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Market orientation, knowledge-related resources and firm performance

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Abstract

Based upon new perspectives to explain superior business performance, an integrative conceptual model that links these different explanations of superior performance is presented, highlighting the role of knowledge-related resources as key antecedents of the continuous creation of competitive advantages (Day 1994, Day George S. The capabilities of market-driven organizations. J Mark 1994a, 58 [October]: 37–52., Day George S. Continuous learning about markets. Calif Manage Rev 1994b, 36 [Summer]: 9–31., Hunt and Morgan, 1995, Hunt Shelby D., Morgan Robert M. The comparative advantage theory of competition. J Mark 1995; 59 [April]: 1–15). An empirical test of this conceptual model is conducted with a Chilean sample of publicly traded firms, using structural equations modeling. The results show a significant impact of: market orientation, market sensing and innovativeness (among other knowledge-related resources) on superior performance, thus providing support for the original ideas of Drucker (1954) [Drucker Peter F. The practice of management. New York: Harper and Row Publishers, 1954.] and Schumpeter (1934), and for the dynamic evolutionary approaches to strategy (Dickson, 1992, Dickson Peter R. Toward a theory of competitive rationality. J Mark 1992; 56: 69–83., Dicskson, 1996, Dickson Peter R. The static and dynamic mechanics of competition: a comment on Hunt and Morgan's comparative advantage theory. J Mark 1996; 60: 102–106.; Hill and Deeds, 1996, Hill C.W., Deeds D.L. The importance of industry structure for the determination of firm profitability: a Neo-Austrian perspective. J Manag Stud 1996; 33: 429–451.).

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As one of the first scholars to argue for the marketing concept philosophy in business, Drucker (1954, p. 37) suggests that any business enterprise has two—and only these two—basic functions: marketing and innovation. In spite of such early recognition of the importance of market orientation and innovativeness as key strategic resources for a business' success, marketing researchers and strategists do not pay much attention to this until lately. In the last 15 years, however, new theories of business superior performance emerge from the work of marketing, strategy, organizational theory and economics scholars. These new perspectives, known under the labels of: resource-based view of the firm, competence-based competition, and evolutionary theory, share a special focus on a firm's rare, valuable, and difficult-to-imitate resources (e.g., intangible assets, organizational capabilities) as antecedents of superior business performance (Barney, 1991, Slater and Narver, 1995). Based upon this work, the original ideas of Drucker (1954), Schumpeter (1934), and Dickson (1992), and other developments in the marketing strategy literature (Hunt and Morgan, 1995; Olavarrieta and Friedmann, 1999), a model that links these different explanations of superior performance is developed. This model highlights the role of a market-oriented culture and knowledge-related resources as antecedents for the continuous creation of competitive advantages.

1. Resource-based and evolutionary economics explanations of firm performance

Contrary to the propositions of the neoclassical theory of perfect competition, empirical evidence suggests that firms indeed earn differential returns (Rumelt, 1991). Two ver influential schools in the search of explanations for these

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superior returns are the resource-based school of thought, and the evolutionary approach to strategy. The Resource-Based View (RBV) approach characterizes firms as heterogeneous bundles of resources and rent-seekers, aiming their strategies at obtaining superior performance in the form of economic rents attributed to unique and specialized resource combinations (Bharadwaj et al., 1993; Day 1994a; Day and Wensley, 1988; Hunt and Morgan, 1995, Rumelt et al., 1991; Wernerfelt, 1984). Firms' sustainable competitive advantages and superior performance are determined then by the possession of valuable, rare, and imperfectly imitable resources (Barney, 1991). The emerging evolutionary approach to strategy, is considered the natural extension of the resource-based approach, given their common roots in Austrian and evolutionary economics (Dosi and Nelson, 1994; Foss et al., 1995). The evolutionary approach to strategy is more dynamic in nature, considering organizational learning, discovery, adaptation, and strategic choice, as playing important roles in the evolution of organizations and industries (Barnett and Burgelman, 1996). This school of thought suggests that the three main antecedents of a firm's long-run success are: (1) its ability to generate valuable innovations; (2) its ability to build barriers to imitation that protect core competencies from imitation from rivals; and (3) its ability to overcome organizational inertia and quickly imitate the valuable innovations of others (Hill and Deeds, 1996).

