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The effects of authoritative mechanisms of coordination on market orientation in asymmetrical channel partnerships

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Abstract

An important outcome of a firm's interorganisational relationships is the attainment of resources and capabilities required to attain a competitive advantage. Although market orientation has been considered one of those critical resources, there is little understanding regarding how it is created and nurtured in business relationships. In the context of asymmetrical channel partnerships dominated by a downstream leader, in this paper we present a model where the upstream follower's market orientation is promoted as a consequence of the leader's use of authoritative mechanisms of coordination. Some hypotheses are presented and empirically tested in a sample of agricultural cooperatives that maintain channel partnerships with second-order marketing cooperatives. The results indicate that formalization, participation, input control, and behaviour control are coordination mechanisms that lead to improvements in market orientation. Implications for interorganisational theory and managerial activities are discussed at the end of the paper.

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1. Introduction

The end of the 20th century has witnessed a growing competitive pressure in most industries, forcing companies to seek more creative and flexible means for meeting competition. Many firms have faced these challenges participating in interorganisational alliances to achieve the critical resources they need to obtain competitive advantage (Dyer & Singh, 1998). One of those critical resour-

ces is market orientation, which has been considered as a causal antecedent of a firm's overall perceived performance (Jaworski & Kohli, 1993), profitability (Hooley et al., 2000; Narver & Slater, 1990; Pelham, 1999), market performance (i.e., sales growth, new product success, market share, and marketing and sales effectiveness; Hooley et al., 2000; Matsuno & Mentzer, 2000; Pelham, 1999; Slater & Narver, 1994), superior customer value (Slater & Narver, 2000), and sustainable competitive advantage (Hunt & Morgan, 1995). This justifies the relevance of studying how companies can attain higher levels of market orientation.

Some internal factors have been postulated as antecedents of a firm market orientation (see for

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example Kohli & Jaworski, 1990). However, to the best of our knowledge, only Siguaw, Simpson, and Baker (1998) and Baker, Simpson, and Siguaw (1999) empirically analyse market orientation in business relationships. Using reference group theory, Siguaw et al. found that the distributor's market orientation is positively influenced by its supplier's market orientation—i.e., the distributor would be more market oriented “...to comply with its reference group's norms or in meeting some perceived standard” (p. 101). Baker et al. unveiled market orientation as an antecedent of the relational dimensions of trust, cooperative norms, and commitment.

The main purpose of this research is to examine how a firm's market orientation is improved as a result of its channel relationships. The revision of marketing literature does not show any study that empirically analyses the effects of the interorganisational processes and structure on the partners' market orientation. This lack of empirical research is surprising given the theoretical consensus on the potential utility of interorganisational relationships to obtain market intelligence (Kohli & Jaworski, 1990), to offer superior customer value (Slater & Narver, 2000), and to generate relational quasi-rents (Dyer & Singh, 1998). Moreover, researchers in the area of relational marketing have stressed the importance of relationships to obtain and develop the critical resources and capabilities of the company (Anderson, Hakansson, & Johanson, 1994; Hunt, 1997). Therefore, the model presented and tested in this article will contribute towards filling this gap in the literature of interorganisational relationships. This is addressed within the particular setting of channel partnerships in the commercialisation of fresh fruit and vegetables.

During the last decades, channels of distribution for these products in the European Union have witnessed a growing concentration in the retailing sector, accompanied by centralized buying decision-making (Brookes, 1995). In this context, the distance between farmers and consumers hindered farmers from accessing accurate and immediate market information, delaying their adaptation to the fast pace of changes in retailing and consumers demands (Dijk & Mackel, 1994), and causing asymmetry of information that could be opportunistically used by retailers (Wathne & Heide, 2000).

The creation of cooperatives that integrate farmers from the same geographical area, hereafter named first-order marketing cooperatives (IOMC) was, in most of the European countries, one of the initial reactions in order to reduce both production costs (Sargent, 1991) and transaction costs (Ollila, 1994). IOMCs are responsible for commercialising their farmers' production, although other services can also be offered (i.e., supplies, technical support, etc.). However, even though they represent a first movement toward higher levels of integration in the agricultural sector, their local orientation limits the volume and number of products they can offer to their clients. Compared to their larger competitors, IOMCs' competitiveness is hindered by their inability to provide the service required by the distribution chains at a reasonable cost (e.g., assortment, larger temporal coverage of the campaign, strict reliability and stability of the deliveries). As a result, the cooperative sector responded with higher levels of integration (Sargent, 1991). Whereas in some countries (e.g., Germany) merging has been the route chosen by IOMCs to become larger, in others (e.g., Spain) second-order marketing cooperatives (2OMC) were constituted to commercialise all, or a portion, of the production of various first-order cooperatives.

Considered as cooperatives of cooperatives, the 2OMCs are marketing specialists and, by means of their selling and distribution network, they assume the function of serving the market demands, with the retailing chains as their main clients. Consequently, they are dedicated to commercialising their first-order partners' production by establishing, developing, and maintaining relationships with the distribution chains in the national and international markets. The law establishes some conditions that the relationship between first- and second-order marketing cooperatives must fulfil. For example: (1) A 2OMC must be founded for at least two IOMCs, which are its owner-user; (2) one partner cannot own more than 30% of the 2OMC's capital; (3) at least two-thirds of the 2OMC's Board of Directors must be elected by the General Assembly among the IOMCs' Board of Directors; (4) all the IOMCs have a vote in the 2OMC's General Assembly, although the statutes can determine a weighted right of participation according to the relative vol-

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