**Performance Implications of the Buyer-Supplier Market Orientation Fit**


## Abstract

Archival and survey dyadic data were collected from 876 firms (438 firm-supplier dyads) to explore the impact of market orientation fit (i.e., fit between the focal firm's market orientation and its supplier's market orientation) on the focal firm's performance (ROA). The findings resulting from polynomial regression and surface plot analysis suggest that in today's business environment it is no longer sufficient for firms to focus exclusively on their own market orientation as a source of competitive advantage, but on their key suppliers' market orientation as well. The study's results indicate a direct and positive relationship between market orientation fit and ROA. The strength of the relationship increases when the exchanged business volume increases between the focal firm and its supplier, and when the respective relationship progresses in age. Furthermore, firms with market orientation fit perform best, followed by firms with negative misfit (market orientation is lower than their key supplier's market orientation), while firms with positive misfit (market orientation is higher than their key supplier's market orientation) are the laggards. Furthermore, positive misfit has a stronger negative impact on the focal firm's ROA compared to misfit in general and negative misfit. Noteworthy theoretical and managerial implications are derived from the findings.



**Keywords:** Market orientation, Buyer-supplier relationships, Relationship strength, ROA, Dyadic Data


## INTRODUCTION

The business environment has changed significantly since the introduction of market orientation concept nearly three decades ago (Kohli and Jaworski 1990; Narver and Slater 1990). Although in today's business environment firms rely significantly more on their key suppliers for a variety of functions, as compared to three decades ago (Autry and Golicic 2010; Gligor 2014a), research has primarily investigated market orientation and its impact on performance at the firm level. Despite the fundamental changes in the global business environment, research exploring the market orientation-performance link has yet to explain the impact of the key supplier's market orientation on the focal firm's performance. This is a significant limitation of the extant market orientation literature considering that outsourcing has been a dominant trend over the last few decades and its use is accelerating as shown in a recent 2016 global outsourcing survey by the reputable Deloitte group (Plotkin 2016). To address this gap and expand the scope of market orientation from the firm level to the firm-supplier level, we advance *market orientation fit* concept, defined as the match between the focal firm's market orientation and its supplier's market orientation, and investigate its influence on the focal firm's financial performance (i.e., Return on Assets (ROA)).

Our primary objective was to evaluate how the fit between the focal firm's market orientation and its key supplier's market orientation impacts the focal firm's performance. Dyadic survey and secondary data were collected from 876 firms to obtain 438 focal firm-supplier dyads to execute this research. In the process, we further examined whether firms have greater performance when their market orientation is lower than their key supplier's market orientation (*negative misfit*), matches it (*fit*), or exceeds it (*positive misfit*). Our findings reveal the significance of evaluating key suppliers' market orientation and present insights on how the key suppliers'

market orientation should rank (compared to that of the focal firm) to maximize focal firm performance.

In addition, interorganizational relationships have increasingly been recognized as an instrumental factor influencing the way firms translate their supply chain resources into performance outcomes (Durach & Machuca 2018; Karatzas et al. 2017; Claro, Hagelaar, & Omta 2003). Accordingly, to achieve a contingent understanding of the market orientation fit-ROA performance, we further explored the moderating role of relationship strength as an imperative internal factor related to the focal buyer-supplier dyad. We measured relationship strength through objective data on relationship age and ratio of shared business as key dimensions of relationship strength.

## THEORETICAL BACKGROUND

### Linking Market Orientation Fit to Firm Performance

Porter (1996, p. 73) notes that "strategic fit among many activities is fundamental not only to competitive advantage but also to the sustainability of that advantage. It is harder for a rival to match an array of interlocked activities than it is merely to imitate a particular sales-force approach, match a process technology, or replicate a set of product features". Marketing research has built on strategic management literature and has explored the notion of strategic fit but has primarily focused on the concept of fit within the firm boundaries but paid less attention to fit across firm boundaries. For example, Vorhies and Morgan (2003) indicate that organizing marketing activities in ways that fit a firm's strategy enhances performance.

Strategic management literature indicates that firms are likely to achieve better performance when, in addition to internal consistency, they also achieve fit among environmental, strategic, structural, and contextual factors (Galbraith and Nathanson 1978; Miles et al. 1978). Strategic supply chain management literature further highlights that firms seeking to outperform competitors must match their strategies and structures with those of their suppliers' and motivate suppliers to act in an aligned way (Gligor 2016; Stank et al. 2005; Zachariah et al. 2009). This suggests that firms that match their market orientation with their key supplier's market orientation ought to perform better than firms who lack a similar level of fit. The Narver and Slater (1990) and Kohli and Jaworski (1990) market orientation conceptualizations provide further support for this link.

