Journal of World Business 46 (2011) 447–454

Contents lists available at ScienceDirect

Journal of World Business

journal homepage: www.elsevier.com/locate/jwb

The effects of market orientation on subsidiary performance: Empirical evidence from MNCs in Turkey☆

Ahmet H. Kirca *

The Eli Broad School of Business, Department of Marketing, Michigan State University, East Lansing, MI 48824, United States

ARTICLE INFO

Article history:
Available online 29 October 2010

Keywords:
Market orientation
Global marketing
Emerging markets

ABSTRACT

Much scholarly work has been devoted to studying the performance implications of market orientation. This study examines the direct and indirect effects of market orientation on financial performance of the subsidiaries of MNCs located in Turkey. The findings indicate that a market orientation affects financial performance of MNC subsidiaries that operate in diverse and complex economic, cultural, and political environments of the Middle East. Moreover, authors demonstrate that the customer-related mechanisms (customer satisfaction and retention) mediate the market orientation–performance relationship. The paper also discusses the theoretical and practical implications of study findings.

1. Introduction

A fundamental tenet in the marketing literature is that firms should generate and disseminate market intelligence to meet the needs of customers effectively in their efforts to succeed in the marketplace (Kohli & Jaworski, 1990; Narver & Slater, 1990). Over the last three decades, much scholarly work has been devoted to studying the performance implications of a firm's market orientation. Specifically, researchers have investigated the consequences of market orientation, as well as the mediators and moderators of the market orientation–performance relationship (e.g., Grewal & Tansuhaj, 2001; Han, Kim & Srivastava, 1998; Jaworski & Kohli, 1993). Importantly, recent meta-analyses conclude that market orientation has a positive overall impact on organizational performance (Cano, Carrillat, & Jaramillo, 2004; Ellis, 2006; Kirca, Jayachandran, & Bearden, 2005).

Yet, research in marketing provides little information on whether market orientation can be a success factor for the subsidiaries of multinational corporations (MNCs, hereafter) in a global context (Nakata & Sivakumar, 2001). This issue is important for researchers and managers since what determines the international success and failure of firms has always been a key issue in the international business literature (Peng, 2004). Another important gap in prior research involves the mechanisms through which market orientation affects performance. Specifically, the underlying rationale behind how market orientation influences performance is still a topic of interest in the literature (Hult & Ketchen, 2001). As detailed subsequently, the present study provides interesting insights concerning the effects of customer relationship performance as a mediating variable between a subsidiary's market orientation and its financial performance.

Although the idea that firms can boost their performance by fostering market orientation seems to be generic, recent findings suggest that market orientation may be a better approach in the context of economically developed markets. Specifically, recent findings suggest that market orientation "works better" in developed country market environments characterized by good local business conditions, greater resource availability, and demanding customers (Zhou, Brown, Dev & Agarwal, 2007). Similarly, two meta-analyses also reveal that the managerial value of a market orientation is significantly affected by the cultural and economic characteristics of the host countries of firms (Ellis, 2006; Kirca et al., 2005). However, the literature provides little guidance to the effects of market orientation on performance in specific emerging markets, especially in the Middle East as these geographic regions have been under-represented in past studies (Ellis, 2006). Thus, further research conducted in the diverse and complex economic, cultural, and political environments of emerging country markets seems to be warranted before conclusions can be made regarding the effectiveness of market orientation in emerging markets.

In efforts to fill these important gaps in the literature, we examine the effects of market orientation on financial performance using data obtained from the subsidiaries of MNCs located in Turkey. We focus on the Turkish market, one of the emerging

☆ The author thanks Kendall Roth and William O. Bearden for their helpful comments and the Center for International Business Education and Research (CIBER) at the University of South Carolina, Columbia for financial support of this project.

* Tel.: +1 517 432 6392; fax: +1 517 432 1112.
E-mail address: kirca@msu.edu.

1090-9516/$ – see front matter © 2010 Elsevier Inc. All rights reserved.
doi:10.1016/j.jwb.2010.10.005

country markets in an exclusive location at the crossroads of Europe and Asia, because Turkey is the largest industrial economy in Eastern Europe, the Balkans, and the Middle East. Turkey has attracted substantial amounts of foreign direct investment in the last few years (Demirbag, Tatoglu, & Glaister, 2008). Moreover, the Turkish context provides an interesting and rich research setting for our purposes because Turkish business environment represents a diverse and complex setting for global companies as a unique country with its Western market style economy and Muslim cultural heritage (Demirbag, Glaister, & Tatoglu, 2007; Kabasakal & Bodur, 2002). Finally, the characteristics of the Turkish market environment provide a good case to investigate the market orientation of MNC subsidiaries because Turkey is an emerging market characterized by high economic growth, rapidly growing population, relatively low resource availability and customer demandingness. As such, Turkey is at an earlier stage of economic development compared to the markets in advanced economies (Demirbag et al., 2007; Zhou et al., 2007).

