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Market orientation and quasi-integration: Adding value through relationships

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Abstract

This study explores and describes the rationales and approaches of a market orientated supply chain — labeled the "demand chain". The objective is to develop theory by providing grounded insights into how and why managers design and implement a market orientated supply chain. Analysis of twenty field interviews uncovered three main rationales for demand chain configuration. Further, a continuum of integration typologies is presented and three key responses explored and described. These findings are discussed and implications for theory and practice are offered.

Keywords: Demand chain; Inter-firm relationships; Market orientation; Supply chain; Supply chain configuration; Quasi-integration

1. Introduction

The past two decades have witnessed a growing understanding and interest in the market orientation concept (Grewal & Tansuhaj, 2001; Hunt & Morgan, 1995; Lee et al., 1997; Narver & Slater, 1991; Pulendran, Speed, & Widing, 2003; Ruekert, 1992; Schlegelmilch & Ram, 2001). While research in this area initially focused on the conceptualization of the market orientation construct (Kohli & Jaworski, 1990; Narver & Slater, 1991), it has since developed to encompass different contexts, (*c.f.* Bhuian, 1998; Chang & Chen, 1998; Hooley, Moller, & Broderick, 1998; Pelham, 1997) and different antecedents and consequences (*c.f.* Harris, 2000; Jaworski & Kohli, 1993; Ruekert, 1992; Siguaw, Brown, & Widing, 1994), identifying the market orientation construct with a multitude of factors. One factor that is consistently recognized as significant is organizational structure. Despite these studies having examined a number of important dimensions of organizational structure (such as centralization, formalization, departmentalization), the relationship between market orientation and supply chain configuration has been neglected. For example, while Siguaw, Simpson, and Baker (1998) explore the market orientation typologies within buyer–seller relationships, they do not take a holistic view of the supply chain.

The identification of the need for a holistic view of supply chain configuration is consistent across the economics, strategy, and operations management literatures and is regularly linked with marketing. For example, in the economics literature transaction cost theory has been developed with the key objective of identifying suitable supply chain configurations by understanding their boundaries within markets (Coase & Coy, 1937; Williamson, 1971; Williamson, 1975). Equally the vertical integration literature suggests supply chain configuration decisions are made with customer needs in mind (Burgelman & Doz, 2001; Harrigan, 1984, 1985a, 1985b), while the supply chain literature observes control of the supply chain is essential in delivering on promises to customers (*c.f.* Lee et al., 1997; Pereira, 2001). A common theme is emerging. Supply chain

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configurations are increasingly disintermediated, adopting *partial* or *quasi-integration* rather than pursuing more traditional, full vertical integration. Quasi-integration allows firms to maximize their ability to quickly adapt to changing market/customer demands (*c.f.* Blois, 1972; Cairncross, 2002; Levitt, 1983; Porter, 1980). Despite the recognition of the need for a ‘demand’ driven approach to the supply chain (*c.f.* Levitt, 1983) the implications for market orientation are poorly understood.

The aim of this paper is to focus on supply chain configuration through exploring and describing the strategies and tactics employed by organizations in order to create a market orientated supply chain — more recently labeled the ‘demand chain’. In this regard, the objective is to develop theory through generating insights into how and why market orientated firms organize their supply chain configuration. It is anticipated that such insights will not only contribute to our understanding of the supply chain configuration adopted, but of the processes necessary for its successful implementation.

This paper begins with a brief overview of the supply chain literature. Thereafter, a broader exploration of the literature is undertaken that considers the ways in which market orientation and the supply chain configuration might interact. Following a description of research design, approach, and research methodology within a leading European firm, insights from an in-depth case are presented and discussed. Finally conclusions and implications are presented.

