



What do managers' survey responses mean and what affects them? The case of market orientation and firm performance

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ABSTRACT

Using cross-sectional surveys to support proposed causal sequences in theoretical models is problematic, especially when the informants are managers and performance is a dependent variable. The results of such surveys reveal more about managers sensemaking processes than actual business processes, a rival causal theory that researchers tend to ignore. This problem leads to unsound conclusions and management advice. We illustrate the argument in terms of survey research concerning the relationship between market orientation and firm performance. We show how sensemaking theory can account for existing results including some that otherwise lack explanation. The issues raised challenge many accepted interpretations of research results and have far-reaching implications in terms of the meaning and role of survey research. In addition, they point to important areas for future research.

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1. Introduction

Much research and model building in marketing and management is in danger of leading research and management astray because it fails to consider alternative models that fit the data equally well but which have quite different theoretical and causal implications and because it fails to take into account the impact of management sensemaking on measurement biases and feedback effects.

Much reported research tends to have the following characteristics. (1) Based on prior literature and insight researchers propose a model to explain a causally dependent variable such as firm performance. (2) The model comprises a set of independent or explanatory variables that are assumed to be directly or indirectly causally antecedent to the dependent variable. (3) The models assume unidirectional causality, which is indicated via one-way arrows in model diagrams. More complex structural equation models can have layers of dependent and independent variables but they generally retain a unidirectional causal structure. (4) Surveys of managers' perceptions and recall are used to measure the variables. (5) Various methods are used to fit the proposed model to the data collected. If the results show that the proposed model is consistent with the data it is regarded as supported and the proposed causal sequences are explicitly or implicitly accepted.

Two issues cause problems with this approach, which researchers tend to ignore. First, the methods used do not provide a test of

the causal directions assumed in the model because they are, for the most part, based on cross-sectional, correlational data. As we all know and teach, correlation does not equal causation, only association. Yet many models are interpreted and described, once model fit is established, in causal terms using causally loaded words such as affects, impacts, enhances, determines, produces, and leads to conclusions, such as: "Overall, the results demonstrate that market orientation has a positive impact on organizational performance" (Kirca et al., 2005, p.37). Only rarely are attempts made to test alternative causal sequences and feedback and interaction effects.

The second issue is that alternative theory based, causal sequences among variables are ignored. Some of our reviewers argued that researchers are entitled to use such causal interpretations because these stem from our theories and the model fit is not inconsistent with the theory. But the causal directions proposed are not confirmed or tested by the model fit and it is dangerous to assume otherwise. Researchers need to consider alternative models that fit their data equally well, including alternative causal sequences among the variables and the potential existence of spurious links due to omitted variables. The relevance and importance of these issues are clearly shown by research carried out by Henley et al. (2006), who systematically retested 79 structural equation models reported in top management journals. They find that 75% of the models have at least one equivalent model, i.e., models that have the same structure or number of parameters, but which have radically different theoretical and practical implications. We ignore alternative causal explanations of our correlation matrices at our peril. If we ignore alternative possible explanations and theories we are not conforming to the norms of evidence based

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science but are engaged in a process that is more akin to advocacy. The theories we use are not usually so robust that alternative causal sequences can be easily dismissed. In many cases rival causal sequences have been proposed already in the literature. For example, there is the everlasting debate about whether attitude change drives behaviour change or the reverse and, in studies of inter-firm relations, the direction of the causal links between variables such as commitment, trust, conflict, communication and power can be and are argued to occur both ways in different researchers' models. In truth, the causal direction is probably two-way, not one way, because the state of a relation in one period affects its state in the next period and hence so all dimensions of relations are interconnected over time.

Such feedback mechanisms over time imply different types of causal sequences to those usually included in reported models because much research in marketing and management is static not dynamic. For example, models of firm performance do not allow performance to switch roles and become an independent variable. Yet *March and Sutton (1997)* describe a number of potential mechanisms by which performance at an earlier time can affect future performance, including investment, motivation and learning effects.

In this article the focus of attention is on the role and importance of one particular type of feedback mechanism, management sensemaking (*Weick, 2000*), and the way this affects the meaning and interpretation of survey based research. Sensemaking refers to the way managers process incoming information over time and make sense of their organization, its environment and its performance. We will show that sensemaking processes affect the way managers perceive their firm and the way they answer questions about it. This, in turn, leads to rival causal explanations that also fit the data and which can help explain otherwise unexplained results (*March and Sutton, 1997*).

