Scand. J. Mgmt. (2008) **24**, 55–68

Available at www.sciencedirect.com

ScienceDirect

http://www.elsevier.com/locate/scaman

Inter-firm market orientation and the influence of network and relational factors

Ulf Elg*

Department of Business Administration, School of Economics and Management, Lund University, PO Box 7080, SE-220 07 Lund, Sweden

KEYWORDS
Market orientation;
Inter-firm relationships;
Network structure;
Distribution channels;
Qualitative study;
Food sector

Abstract
This article looks at market orientation as a part of inter-firm activities. It investigates the way interorganisational structure affects inter-firm market orientation in food channels in *Sweden*, the *UK* and *Italy*. A qualitative approach is adopted. The structure is discussed in terms of the overall network properties and the arrangements within specific relationships. The governance of the network ties, retail power, and the trust within specific relationships are among factors found to be especially important. Propositions are developed regarding the way the context affects the scope and strategic role of inter-firm market orientation in order to demonstrate the impact of the different network and relational properties.

1. Introduction

Management literature broadly supports the view that, through cooperation, firms can improve their market understanding and their ability to adapt to their environment (Axelsson & Easton, 1992; Contractor & Lorange, 1988; Gulati, 1998; Morgan & Hunt, 1994). Practical support for this notion is also increasing. Successful firms such as Ikea or Nike offer more or less the same products to customers worldwide, supported by a net of suppliers who deliver to customers exactly what the offer promises. Leading car manufacturers rely on external partners to provide consumers with superior solutions concerning comfort, safety, driving experience and so on. Inter-firm cooperation thus reaches beyond areas such as technology or logistics, to include the interpretation of market signals and the development of a suitable competitive response to these.

Examples such as these show that market orientation (MO) is largely an effect of interaction between firms. The ''Marketing Concept'', i.e. the idea that the key to success lies in a firm's ability to offer superior values to its markets (e.g. Kotler, 2003), has had powerful influence in marketing and management research and practice for some 50 years. However, it was not until the MO area emerged in the early nineties that the impact of the marketing concept's on business practice and firms' performance began to be systematically studied (Deshpandé & Webster, 1989; Houston, 1986; Kohli & Jaworski, 1990; Narver & Slater, 1990). Since then, it has become one of the most studied constructs in the field of marketing (Stoelhorst & van Raaij, 2004). Even so, knowledge about the connection between MO and inter-firm relationships is still limited (Grunert et al., 2005; Hunt & Lambe, 2000; Tuominen, Rajala, & Möller, 2004a). This is remarkable considering that during the same period

*Tel.: +46 462224664.
E-mail address: ulf.elg@fek.lu.se

0956-5221/$ - see front matter
doi:10.1016/j.scaman.2007.08.001

research has shown that networks and inter-firm relationships are critical to the development of a firm's core competences and competitiveness (Day, 1994; Ford et al., 1998; Lorange & Roos, 1992; Morgan & Hunt, 1994; Varadarajan & Cunningham, 1995).

As Hunt and Lambe (2000) have noted, it is essential for a firm to develop an inter-firm strategy for MO, and to build on support from its external relationships in offering superior values to the market. Previous studies have acknowledged relational aspects, but have either regarded these as antecedents to the MO of the single firm (e.g. Hernández-Espallardo & Arcas-Lario, 2003; Siguaw, Simpson & Baker, 1998), or as something to be considered when dealing with industrial customers (Helfert, Ritter, & Walter, 2002). The present article regards inter-firm activities as a specific part of MO, and inter-firm MO as the activities performed jointly by two or more independent companies to create a network or an individual relationship more sensitive to the ultimate demands of the final market (Elg, 2002). It will also be argued below that the role of inter-firm MO depends upon the nature of the inter-firm relationships and upon the general network structure in which the MO activities occur.

