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How to calibrate conventional market-oriented organizational culture in 21st century production-centered firms? A customer relationship perspective

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ABSTRACT

This study explores how the organizational culture represented by conventional market orientation practices influences B2B relationship outcomes and financial returns for production-centered supplier firms. The market orientation practices of 187 large-sized production-centered supplier firms in the U.S. Midwest region are empirically studied using both combined approach and component-wise approach. The multiple regression analysis results confirm the positive effects of an overall market-oriented organizational culture on financial return in production-centered firms. However, a weak link between customer satisfaction and financial return reveals the unique challenge faced by production-centered firms. Our investigation on the three behavioral components of market orientation presents a previously undiscovered pattern for production-centered firms. Interfunctional coordination within a production-centered firm is not related to either customer satisfaction or financial return. Furthermore, interfunctional coordination lessens the positive impacts of customer orientation on customer satisfaction and financial return. Managerial implications on how to optimize market-oriented organizational culture for production-centered firms are discussed.

> *"Manufacturing is one of the bright spots of a generally disappointing recovery, and there are signs – preliminary, but hopeful, nonetheless – that a sustained comeback may be under way."*
>
> Paul Krugman, Economist and Nobel Prize Winner, *New York Times*, May 2011

1. Introduction

A production-centered business model was once dominant for industrial firms decades ago (Bartels 1988; Kotler et al., 2006). In this historical approach, firms are primarily concerned about production capacity and efficiency because these are differentiating factors among industry competitors (Lynch et al., 2012). Even today, a large number of industrial firms still compete in the homogeneous market based on large quantities, low cost, and low price advantages (Dastidar 2004; Hirata and Matsumura 2011). From a marketing perspective, production is understood as the process of creating utility (Kotler et al., 2006). In economics, the primary focus of the production function is to achieve efficiency in the input, processing, and output procedures while taking into consideration financial, technological, and human-related factors, so that financial return can be maximized (Thomé et al., 2012; Lima et al., 2013; Tirkel and Rabinowitz, 2014; Zhang et al., 2014). Being a factual trend in the past decades, attaining higher productivity and lower cost is critical for the survival of manufacturing firms (U.S. Bureau of Labor Statistics, 2013). Meanwhile, to adapt to today's unstable market environment, firms need to focus simultaneously on marketing and production functions (Lynch et al., 2012).

As a philosophy that firms should focus on discovering and satisfying the explicit and implicit customer needs in the marketplace (Narver and Slater 1990), market orientation practices by industrial firms have received significant attention. Narver and Slater (1990), p. 21 defined market orientation as "the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business." As such, market orientation is regarded as an organizational culture consisting of three behavioral components, namely, (1) customer orientation, (2) competitor orientation, and (3) interfunctional coordination (Narver and Slater 1990).

According to Deshpande and Farley (1996), market orientation practices help to create satisfied customers, who, in turn, will contribute more positively to the company bottom line than their less satisfied counterparts. Therefore, researchers contended that market

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orientation can positively influence the financial performance of firms (Homburg and Pflesser, 2000; Jaworski and Kohli, 1993; Lai, 2003; Zhou et al., 2009; Lin et al., 2010; Kumar et al., 2011). While customer satisfaction and loyalty are considered basic building blocks in relationship marketing (Chandrashekaran et al., 2007; Fornell et al., 1996), researchers have suggested that market orientation increases business performance when these important outcomes of business relationships are met (Deshpande and Farley 1996; Kirca et al., 2005). Thus, it has become a conventional understanding that a market-oriented organizational culture positively influences customer relationship outcomes, which, in turn, enhance financial return for firms.

Thus, how does the conventional market-oriented organizational culture shape a production-centered supplier firm that relies on the distinctive production value-adding pattern? It has been recognized that manufacturing firms and service firms differ in the way their market orientation practice affects business performance (Agarwal et al., 2003; Kirca et al., 2005; Sin et al., 2005). Manufacturing firms are usually characterized by a distinctive production-centered organizational structure, and customer loyalty is tremendously influenced by tangible advantages of products (Porter 1980). Production-centered industrial suppliers tend to encounter some unique internal situations, such as the high turnover rate of marketing personnel, the marginalization of marketing function, and the lack of synergies with other functions (Verhoef and Leeflang 2009). Customer decisions are featured by rational comparison of customer value offered by different industrial suppliers (Moller 2006; O'Cass and Ngo 2012). Due to these unique characteristics and challenges, the understanding of the practices of the conventional market-oriented organizational culture for production-centered supplier firms remains incomplete. Thus, the relationships among the conventional market-oriented organizational culture, customer relationship outcomes, and long-term performance need to be further researched. To enrich the understanding, this study attempts to investigate the relationships between the behavioral components of market orientation, customer satisfaction, and customer loyalty, and eventually how these variables affect financial return of production-centered supplier firms in the business-to-business marketplace.

