How Does Market Orientation Affect Business Relationships?

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ABSTRACT

Many studies have shown that market orientation is important for firms because it has a positive impact on performance. However, several studies have indicated that the relation between a firm's market orientation and its success is sometimes weak and that moderating variables need to be considered at least under certain circumstances. As such the overall message from the market orientation studies is not clear. The usefulness of the market orientation concept must be also questioned when looking at the realities of business markets. In most if not all cases the firms' "surroundings" should be seen as a network of inter-organizational relationships rather then an anonymous market. Therefore, in this paper the notion of market orientation is explored with particular focus on inter-organizational relationships. Hereby, it is argued that the relationships are important and that the overall market orientation of firms needs to be translated to a relationship level in order to be effective. It is further argued that market orientation on a relationship level can be interpreted in terms of a firm's employed resources and executed activities dedicated to relational exchange processes.

INTRODUCTION

Market orientation has attracted a lot of interest with both academics and practitioners (for an overview see Deshpande (1999) and Wilkinson (forthcoming)) and for many years research on market orientation has shaped marketing thinking. Most studies have supported the view that market-oriented firms have higher innovation and corporate success. At the same time marketing research has highlighted the importance of inter-organizational relationships for firms' survival. It has been argued that relationships are a firm's most valuable resources.

Up to now these two streams of literature have not been combined apart from two contributions:

- Steinman, Deshpandé and Farley (2000) analyzed the impact of the length and importance of a relationship on the market orientation gap, i.e. the difference between the buyer's and a the seller's judgment of the supplier's market orientation. Using data from the U.S. and Janpan they found out that the gap decreases with time and importance.
- Baker, Simpson and Siguaw (1999) regarded a distributor's market orientation towards his customer as an influencing variable for suppliers to deal with distributors as suppliers expect better sales figures from a market oriented distributor. Relaying on some 380 supplier questionnaires it is shown that distributor's market orientation perceived by the supplier has a positive impact on supplier's trust, commitment, cooperation and commitment. There are also effects from supplier's market orientation on distributor's market orientation (Siguaw, Simpson and Baler, 1998).

As such we have little understanding of the interplay between market orientation and inter-firm relationships. This paper aims at filling this gap by discussing and investigating the consequences of market orientation on the relationship level. Hereby, we look inside the firm: How does a firm's market orientation effect its relationships and the management of these?

The paper is organized as follows: Firstly, the concept of market orientation is introduced and the effects on the relationship level resulting from a firm's market orientation are discussed theoretically. Secondly, relationship variables, i.e. trust, commitment, and relationship outcomes, are presented. Then, hypotheses about the relations between the constructs are derived and empirically tested. Finally, limitations of the study and managerial implications are discussed.

MARKET ORIENTATION

The Concept

According to Wilkinson (forthcoming) the origins of the construct of market and customer orientation can be traced back to Adam Smith who stated in the 18th century in his “Wealth of Nations” that “consumption is the sole end and purpose of all production and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer”. Most articles, however, refer to e.g. Drucker (1954) as the roots of market orientation. Especially after a Marketing Science Institute (MSI) conference in 1987, interest in and publications on market orientation increased significantly.

Market orientation has been defined in several ways:

- "We use the term "market orientation" to mean the implementation of the marketing concept" (Kohli and Jaworski, 1990, p. 1).
- "Market orientation is the business culture that most effectively and efficiently creates superior value for customers" (Narver and Slater, 1990, p. 10).
- "Market orientation as the degree to which the different management systems of an organization are designed in a market-oriented way" (Becker and Homburg, 1999, p. 20).

From a conceptual point of view, three different perspectives can be distinguished (Becker and Homburg, 1999):

- Behavioral perspective on market orientation: Kohli and Jaworski (1990) base their discussion on behavioral aspects, i.e. they put action as a central focus of market orientation. “Market orientation is the organization-wide *generation* of market intelligence pertaining to current and future customer needs, *dissemination* of the intelligence across departments, and organization-wide responsiveness to it” (Kohli and Jaworski, 1990, p. 6). As such there is a clear focus on information-related behavior. For this perspective, measurement scales have been developed and tested with positive results (Jaworski and Kohli 1993; Kohli, Jaworski and Kumar 1993). This perspective was later used by e.g. Deng and Dart (1994) and Atuahene-Gima (1996).
- Cultural perspective on market orientation: According to Narver and Slater (1990, p. 21) "market orientation is the organization culture (i.e., culture and climate, Deshpande and Webster 1989) that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business". However, while discussing the content of market orientation the authors

heavily look at behavioral components. "Market orientation consists of three behavioral components - customer orientation, competitor orientation, and inter-functional coordination" (Narver and Slater, 1990). This blurs the distinction between both approaches slightly.

- System-based perspective on market orientation: Becker and Homburg (1999) detect a missing discussion about management issues related to market orientation and fill this gap by taking a systems-based perspective. The authors conceptualize "market-oriented management in terms of the degree to which management systems are designed in such a way as to promote a business organization's orientation towards its customers and competitors" (Becker and Homburg, 1999, p. 18). In this approach the management system is divided into 5 subsystems: Organization, information, planning, controlling, and human resource system. Items have been generated which measure the extent of market orientation in all these subsystems by the authors.