The kinds of problems we identify are of general importance and relevance because they apply to any model tested using cross-sectional survey data of people's perceptions and recall. They are especially important when the data comes from surveys of managers and performance is a key dependent variable because such models are used as the basis for proposing normative theories advising managers and policy makers about how to improve manager and firm performance and behaviour. Models with different causal sequences that explain the observed data equally well lead to different types of management advice in terms of which things to focus on to achieve a firm's objectives. We need to face up to these issues and work out ways to better deal with them, rather than hiding them and pretending they do not exist.

The purpose of this paper is to call attention to these problems, and to illustrate them in terms of research concerning the link between market orientation and firm performance. We show how an alternative, sensemaking theory, that is equally if not more strongly established, can account for the same research results as well as others that are hitherto not well explained. The sensemaking interpretation of results has rather different implications in terms of the nature and degree of support for theories of marketing's impact on firm performance. It also leads to a number of important issues to accept and deal with in future research. In short, we argue that performance drives managers' perceptions of their firm and its environment, including its market orientation and this affects how they answer survey questions and what these answers mean.

Although our focus is, for the purposes of illustration, on research concerning market orientation and performance, we would like to emphasise that the issues raised are of general relevance and importance. We chose this research area because these concepts are of central importance to the marketing discipline, because extensive research has been carried out based mainly on

surveys of managers and because most marketing academics are familiar with the research. Our purpose is not to criticise this research per se, or to argue that this research area is more guilty than others in terms of the issues we raise. Far from it, it is, we repeat, used only to highlight and illustrate the issues that are of much more general importance. We believe in the concept of market orientation and that marketing can and does play an important role in driving firms' performance. What we do not believe is that the results of cross-sectional surveys of managers' perceptions and recall support claims of a causal link between market orientation and performance. It has nothing to do with the reliability and validity of the measures we use, though this is of course does matter, it is about the way managers answer survey questions and what affects their answers.

We could have focused on other dimensions of firms that have been used to explain performance and firm behaviour, such as research on technology, entrepreneurial, relational or international orientations or research on various types of firm competences such as innovative, relational and network competences.

We are not the first to raise these issues. Although we developed our ideas independently, we take comfort in finding James March and Robert Sutton's important 1997 paper in *Organization Science* (*March and Sutton, 1997*). This reassured us that the issues are real and important and yet ignored. It also helped us to further develop our ideas. The marketing literature has largely ignored the March and Sutton paper.

The paper is organized as follows. Section 2 reviews MO-Performance (MO-P) research and methodology, revealing some of the inconsistencies and problems that have arisen. Section 3 describes the problems that threaten the validity of cross-sectional survey research, illustrating them with examples drawn from MO-P research. Section 4 describes a psychological sensemaking perspective that can account for existing MO-P results as well as some unexpected and otherwise unexplained findings. Finally, in Section 5, we discuss possible solutions to the problems identified and future research opportunities.

2. Market orientation and firm performance research

The impact of market orientation (MO) on business profitability is of managerial and academic importance (e.g., *Deshpande, 1999*). Starting in the 1990's (e.g., *Kohli and Jaworski, 1990; Narver and Slater, 1990*) a number of studies of the MO-performance link have been undertaken, replicated and extended in various contexts (e.g., *Bhuiyan, 1998; Greenley, 1995; Pulendran et al., 2000*), including manufacturing and service industries (e.g., *Agarwal et al., 2003; Sandvik and Sandvik, 2003; Slater and Narver, 1994*). The hypotheses underlying this research are: (a) that a high level of MO leads to superior business performance; and (b) that the causal link between MO and performance is stronger in the presence of greater market turbulence, greater competitive intensity, and lower technology turbulence (referred to as environment subsequently) (*Narver and Slater, 1990; Kohli and Jaworski, 1990*).

The empirical results vary. Though many studies support the hypotheses, a number of researchers find negative or non-significant relationships between MO and performance. For example, *Greenley (1995), Harris (2001)* and *Appiah-Adu (1997)* all conduct research in the UK following *Slater and Narver (1994)*'s method. The first two studies find a non-significant relationship between MO and performance, while the last study supports a positive relationship. *Grewal and Tansuhaj (2001)* investigate the role of MO on firm performance in Thailand after the financial crisis in 1998, using self administered questionnaires, and find a negative link. In addition, longitudinal studies do not support a significant relation between MO and performance. For example, using a longitudinal design, *Noble et al. (2002)* find a positive relationship between

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