The purpose here is thus *to investigate MO empirically as an inter-firm phenomenon, and to analyse the way the interorganisational structure influences the character and degree of inter-firm MO*. Interorganisational structure refers to the concentration of firms in the studied markets, the general pattern of linkages between these firms, and the nature of the specific relationships that have developed between them. MO activities in the food sector will be investigated, including the interaction between retailers and manufacturers in generating and exchanging market intelligence and in developing superior customer values. This may concern such things as category management, quality issues, product development and marketing campaigns. Particular attention will be paid to the way in which structural properties—such as the division of power, the forms of governance and trust within the relationships—influence the nature of inter-firm MO. In order to evaluate the possible impact of structural differences on inter-firm MO, a qualitative study of retailers and their relationships with suppliers was conducted on three markets with different structures, namely Italy, the UK and Sweden. This made it possible to consider whether any differences in terms of network characteristics or relationship properties appeared to be affecting inter-firm MO.

2. MO in interorganisational relationships: a theoretical background

The MO frameworks introduced by Kohli and Jaworski (1990) and Narver and Slater (1990) became widely accepted as the MO research field gained momentum. These authors focused on the single firm. A number of indicators were also developed in the early 1990s in order to quantify and test the frameworks, and to measure MO, its antecedents and its performance effects (e.g. Kohli, Jaworski, & Kumar, 1993). Since then a great many studies have been conducted and within several areas using these frameworks. This has generated a valuable MO research base, but its focus has generally been limited to the single firm and to the factors and items included in the original models and captured by a quantitative research design. Further development of the MO area may require a broader approach and one that allows for previously unconsidered factors. A cross-fertilisation of MO and other theories can also extend the range of our understanding, since MO is closely related to other management theories (Hunt & Lambe, 2000; Stoelhorst & van Raaij, 2004). One example of such integration is the link-up between MO and organisational learning (e.g. Baker & Sinkula, 1999; Bell, Whitwell, & Lukas, 2002). This research identifies other aspects shedding further light on the role and mechanisms of MO, proving at the same time that a qualitative approach can broaden our general understanding of the phenomenon. Furthermore, research on organisational learning stresses the value of looking at both intra- and interorganisational aspects (Holmqvist, 2003; Larsson, Bengtsson, Henriksson, & Sparks, 1998). The present article is thus concerned to investigate the role of network and relationship aspects in relation to MO.

Previous authors have emphasised inter-firm relationships, but have still regarded MO as an internal matter only, and one that can be influenced by a variety of inter-firm activities. For example, Siguaw, Simpson, and Baker (1999) argue that a supplier's MO influences the distributor's MO, and that a channel's MO will consist of the sum of the activities of the individual members. Helfert et al. (2002) argue that MO should be redefined within a business-to-business setting, in order to allow for the role of long-term customer relationships. Tuominen et al. (2004a) find that the degree and nature of the firms' internal MO activities will influence the closeness of their inter-firm relationships in a business-to-business context. Network properties such as trust, power asymmetries and cooperation have also been found to have a positive effect on an individual firm's degree of MO (Hernández-Espallardo & Arcas-Lario, 2003; Langerak, 2001; Siguaw, et al., 1998). Grunert et al. (2005) also look at the antecedents of MO in a value chain, but without actually discussing inter-firm MO as a distinct phenomenon with its own specific varieties and characteristics.

Many interorganisational factors have been discussed in the literature. A complete review is beyond the scope of the present article, but certain factors have been mentioned in a large number of studies as being significant, and these will be discussed below. One recurrent theme in the literature concerns the separation of overall network patterns from the content of specific relationships. A distinction will thus be made here between two levels. Network coordination will refer to a chain's overall structure and the control mechanisms that influence the whole set of organisations and relationships concerned. Relationship coordination refers to the arrangements that coordinate activities within a particular relationship.

The degree of *interconnectedness* refers to the possible presence of direct relationships between actors, which can be regarded as one indicator of network coordination (Aldrich & Whetten, 1981; Pfeffer & Salancik, 1978). Previous research shows that loosely connected systems are more stable and involve less uncertainty, because change and turbulence can be restricted to certain parts of the system (Orton & Weick, 1990). As uncertainty diminishes, firms are more willing to commit themselves to inter-firm activities and investments within the chain (cf. Anderson &