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ANALYSIS

Implications of market orientation on the environmental transformation of industrial firms

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ABSTRACT

This article examines the role of industrial firms' market orientation as a moderator of the economic–ecologic conflict. Specifically, the authors consider the effect of industrial firms' market orientation on perceptions of the environmental pressure exerted by stakeholders and the environmental practices implemented in response to that pressure. Because market orientation is related to the collection and assessment of and response to opportunities and threats, market orientation should act as a driver of perceptions of and responses to environmental pressures exerted by stakeholders. An empirical analysis of a sample of Spanish industrial firms shows that market orientation is linked to more intense perceptions of pressure from nongovernmental stakeholders. However, the results are not conclusive with respect to the relationship between market orientation and the intensity of the response to environmental pressures characterized by the implementation of environmental practices.

A recent trend characterizing business management has been the adoption of environmental practices, or changes to processes and products that make them less detrimental to the natural environment. Environmental regulations have forced many such advances, but firms also may go further and take a proactive position based on the potential that environmental transformation offers for competitive advantage and improved performance (Porter and van der Linde, 1995; Russo and Fouts, 1997; Sharma and Vredenburg, 1998; Menguc and Ozanne, 2005). Gangadharan (in press) refers to two common explanations for such compliance, or even overcompliance, with environmental regulations, namely, an incentive to avoid being inspected frequently and an interest in prompting regulatory authorities to set higher standards for the whole industry to increase rivals' operating costs. However, additional arguments underlie environmental proactivity and are not linked to the role of regulatory institutions. First, a better allocation of resources may lead to greater efficiencies. Second, as a result of the growing ecological commitment of consumers and society, environmental practices may enhance the reputation and image of proactive firms. Third, unselfish motives may determine proactive environmental transformation, such as the ethical motivations of managers, owners, and shareholders in relation to the environmental sustainability of business activity (Bansal and Roth, 2000). These antecedents of environmental practice implementation can be labelled, respectively, regulatory forces, competitive advantage, public concern, and top management commitment (Banerjee et al., 2003).

Thus, the role of the stakeholders is of key importance to environmental transformation, because they can impose significant pressures on firms to adopt environmental practices (Henriques and Sadorsky, 1999; Buysse and Verbeke, 2003). Public opinion pressures firms to implement environmental practices through selective shopping, ecological

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organizations, media, regulatory institutions, and so forth. Such pressure also may be transmitted by financial institutions, suppliers, owners, and other shareholders, who are guided by the possible advantages derived from environmental transformation or by their environmental commitment. Furthermore, the adoption of environmental practices by competitors can constitute a source of pressure. Recent research recognizes these important influences and suggests that stakeholders should be closely involved in the development of public environmental policies (Santos et al., in press), specifically: "the more [stakeholders] feel that they have a voice in decisions affecting them, the more likely they will comply with the new requirements."

Therefore, the implementation of environmental practices is linked closely to a firm's perception of and response to environmental pressures from stakeholders; it depends on the firm's effort to track the trends and circumstances surrounding its business environment and then develop a coordinated response to the observed opportunities and threats. Because both tracking and response have been attributed to market-oriented firms (Kohli and Jaworski, 1990), market orientation should act as a driving force behind the perception of and response to environmental pressure from stakeholders. That is, market orientation should set the cultural and operational bases for greater sensitivity to environmental pressures and more committed reactions to that pressure.

The aim of this article is to analyze empirically the role of market orientation in the perception of and response to environmental pressures exerted by stakeholders. We hypothesize that market-oriented firms perceive stakeholders' environmental requirements more intensely and adopt environmental practices when those practices represent an opportunity to meet stakeholders' expectations.

That market orientation enhances the perception of and response to environmental pressure from stakeholders involves two important implications. First, the growing trend toward market-oriented cultures and behaviors in business contributes to economic–ecological harmony as consumers, stakeholders, and society in general become more environmentally committed and demand increased environmental practices in their economic activities. Second, because market orientation usually relates to better performance, in that it helps the firm develop a successful segmentation and differentiation strategy (Narver and Slater, 1990; Pelham and Wilson, 1996), this contribution to performance should be manifested in environmental strategies. In other words, environmental transformation could be an organizational process underlying the relationship between market orientation and business performance.

The subsequent text is structured in four sections. First, we develop the research hypotheses and justify them with a review of relevant literature. Second, we briefly describe the methodology of the empirical analysis; third, we interpret and discuss the results. Fourth, we offer and summarize our main conclusions.

1. Theoretical framework and hypotheses

Because the notion of market orientation relates to the adoption of the "marketing concept" as a business philosophy, it may be defined as an organizational culture (Slater and Narver, 1994). Specifically, a market orientation comprises a set of beliefs that places the customer's interest first to develop a profitable organization in the long term (Deshpande et al., 1993). Alternatively, market orientation also may be defined as the set of activities, processes, and behaviors derived from implementing a marketing concept (Kohli and Jaworski, 1990). These two approaches are not opposite but rather reconcilable (Matsuno et al., 2005). That is, culture leads to behavior, and behavior then constitutes the basis for the progressive development of culture. In any case, a market orientation must involve the whole organization (Webster, 1992).

From a methodological point of view, the operational approach predominates over the cultural approach (González-Benito and González-Benito, 2005; Mason and Harris, 2005). Most scales proposed in the literature measure the implementation of specific activities and processes rather than the attitudes and beliefs held by executives. The operational conceptualization proposed by Kohli and Jaworski (1990) and empirically formalized by the MARKOR scale (Kohli et al., 1993) has been widely accepted, and even those scales that have been developed from a cultural approach, such as the MKTOR of Narver and Slater (1990) and the DFW of Deshpande et al. (1993), concentrate on measuring operational aspects (for a further discussion, see Deshpande and Farley, 1998a,b; Narver and Slater, 1998).

The importance of a market orientation depends on its presumptive positive effect on market position, long-term viability, and performance, though empirical evidence in support of these effects remain inconclusive (Langerak, 2003; Tse et al., 2003; Rodríguez-Cano et al., 2004; González-Benito and González-Benito, 2005). As an organizational resource, a market orientation can lead to a competitive advantage through greater understanding of consumer needs and competitors' actions, as well as the development of coordinated and adaptive competitive strategies (Hunt and Morgan, 1995). In other words, a market orientation establishes cultural and operational bases for developing and implementing competitive strategies that are adapted to the circumstances in which the firm is involved. We focus on a specific aspect of a firm's competitive strategy, environmental management, which we define as the adoption of practices that reduce the harmful effect of business activities on the natural environment. Primarily, we attempt to clarify the effect of a market orientation on a firms' adoption of environmental practices that are congruent with the circumstances in which they are involved.

Understanding the role of market orientation in environmental management requires specific analyses of behavior related to market orientation. Kohli and Jaworski (1990) propose a classification of market orientation activities according to three sequential purposes: intelligence generation, intelligence dissemination, and responsiveness. Intelligence generation refers to the collection of relevant information from the firm's environment, whereas intelligence dissemination pertains to the distribution and sharing of information across different departments within the firm. Finally, responsiveness reflects the use of this information to develop and implement strategies that have been adapted to the opportunities and threats present in the external environment. We focus on both ends of this sequence, that is, the potential to understand the environment as well as the potential to respond to it. Both represent key