Research has recognized the cultural aspects of market orientation (Narver and Slater 1990). Organizational culture literature has long shown that the lack of cultural fit within organizations and between organizations can negatively impact performance. Within organizations, the lack of cultural fit has been recurrently stated as a potential factor in the failure of mergers and acquisitions (e.g., Weber and Schweiger 1992; Weber et al. 1996). Between organizations, supply chain research reveals that cultural differences may pose challenges to the firm-supplier relationship (Kouvelis et al. 2006; Cannon et al. 2010).

In contrast, similarity between supply chain partners may improve the feeling of we-ness thereby contributing to the perceived success of inter-firm cooperation (Beugelsdijk, Koen, & Noorderhaven 2009). Empirical evidence indicates that firms with a similar culture to that of their key supply chain partners experience superior performance (Min et al. 2007). Purchasing literature also considers cultural and strategic fit as imperative for the success of the focal firm-supplier relationship and the performance of the focal firm (Mortensen and Arlbjørn 2012). In sum, considering the cultural aspect of market orientation (Narver and Slater 1990) and the organizational culture literature that indicates that firms with aligned culture perform better than

firms who lack the same degree of fit (e.g., Cannon et al. 2010; Kouvelis et al. 2006; Mortensen and Arlbjørn 2012), it is expected that firms that align their market orientation with that of their suppliers' (i.e., market orientation fit) can experience superior performance.

Kohli and Jaworski's (1990) emphasis on the knowledge generation, dissemination, and responsiveness also offers additional support for the link between market orientation fit and focal firm performance. As firms rely increasingly on their suppliers, many firms do not have direct contact with their customers but depend on their suppliers to collect customer information (Fugate et al. 2008; Lee et al. 1997). Therefore, it is difficult for focal firms to generate customer information without the help of their suppliers. If suppliers do not have a similar level of market orientation to that of the focal firm, they will not generate the information the focal market-oriented firm requires, which can negatively impact the focal firm's performance. In addition, it would be difficult for focal firms to provide their customers with high quality/customized products and services if their key suppliers produce low quality/standardized products and services. Thus, it is desirable for the key supplier's market orientation to be high when the focal firm's market orientation is high.

Similarly, it is also desired for the suppliers' market orientation to be low when the focal firm's market orientation is low. Although a higher level of market orientation could be desirable from suppliers, it does come at a cost that the focal firm would have to absorb. In his highly referenced framework, Fisher (1997) emphasized the importance of firms matching their supply chains (efficient vs. responsive), including key suppliers, to the nature of their products (innovative vs. functional). That is, in order to maximize performance, firms should not utilize responsive suppliers for functional products (Fisher 1997). Although responsiveness is typically desired, it comes at a cost that the supplier would have to eventually pass on to the focal firm (Lee 2002). For example, a focal firm might have a low-cost strategy and low market orientation relying exclusively on providing low prices, thus sacrificing aspects related to market orientation (i.e., quality, customization, design) (Narver and Slater 1990). In this example, the low-market orientation focal firm would perform best when its main supplier's market orientation level is also low. Developing a high level of market orientation comes at a cost for the supplier and the supplier would have to recuperate that cost through higher prices (Gligor 2014b; Narver and Slater 1990). As such, suppliers would pass that higher cost on to their customers (i.e., focal firms) which would ultimately hurt the focal firms' low-cost strategy and performance. Thus, we explore the following:

**H1:** There is a direct and positive relationship between market orientation fit and the focal firm's performance.

### The Moderating Role of Relationship Strength

Past research on interorganizational relationships indicate that relationship strength could moderate the impact of market orientation fit on focal firm performance. Relationship exchange theory argues that evolving relational norms in exchange partnerships impact various aspects of the exchange relationships (Scott 1987). Interorganizational relationships research also indicates that the strength of the relationship between a firm and its supplier can moderate the influence of different facets of the firm-supplier relationship (e.g., fit) on the focal firm's performance (Fynes and Voss 2002; Squire et al. 2009). Thus, to enhance the explanatory power of our framework, we examine the moderating role of relationship strength in the linkage between market orientation fit and the focal firm's performance.

Researchers have operationalized the concept of relationship strength in various ways. For example, Capaldo (2007) builds on extant relationship theory (Kraatz 1998; Rindfleisch and

Moorman 2001) and conceptualizes relationship strength as a three-dimensional construct composed of temporal, resource, and social dimensions. Specifically, Capaldo suggests that the strength of a buyer-seller relationship is determined by three components: relationship duration, the intensity of the interaction, and the frequency of interaction. Krause et al. (2007) operationalize relationship strength through the length (i.e., duration) of the relationship, while Autry and Golicic (2010) capture both, the 'share of the business' and the 'length' of the relationship dimensions. Consistent with prior empirical relationship studies, we conceptualize relationship strength in terms of both, duration of the relationship (i.e., age, length) and share of business with the supplier.

