (cf. Anderson, 1983). Managers also need detailed *contextual* knowledge, for instance about market size and developments (cf. Anderson, 1983). Such knowledge is needed because firms are context-bound and thus knowledge about the actual context in which they are embedded is needed to operate rationally. To develop these two types of knowledge, managers often go through extensive training and education, and they learn through their experiences. For example, by observing and reflecting over the outcome of their firm's market actions (B4), managers may acquire new insights into what works and how to act (cf. the feedback loop between B4 and B1 in Figure 1). Gradually, managers become experts in their domains. However, to become true "experts", managers, like other

[1] Recently, it has also been argued that firms and other market actors compete, not only at the level of material resources and information, but also at a sociocognitive level. Rindova and Fombrun (1999) argue that firms compete for favourable positions in the socially constructed competitive terrain constructed by the interpretations of important actors. For example, definitions of success, which are socially constructed, contribute to a firm's competitive advantage by affecting actors' overall position in the interpretational domain that surrounds industries (Rindova and Fombrun, 1999). Competition over interpretations leads to turbulent conditions, which makes it difficult to obtain favourable interpretations among other actors.

individuals, need to go through extensive training and learning, which lasts at least 10 years (Simon, 1991).

As noted in the previous section, firms and their management need to conduct informational activities (B2) to update their knowledge and thus to learn (B1). It is the responsibility of top management to initiate and facilitate the implementation of appropriate coping strategies (B3), which may (or may not) lead to favourable outcomes such as firm survival and profitability (B4).

Firms, in their efforts to learn and adjust to their surrounding environment, are restricted by a number of factors (C). For example, as noted in the foregoing discussion, managers have limited time and cognitive resources, which restricts their informational activity (B2). In addition, managers, like other individuals, are guided and restricted by their "mental models", i.e. their mentally constructed "road-maps" of what works and how to act (Johnson-Laird, 1983). Importantly, such mental models can, if appropriate for the current domain, lead to improved access to information and understanding and thus help managers cope in turbulent environments. However, mental models may also lead to negative outcomes such as the neglect of crucial information, and lead to erroneous environmental perceptions (Barnes, 1984; Starbuck and Mezias, 1996; Sutcliffe, 1994). It is also important that knowledge structures tend to be rather rigid (Sanford, 1987), which makes it harder for managers (and others) to update their knowledge structures and thus to learn (for excellent illustrations see e.g. Argyris, 1991 and Levitt, 1960).

Firms and their managers can also face restrictions in their ability to affect important organisational outcomes (Hambrick and Finkelstein, 1987). For example, firms' resources (e.g. capital, skilled labour and technology) may influence and limit the possible actions a firm can take. Also, firms' past history and current strategy influence the scope for action or leverage management has. Obviously, a top manager is substantially restricted by the current strategic direction of his or her firm.

Finally, firms' ability to learn and act can be restricted by their embeddedness, i.e. their pattern of interactions and relationships with various external actors, as discussed earlier. All these interactions draw on firms' limited informational capacity and may thus impair their access to important information. It should also be noted that the more or less unanticipated initiatives and demands of external actors could disturb and distract firms in their goal-directed attempts to be proactive learners.

The Research

The present research is reported in the form of a "collection of articles" rather than a "monograph". The main reason for this was a desire to examine and explore several different aspects related to how the market orientation concept is understood and practised by firms embedded in highly turbulent and competitive environments. This led to distinct approaches in terms of research questions, theory and data requirements, which were best reported as separate studies (these are presented in Part II of the thesis).

In their own way, each of the six articles presented has some unique aspects. However, they can be categorised in terms of how they contribute to the overall purpose of the thesis. Accordingly, papers I, II and III, focus on how firms understand and use the market orientation concept, and whether and how this is influenced by a turbulent supply environment and a highly competitive "perfect" market. In Paper I, an empirical study was designed to examine whether and how four top managers in different firms in the highly competitive salmon farming industry understand and practise the market orientation concept. In Paper II, two groups of upstream actors exposed to different levels of supply uncertainty (i.e. high versus low) were investigated in order to understand whether and how their market-oriented thinking and behaviour is affected by this type of turbulence. Paper III focuses specifically on how actors exposed to high levels of uncertain supply cope to compete effectively in their output markets. Ten firms (and their top managers) in the whitefish industry were selected for this study. This industry is characterised by very high levels of supply uncertainty.

