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Market orientation and business performance in MNC foreign subsidiaries— Moderating effects of integration and responsiveness

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ABSTRACT

The impact of market orientation on business performance has been extensively studied in a wide range of business environments including those in which the multi-national corporation (MNC) subsidiaries operate. What remains unclear is, however, whether the relationship between market orientation and business performance in the contexts of MNC subsidiaries is linear or whether they would vary with the different configurations of business environments under which the MNC subsidiaries operate. To shed a light on the above issue, we analyzed data collected from a postal survey of 252 UK subsidiaries of MNCs to investigate whether the relationship between market orientation and business performance in the context is moderated by two environmental pressures under which the subsidiaries operate, namely, integration and responsiveness pressures. Evidence to support the moderating effects was identified, and the managerial and research implications were discussed.

1. Introduction

Market orientation (MO) has attracted considerable attention from both researchers and practitioners for more than two decades (Kohli & Jaworski, 1990; Zhou, Brown, & Dev, 2009). While the performance implications of market orientation has long been recognized as a focal research question (Kirca, Jayachandran, & Bearden, 2005), a close examination of the literature reveals little efforts of researchers in examining the issue in the context of the subsidiaries of multinational corporations (MNCs, hereafter). Compared with domestic firms, the operation of the foreign subsidiary of an MNC is complicated by the existence of the dual imperatives to serve both the needs of the parent company and other sister subsidiaries, as well as those of its own customers (Hewett, Roth, & Roth, 2003). Consequently, what remains unclear is to what extent MO, given its particular emphasis on serving the needs of the customers, contributes to the performance of MNC foreign subsidiaries.

Two previous studies have shed some lights on the above issue by providing empirical evidence showing the direct impacts of market orientation on the performance of the subsidiaries of MNCs (Kirca, 2011; Kwon, 2010). However, what remains unclear is whether the relationship between market orientation and business performance in the contexts of MNC subsidiaries is linear or whether they would vary with the different configurations of business environments under which the MNC subsidiaries operate.

To address this research gap, we analyzed data collected from a postal survey of 252 UK subsidiaries of MNCs to investigate whether the relationship between market orientation and business performance in the context is moderated by two environmental pressures under which the subsidiaries operate, namely, integration and responsiveness. We chose to focus on integration and responsiveness (I–R) pressures as they have long been recognized as the key environmental forces MNC subsidiaries need to contend with and have been studied extensively by scholars in the fields of strategy and international business (Lin & Hsieh, 2010; Prahalad & Doz, 1987). It is noted that although the two pressures are often known as the two components of the popular I–R framework which is to delineate the roles of MNC subsidiaries, a recent study has helped to draw our attention to the fact that they are nothing more than the environmental pressures under which MNC subsidiaries have to deal with (Haugland, 2010). To better understand the organizational responses of MNC subsidiaries under varying environmental pressures, Haugland (2010) argues that we should move beyond frameworks discussing international strategies and subsidiary roles as four discrete alternatives and called for, instead, an approach which would involve measuring the effects of integration and responsiveness directly. To answer the call of Haugland (2010), in this paper, we treat integration and responsiveness as two different moderators in the relationship of market orientation and business performance.

The remainder of this paper is organized as follows: first, the article begins with a review of relevant literature to provide a background and

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to discuss the development of the hypotheses. In the next section, the research methodology is explained, followed by a substantive interpretation of the findings, and a conclusion with a discussion on the research implications.

2. Background and hypotheses

In probably the seminal paper on the topic, Kohli and Jaworski (1990) use the term market orientation to refer to the implementation of the marketing concept. More formally, they take an information-processing perspective and define MO as "the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across the departments, and organization-wide responsiveness to market intelligence" (p.6). By contrast, Narver and Slater (1990) take a cultural perspective and define MO as "the organizational culture that most effectively and efficiently creates the necessary behavior for the creation of superior value for buyers and, thus, continuous superior performance for the business."(p.21). They posit that the content of a MO includes three behavioral components, namely, customer orientation, competitor orientation, and interfunctional coordination, as well as two decision criteria, namely, long-term focus and profitability. Notwithstanding these differences in philosophical stance, Cadogan and Diamantopoulos (1995) demonstrate that the two definitions overlapped considerably and could be integrated into a broader aggregate definition. Consistent with previous studies, this study views market-oriented companies as those with actions that are consistent with the two dominant conceptualizations of MO developed by Kohli and Jaworski (1990) and Narver and Slater (1990).