Even though the perspectives have remarkable differences in their understanding of market orientation, there is a fair amount of overlap as well. Cadogan and Diamantopoulos (1995) argue that the behavioral and the cultural perspective have conceptual and operational overlaps in nearly all dimensions. Especially with regard to the operationalization the commonness is quite remarkable. Based on their empirical findings Avlonitis and Gounaris (1997) suggest that a disassociation of the cultural and the behavioral approach should be avoided. There is also an overlap between the system-based perspective and the other two. E.g., a market-oriented information system has information generation and dissemination as two of the three sub-dimensions. In addition, all system-based dimensions are operationalized with regard to customers and competitors as well as inter-functional coordination.

As such we can conclude that market orientation has not yet been defined in general terms and that different perspectives exist. However, from (at least) an empirical perspective, differences in operationalizations are sometimes very minimal, and as such results from studies using different perspectives can be compared with no major limitations.

The original work on market orientation in the US has lead to replications in other parts of the world (Dreng and Dart, 1994, Canada; Gray et al, 1998, New Zealand; Greenley, 1995, UK; Hooley et al., 2000, Hungary, Poland and Slovenia; Pitt et al, 1996, UK and Malta; Shipley et al, 1995; Hungary and Poland), the development of better measures (Gray et al., 1998) and the analysis of moderating effects (Han et al, 1998; Greenley, 1995; Kumar et al, 1998; Pelham

1997). Market orientation has also been tested outside manufacturing, especially in service industries (Chang and Chen, 1998; Han et al, 1998; Van Egeren and O'Connor, 1998).

However, with Gronross (1989) marketing's aim should be the development of long-term customer relationships which is different from a "general" orientation to a market. This becomes even more important as the service and business-to-business marketing literature regularly highlights the importance of personal interactions, i.e. inter-firm relationships, in creating customer satisfaction (Crosby and Stephens, 1987; Parasuraman et al, 1985). This is most critical when the service provider's offering is complex, customized and delivered over a continuous stream of transaction. Therefore, we will explore the role of market orientation on a relationship level in the following.

Market Orientation and Inter-firm Relationships

In a traditional view firms operate in a faceless environment to which they have an antagonistic relation. This means that firms are supposed to maximize their own profits by disregarding other actor's requirements and seeing them as "enemies". In such an understanding the marketing task is to design an offering which is determined by the 4 P's. At best, meaning the highest level of relating to the environment, marketing research will collect data about the enemies known as customers as well as competitors. Markets - in this view - are comprised of customers that are somehow identical. At least these customers have identical needs and wants to be satisfied.

However, practitioners and academics get increasingly concerned about this notion. In reality there is a big move towards customization, i.e. changing offerings so that they solve individual customers' problems better. Even though the same physical product is exchanged or the same service is delivered, the offering can be significantly different in other areas - one being the relationship between a seller and a buyer. This is due to the fact that the actors are not faceless but do have an identity. Furthermore, the relation between two actors has a history because the actors do remember. This argument stands true for new exchange relations as well. In those cases the actors do take into account the non-existing history of the relationship. This can be seen in a lack of trust and commitment to the other party. The atmosphere (e.g. trust and commitment) becomes a part of the offering. As such there are only individual customers with (at least partly) individual problems (Håkansson and Ford, forthcoming). As such we can conclude that there are no general markets a firm can be oriented towards.

Furthermore it becomes harder to distinguish between well-defined industries which could serve as "quasi markets". This is due to increasing complexity of technologies and their interdependence. Who is in the biotech industry?

The outlined problems become even more apparent when looking at service providers. While providing a service the customer is normally involved in the process of generating the outcome. As such it is logical that one cannot abstract to a general market in cases where the individual customer plays a part in order fulfillment.

Limitation 1: There are no markets. Instead we need an orientation towards individual customers.

The process of interaction with customers (as well as with other types of actors) goes beyond the acquisition of information. In order to gain valuable, insightful and important information from other actors, mutually beneficial relationships must be build which are long-term oriented. With this long-term orientation a relationship perspective is needed as opposed to a transactional approach. The relationship perspective moves away from pure information handling or a cultural dimension towards a relationship management perspective. The relationship perspective would unfold the mechanisms behind the acquisition of information because we know that only actors who trust and who are committed to the other side are willing to share information.

With regard to service industries the missing interaction perspective becomes even more problematic as service design and exchange most frequently do require provider – customer interactions.

Limitation 2: Market orientation does not take into account inter-organizational relationships.

In conclusion we can say that the cultural variable market orientation needs to be “translated” into the relationship level in order to, firstly, overcome the limitations and, secondly, to be able to test its impact on this level. So what does market orientation mean on the relationship level?