In the case of positive misfit the level of product or service quality/customization offered by the supplier could be below the focal firm's expectations and thus below the focal firm's customers' expectations. Similarly, in the case of negative misfit, as illustrated earlier, the focal firm could incur higher costs due to higher supplier costs which it would have to pass on to its own customers. This could result in unsatisfied customers and customer defection for the focal firm which would ultimately impact the focal firm's performance. The strength of the relationship can amplify these effects. That is, the longer the duration of the focal firm-key supplier relationship, the longer the focal firm's customers could experience unsatisfactory products and services, thus possibly increasing the customer defection rate and lowering revenues. On the other hand, if the focal firm rotates its key suppliers more frequently and engages in shorter-term supplier relationships, the negative impact of those suppliers is reduced (from a timeline perspective), and the focal firm can seek out other key suppliers that are a better fit, thus limiting the negative implications of a misfit.

Similarly, business volume with the key supplier can enhance the impact of market orientation fit on customers' financial performance. Recent research suggests that suppliers with close ties to and high business volumes with buyers may have a greater influence on firm behavior and ensuing exchange outcomes (Gölgeci et al. 2018; Golicic & Mentzer 2006). In this vein, a lower level of business volume with the respective key supplier would have a less negative impact on the focal firm's customers than a higher level of business volume because of the overall reduced supplier impact on the focal firm's products and services. Thus, the following hypotheses are examined:

**H2a:** The age of the focal firm-supplier relationship positively moderates the relationship between market orientation fit and the focal firm's performance.

**H2b:** The share of business the focal firm has with its supplier positively moderates the relationship between market orientation fit and the focal firm's performance.

## METHODOLOGY

Methodology is excluded due to space limitations

## DISCUSSION AND IMPLICATIONS

Our main goal was to evaluate how the fit between the focal firm's market orientation and its key supplier's market orientation impacts the focal firm's performance. To execute this research, we introduced the concept of *market orientation fit* (i.e., fit between the focal firm's market orientation and its key supplier's market orientation) and explored its impact on the focal firm's performance. We collected data from 876 firms and created 438 focal firm-supplier dyads to measure the construct of market orientation fit. Financial performance for focal firms was evaluated using objective, secondary data (i.e., ROA). To better understand the market orientation fit-ROA performance link we also considered relationship strength as a boundary condition.

In addition, by conceptualizing fit as 'matching' (Venkatraman 1989) we sought to uncover additional insights and distinguished between *positive* (i.e., the focal firm's market orientation is higher than its key supplier's market orientation) and *negative* (the focal firm's market orientation is lower than its key supplier's market orientation) *misfit*. This allowed us to further examined whether firms perform better when their market orientation is lower than their key supplier's market orientation (negative misfit), matches it (fit), or exceeds it (positive misfit).

We find that the fit between the focal firm's market orientation and its key supplier's market orientation has a direct and positive impact on the focal firm's performance. In addition, the strength of the relationship increases as the relationship between focal firm strengthens "over time through increased shared volume and relationship maturity. Our results also show that firms with market orientation fit perform best in terms of their ROA, followed by firms with negative misfit, while firms with positive misfit are the worst ROA performers. Further, positive misfit plays a stronger negative role in the focal firm's ROA compared to misfit in general, and negative misfit. Next, we discuss several theoretical and managerial contributions associated with these findings.

## Theoretical Contributions

We make several notable contributions. First, our findings suggest that in today's business environment, it is no longer sufficient for firms to focus exclusively on their own market orientation as a source of competitive advantage, but on their key suppliers' market orientation as well. Thus, we contribute to the literature by expanding the scope of market orientation from the firm level to the firm-supplier level that is relevant to interorganizational governance. Second, we shed additional light on the complex market orientation-performance relationship and expand this body of literature (e.g., Jaworski and Kohli 1993; Murray et al. 2011; Iyer et al. 2018) in several ways. Our results indicate that the fit between a focal firm's market orientation and its key supplier's market orientation (i.e., market orientation fit) has a direct and positive impact on the focal firm's financial performance. Third, we conceptualize market orientation fit as 'matching' (Venkatraman 1989). Thus, we transcend an 'all or nothing' link between the focal firm's market orientation and its key supplier's market orientation. This further allows us to differentiate between *positive* (i.e., the focal firm's market orientation is higher than its key supplier's market orientation) and *negative* (the focal firm's market orientation is lower than its key supplier's market orientation) *misfit*. Our findings signify that firms with market orientation fit perform best. Finally, we advance the research on B2B marketing and interorganizational relationships (Dyer & Singh 1998; Karatzas et al. 2017) by illustrating how relationship strength can moderate the impact of market orientation fit on firm performance. Our research shows that market orientation fit is more crucial when the relationship between the buyer and supplier is strong to improve performance and avoid the detrimental effect of misfit between closely-knit supply chain partners. Accordingly, relationship strength matters beyond its direct effects (Capaldo 2007; Flight et al. 2008; Golicic & Mentzer 2006) and can be an essential contingent factor in shaping the way market orientation fit translated into firm performance.

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