Papers IV, V and VI focus on managers' and their firms' informational activities. The adequate and timely collection and use of information is a crucial dimension of the market orientation construct. However, as discussed in the introduction, the market orientation literature holds unrealistic expectations regarding firms' ability to collect and exploit information. Thus, in accordance with the perspective outlined above, papers IV, V and VI, focus on how firms and their management can – within the restrictions of their limited informational capacity – engage in knowledge-enhancing activities. Specifically, paper IV provides a study of how managers, by exploiting the benefits afforded by a team, can enhance their access to information and understanding. Paper V focuses on firms' strategic networks and examines factors which affect firms' ability to adjust positions in, and take advantage of, their external information network. Finally, paper VI focuses on firms' acquisition of new information by contracting with external researchers to conduct specific research tasks. Here, a crucial concern is how differences in researchers’ and users’ knowledge and thinking can impair the use of the acquired research information, as well as how these differences can be reduced to enhance information use.

PART II

The Papers

I

Paper I: Managers' Understanding of Theoretical Concepts: The Case of Market Orientation*

Forthcoming in *European Journal of Marketing*.

* An earlier version of this paper was published in O'Cass,A.(Ed.) (2000) *Visionary Marketing for the 21st Century: Facing the Challenge.* Proceedings of the ANZMAC 2000 Conference, Griffith University, Gold Coast, Australia, 28th November - 1st December. The authors thank two anonymous reviewers for the *European Journal of Marketing* for their valuable comments and suggestions.

II

Paper II: Market Orientation and Uncertain Supply in Upstream Markets: An Exploratory Study*

Revised and resubmitted for *European Journal of Purchasing and Supply Management.*

* An earlier version of the paper was presented at the FIBE XVII conference, Bergen, Norway, January, 2000. The authors acknowledge the valuable comments provided by Bent Dreyer, Lene Foss, Magne Supphellen and two anonymous reviewers for the *European Journal of Purchasing and Supply Management.*

III

Paper III: Coping Strategies in Highly Turbulent and Competitive Supply Environments*

Under review for *Scandinavian Journal of Management*

* An earlier version of this paper is accepted for presentation and the proceedings of the AMA Winter Marketing Educators' Conference. 22-25 February 2002, Austin, Texas. The authors acknowledge the very valuable comments and suggestions offered by the editor for *Scandinavian Journal of Management*, Professor Kristian Kreiner, and Bent Dreyer.

IV

Paper IV: Do Managerial Team Members Share Mental Models of Market Orientation? An Exploratory Study*

Under review for *Journal of Market-Focused Management.*

* An earlier version of this paper was published in O'Cass,A.(Ed.) (2000) *Visionary Marketing for the 21st Century: Facing the Challenge.* Proceedings of the ANZMAC 2000 Conference, Griffith University, Gold Coast, Australia, 28th November - 1st December. The author acknowledges the very valuable comments provided by Professor Kjell Grønhaug.

V

Paper V: Exploring the Accuracy of Managers' Network Perceptions[*]

Under review for *European Journal of Marketing*.

[*] An earlier version of this paper was presented at the FIBE XVIII conference, Bergen, Norway, January 4-5, 2001. The authors acknowledge the valuable comments provided by Associate Professors Tor Korneliussen, Magne Supphellen and Professor Jim Walsh.

VI

Paper VI: Benefiting from Commissioned Research: The Role of Researcher – Client Cooperation*

Submitted to *Creativity and Innovation Management*.

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* An earlier version of this paper is accepted for presentation and the proceedings of the ANZMAC 2001 conference, 2-5 December 2001, Massey University, Auckland, New Zealand.

PART III

Main Findings

The present work has focused on three main issues, i.e.:

1. How managers understand the market orientation concept
2. How a market orientation is conceptualised and practised by firms operating in (a) turbulent supply environments and (b) highly competitive “perfect” markets
3. How firms can enhance their knowledge in order to compensate for their limited informational capacity

The thesis provides six separate studies, each of which offers insights into one or more of these issues. The main findings are summarised below, in accordance with the research outlined above.

