Industrial Marketing Management 40 (2011) 44–53

Contents lists available at ScienceDirect

Industrial Marketing Management

The impact of market orientation on the development of relational capabilities and performance outcomes: The case of Russian industrial firms

Maria Smirnova [a,*], Peter Naudé [b], Stephan C. Henneberg [b], Stefanos Mouzas [c], Sergei P. Kouchtch [a]

[a] Graduate School of Management, St Petersburg State University Volkhovsky pereulok 3, 199004, Saint Petersburg, Russia
[b] Manchester Business School, Booth Street West, Manchester, M15 6PB, UK
[c] Department of Marketing, Lancaster University Management School, Lancaster LA1 4YX, UK

ARTICLE INFO

Article history:
Received 7 April 2009
Received in revised form 28 February 2010
Accepted 15 April 2010
Available online 27 October 2010

Keywords:
Market orientation
Relational capabilities
Business performance
Russia
Industrial markets

ABSTRACT

The article investigates the role of market orientation as an antecedent for the development of relational capabilities and performance in Russian industrial firms. We test the direct role of different aspects of market orientation on business performance in comparison to an indirect and mediated influence via improving a firm's ability to become embedded in relational structures. The results of an empirical study demonstrate the differential impact of components of market orientation – customer orientation, competitor orientation, and interfunctional coordination – as direct and indirect antecedents of relational capabilities and thus subsequently of overall firm performance. It can be shown that in Russian industrial markets competitor orientation directly and positively impacts on performance, while the other two components of market orientation have only a mediated effect on performance via the development of relational capabilities.

1. Introduction

Market orientation has been discussed as an important organizational antecedent of business success (Han, Kim, & Srivastava, 1999; Kohli & Jaworski, 1990; Narver & Slater, 1990), with innumerable studies testing its impact in different industries and countries (Akimova, 2000; Chan & Ellis, 1998; Greenley, 1995; Kwon & Hu, 2000). However, the mechanisms as to how the different aspects of market orientation (MO) achieve these positive outcomes are less well conceptualized; and virtually no research exists on understanding how MO works in non-Western environments, e.g. the transitional economies of BRIC (Brazil, Russia, India, China) (Akimova, 2000; Golden, Johnson, & Smith, 1995; Greenley, 1995).

This article focuses therefore, firstly, on the potentially mediating effect of the development of relational capabilities which help companies build successful business relationships (Lorenzoni & Lipparini, 1999; Sivadas & Dwyer, 2000), and secondly, on the specific case of a transitional economy, i.e. Russia. Our objective is to investigate how different aspects of MO in Russian firms contribute towards the systematic development of relational capabilities aimed at supporting and enhancing business interactions and relationships with buying companies (Hallén, Johanson, & Seyed-Mohamed, 1991; Ganesan, 1994; Araujo & Mouzas, 1997). These business relationships are based on inter-firm cooperation which has become an important means of competing nationally as well as globally (Achrol, 1997; Achrol & Kotler, 1999; Anderson, Håkansson, & Johanson, 1994; Håkansson & Ford, 2002; Uzzi, 1997). The advantages that a firm can gain from being embedded in business relationships and the wider business networks depends significantly on a firm's ability to manage within such complex relationships, i.e. a company's 'relational capabilities' (Ford, Gadde, Hakansson, & Snehota, 2003; Möller & Törrönen, 2003). In business-to-business markets, such relational capabilities not only serve as a guarantee of mutual understanding and benefits in customer relationships, but are also a source of relevant market knowledge, strategic flexibility, and effective process configuration (Webster, 1992; Hitt & Borza, 2000; Jacob, 2006; Ma et al., 2009).