The present manuscript is organized as follows. To begin, after a brief literature review we offer a conceptual framework that provides the theoretical rationale for the effects of market orientation on firm performance in Turkey, as well as the hypotheses which guide our research. Then, the research design and methods of the study along with the results, the major findings, and their implications are discussed.

2. Literature review

The concept of market orientation has its philosophical foundations in the marketing concept which refers to "the corporate state of mind" or "a philosophy of business management" that is based on the integration and coordination of marketing activities to satisfy customer needs for the purpose of maximizing long-range profits (Felton, 1958). Despite early recognition of the importance of the customer to business success, little research existed regarding the defining features or attributes of market orientation until the resurgence of academic and practitioner interest in late 1980s and early 1990s (e.g., Deshpande & Webster, 1989). In particular, Kohli and Jaworski (1990) and Narver and Slater (1990) introduced market orientation as a term to mean the organization-wide adoption and implementation of the marketing concept. Since then, market orientation has been a core topic in the marketing strategy literature largely because market orientation provides the firm with market sensing and customer linking capabilities that lead to enhanced performance (Day, 1994).

Research on market orientation can be broadly categorized into two perspectives: a behavioral and a cultural perspective. Whereas the behavioral perspective describes market orientation in terms of specific behaviors related to generation and dissemination of and responsiveness to market intelligence, the cultural perspective is related to more fundamental cultural characteristics of the organization, such as market-oriented norms and values (Hurley & Hult, 1998). Examining the nature, antecedents and consequences of information processes at the organizational level, the behavioral perspective emphasizes the market information processing capabilities of the firm (Kohli & Jaworski, 1990). Drawing upon the organizational learning literature (Huber, 1991), this view suggests that market orientation is strongly related to a learning orientation, which enables the firm to better focus on its markets (Sinkula, 1994).

On the other hand, the cultural perspective describes market orientation as a deeply rooted and pervasive organizational culture that creates or enhances the necessary values, norms and behaviors for the creation of superior value for customers (Narver & Slater, 1990). From this perspective, market orientation is a distinct organizational culture with a fundamental, shared set of beliefs, norms and values that put the customer at the center of the firm's strategies and operations (Deshpande & Webster, 1989). Thus, the cultural perspective suggests that market orientation is essentially a corporate culture that characterizes an organization's disposition to deliver superior value to its customers continuously (Han et al., 1998; Slater & Narver, 1994).

Research integrates the behavioral and cultural perspectives in the market orientation literature by proposing that market orientation consists of different layers of market-oriented organizational cultures (i.e., values, norms, and artifacts) that are linked to market-oriented behaviors (Homburg & Pflesser, 2000). This approach indicates that market orientation is fundamentally an organizational culture committed to the continuous creation of superior value for customers and manifests itself as a set of cross-functional activities directed at creating and satisfying customer needs (Hurley & Hult, 1998). In this study, we conceptualize market orientation as a set of behaviors and processes related to generation and dissemination of and responsiveness to market intelligence, based on the behavioral perspective (Kohli & Jaworski, 1990).

A number of studies in the marketing literature focus on the effects of market orientation on various outcome variables. In this domain, research has shown that market orientation is positively related to customer satisfaction, customer loyalty, service/product quality, firm innovativeness, new product performance, employees' job satisfaction and customer orientation, and organizational performance (Kirca et al., 2005). Importantly, considerable attention has been devoted to investigate the effect of environment on the market orientation–performance relationship. Specifically, researchers examined the extent to which market orientation–performance relationship is moderated by industry characteristics (Narver & Slater, 1990), market growth (Gatignon & Xuereb, 1997), demand uncertainty (Grewal & Tansuhaj, 2001), market dynamism (Pelham & Wilson, 1996), and technological and environmental turbulence (Jaworski & Kohli, 1993; Slater & Narver, 1994). Interestingly, the findings across studies concerning the moderating effects of environmental factors were generally inconclusive (Kirca et al., 2005).

Our literature review indicates that much scholarly work has been devoted to studying the concept of market orientation and its performance implications in a variety of research contexts. However, very limited research attention has been devoted to the performance implications of market orientation in a global context (cf. Nakata & Sivakumar, 2001). In this respect, this study fills an important gap in the literature with its unique focus on MNCs in an era characterized by the growing importance of global companies and globalization of markets. Moreover, our review of the literature also denotes that Turkey represents a unique research context to investigate the effects of market orientation on firm performance. Given the growing significance of this country in the region as an emerging market, as well as its unique nature with diverse economic and cultural characteristics discussed earlier, extending the findings generated in other contexts to the Turkish setting offer interesting managerial and theoretical insights. In the following section, we present our hypotheses that investigate the effects of market orientation on performance based on the body of literature on market orientation in emerging markets and in the Middle East.

3. Conceptual framework and hypotheses

The conceptual framework presented in Fig. 1 depicts a model that explores the indirect effects of market orientation on performance, as well as the meditating role of customer relationship performance in the market orientation–performance