Managers’ understanding of market orientation

Three of the papers (i.e. papers I, II and IV) provide insights into the question: “How do managers understand the term ‘market orientation’”? The findings revealed that all the managers interviewed were familiar with the term “market orientation”, and that they had developed a rather fine-grained and elaborate understanding of it, including both influencing factors and the consequences of market orientation. Findings also show that the managers relate market orientation to their firms’ performance, which indicates that it relates to their goal-directed efforts to perform well and should thus influence their thinking and behaviour. Furthermore, findings revealed that the managers differed in their understanding of market orientation, even when embedded in the same firm (paper IV). It was also evident that their understanding partly differed from the intentions of the theoretical construct as advocated in the research literature (see e.g. Kohli and Jaworski, 1990; Narver and Slater, 1990). A major conclusion of papers I, II and IV is that the managers had created an understanding of market orientation that reflected the context in which they were embedded and operated.

Market orientation under conditions of turbulent supply

At the outset of the thesis, it was argued that the market orientation construct provides little insights into how a market orientation can be practised when firms face highly turbulent supply conditions. Paper II focuses specifically on this issue. Here, a quasi-experimental approach was applied to examine whether and, if so, how uncertain supply influenced firms' market orientation. This was done by selecting firms from two industry branches so that one group was exposed to the "treatment" (i.e. uncertain supply) while the other group was not. Thus, it was possible to "isolate" the effect (if any) of uncertain supply on firms' market-oriented thinking and behaviour. The findings of this study revealed that when supply is uncertain it is of utmost concern and considered a key determinant in satisfying the firms' target markets. An important finding of study II is that, when exposed to uncertain supplies, 9 out of 10 managers subsume "supply" in their understanding of market orientation, and in a setting with low supply uncertainty, only 3 out of 10 managers did the same. This observation provides strong support for the conclusion that when supply is uncertain it is a critical element of firms' market orientation. In this context, this makes perfect sense because in order to satisfy customers and earn profits, firms must be able to secure adequate and timely supplies of vital input factors. Paper III examines in detail the strategies firms use to secure necessary inputs when exposed to high supply uncertainty. Findings revealed that a multitude of strategies are applied and that none of these can eliminate the problems related to uncertain supply.

Market orientation in highly competitive, close to "perfect" markets

In the introduction, the market orientation construct was also criticised as being less relevant for firms operating in highly competitive markets. It was argued that the strong focus on individual competitors in the theoretical construct (see e.g. Narver and Slater, 1990) might be of less value in highly competitive markets where the behaviour of the *individual* competitor is of little or no importance. How then is market orientation conceived and practised by firms operating in highly competitive markets? Paper II reveals some interesting findings regarding this issue. For example, only two out of the twenty managers studied here associated individual competitors with market orientation. This observation departs from the perspective on market orientation as typically reflected in the research literature (see e.g. Narver and Slater, 1990). It should also be noted that the majority of the managers emphasised the crucial importance of information about market prices and conditions affecting prices, i.e. supply and demand. Thus when firms operate in highly competitive markets it is more important for them to understand how different "markets" behave in terms of supply and demand fluctuations than it is to understand the behaviour of individual competitors, which was reflected in their conceptualisation of market orientation.

Knowledge enhancing activities

In the introduction, the market orientation literature was criticised as being overly optimistic with regard to firms' ability to (actively) collect and exploit market information. Papers V and VI elaborate and extend this criticism. In paper V, it is shown that managers make substantial perceptual errors regarding their strategic networks, which restrict their ability to adjust their positions, and utilise their limited time and capacity to exchange relevant information with external actors. Paper VI reviews the empirical literature and finds that buyers of commissioned research (e.g. business firms) tend to misunderstand or neglect the information acquired. The paper provides a range of theoretical arguments as to why this may be the case, all of which relate to limitations in practitioners' knowledge (note that researchers' knowledge limitations also play a crucial role here – as is discussed in more detail below).