The rest of the study is organized as follows. Following the introduction, a theoretical framework with hypotheses is elaborated in detail. Subsequently, methodological steps such as research instrument development and data collection are described. Finally, statistical results, discussion of results, limitations, and future research recommendations are presented.

2. Research framework and hypotheses development

2.1. Combined approach

Since the fundamental premise of market orientation is to discover and satisfy customer needs (Kohli and Jaworski, 1990; Narver and Slater, 1990), the positive relationship between market orientation and customer satisfaction has been identified in the literature (Gainer and Padanyi, 2005; Kirca et al., 2005; Kotler 1988; Moorman and Rust, 1999; Sanzo et al., 2003). A satisfied customer is likely to repurchase the product to minimize the perceived risk associated with purchasing from other suppliers (Fornell 1992). In line with the well-established satisfaction-loyalty relationship (e.g., Bitner 1990; Fornell 1992; Fornell et al., 1996; Verhoef 2003), we offer the following hypotheses:

H1. *For production-centered supplier firms, market orientation is positively related to customer satisfaction.*

H2. *For production-centered supplier firms, customer satisfaction is positively related to customer loyalty.*

Loyal customers are willing to pay more for the same product, purchase the product more frequently and in larger volume than non-loyal customers, and they are likely to purchase other products offered by the firm (Garvin 1988). Overall, the extant marketing literature suggested that successful customer relationship management leads to improved performance in the long run (Anderson et al., 1994; Fornell 1992; Reinartz et al., 2004). However, much of the previous research did not focus on the particular situation of production-centered suppliers. Previous research pointed out that industrial customers consistently seek superior customer value when making supplier selection decisions (Moller 2006, O'Cass and Ngo 2012). Loyal business customers may still bargain with a supplier aiming for a better deal, or purchase products from another supplier providing superior offer (Chung et al., 2010; Nair et al., 2011). Nowadays, industrial customers enjoy more choices as the power has shifted from sellers to buyers (Colletti and Fiss 2006). As Flint et al. (2002) mentioned, a change in customers' value provides a reason for customers to seek new suppliers and move away from established relationships with old suppliers. Production-centered firms may encounter such situations frequently due to the tangible value seeking behavior of industrial buyers. Thus, customer satisfaction appears to be a necessary, but not sufficient condition for financial return. Thus, the following hypotheses are developed:

H3. *For production-centered supplier firms, customer satisfaction is insignificantly related to financial return.*

H4. *For production-centered supplier firms, customer loyalty is insignificantly related to financial return.*

Except in a few occasions (Kirca et al., 2005), a positive relationship between market orientation and financial performance has been well established in the literature (e.g., Agarwal et al., 2003; Jaworski and Kohli 1993; Kumar et al., 2011; Matsuno and Mentzer 2000; Matsuno et al., 2002). The effect of having a market-oriented organizational culture on financial return in the long run is expected for production-centered industrial suppliers. Thus, we propose the following hypothesis, and describe our combined approach in Fig. 1.

H5. *For production-centered supplier firms, market orientation is positively related to financial return.*

2.2. Component-wise approaches

While many empirical studies have used the overall composite measure of market orientation (see Fig. 1), Han et al. (1998) advocated that the relationship between each behavioral component of market orientation and performance should be closely examined. Voss and Voss (2000) argued that a component-wise approach can reveal greater insight than the combined approach because the individual components have unique impacts on performance.

As a prominent stature in the literature, customer orientation is closely related to the *marketing concept* which places a top priority

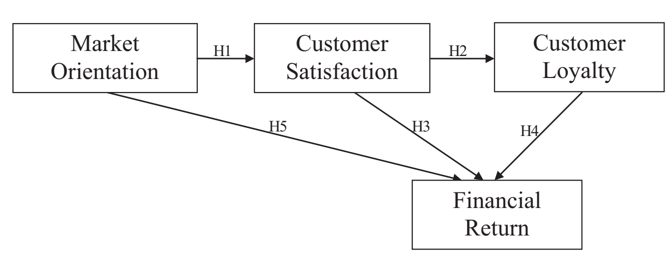

Fig. 1. Combined Approach.