Market orientation, knowledge-related resources and firm performance

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Abstract


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

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.
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;
Firms’ sustainable competitive advantages and superior perform-
ance 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 organiza-
tional 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 imitators 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 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
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 tech-
nologies (Deshpande et al., 1993). Reputational assets are
another type of intangible knowledge-related resources. Knowl-
edge, 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, 1994). 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-
(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 relations-
ships 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 innovative-
ness (Deshpande et al., 1993). Atuahene-Gima (1996) finds
support for a general positive association between market
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