

## Supplier market orientation and accommodation of the customer in different relationship phases

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### Abstract

As customers' needs have changed rapidly, market orientation has become a more primary focus of marketing literature. This study explores the strategies market-oriented suppliers use to accommodate customer needs. In addition, because buyer–seller relationships proceed through phases characterized by distinct behaviors, this study explores the relationship between market orientation and accommodation strategies over the course of the buyer–seller relationship lifecycle. The results show that market-oriented firms use flexibility and relationship-specific adaptation as accommodation strategies. Also, three market orientation components (customer orientation, competitor orientation, and interfunctional coordination) relate differently to flexibility and relationship-specific adaptation during the relationship lifecycle. Finally, accommodation strategies significantly mediate the effects of the three market orientation components on customer satisfaction. Thus, market-oriented firms can satisfy their customers and avoid an overreliance on current relationships by emphasizing either flexibility or relationship-specific adaptations that correspond to the lifecycle of the relationship.

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### 1. Introduction

During the past decade, a market-oriented corporate culture increasingly has been considered a key element of business performance (Han, Kim, & Srivastava, 1998), according to the predominant view that a market orientation is positively associated with economic performance (e.g. Han et al., 1998; Jaworski & Kohli, 1993; Matsuno & Mentzer, 2000; Narver & Slater, 1990). The basic assumption underlying such studies is that market-oriented firms that identify and satisfy customer needs more effectively than their competitors will achieve sustained success (Day, 1994; Kirca, Jayachandran, & Bearden, 2005; Sanzo, Santos, Vázquez & Álvarez, 2003).

Conceptually, market orientation and relationship marketing overlap, especially in business-to-business markets (Steinman, Deshpande, & Farley, 2000). The focal point of relationship marketing literature is the more effective satisfaction of customers' needs compared with competitors through a long-term perspective on customer relations (Kalwani & Narayandas, 1995; Steinman et al., 2000). Insights from this literature stream have led to studies investigating the possible correlation between a market orientation philosophy and customer relationship success. For example, Webb, Webster, and Krepapa (2000) and Baker, Simpson, and Sigauw (1999) discuss the impact of market orientation on key relationship constructs. In the same vein, the present study attempts to provide a more thorough understanding of the impact of market orientation on customer relationships.

We focus on the relationship among market orientation, accommodations, and customer satisfaction of Taiwan companies for three reasons. First, though researchers have argued that it is necessary to integrate the market orientation construct into

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relationship marketing models (e.g. Maydeu-Olivares & Lado, 2003), little research focuses on the relationship between market orientation and customer satisfaction. We believe customer satisfaction is appropriate in this research context because it serves as an overall evaluation of a firm's products and service (Anderson, Fornell, & Rust, 1997; Dwyer, Schurr, & Oh, 1987; Fornell, Johnson, Anderson, Cha, & Bryant, 1996). Second, customer satisfaction has been identified a source of competitive advantage for suppliers, because the buyer's loyalty depends to a great extent on the degree of its satisfaction with the relationship (e.g., Abdul-Muhmin, 2005; Sanzo et al., 2003; Selnes & Gønhaug, 2000). Third, prior studies also indicate that Taiwan's managers view customer satisfaction as a major determinant for achieving significant improvements in their organizational performance (Madu, Kuei, & Lin, 1995).

To achieve customer satisfaction, according to some arguments, the process of becoming market oriented must involve relationship-specific adaptations, such as tailoring marketing systems, purchasing new equipment, changing inventory and distribution systems, or customizing products for the key customers, to help the firm accommodate customer needs (Hallén, Johanson, & Seyed-Mohamed, 1991; Steinman et al., 2000). However, other researchers argue that a market orientation can be harmful if a firm narrowly adapts product offerings to existing customer preferences and market structures (Christensen & Bower, 1996). The negative effects of adaptations are even more obvious in long-term relationships; as relationships develop, the deepening commitments lead to customized products or processes, which tie firms to current ways of operating and restrict their ability to change (Håkansson & Ford, 2000). This potential concern raises the issue of how a market-oriented firm should accommodate its customers' needs; moreover, it questions how a market-oriented firm can accommodate customer needs over the course of relationship lifecycles.

This paradox may be resolved by considering the accommodation strategies that market-oriented firms might use. Recent studies have been devoted to the balance of a loosely coupled flexibility system and a tightly coupled customer relationship (Beverland, 2005; Danneels, 2003). A variety of studies also show that flexibility may be a strategy to provide value in business relationships that also enables firms to build competitive capabilities; improve customer retention, satisfaction, and loyalty; and increase profits and sales (e.g., Beverland, 2005; Claycomb, Drøge, & Bower, 2005; Fredericks, 2005; Håkansson & Snehota, 1995; Ivens, 2005). Therefore, we examine whether a market-oriented firm can manage flexibility and relationship-specific adaptations over the course of the relationship lifecycle to accommodate customer needs and achieve customer satisfaction.

Specifically, our research has the following objectives: First, we explore suppliers' accommodation strategies and examine the relationship between market orientation and accommodations. Second, we investigate whether market-oriented businesses use different accommodation strategies over the course of supplier–customer relationship phases. Third, we determine whether accommodation strategies mediate the relationship

between market orientation and customer satisfaction. In the following sections, we review prior research about market orientation, supplier accommodations, and relationship phases. Then we present the research methodology, including a delineation of the measurement we use to test the hypotheses. Following an examination of the results, we conclude with key implications and limitations and further research.

## 2. Conceptual background

### 2.1. *Supplier accommodation of the customer*

In a relatively stable environment, traditional manufacturing practice involves greater reliance on standardized or long-life products (Gunasekaran, 1998). However, increasing competition demands that companies respond to customers' changing needs in these uncertain environments (Flint, Woodruff, & Gardial, 2002). In response, suppliers can employ two forms of accommodation: flexibility and relationship-specific adaptation (Cannon & Homburg, 2001).

#### 2.1.1. *Supplier flexibility*

Flexibility is a form of accommodation to redeploy assets to take advantage of opportunities and/or avoid problems and continue adding value for customers (Fredericks, 2005). A flexible supplier grants exceptions to meet customer requests by applying its rules and policies loosely and building modular product or service offerings (Anderson & Narus, 1995; Wilson, Weiss, & John, 1990). By developing the ability to produce a wide variety of products or services through assembling standardized modules, a supplier can expect to reduce uncertainty and complexity, cut product development time, and lower overall costs and therefore effectively and efficiently respond to customers' changing needs (Sanchez, 1999). Flexibility typically involves short-term responses to sudden customer needs (Cannon & Homburg, 2001; Noordewier, John, & Nevin, 1990).

An organization with the flexibility to deal with uncertainties will not be harmed by the higher costs and lower product quality that results (Gerwin, 1993). Moreover, because business buyers expect suppliers to cope with their sudden needs, a supplier can build and maintain its customer relationships with the flexibility to fulfill its promises (Cannon & Homburg, 2001; Grönroos, 1994).

#### 2.1.2. *Relationship-specific adaptation*

Relationship-specific adaptations can be characterized as the investments of products, processes, or procedures to meet the specific needs of an exchange partner, such as tailoring marketing systems, purchasing new equipment, changing inventory and distribution systems or customizing products (Hallén et al., 1991). These specific adaptations may improve channel efficiency (Kent & Mentzer, 2003), reduce the customer's acquisition or manufacturing costs, and provide better functionality for the customer (Cannon & Homburg, 2001).

An investment's specificity is measured by the loss of value it causes if the supplier cannot transfer the resource to an

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