Much of the research efforts in the past two decades has been devoted to such issues as the conceptualization and measurement of MO, and the evaluation of its effect on business performance (Deshpande, 1983, 1983; Greenley, 1995; Harris, 2001; Hooley, Cox, Fahy, & Shipley, 2000; Kohli & Jaworski, 1990; Liu, Luo, & Shi, 2003; Pulendran, Speed, & Widing, 2000; Selnes, Jaworski, & Kohli, 1996; Slater & Narver, 1994; Subramanian & Gopalakrishna, 2001). Studies on the effects of MO have primarily demonstrated a significant and positive relationship between MO and business performance (see Deshpande, 1983; Jaworski & Kohli, 1993; Narver & Slater, 1990; Slater & Narver, 1994), although a number of studies, mainly in non-US contexts, have suggested that the relationship is context-specific (see for example, Diamantopoulos & Hart, 1993; Greenley, 1995; Harris, 2001). In addition to a direct effect on business performance, research has also suggested that MO has a positive effect on employee-related factors such as job satisfaction, morale (Jaworski & Kohli, 1993), on the perception of trust and commitment by the channel members (Siguaw, Simpson, & Baker, 1998), and also on reducing the opportunism of the exporters' distributors (Ju, Murray, Kotabe, & Gao, 2011).

Given the extent of the interest and attention MO has received, a surprising observation is that, with the exception of a small number of empirical works conducted in the 1980s in the UK (see Doyle, Saunders, & Wong, 1986; Saunders & Wong, 1985) and two recent studies involving MNC subsidiaries (Kirca, 2011; Kwon, 2010), limited research examines the effect of MO on the business performance of MNC foreign subsidiaries.

Earlier British studies (Doyle et al., 1986; Saunders & Wong, 1985) included foreign companies operating in the UK in their samples. However, their main focus was on comparing the marketing strategies between British companies and their foreign counterparts. As such, they did not differentiate subsidiaries from independent foreign firms. Similarly, although Kwon (2010) finds that MO has a significantly positive effect on the performance of Korean subsidiaries operating in China and India, he did not make any distinction of the subsidiaries by type and failed to investigate whether the effects of MO on performance would vary for different types of subsidiaries. Another investigation of MO's impact on business performance using data of foreign subsidiaries operating in Turkey by Kirca (2011) also fails to account for the different roles MNC subsidiaries would assume.

In the international business literature, a dominant typology to classify the subsidiaries is the integration and responsiveness framework (often quoted as the I–R framework in the literature) (Taggart, 1997), which often classifies the roles of subsidiaries as four discrete alternatives that can be explicated in a 2×2 matrix. For example, Taggart (1998) classifies subsidiaries' roles within the intra-firm organizational networks of MNCs into four categories, namely, receptive, active, autonomous, and quiescent subsidiaries.

The I–R framework can be traced back to the work of Prahalad and Doz (1987), who argue that the environmental pressures that managers in global industries are facing could be best summarized into two types, namely, pressures for integration and pressures for local responsiveness. Depending on the configurations of the two pressures in the business environment, Prahalad and Doz (1987) posit that MNCs would adopt three different strategies, namely, local responsive, global integration, and multifocal.

Although the I–R framework is widely used by researchers to depict the environmental pressures faced by MNC subsidiaries, limited research has been conducted on how MNC subsidiaries make changes in the organizational structures, systems, and strategies in response to the effect of integration and responsiveness pressures. A notable exception is the study of Lin and Hsieh (2010), who examine the effect of integration and responsiveness indirectly by investigating whether a fit between two operational capabilities (coordination and configuration) and procedural justice, as well as the designated subsidiary roles according to the I–R framework, could result in better business performance.

The study by Lin and Hsieh (2010) has been criticized for solely relying on the I–R framework. Haugland (2010) argues that future studies should move beyond frameworks discussing international strategies and subsidiary roles as four discrete alternatives that can be explicated in a 2×2 matrix. Instead, they argue for an approach which is to model the effects of integration and responsiveness directly. "This approach will make it possible to analyze the impact of integration and responsiveness more specifically on (organizational variables)… provide a better understanding of how MNCs make organizational adaptations in their subsidiaries in response to external pressures" (Haugland, 2010, p. 95). In light of the limitation of I–R framework, in our study, the effect of integration and responsiveness on the MO-business performance linkage is examined separately instead of jointly. In the following section, the hypotheses are explained.

2.1. Moderating effects of integration

The idea that the strength of the relationship between MO and business performance may vary with environmental conditions was first proposed by Kohli and Jaworski (1990). The premise of their argument is that as different companies have variable needs to monitor customer needs depending on the market conditions under which they operate, the importance and contribution of MO to business performance would inevitably vary (Kohli & Jaworski, 1990). Bartlett and Ghoshal (1989) argue that MNC headquarters serve as a network hub from which a subsidiary can obtain and share knowledge with the headquarters and other subsidiaries. Consequently, subsidiaries that are highly integrated into the networks of MNCs would obtain a number of benefits, such as reduced costs in financing and R&D, as well as wider and easier access to raw materials and superior technology (Prahalad & Doz, 1987). Previous studies have found that the above benefits acquired by MNC subsidiaries would significantly contribute to the performance of subsidiaries (Lecraw, 1983). The existence of the above competitive advantages enjoyed by subsidiaries with a high degree of integration would arguably alleviate their needs to monitor customer needs, that is, to be market-oriented. By contrast, subsidiaries with a low degree of integration would have to rely largely on their own