How then can firms enhance their knowledge and thus compensate, at least to some extent, for their restricted informational capacity? Papers IV, V and VI shed light on this important question, as follows: Paper IV examines how firms may enhance their access to information and understanding by affording the benefits of a top management team. The paper focuses on how the sharing *and* deviation in mental models of market orientation can lead to synergistic effects in information processing. The paper challenges an often implicit assumption found in the market orientation literature, i.e. that the relationship between sharing market-oriented beliefs and values among organisation members is positive and linear. A comparison of mental models of market orientation across the three members of a well-functioning top management team showed large diversity in focus, as only three out of seven categories were shared by all three team members. This large diversity was to some extent surprising because the conditions for shared cognition seemed "optimal" in a team that had worked closely together for several years. It was observed that the three managers studied "agreed" with regard to the most important category (i.e. customers). Together with the team members' *complementary* focus, this probably results in a more comprehensive collection and interpretation of information and provides a foundation for a consistent pattern of thinking and activity. Good company performance indicates this, i.e. that the focus of the top management team, and thus what they have paid attention to and emphasised, has had a positive impact on the firm's choice of actions (cf. Hambrick and Mason, 1984).

Paper V demonstrates, as noted above, that the adequate exploitation of strategic networks is restricted by inaccurate environmental perceptions. In paper VI it is argued that researchers and users of research are likely to differ in their knowledge and expectations of (commissioned) research and that this "gap" might lead to the production of irrelevant research and/or impair the utilisation of research. The paper focuses on how this gap can be reduced to enhance the use of research. Empirical support was found for the argument that cooperation during the production of the research enhances its use. It was also found that cooperation might substitute for assistance both in terms of conceptual and instrumental use of research information.

Contribution

In a recent commentary, Slater and Narver (1999) stated that much remains unknown about market orientation and that "the understanding of what it means to be market-oriented and how a market orientation benefits the firm continues to evolve" (p.1168). The purpose of the present research is to provide insights into *how* firms understand and practise market orientation in highly turbulent and competitive environments. This encompasses several under-researched areas relating to how a market orientation can be of benefit to firms.

An important contribution of the present study is that it addresses the recent criticism of the market orientation literature for not providing practical advice on how to implement the market orientation construct (Jaworski and Kohli, 1996). The present work shows that managers themselves can sort out the issue of "how to" by adjusting the market orientation concept to their actual context. In that way, the market orientation construct can help managers – in their goal-directed efforts to perform well – to understand their market reality and to act appropriately.

Another important contribution of the present work is that it demonstrates that, when actors operate under highly uncertain supply conditions, they associate issues related to supply with "market orientation", i.e. they subsume a "new" dimension under the construct of market orientation. Similarly, the present work captures actors' conceptualisations of market orientation when they operate in highly competitive “perfect” markets, showing that under such conditions, market orientation deviates partly from the perspective(s) reflected in the research literature, i.e. actors respond to aggregate market trends rather than the behaviour of specific competitors. These observations show, that the development of both “personal” and theoretical constructs is influenced by the context in which they are developed and used, which in turn influences their applicability.

The thesis also contributes to the literature on market orientation by demonstrating both conceptually and empirically that managers have restricted informational capacity, and by proposing and testing ways in which organisations may engage in knowledge-enhancing activities to compensate (to some extent) for their limitations. For example, the findings of paper IV indicate that the relationship between benefiting from sharing in mental models across members of top management teams has an inverted U-shape. Thus, the relationship between the sharing of mental models and associated benefits is not as straightforward (linear) as that reflected in the market orientation literature.

The present work also contributes beyond the somewhat limited sphere of market orientation. The research presented in paper III focuses on an important, albeit under-researched area of marketing, i.e. how to secure vital factor inputs in a volatile supply context. This research show that a multitude of different strategies are applied by actors trying to control, adjust to, or reduce the effects of uncertain supply – and that few of these strategies are really effective.

The findings regarding the *in*accuracy of managers’ perceptions of the frequencies of their own behaviour have theoretical and methodological implications which cut across the management disciplines (paper V). Here, managers are often asked to report frequencies of behaviour, such as the numbers of hours they have worked, or the number of meetings or contacts. Researchers use the frequency of such behaviours to develop and/or test theories about managers and/or the behaviour of their organisations (see e.g. Aguilar, 1967; Granovetter, 1973; Hambrick, 1982). The findings reported in paper V show that managers can make substantial errors when reporting the frequency of their own behaviour, indicating that such measures can be a serious threat to the reliability and validity of conclusions drawn from such data.

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