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The effect of market-pull vs. resource-push orientation on performance when entering new markets

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ABSTRACT

This paper uses a multi-agent simulation to examine how the initial choice of strategic orientation impacts a firm's long-term performance. The results indicate that when entering a new market, market-pull firms achieve performance levels 4% higher on average than resource-push firms. However, the survival rate of market-pull firms is only 25%, far less than resource-push firms. These findings present firms with a Cornelian dilemma—i.e., strive for survival or maximize performance.

1. Introduction

The quest to explain firm performance is a cornerstone of the strategic management field (Hult, Ketchen, & Slater, 2005). Extant research suggests that an important determinant of firm performance is its strategic orientation — i.e., the strategic direction implemented by the firm to create behaviors that lead to superior performance (Gatignon & Xuereb, 1997; Narver & Slater, 1990). Further, the literature acknowledges market-pull (MP) and resource push (RP) as two important strategic orientations (Day, 1994, 2011; Gatignon & Xuereb, 1997; Zheng Zhou, Yim, & Tse, 2005).

The MP orientation emphasizes the creation and maintenance of customer value (Auh & Menguc, 2006; Narver & Slater, 1990). It focuses on acquiring, disseminating, and responding to market intelligence about customers and competitors (Jaworski & Kohli, 1993). The logic of MP is that for a firm to achieve superior performance, it must create value for the customer (Kohli & Jaworski, 1990; Kumar, Sriram, Luo, & Chintagunta, 2011). In contrast to the external emphasis of a MP orientation, the RP orientation emphasizes a firm's internal resource capabilities as the starting point for its strategic efforts (Zheng Zhou et al., 2005). The focus is on the development and deployment of unique resources to exploit opportunities or neutralize threats in the external environment (Paladino, 2008). The logic of RP is that a firm's idiosyncratic and difficult-to-imitate resources enable it to achieve and maintain greater performance (Teece, Pisano, & Shuen, 1997).

Not surprisingly, a growing body of research has focused on providing empirical evidence to link the choice of a particular strategic orientation with performance. For example, Deshpandé, Farley, and Webster (1993) and Narver and Slater (1990) show that a MP orientation is positively associated with greater performance while Paladino (2008) and Powell and Dent-Micallef (1997) demonstrate that a RP orientation leads to better performance outcomes. Refinements to the debate about the superiority of each orientation have noted the relevance of environmental characteristics like market turbulence on the strategic orientation–performance link (Narver & Slater, 1990). However, the literature is still not conclusive with respect to which strategic orientation is appropriate for a given environmental situation. For example, Kohli and Jaworski (1990) and Kumar et al. (2011) note that the greater the market turbulence, the stronger the relationship between a market orientation and performance. In contrast, Gatignon and Xuereb (1997) and Paladino (2008) argue that when market turbulence is high, a stronger resource orientation leads to greater performance. Against this background, the purpose of this paper is to shed clarity on the strategic orientation–performance link. Specifically, we use a multi-agent

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simulation (MAS) to investigate how the *initial* choice of an MP or RP strategic orientation affects a firm's long-term performance. We chose the MAS method because it can generate multiple historical trajectories based on the same set of initial conditions (Fioretti, 2013). In doing so, we make three important contributions: (1) we simultaneously examine the influence of MP and RP orientations on performance; as Paladino (2008) notes, there has been a dearth of such studies, (2) we assess how the choice of strategic orientation at the outset impacts performance over time; in contrast, prior work typically examines the orientation–performance link at a given point in time (e.g. Hughes & Morgan, 2008), and (3) we control for the effect of market characteristics on performance; this enables us to analyze the mechanisms underlying the results (Harrison, Zhiang, Carroll, & Carley, 2007; Zott, 2003).

To achieve these contributions, the rest of the paper is organized as follows. Initially, we begin by discussing the two strategic orientations and their underlying mechanisms for generating performance. This is followed by a description of the model components and the simulation's parameters and algorithm. We conclude with a discussion of the study's results and implications.

2. Theory

2.1. Market-pull (MP) vs. resource-push (RP) strategic orientation

In his seminal work, Wernerfelt (1984) acknowledges both a MP and a RP approach to strategic orientation. These two orientations can be viewed along a spectrum (Day, 1994, 2011): while the MP approach emphasizes “outside-in” firm capabilities (e.g., market sensing or monitoring activities), the RP approach emphasizes “inside-out” firm capabilities (e.g., technology development).

The MP orientation considers the market to be the appropriate level of analysis for examining firm performance (Bain, 1951, 1968; Mason, 1939, 1957; Olavarrieta & Friedmann, 2008; Porter, 1979, 1980). This approach suggests that the concentration of firms and the barriers to market entry as well as the concentration of buyers and the degree of differentiation between products determines a market's attractiveness (Scherer & Ross, 1990; Wernerfelt & Montgomery, 1986). A firm's choice of which market to enter is based on an external analysis of market attractiveness. Further, its behaviors to create superior value for buyers determine its performance.

