

Market-oriented organizations in an emerging economy

A study of missing links

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Abstract

The advantages of market orientation, entrepreneurship, and learning orientation to organizations have been evidently documented in Western economies. However, there has been little research into these practices and their impact on enhancing competitive advantages in emerging economies. This exploratory study, utilizing data from China's emerging economy, found that organizations with higher level of market orientation tend to be more learning-oriented, emphasize more on entrepreneurship, and be able to achieve higher level of organizational performance, than those with a lower level of market orientation.

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1. Introduction

In order to achieve a sustainable competitive advantage (SCA), marketing literature suggests that organizations are compelled to be customer-oriented and/or market-oriented (Deshpande et al., 1993; Day, 1992, 1994; Harris and Ogbonna, 2001; Kohli and Jaworski, 1990; Kohli et al., 1993; Narver and Slater, 1990; Webb et al., 2000), innovative as entrepreneurs (Covin and Slevin, 1989; Drucker, 1985; Jefferson and Rawski, 1994; Morris and Paul, 1987; Tan, 2001), as well as learning-oriented (Baker and Sinkula, 1999; Hunt and Morgan, 1996; Rames and Steger, 2000; Sinkula, 1994; Sinkula et al., 1997; Zahra et al., 2000). The advantages of market orientation, entrepreneurship, and learning orientation to organizations have been evidently documented in Western economies. However, there has been relatively little research into the extent to which these critical SCA-enhancing practices in emerging economies such as Eastern Europe, previous Soviet republics, and China (Hooley et al., 2000). Replication studies of market orientation, learning orientation, and entrepreneurship are

warranted because if these constructs are reliable and valid, they should also be applicable in different environments and economies (Bhuian, 1998; Hooley et al., 2000). In addition, despite voluminous discussion on each of these three constructs, there has not been an empirical study that interrelates market orientation from the perspective of cultural and processes/activities, with entrepreneurial orientation, and learning orientation, nor discusses these issues in a context of the emerging economy. This study may also answer the call for more research on entrepreneurship by Hurley and Hult (1998).

The present study, in particular, utilized data from China's emerging economy to test and validate the scales of market orientation, entrepreneurship, and learning orientation. The findings indicated that current state-owned enterprises (SOEs) in China, to a rather large extent, have adopted both market- and learning-oriented strategies, with an emphasis on corporate entrepreneurship. In addition, those with a higher level of market orientation are reported to be more learning-oriented, place greater emphasis on entrepreneurship, and tend to achieve higher organizational performance than their counterparts that are with a lower level of market orientation. Overall, this study extends the literature by simultaneously exploring the relationships between market orientation and other critical constructs,

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such as learning organization, entrepreneurship, and organizational performance.

2. Theoretical background and research hypotheses

According to resource-advantage theory (Hunt and Morgan, 1996; Morgan and Hunt, 1995), market orientation is an important resource of achieving competitive advantage, even SCA in the long term. Market and/or customer orientation research can be traced back at least to 1950s (Deshpande et al., 1993). Among the first scholars to emphasize the marketing concept, Drucker (1954, p. 37) states that: “There is only one valid definition of business purpose: to create a customer . . .” The fact that market orientation has been intensively studied may also be due to its significant managerial relevance (Deshpande and Farley, 1998). There have been empirical measurements of market orientation developed by a number of scholars (Narver and Slater, 1990; Kohli and Jaworski, 1990; Kohli et al., 1993; Deshpande et al., 1993) from both perspectives of the organizational culture and a set of processes and activities. On that basis, Deshpande and Farley (1998) propose a customer-oriented scale for measuring market orientation. Regardless whether the measurement is focusing on culture or processes/activities, a market orientation should consist of one value that all members of the organization commit to continuously create superior value for customers.

SOEs in an emerging economy such as China are believed to become more and more market-oriented (Chai and Docwra, 1997; Deng and Dart, 1999; Luo and Park, 2001). The governance structure of state enterprises has been changed considerably as the magnitude of economic reforms is becoming increasingly broadened. As SOEs are evolving in attaining more autonomy in their operation, the government has gradually streamlined its internal economic agencies/sections, as well as changed their functions from a direct administrative role of monitoring activities in their subordinate enterprises to a more directive role of formulating regulations and policies. As production targets and operating budgets are no longer being allocated by the central authority, the managers of SOEs now are more concerned about the market forces and customer satisfaction when planning for resources allocation (e.g., Chow and Fung, 1996).

Currently, the reform of SOEs follows the principle of *zhua da fang xiao* (grasp the large, let go of the small). That is, literally, the State retains ownership and control over large SOEs, while allowing small SOEs to survive on their own by converting them to various ownership structures (Cooper and Zheng, 1998). Those SOEs in key sectors remain under total state ownership because of their importance to the China’s economy. Generally speaking, sectors that are either natural monopolies or in upstream industries are less liberalized, and enterprises in these sectors are more subject to government interventions. On the other hand, manufacturing sectors, especially consumer goods manufac-

turing sectors, are more competitive; enterprises in these industries are more market-oriented (Chai and Docwra, 1997; Luo and Park, 2001).

To be successful, China’s SOEs will be compelled to be innovative in their business development (Jefferson and Rawski, 1994). Rather than opting for the conventional (and hence the “familiar” or the “comfortable”), SOE managers will have to be willing to assume risks, be proactive, and be market-oriented. It is therefore interesting to understand how the senior managers perceive SOEs in China being the market-oriented learning organization.

2.1. Market orientation and learning orientation

In an excellent review of organization culture, Deshpande and Webster (1989) note that organizations are cognitive enterprises. Therefore, organizations engage in a process whereby individual knowledge is being transferred to the organization so that it is in turn used by other individuals (Sinkula, 1994). Sinkula et al. (1997) propose a synergistic effect of organizational values, market information-processing behaviors, and organizational action. While organizational values comprise commitment to learning, open-mindedness, and shared vision, market information-processing behaviors incorporate Kohli and Jaworski’s (1990) assertion of market orientation, namely market information generation and dissemination.

Formally, organizational learning has been defined as a three stage process that consists of information acquisition, information dissemination, and shared interpretation (Sinkula, 1994). Alternatively, it refers to “the development of new knowledge or insights that have the potential to influence behavior” (Slater and Narver, 1995, p. 63). Organizational learning may take place in different forms such as adaptive learning and generative learning (Senge, 1990). While adaptive learning is sequential, incremental, and confined to the traditional scope of business activities, generative learning is a rather higher-order learning type, which occurs when “the organization is willing to question long-held assumptions about its mission, customers, capabilities, or strategy” (Slater and Narver, 1995 p. 64). Concurred with Slater and Narver (1995), Sinkula and colleagues note that a learning orientation is more than adaptive and should be generative in nature (Baker and Sinkula, 1999; Sinkula, 1994; Sinkula et al., 1997). In the short run, a learning orientation impacts market information-processing behaviors and marketing program dynamism. In the long run, it will lead to enhanced organizational performance and competitive advantage (Baker and Sinkula, 1999; Day, 1994; Moorman, 1995; Sinkula, 1994).

Environmental dynamism and hostility in an emerging economy require a structure that is able to accommodate resulting strategies (Miller and Friesen, 1984) and organizations are therefore compelled to be innovative in their business development (Jefferson and Rawski, 1994). The organization itself requires transformation through a series

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