2. The supply chain

The supply chain literature concerns itself with value creation within the supply chain (Fig. 1). At each stage raw materials are processed in a way which adds value for customers downstream. Two key features of supply chains that have changed over the years are the level of ownership and the subsequent management of inter-firm relationships (Helfert, Ritter, & Walter, 2002; Ogbonna & Harris, 2001; Webster, 1992). In the 1950s and 1960s firms protected themselves from uncertainty of supply and sought economies of scale by seeking to control the entire supply chain through ownership (Chandler, 1969). By the 1980s the business environment had become increasingly competitive and some firms began to pursue quasi-integration models. For example, some clothing and footwear manufacturers adopted part ownership of downstream retail outlets through the development of franchise agreements, while in the grocery sector, smaller retailers formed buying cooperatives in order to leverage their purchasing power and compete with larger retail chains (Bloom & Perry, 2001). Many firms found themselves exploring cost cutting and efficiency drives within their supply chain. This resulted in a dramatic shift towards disintermediated supply chains as outsourcing strategies were increasingly pursued. A new set of problems was created, which became known as the ‘hollowing out’ of firms (Quinn & Hilmer, 1995). Firms with misguided outsourcing strategies began endangering the long-term prospects of their businesses by outsourcing core capabilities.

By the new millennium the industrial landscape throughout the Western world was increasingly becoming a knowledge-based society (Cairncross, 2002; Pereira, 2001). Previously successful industries of the 1960s and 1970s tended to be those associated with a high degree of labor and raw material intensity, for example, the textiles industry, coal mining, and steel manufacturing. These traditional industries had become increasingly unprofitable as developing countries invested aggressively, seeking to gain world market share. Their lower cost-base (particularly labor costs) had facilitated this shift. As a consequence, industry in the Western world has been forced to evolve and the past decade has seen the rapid growth of knowledge-based industries. These characteristically require less manpower but greater information and knowledge, for example, pharmaceuticals, communications equipment, electronics, and computers. Here labor costs are typically less than 5%

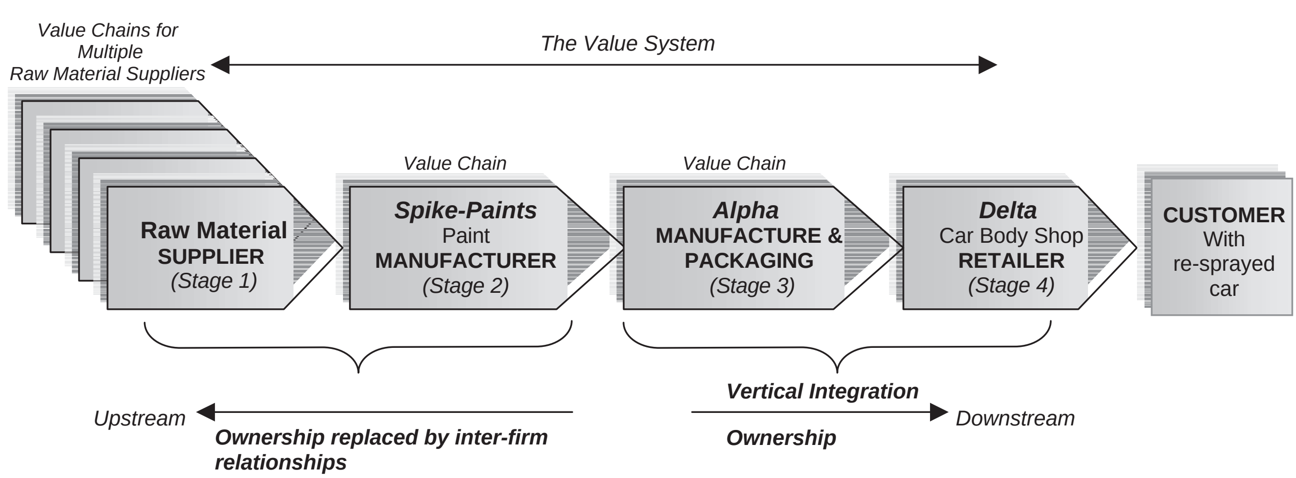

Fig. 1. A supply chain for the Alpha Corporation.