

# Market Orientation as Inter-firm Cooperation: An International Study of the Grocery Sector

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Previous research shows that a firm's market orientation is influenced by external relationships, but few regard market orientation as an inter-firm phenomenon, i.e. as a part of cooperative inter-firm activities. The paper suggests inter-firm market orientation as an approach for its conceptualization. [Kohli, Ajay K. and Jaworski, Bernard J. (1990) Market orientation: The construct, research propositions and managerial implications. *Journal of Marketing* 54(April), 1–18] original components are adapted to the interorganizational setting and four dimensions, especially relevant in order to characterize inter-firm market orientation, are identified, including indicators that can be used to study them further. The results are based on qualitative case studies on supplier-retailer relationships in Sweden, Italy and the UK.

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## Introduction

As noted by several authors there is a dearth of research on market orientation (MO) as a specific part of inter-firm cooperation within business relationships and marketing channels (Frazier, 1999; Hernández-Espallardo and Arcas-Lario, 2003; Hunt and Lambe, 2000; Tuominen *et al.*, 2004). This is remarkable considering that inter-firm systems are

often perceived as the competing units in today's global and complex knowledge-rich business environment (Achrol and Kotler, 1999; Day, 1994; Elg, 2000; Ford *et al.*, 1998; Gomes-Casseres, 1996; Morgan and Hunt, 1994) and the key role of alliances in developing a competitive market position (Gulati, 1998; Varadarajan and Cunningham, 1995). Previous research shows that a firm's internal degree of MO is influenced by the MO of other firms in the same vertical system and by relational properties such as trust and commitment (Langerak, 2001; Siguaw *et al.*, 1998). Nevertheless, these studies do not consider MO as an inter-firm activity and that firms can cooperate in order to increase the MO of the network or the distribution channel as a whole.

When considering that MO can generate competitive advantages (Day, 1994; Hunt and Morgan, 1996) and improve the performance (Jaworski and Kohli, 1993; Narver and Slater, 1990) at the firm level it is likely that inter-firm MO activities can generate similar advantages within business relationships that aim at offering the final market attractive and competitive products. As put by Hunt and Lambe (2000), firms that create superior value for customers by collaborating with other organizations "...must develop a strategy of MO that is inter-firm rather than intra-firm in nature" (p 28). However, if MO is to be analyzed at the inter-firm level more empirical knowledge is needed on the different types of activities that are carried out within business relationships. Specific dimensions that can be used in order to characterize and analyse inter-firm MO should also be developed. There is also a need to relate inter-firm MO to the existing body of research on MO within single firms and to consider to what extent existing models have to be modified and further developed.

This paper investigates inter-firm MO within retailer-manufacturer relationships, inter-firm MO referring to activities performed in cooperation between independent companies in order to respond to market forces (Elg, 2002). *The purpose is to increase the understanding of inter-firm MO as an empirical phenomenon and to identify dimensions that can be used to systematically characterize inter-firm MO within interorganizational relationships.* The study investigates the role that MO can have in inter-firm relationships more generally and how relationships can effectively incorporate market signals. It shows that there are different types of inter-firm MO depending on external and relational conditions. It was considered suitable to study distribution channels because they represent an inter-firm system that is explicitly related to the demands of a final market. The notion of competing inter-firm systems has also been stressed in previous studies on distribution channels (Gadde and Håkansson, 1992; Stern *et al.*, 1996). A qualitative study of inter-firm cooperation between food companies in Sweden, the UK and Italy was conducted. The markets were chosen because of their structural differences. For example, both in the UK and Sweden they were dominated by a few very powerful retailers, whereas the Italian market was much more fragmented. Structural differences were expected to influence the character of inter-firm MO and a study of these three markets would reveal different patterns.

