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The effect of supplier's market orientation on manufacturer's trust

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Abstract

Recent studies show that manufacturing firms can select suppliers according to suppliers' market-oriented behaviors. Based on market orientation literature and research on inter-firm relationships, a model is developed to examine the impact of supplier's market orientation on manufacturer's trust. The framework is tested using Structural Equation Modeling and the data are from dyadic manufacturer and supplier relationships in U.S. firms. The results show that supplier's market orientation is significantly related to manufacturer's trust, which affects the manufacturer's long-term orientation toward the supplier. Discussions and implications for managers are presented at the end of the article.

Keywords: Supplier relationships; Market orientation; Trust; Supplier selection

1. Introduction

Inter-firm relationships have attracted great attention in business research (Heide & John, 1988, 1992; Stump & Heide, 1996). Developing a few but selective, stable, and long-term inter-firm relationships is the main theme in recent research (Bello, Lohtia, & Dant, 1999; Ganesan, 1994; Hewett, Money, & Sharma, 2002; Kalwani & Narayandas, 1995). Supplier–manufacturer relationships are recognized as being important in developing a sustainable competitive advantage for the manufacturer (Cannon & Homburg, 2001; Stump & Heide, 1996). Trust has been identified as an important construct in both the conceptual and empirical models of various inter-organizational exchange relationships (Baker, Simpson, & Siguaw, 1999; Parkhe, 1993; Stump & Heide, 1996). Traditionally, relationship marketing and transaction cost analysis have been applied extensively to the examination of buyer–seller interactions (Spekman, 1988). Recent studies have extended the research by applying market orientation theory to inter-firm relationships research (Siguaw, Simpson, & Baker, 1998). These studies show that the adoption of market-oriented behaviors can facilitate the management of inter-firm relationships.

Market-oriented behavior is an implementation and a reemphasis of the marketing concept (Kohli & Jaworski, 1990;s Narver & Slater, 1990). Narver and Slater (1990) and Kohli and Jaworski (1990) synthesize the previous research and build market orientation constructs for the implementation of the marketing concept. Jaworski and Kohli (1993) and Slater and Narver (1994) explore the links of market orientation with other organizational factors. Many researchers further extend their research and applied market orientation to areas such as new product development (Gatignon & Xuereb, 1997; Han, Kim, & Srivastava, 1998; Hurley, Tomas, & Hult, 1998), inter-firm relationship management (Siguaw et al., 1998), sales force management (Siguaw, Brown, & Widing, 1994), entrepreneurial proclivity (Matsuno, Mentzer, & Ozsomer, 2002), non-for-profit organizations (Wood, Bhuian, & Kiecker, 2000), and international business management (Nakata & Sivakumar, 2001; Rose & Shoham, 2002). These studies show that market-oriented firms are more likely to manage inter-firm relationships efficiently.

The central concept of market orientation is the organization-wide focus on the creation of superior value

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for customers (Narver & Slater, 1990; Slater & Narver, 1994). It includes the generation of customer-focused market intelligence, the dissemination of this intelligence throughout the organization, and the formation of organization-wide actions to satisfy customers' demands (Jaworski & Kohli, 1993). Understandably, market orientation greatly influences buyer–seller relationships since customers (buyers) play an important role in market-oriented firms.

The supplier–manufacturer relationship represents a typical buyer–seller interaction in the market. Suppliers' market-oriented behaviors would undoubtedly affect a manufacturer's perception in the relationship and further influence the outcome of the relationship (Siguaw et al., 1998). In this study, a model is proposed for the study of the impact that supplier's market orientation has on manufacturer's trust. Dyadic data were collected from the manufacturer and supplier relationships in U.S. firms so that the model could be tested. According to market orientation literature, a market-oriented supplier is likely to support the manufacturer in many aspects such as customer service and new product development. Supplier's market-oriented behaviors enhance manufacturer's trust, and this trust positively affects manufacturer's long-term orientation toward the supplier.

In the next part, the model of the study and research hypotheses are presented. After this, the methodology of the study and the results are discussed. The final part points out the implications of the study, the limitations of the research, and future research directions.

2. The model and hypotheses

The model in Fig. 1 is based on an intensive review of the literature on market orientation and inter-firm relationships. The literature on market orientation reveals that a market-oriented firm aims at finding and satisfying customers' needs (Jaworski & Kohli, 1993; Kohli & Jaworski, 1990; Narver & Slater, 1990; Wood et al., 2000). A supplier's market-oriented behavior is a strong signal of commitment to the relationship—a sign of its willingness to devote itself to the relationship (Heide & John, 1992; Stump & Heide, 1996). The manufacturer thus would reciprocate this commitment with great trust in the supplier. This trust further leads to manufacturer's long-term orientation toward the relationship. The literature on market orientation and inter-firm relationship suggests that certain environmental factors, such as market volatility and competitiveness, moderate market orientation and outcome relationships (Jaworski & Kohli, 1993). What follows is a series of detailed discussions on the model and research hypotheses.

2.1. Market orientation

Marketing researchers have provided diverse but, to some degree, consistent definitions for market orientation. Market orientation is defined as the organization-wide generation of market intelligence regarding customers' needs and competitive information, the dissemination of intelligence in the whole organization, and responsiveness throughout the organization (Kohli & Jaworski, 1990). Narver and Slater (1990) identified three components of market orientation: customer orientation, competitor orientation, and inter-functional coordination. Day (1994) also stresses a "market-driven culture," which is similar to market orientation as defined by Narver and Slater (1990). He values the understanding of customer needs and emphasizes functional coordination across organizations. Therefore, market orientation is a set of behaviors, activities, and cultural norms that emphasize customers, competitors, and inter-functional coordination (Brown, Mowen, Donovan, & Licata, 2002; Hurley et al., 1998).

Customer orientation implies that a firm puts the customer's interest first (Deshpande, Farley, & Webster, 1993; Joshi & Randall, 2001). A supplier understands a manufacturer's needs in two ways: by understanding the entire value chain, not only as it is today but also as it will

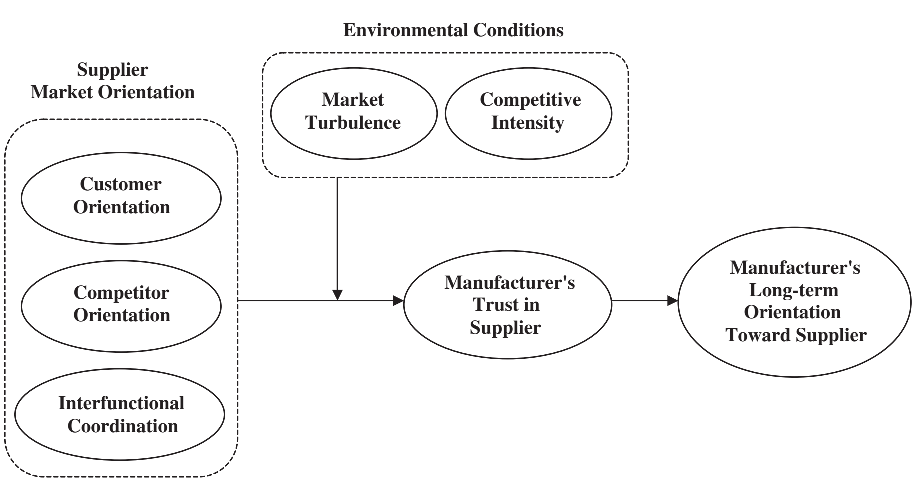

Fig. 1. A model for studying supplier market orientation and manufacturer's trust.