The effect of market-pull vs. resource-push orientation on performance when entering new markets

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A B S T R A C T
This paper uses a multi-agent simulation to examine how the initial choice of strategic orientation impacts a firm’s long-term performance. The results indicate that when entering a new market, market-pull firms achieve performance levels 4% higher on average than resource-push firms. However, the survival rate of market-pull firms is only 25%, far less than resource-push firms. These findings present firms with a Cornelian dilemma—i.e., strive for survival or maximize performance.

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1. Introduction

The quest to explain firm performance is a cornerstone of the strategic management field (Hilt, Ketchen, & Slater, 2005). Extant research suggests that an important determinant of firm performance is its strategic orientation — i.e., the strategic direction implemented by the firm to create behaviors that lead to superior performance (Gatignon & Xueerb, 1997; Narver & Slater, 1990). Further, the literature acknowledges market-pull (MP) and resource push (RP) as two important strategic orientations (Day, 1994, 2011; Gatignon & Xueerb, 1997; Zheng Zhou et al., 2005).

The MP orientation emphasizes the creation and maintenance of customer value (Auh & Menguc, 2006; Narver & Slater, 1990). It focuses on acquiring, disseminating, and responding to market intelligence about customers and competitors (Jaworski & Kohli, 1993). The logic of MP is that for a firm to achieve superior performance, it must create value for the customer (Kohli & Jaworski, 1990; Kumar, Sriram, Luo, & Chintagunta, 2011). In contrast to the external emphasis of a MP orientation, the RP orientation emphasizes a firm’s internal resource capabilities as the starting point for its strategic efforts (Zheng Zhou et al., 2005). The focus is on the development and deployment of unique resources to exploit opportunities or neutralize threats in the external environment (Paladino, 2008). The logic of RP is that if a firm’s idiosyncratic and difficult-to-imitate resources enable it to achieve and maintain greater performance (Teece, Pisano, & Shuen, 1997).

Not surprisingly, a growing body of research has focused on providing empirical evidence to link the choice of a particular strategic orientation with performance. For example, Deshpande, Farley, and Webster (1993) and Narver and Slater (1990) show that a MP orientation is positively associated with greater performance while Paladino (2008) and Powell and Dent-Micallef (1997) demonstrate that a RP orientation leads to better performance outcomes. Refinements to the debate about the superiority of each orientation have noted the relevance of environmental characteristics like market turbulence on the strategic orientation–performance link (Narver & Slater, 1990). However, the literature is still not conclusive with respect to which strategic orientation is appropriate for a given environmental situation. For example, Kohli and Jaworski (1990) and Kumar et al. (2011) note that the greater the market turbulence, the stronger the relationship between a market orientation and performance. In contrast, Gatignon and Xueerb (1997) and Paladino (2008) argue that when market turbulence is high, a stronger resource orientation leads to greater performance. Against this background, the purpose of this paper is to shed clarity on the strategic orientation–performance link. Specifically, we use a multi-agent...
In his seminal work, Wernerfelt (1984) acknowledges both a MP and a RP approach to strategic orientation. These two orientations can be viewed along a spectrum (Day, 1994, 2011): while the MP approach emphasizes “outside-in” firm capabilities (e.g., market sensing or monitoring activities), the RP approach emphasizes “inside-out” firm capabilities (e.g., technology development).

The MP orientation considers the market to be the appropriate level of analysis for examining firm performance (Bain, 1951, 1968; Mason, 1939, 1957; Olavarrieta & Friedman, 2008; Porter, 1979, 1980). This approach suggests that the concentration of firms and the barriers to market entry as well as the concentration of buyers and the degree of differentiation between products determines a market’s attractiveness (Scherer & Ross, 1990; Wernerfelt & Montgomery, 1986). A firm’s choice of which market to enter is based on an external analysis of market attractiveness. Further, its behaviors to create superior value for buyers determine its performance.

An alternate view is to consider the firm, rather than the market, to be the relevant level of analysis because it combines its resources in such a way as to generate performance (Amit & Schoemaker, 1993; Barney, 1986, 1991, 1996; Cool, Dierickx, & Jemison, 1989; Grant, 1991; Penrose, 1959; Peteraf, 1993; Wernerfelt, 1984). The decision to enter a new market is driven by the perceived value of the firm’s resource portfolio. Thus the firm chooses a market in which it can use its resources optimally to achieve the highest performance level (Peteraf, 1993; Teece et al., 1997). Such an approach would characterize RP firms.

The foundations of the RP strategy are based on the conception of a firm as a collection of resources (Amit & Schoemaker, 1993; Barney, 1986, 1997; Dierickx & Cool, 1989; Wernerfelt, 1984) and distinctive capabilities (Danneels, 2002; Teece et al., 1997) that make it unique in its market. These resources and capabilities lead to its competitive advantage.

In short, a market-pull firm (MPF) is motivated by the perceived attractiveness of the market, whereas a resource-push firm (RPF) is driven by the optimal utilization of the firm’s resource collection.
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