While research on relational capabilities of industrial companies has attracted some serious attention, the field is conceptually rather fragmented and not integrated into the central concept of MO (Dyer & Singh, 1998; Day & Van den Bulte, 2002; Jacob, 2006; Paulraj, Lado, & Chen, 2008). The work of Day (1994) provides a conceptual starting point by emphasizing the link between market sensing capabilities (often linked with MO) and the firm's ability to coordinate customer linking and integration processes (Jacob, 2006). It can be argued that developing relational capabilities requires an understanding of the market in the wider business network, including the nature of stakeholder needs (Narver & Slater, 1990). From the interaction and network perspective, MO can thus be seen as a pre-requisite for the creation of a firm's ability to initiate, develop and maintain successful interactions and relationships with business partners (Farrell,

* Corresponding author. Tel.: +7 812 323 84 48; fax: +7 812 329 32 34.
E-mail addresses: smirnova@gsom.pu.ru (M. Smirnova), Peter.Naude@mbs.ac.uk (P. Naudé), Stephan.Henneberg@dom01.mbs.ac.uk (S.C. Henneberg), s.mouzas@lancaster.ac.uk (S. Mouzas), kouchtch@gsom.pu.ru (S.P. Kouchtch).

0019-8501/$ – see front matter © 2010 Elsevier Inc. All rights reserved.
doi:10.1016/j.indmarman.2010.09.009

Oczkowski, & Kharabsheh, 2008; Green, McGaughey, & Casey, 2006; Nasution & Mavondo, 2008; Racela, Chaikittisilpa, & Thoumrungroje, 2007; Zhao & Cavusgil, 2006). However, the impact of MO on business performance through the development of relational capabilities in industrial markets is so far mostly implied by existing research (Dyer & Singh, 1998), with empirical confirmation being still insufficient (Jacob, 2006; Lorenzoni & Lipparini, 1999).

This issue at hand is even more unclear in relation to firms operating in developing or transitional markets, such as Russia, where the marketing function is more in its infancy (Golden et al., 1995). Managing inter-firm relationships is strongly influenced by the ongoing process of transition, the changing business culture, and the interpersonal relationships that have traditionally dominated the Russian context of business interactions (Jansson, Johanson, & Ramstroem, 2007; Johanson, 2008; Salmi, 2004). Thus, business relationships in Russia have been described as being characterized by high levels of instability, lack of information about potential partners, low information disclosure readiness, and the occurrence of opportunistic behavior (Halinen & Salmi, 2001; Johanson, 2007). However, issues about managing such business relationships in transitional markets have started to attract some attention (Jansson et al., 2007; Salmi, 2004), but few examples of research exist which analyze antecedents and consequences of relational characteristics in these markets (Hitt & Borza, 2000). Russia provides an appropriate case for examining these questions as it is comparable with other transitional markets in terms of instability, turbulence and unpredictability (Ramström et al., 2006).

Based on these issues, the objectives of our study are twofold. Firstly, using empirical data to test a nomological model, the research aims to analyze whether organizational attitudes, routines and practices linked to the MO concept affect building relational capabilities to enhance business relationships (Jacob, 2006; Möller & Törrönen, 2003), and ultimately drive firm performance (Dyer and Singh, 1998). We thus contribute to clarifying the antecedents of relational capabilities, and the performance impact of MO. Secondly, the importance of MO and relational capabilities is investigated in the context of the Russian economy in which traditionally interpersonal relationships were seen as the most important determinant of business relationship success. Thus, for Russian industrial companies the impact of MO on organization-wide relational capabilities (beyond inter-personal aspects) is clarified (Foley & Fahy, 2009; Hitt & Borza, 2000; Hooley et al., 2000). As such, our analyses also contribute to the limited existing research on strategic orientations and capabilities of Russian firms (Golden et al., 1995).

The article is structured as follows: firstly, we will develop a model of market orientation and its impact on relational capabilities by parsimoniously deriving several hypotheses. As part of this discussion specific emphasis is given to the different concepts within the context of a transitional economy. After introducing our research method we present the empirical analysis and outline the resulting findings. A discussion of limitations, managerial implications, and further research concludes the article.

2. Relational capabilities and market orientation

The following part presents the theoretical foundations of the study and more specifically discusses existing foundations of research on relational capabilities and market orientation from the perspective of transitional economies. We pay particular attention to the construct of relational capabilities, while MO represents a rather better established construct in the research literature.