An alternate view is to consider the firm, rather than the market, to be the relevant level of analysis because it combines its resources in such a way as to generate performance (Amit & Schoemaker, 1993; Barney, 1986, 1991, 1996; Cool, Dierickx, & Jemison, 1989; Grant, 1991; Penrose, 1959; Peteraf, 1993; Wernerfelt, 1984). The decision to enter a new market is driven by the perceived value of the firm's resource portfolio. Thus the firm chooses a market in which it can use its resources optimally to achieve the highest performance level (Peteraf, 1993; Teece et al., 1997). Such an approach would characterize RP firms.

The foundations of the RP strategy are based on the conception of a firm as a collection of resources (Amit & Schoemaker, 1993; Barney, 1986, 1997; Dierickx & Cool, 1989; Wernerfelt, 1984) and distinctive capabilities (Danneels, 2002; Teece et al., 1997) that make it unique in its market. These resources and capabilities lead to its competitive advantage.

In short, a market-pull firm (MPF) is motivated by the perceived attractiveness of the market, whereas a resource-push firm (RPF) is driven by the optimal utilization of the firm's resource collection.

2.2. Underlying mechanisms of performance

The two orientations differ in their means for achieving superior performance. A basic tenet of the MP approach is that the market can generate an overall profit that is shared by all firms in the market. The goal of every firm is to earn an above average share of the profit by acting primarily on its competitors and buyers to improve its own market position. In doing so, the firm aims to maximize its “rents” (Mahoney & Pandian, 1992; Porter, 1991, 1996; Ricardo, 1817; Schoemaker, 1990). However, the larger the profit share earned by a firm, the greater the attractiveness of the corresponding market, which will be targeted by firms previously in other markets. If these firms enter the market, they will lower the average profit share. Hence, existing firms will seek to reduce the number of competitors in the market by raising barriers to market entry (Baumol, 1982; Baumol & Willig, 1981).

Alternatively, with a RP approach, the means for achieving superior performance initiates at the firm level. Because a firm is composed of resources that constitute its substance (Penrose, 1959; Wernerfelt, 1984), these resources are combined using skills and capabilities to produce and provide goods and services to a market. A basic tenet of this approach is that a market is heterogeneous due, in part, to resources being semi-permanent in the firm (Barney, 1986; Dierickx & Cool, 1989; Wernerfelt, 1984). While some resources are intrinsic to a firm and cannot be exchanged (e.g., brand equity or firm-specific labor), other resources are tradable in the “strategic factor market” (SFM) (Barney, 1986). Organizations in the SFM provide key resources needed to implement an ex-ante formulated strategy — e.g., universities can supply skilled labor. All entry strategies necessitating the acquisition of resources require interaction with the SFM (Barney, 1986). Firms estimate the value of these resources by taking into account their existing resources, capabilities, and the strategy they intend to employ. The decision to purchase resources takes into account their costs and future return.

2.3. Role of de novo and de alio firms

It is important to acknowledge that firm characteristics may influence the strategic orientation–performance link. Specifically, extant research on new market entry notes performance differences between *de alio* and *de novo* firms. *De alio* entrants refer to firms that diversify into the new market from another industry while *de novo* entrants refer to new startups (Carroll & Khessina, 2005; Khessina & Carroll, 2008). For *de alio* firms, new market entry may represent a risk reduction strategy for the parent firm; it also enables the transfer of best practices across business units (Prahalad & Hamel, 1994). *De novo* firms on the other hand refer to entrepreneurial organizations that are “assembled to meet the needs of the day (Carroll, Bigelow, Seidel, & Tsai, 1996a, p. 117).” A key difference is that *de alio* firms usually have greater initial resource endowments than *de novo* firms (Khessina & Carroll, 2008). Thus, they enter a new market with an ample stock of resources (Mitchell, 1994). Additionally, *de alio* firms inherit established routines and organizational capabilities from their parent organization. With greater resources and experience, *de alio* firms' likelihood of success is greater, as they are more likely to benefit from the parent organization's core competence, offer multiple products simultaneously, and have a longer time frame to learn from mistakes and recover from failure (Khessina & Carroll, 2008).

In contrast, *de novo* firms often fail because of undercapitalization and other resource shortages (Carroll et al., 1996a; Helfat & Lieberman, 2002). However, the absence of organizational structure and routines in *de novo* firms can be advantageous. *De novo* firms are more flexible and experience less inertia than bigger companies (Hannan & Freeman, 1984). They can make decisions quicker and the time between decision making and implementation is shorter. For these reasons, *de novo* firms may adapt better to environmental changes. In rapidly changing or hypercompetitive environments, *de novo* companies may possess a competitive advantage over *de alio* firms because of their greater ability to adapt to new and unexpected requirements (Fan, 2010).

3. Model

Because our goal is to understand how agents – i.e., firms, markets, and the SFM – interact, simulations are particularly relevant (Becker,