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Market orientation, employee development practices, and performance in logistics service provider firms

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Abstract

Although the utilization of logistics service provider firms is growing exponentially in business-to-business markets, little is known about what enables some of these firms to perform better than others. Building on the resource-based view of the firm, this research proposes that market orientation and certain employee development practices (service-related training, coaching, and empowerment) influence both employee and organizational performance. The hypotheses are tested using data from 123 large logistics service provider organizations. A multi-survey design was utilized wherein managers as well as the frontline service employees who interact directly with customers represented each organization. The findings suggest that (a) market orientation influences organizational and employee performance, (b) coaching moderates both links, (c) service-related training moderates the link with employee performance only, and (d) empowerment does not moderate either link.

Keywords: Market orientation; Third party logistics firms; Human resource development; Frontline service employee; Coaching; Resource-based theory

1. Introduction

A desire to focus on core competencies and reduce costs has led an increasing number of firms in competitive industrial markets to entrust the execution of certain activities to outside vendors via outsourcing. One key set of outside vendors is logistics service providers (LSP) or third party logistics (3PL) firms. These firms specialize in managing a wide range of service-related logistical activities for clients, including warehouse management, shipment consolidation, customs brokerage, transportation/distribution management and customer service (Daugherty, Stank, & Ellinger, 1998; Mentzer, Flint, & Hult, 2001). The role of 3PL firms in orchestrating clients' service operations is sizeable and expanding rapidly. The North American 3PL industry is growing 15–25% annually, with current revenues estimated at $76 billion (Gordon, 2005). Despite the increasing prominence of LSP firms in business-to-business markets (Hertz & Alfredsson, 2003; Panayides, 2007), little is known about what enables some of these firms to perform better than others. Accordingly, this research is devoted to helping fill the gap between 'what is known' and 'what needs to be known' about the determinants of employee level and organizational performance at large logistics service provider firms.

Past findings indicate that market orientation is positively related to performance among firms that sell to end users (Hult & Ketchen, 2001; Kumar, 2002; Narver & Slater, 1990; Slater & Narver, 1994). Market orientation is "the set of beliefs that puts the customer's interest first, while not excluding those of all

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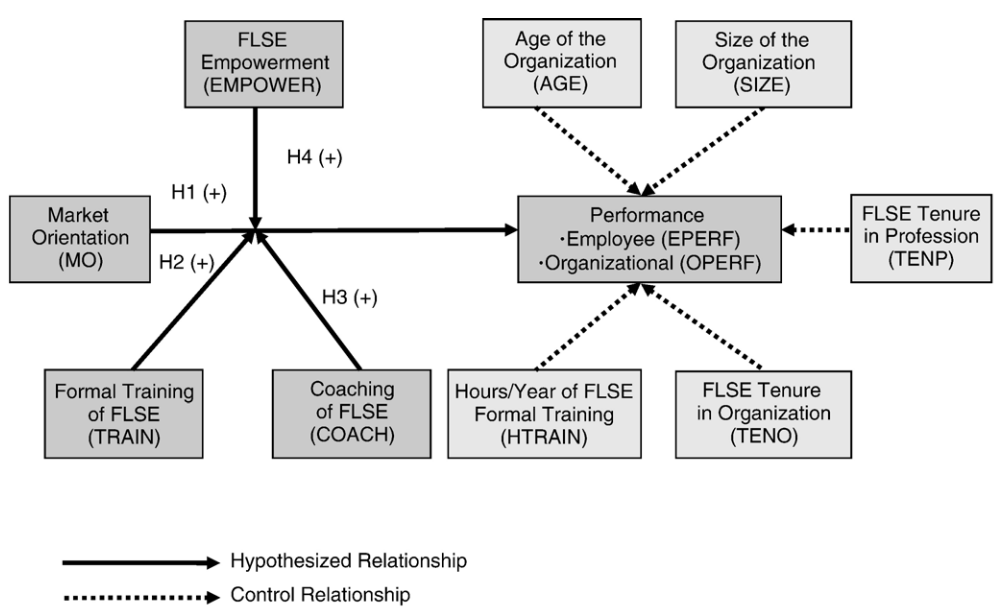
other stakeholders such as owners, managers, and employees, in order to develop a long-term profitable enterprise" Deshpandé, Farley and Webster, (1993, p.27). Recent studies suggest that this concept offers a powerful tool for the field of industrial marketing (Beverland & Lindgreen, 2006; González-Benito & González-Benito, 2005; Sanzo, Santos, Vázques, & Alvarez, 2002). Therefore, in attempting to build knowledge about the performance of LSP firms that are increasingly utilized by business-to-business organizations to execute service processes for competitive advantage, the concept of 'market orientation' is the phenomenon of interest.

Although market orientation has attracted considerable attention in the business-to-business marketing literature, several important questions require further examination. First, recent studies recommend additional assessment of the influence of market orientation on LSP firm performance (Martin & Grbac, 2003; Mason, Doyle, & Wong, 2006; Min & Mentzer, 2000). Second, the extent to which, if any, market orientation enhances employee level outcomes remains unclear (Raju & Lonial, 2001). Adding clarity here is especially important in the context of logistics service provision because the frontline orchestration of LSP firms' activities are their customer contact agents and managers who interact with manufacturer and supplier customers to ensure that the right products arrive in the right places at the right times (cf. Vickery, Jayaram, Droge, & Calantone, 2003).

Third, extant market orientation research suffers from a 'black box' problem (cf. Lawrence, 1997). It seems unlikely that customers buy a service provider's products simply because the organization adopts a market orientation. Instead, market orientation can best enhance performance if process and procedures that support its implementation are put in place. Thus, consistent with evidence that effective human resource development influences performance (e.g., Huselid, 1995), the current research proposes that certain employee development practices (i.e., service-related training, coaching, and empowerment) intervene in the market orientation–performance relationship.

The resource-based view provides the foundation for the assertion that market orientation can enhance performance. From this view, market orientation is an asset that is valuable, rare, and inimitable and as such it provides a competitive advantage to organizations that possess it (Barney, 1991; Day, 1994). The positioning of employee development practices as moderators between market orientation and performance is consistent with Deshpandé, Farley and Webster's contention that market orientation is an underlying part of corporate culture whereby a "deeply rooted set of values and beliefs…consistently reinforce such a customer focus and pervade the organization (1993, p.27)," and with recent resource-based theorizing which argues that resources create value only in conjunction with supporting systems and processes (Barney & Mackey, 2005; Santos-Vijande, Sanzo-Pérez, Álvarez-González, & Vázquez-Casielles, 2005; Sirmon, Hitt, & Ireland, 2007).

According to these ideas, beliefs (such as market orientation) must be supported by behavioral processes (such as employee development practices) to influence outcomes. Thus, recent research in marketing innovation suggests that the coordinated efforts of employees and managers are required to develop a firm's market orientation through the manipulation and deployment of resources (Menguc & Auh, 2006). Given this process



Note: FLSE = frontline service employees. MO, EMPOWER, TRAIN, and COACH are measured with multi-attribute indicators that are averaged across the managers' and the FLSEs' responses. EPERF is based on the FLSEs' responses. OPERF are based on the managers' responses. AGE and SIZE (# of people) are also from the managersí responses and are included as the natural logarithm of the number. HTRAIN, TENO, and TENP are from FLSE respondents.

Fig. 1. Market orientation, employee development practices, and performance.