2.1. Market orientation

MO is one of the most central concepts in the marketing literature, starting from the 1990s onwards (Kohli & Jaworski, 1990; Narver & Slater, 1990). The first key approaches to MO have focused on defining its subdimensions, especially regarding a behavioral operationalization (Kohli & Jaworski, 1990; Narver & Slater, 1990). For example, Kohli and Jaworski (1990) have linked MO to the "*implementation of* [the] *marketing concept*", which is being "*reflected in activities and behaviors of an organization*" (Kohli & Jaworski, 1990, p. 1). Narver and Slater (1990) similarly focus on the components of MO and its potential effect on business performance. Later contributions have paid attention to the role of corporate culture in creating and implementing MO. For example, a customer orientation was used as being synonymous with MO in that it provides a "*set of beliefs that puts the customer's interest first, while not excluding those of all other stakeholders such as owners, managers, and employees, in order to develop a long-term profitable enterprise*" (Deshpande, Farley, & Webster, 1993, p. 27). Further developments introduce organizational cooperation into MO definitions, e.g. Farley and Deshpandé (2005) outline MO as "*the set of cross-functional processes and activities directed at creating and satisfying customers through continuous needs assessments*" (p.14). During the later development of the construct a resource-based view as well as a capabilities perspective have attracted researchers' attention in revising the role of MO. Fahy et al. (2000) consider MO to be a key marketing capability. Other authors, for example Menguc and Auh (2006) and Day (1994), see MO as a firm-level resource, potentially leading to comparative advantage of the firm.

We follow in our research the conceptualization by Narver and Slater (1990) by focusing on three major components of MO: customer orientation, competitor orientation and interfunctional coordination. We do not use the behavioral conceptualization of MO as suggested by Kohli and Jaworski (1990) as our underlying nomological model posits the construct of relational capabilities as the central construct. Capabilities are influenced especially by the organizational culture and the orientation followed, as conceptualized in Narver and Slater's MO model. Considering orientations and attitudes as influencing factors of capabilities is in line with Foley and Fahy's (2004) and Verhoef and Leeflang's (2009) arguments which posit attitudinal aspects of MO as antecedents of capabilities development. Similar approaches have also been used relating to innovation capability (Akman & Yilmaz, 2008; Han et al., 1999), firm-level dynamic capability (Menguc & Auh, 2006, Yung-Ching & Tsui-Hsu, 2006), organizational learning capability (Morgan, Katsikeas, & Appiah-Adu, 1998), new product development capability (Baker & Sinkula, 2005), and collaboration capability (Hyvönen & Tuominen, 2007).

All of the three MO components of Narver and Slater (1990) have been used extensively in the marketing literature (Day, 1994; Deshpande et al., 1993; Han et al., 1999; Hunt & Morgan, 1995; Morgan et al., 1998). Since "*the heart of the market orientation is its customer focus*" (Slater & Narver, 1994, p. 22), *customer orientation* as the first component requires understanding not only the current needs of the customer, but also the whole value network of the customer, including customer's customer (Deshpande et al., 1993; Henneberg, Mouzas, & Naudé, 2009, Rindfleisch & Moorman, 2003). *Competitor orientation* as the second MO component provides the firm with an opportunity to benchmark and compare, e.g. with alternative suppliers (Armstrong & Collopy, 1996; Day, 1994; Narver & Slater, 1990; Zhou, Brown, Dev, & Agarwal, 2007). Finally, *interfunctional coordination* relates to the involvement of personnel and other firm resources across the whole company in creating value for the customers and other stakeholders (Narver & Slater, 1990; Ward et al., 2006; Wooldridge & Minsky, 2002; Kahn & Mentzer, 1998).

Numerous empirical studies have researched and supported the role that market orientation and its components play in improving firm performance, fostering innovativeness, and contributing to the creation of market-driven organizations (Day, 1994; Pelham, 1997; Vorhies, Harker, & Rao, 1999). However, some contradictory research exists which shows only weak links between the constructs of MO and