



# Using supply chain management to leverage a firm's market orientation

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## Abstract

Building supplier relationships and becoming more market oriented have similar building blocks and have similar effects. Strong supplier relationships tend to impact the firm's performance, in part, because the firm can respond to customer needs in a more timely fashion. Supplier relationships tend to be stronger in firms where there is cross-functional sharing of supplier and customer information. Market orientation is an organizational culture that focuses the company on generating market information, cross-functionally sharing that market information, and rapidly responding to that market information to positively impact the performance of the firm. This study explored whether the positive effects of strong supplier relationships are enhanced in market-oriented firms. Results support the notion that supplier relationships are one way of leveraging a firm's market orientation through improved customer responsiveness. Cross-functional sharing of information appears to be the link that ties market orientation and stronger supplier relationships together.

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## 1. Introduction

Effective supply chain management (SCM) can improve a firm's performance through several means including building strong supplier relationships that enhance a firm's ability to respond to its customers more effectively. Developing a stronger market orientation can improve a firm's performance because the firm is focusing its efforts on responding and adapting to its market's needs more effectively than its competitors are adapting to the market's needs.

Recently, researchers have begun to examine the linkages between market orientation and certain aspects of SCM [1–3]. The current study considers the possible synergies created by firms with a strong market orientation and effective SCM. The concern is whether firms can capitalize on a strong market orientation through strong supplier relationships. Specifically, the possibility that SCM effectiveness can be enhanced in firms with a strong market

orientation and that SCM may be one way to leverage a well-developed market orientation to improve performance was the focus of this research. The foundation for a theoretical model is described by first discussing how a firm creates competitive advantages through supplier relationships and then how market orientation works to affect the performance of the firm. The common elements between these two processes are explored to develop a model that suggests translating a strong supplier orientation into strong supplier relationships is one way to enhance the effect of a strong market orientation on performance. Using results from a survey, several research propositions are addressed regarding the overlapping role of supplier relationships and market orientation in affecting performance. Fig. 1 displays the proposed connections between elements of market orientation and strength of supplier relationships.

### 1.1. Supplier relationships

SCM produces a competitive advantage that positively impacts the performance of the firm [4–6]. To create a competitive advantage, SCM is increasingly emphasizing intrafunctional, cross-functional, and interorganizational coordination of activities [7,8]. The competitive advantage

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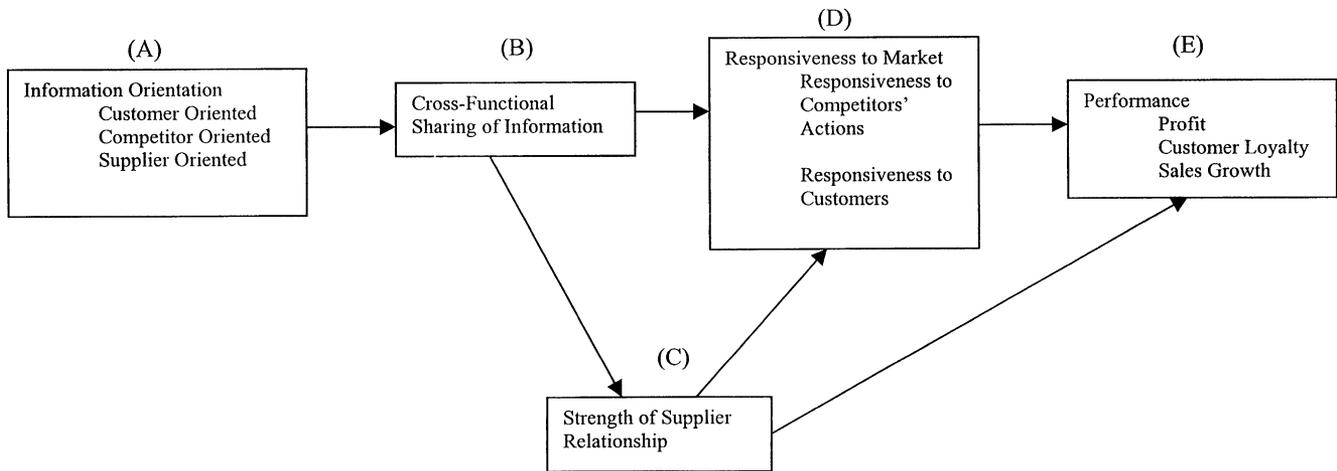


Fig. 1. Overlap between market orientation and supplier relationship development.

created by SCM includes the creation of efficiencies in the supply chain oriented toward providing better customer value than competitors [6]. Within the supply chain domain, customer value is created through two mechanisms: reducing costs and increasing responsiveness to customers' needs [5]. The creation of customer value through SCM results in a positive impact on the firm's profitability and customer loyalty [9]. Proposition 1 captures these two mechanisms.

*Proposition 1:* Strength of supplier relationships will be positively and directly related to firm performance and directly and positively related to responsiveness to customers' needs and competitors' actions (in Fig. 1:  $C \rightarrow E$  and  $C \rightarrow D$ ).

In addition to logistics management, activities within the supply chain will increasingly include the development and maintenance of supplier information databases and the use of supplier information to manage supplier relationships [8,10]. Within the supply chain, a company has suppliers who may have their own suppliers and customers who may have customers of their own [6]. Building effective supplier relationships that are oriented toward the creation of customer value requires a company to maintain and use information about suppliers, but also requires information about the company's customers, end users, and competitors.

However, having information is not enough to drive supplier relationships. SCM is contingent on having a culture that fosters cross-functional sharing of information [6]. The cross-functional sharing of information makes it easier for different functional areas of the firm (e.g., marketing, engineering) to work with suppliers [11]. For example, Lambert and Cooper [6] suggest that the kind of information and the frequency of information updating that is shared interorganizationally will have a strong influence on the efficiency of supplier relationships. To be willing to share information with suppliers, the company must have a culture for sharing information internally across functional

areas of the firm. In addition, because the information shared with suppliers is likely to be quite variable in its functional source, a company that uses information for cross-functional coordination should have people from different functional areas who can easily work with suppliers, thus fulfilling various interfaces that strengthen the relationship with suppliers. Finally, in a recent survey of logistics managers, cross-functional collaboration was an essential antecedent leading to enhanced distribution performance, indicating the importance of cross-functional collaboration in SCM [11]. Proposition 2 states the importance of cross-functional sharing of information in building supplier relationships.

*Proposition 2:* Cross-functional sharing of information will be directly and positively related to stronger supplier relationships. Supplier- and customer-oriented information will be indirectly and positively related to stronger supplier relationships through cross-functional sharing of information (in Fig. 1:  $B \rightarrow C$  and  $A \rightarrow B \rightarrow C$ ).

### 1.2. Market orientation

Market orientation, as the embodiment of the marketing concept, has been characterized as a culture of the organization that produces superior value for customers and outstanding performance for the firm [12–15]. Market orientation has also been described as the implementation of the marketing concept, that is, a set of activities designed to satisfy customer needs better than competitors are able to satisfy customer needs [16–20]. Whether the focus of market orientation is on the organization's culture or on implementation of the marketing concept, there is general agreement regarding the elements of market orientation. Those elements include ongoing and systematic information collection regarding customers and competitors, cross-functional sharing of information and coordination of activities, and rapid responsiveness to competitor actions and changing market needs.

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