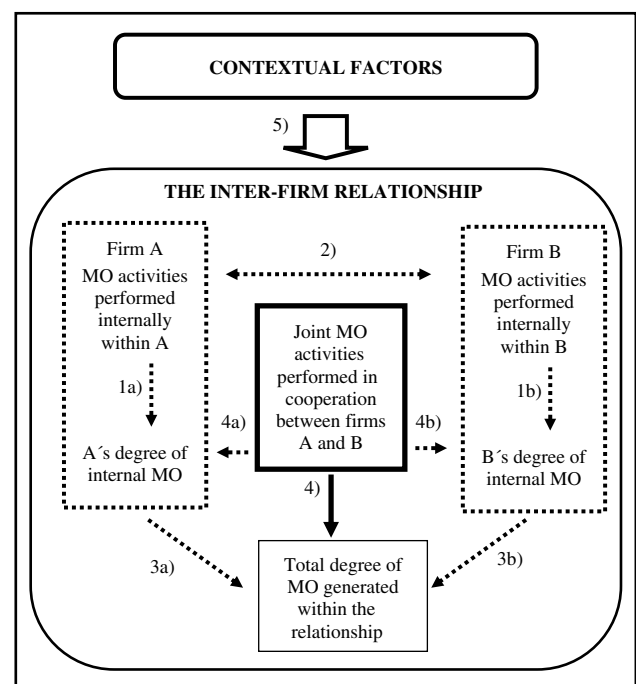
**Previous MO Research and its Relation to Inter-firm Cooperation**

The MO construct was developed as an approach for operationalizing the marketing concept (Houston, 1986; Kohli and Jaworski, 1990; Narver and Slater, 1990; Webster, 1988). Many studies on a variety of aspects have appeared since the early 1990:s. For example, the impact of MO on performance in different contexts has been investigated, mostly indicating a positive relationship (Appiah-Adu, 1998; Deshpandé and Farley, 1998; Liu *et al.*, 2003; Pitt *et al.*, 1996; Ruekert, 1992; Slater and Narver, 1994; Tse *et al.*, 2003). However, the direct link has been questioned and, at least to some extent, it remains uncertain (Langerak, 2003). Mediating factors have also been suggested such as innovation (Han *et al.*, 1998), stakeholder influence (Greenley and Foxall, 1998), type of business strategy (Noble *et al.*, 2002; Matsuno and Mentzer, 2000) and learning (Baker and Sinkula, 1999). Relational factors can be an additional mediator, since they may support or undermine firms' development of a MO (Avlonitis and Gounaris, 1999; Elg, 2002; Hernández-Espallardo and Arcas-Lario, 2003). MO has also been analyzed from an international perspective (Cadogan *et al.*, 1999; Hooley *et al.*, 2000). The number of studies within different contexts, suggest that different factors need to be considered when studying MO within

different types of contexts. This supports the notion that studies on an inter-firm level require a modified framework.

Figure 1 is intended to organize the existing MO literature. It illustrates the different perspectives taken by previous studies and how they are related to the inter-firm approach. Arrows 1a) and 1b) represent a single firm perspective and the issue of how internal factors contribute to the degree of MO of the single firms A and B. The main body of research represents this view (e.g. Cadogan *et al.*, 1999; Deshpandé and Farley, 1998; Hooley *et al.*, 2000; Kohli and Jaworski, 1990; Narver and Slater, 1990). Concerning long-term business-to-business relationships, Helfert *et al.* (2002) argued that the MO construct should be redefined in order to be applicable. Still, their focus was on how to study a supplier's internal MO based on the fact that it serves industrial customers and not a mass-market of consumers.

Some authors acknowledge inter-firm influences in the sense that firm A's internal MO influences the MO of firm B and vice versa (arrow 2). For example, studies suggest that there will be a positive relationship between a supplier's and a distributor's internal MO (Siguaw *et al.*, 1998, 1999; Baker *et al.*, 1999), and that a manufacturer's MO will have both upstream and downstream effects (Langerak, 2001). They also imply that the MO of the firms within the dyad contributes to the overall MO of the distribution channel (3a and 3b). Still, MO is viewed as being carried out internally. The box in the middle of Figure 1 illustrates the focus of this study. Previous research has neglected inter-firm MO activities including their contributions to the interacting firm's internal MO as well as to the total degree of MO within a channel



**Figure 1 MO in Inter-firm Relationships**

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