Based on the previous schools of thought and marketing strategy literature, this article proposes an integrative model of firm superior performance. The model simultaneously considers the role of culture and knowledge-related resources, linking the market orientation (Kohli et al., 1993; Slater and Narver, 1995) and dynamic capabilities literatures (Cohen and Levinthal, 1990; Day, 1994a,b; Hunt and Morgan, 1995; Winter, 2003). The model proposes that knowledge-related resources mediate the effect of a firm's market-oriented culture on firm performance. This proposition means then that market-oriented firms have normally superior returns given their superior market sensing, imitation and innovation skills, as well as reputation assets. The model identifies three different types of knowledge-related resources: the firm's market-sensing capability; the firm's imitation capability; and the firm's organizational innovativeness and reputation assets.

A firm's market-sensing capability is the firm's capacity to gather and interpret knowledge from the market, in particular from customers, competitors, and technologies; and includes its capacity to store it all in an accessible organizational memory (Cohen and Levinthal, 1990; Day, 1994a,b). This definition of market-sensing capability builds from Day's (1994a) original conceptualization and Cohen and Levinthal's (1990) notion of absorptive capacity. A firm's imitation capability is the firm's ability to use their knowledge about competitors in order to react quickly, copying the advantages in processes or products of actual competitors, or from firms belonging to related or different industries (Dickson, 1992). A firm's innovativeness represents the degree to which the firm generates new, timely and creative new product/service introductions, using the accumulated knowledge of customers, competitors and technologies (Deshpande et al., 1993). Reputational assets are another type of intangible knowledge-related resources. Knowledge, in this case, (i.e., reputational knowledge) is created and lays in the minds of consumers. The relevance of reputational assets for explaining firm success is enhanced by two reasons: the increasing value assigned by consumers to attributes unrelated to the product (e.g., image), and the importance of corporate image and reputation for the imperative of managing a firm's stakeholders (Fombrun and Shanley, 1980; Keller, 1993). The section below discusses the model's hypotheses.

2. Research hypotheses

2.1. Market orientation and superior performance

Market orientation (MO), is the implementation of the marketing concept philosophy, and can be considered as a cultural orientation (Slater and Narver, 1995). The MO literature provides evidence that a market-oriented culture can be an important determinant of business performance, because by tracking and responding to customer needs and preferences, market-oriented firms can better satisfy customers and reach superior financial performance (Greenley, 1995; Kohli et al., 1993). This view is consistent with Fiol's (1991), who indicates that organizational culture can be a source of sustainable competitive advantage and superior performance, when it provides a basis for value-creating activities and when it is scarce among different competitors. In a similar way, Atuahene-Gima (1995), Narver et al. (2004) and Atuahene-Gima et al. (2005) suggest and test a general association between market orientation and new product performance. Therefore, the study includes the following hypotheses. H_{1a}: Market orientation relates positively with overall firm performance. H_{1b}: Market orientation relates positively with new product performance.

2.2. Market orientation and knowledge-related resources

Slater and Narver (1995) suggest that MO is the principal cultural foundation of the learning organization (p. 67). MO reflects a culture that encourages organizational learning behaviors, in order to create and maintain profitable relationships with customers. As Day (1994a) indicates, market-driven cultures support the value of thorough market intelligence. This argument supports the existence of a positive relationship between a market-driven culture and a firm's knowledge-related resources (Baker and Sinkula, 1999). Day (1994a), linking the resource-based approach to strategy with the philosophy of the marketing concept, suggests that market-driven organizations tend to have superior outside-in capabilities—that is, market-sensing, customer linking, and channel bonding capabilities. In a similar way, Sinkula (1994) argues for a positive relationship between market orientation and the activities embraced in a firm's market-sensing capability; namely: market information acquisition, dissemination, interpretation and storage. H_{2a}: A positive association exists between market orientation and a firm's market-sensing capability.

Furthermore, some authors link MO to a firm's innovativeness (Deshpande et al., 1993). Atuahene-Gima (1996) finds support for a general positive association between market