Market orientation on a Relationship Level

Due to the information generation and dissemination about customers and competitors (as dimensions of market orientation) it is reasonable to assume that in market-oriented firms, the people dealing with a relationship will have good information about the customers and competitors. There will also be a good understanding of the firm’s internal procedures, competencies and strategies due to a high degree of inter-functional cooperation. Market oriented firms will also have to provide financial, physical and technical resources for relationships as they value these relationships in terms of information generation and dissemination. Therefore, we see market orientation on the relationship level in terms of resource availability.

Furthermore, as market orientation in the behavioural perspective is about action, we need to translate the market orientation activities into relationship activities. Following theoretical approaches in relationship marketing literature as well as summarizing our own observations from previous qualitative interviews, we have identified four main relationship management task bundles that have to be performed by the supplier company: Exchange, coordination, and adaptation.

Exchange activities (cf. Anderson and Narus 1984, 1990; Bagozzi 1975; Dwyer, Schurr, and Oh 1987; Homans 1958; Thibaut and Kelley 1959) serve to settle needs and requirements of the partners in a relationship. We can distinguish between *product/service-related exchange activities* which include the transfer of goods or money, information exchange regarding specifications of goods, logistics, delivery or payment matters, special offers or orders as well as middle-range forecast of opportunities, needs and requirements of both parties; *problem-related exchange activities* that are important if a customer has difficulties with the use, the functionality or the quality of products or services provided by the supplier, or if a customer needs long-term support regarding specific solutions for his problems; and *person-related exchange activities* that serve to build up personal relationships between members of each partner company in order to get to know each other better and to establish social bonds.

Inter-organizational coordination refers to the synchronization of the relationship partners' actions (Mohr and Nevin 1990). It is always necessary when more than one party is involved in organizational processes. Coordination comprises the establishment, use, and control of formal *rules and procedures* and the exertion of *informal influence*.

The utilization of constructive *conflict resolution* mechanisms (cf. Ruekert and Walker 1987) is a third task which extents the notion of coordination because it refers to those extraordinary, non-standard situations which are bound to occur in every long-term relationship. While rules and procedures form the basis for an efficient standardization of processes in the relationship, the conflict cannot be dealt with in a standardized way. Thus, constructive conflict resolution requires a timely reaction to the conflict as well as the readiness for compromises and a sense of justice.

Adaptation often becomes necessary in customer relationships in order to meet the special needs or capabilities of a partner. These adaptation activities can refer to a multitude of different areas such as products/services, manufacturing processes, logistics, delivery or payment modes, employee qualification, or conditions for the use of a product or service (cf. Hallén, Johanson, and Seyed-Mohamed 1991).

Figure 1 provides an overview over our conceptualization of market orientation on the inter-firm relationship level.

INSERT FIGURE 1 ABOUT HERE

TRUST, COMMITMENT AND RELATIONSHIP EFFECTIVENESS

Trust

Trust is included in most relationship models (cf., Wilson, 1995). Empirical findings suggest that trust is an integral feature of successful relationships (e.g., Mohr and Spekman, 1994; Moorman, Zaltman, and Deshpande, 1992; Morgan and Hunt, 1994). Although scholars have used a variety of definitions for trust, nearly all researchers have implicitly accepted the definition of trust as a positive belief, attitude or expectation of a party concerning the likelihood that the action or outcomes of another will be satisfactory (Andaleeb, 1992). In this study trust exists to the extent that a customer in a relationship believes the supplier to be honest (cf., Doney and Cannon, 1997), benevolent (cf., Geyskens, et al., 1996), and competent (cf., Moorman, et al., 1992).

Commitment

Scholars have recognized commitment as an essential ingredient for successful long-term relationships (e.g., Dwyer, Schurr, and Oh, 1987; Gundlach, Achrol, and Mentzer, 1995; Morgan and Hunt, 1994). Most studies conceptualize commitment as an attitudinal component signifying an durable intention by the parties to develop and sustain a long-term relationship (e.g., Anderson and Weitz; 1992). Moorman, et al., (1992, p. 316) view commitment "as an enduring desire to maintain a valued relationship". In the present study four characteristics of relationship commitment are used to describe *supplier commitment*: loyalty (cf., Geyskens, et al., 1996), willingness to make short-term sacrifices (cf., Anderson and Weitz, 1992), long-term orientation (cf., Ganesan, 1994), and willingness to invest in the relationship (cf., Gundlach, Achrol, and Mentzer, 1995).

Relationship effectiveness

Empirical studies have shown that there are huge differences in the level of effectiveness a supplier company can achieve in a specific customer relationship. Gemünden, Walter and Helfert (1996) examined 578 European business relationships between small and medium-sized manufacturing enterprises and their industrial customers. On the supplier side, between 3 and 4 employees had been directly and constantly involved in the customer relationship (p. 179 f.). The authors identified three major dimensions of relationship success: The amount of *sales* to the customer, the extent to which a customer helps the supplier to gain *market availability*, and the extent to which a customer relationship is useful for the supplier's *technological development*. A cluster analysis of the 578 relationships revealed four different success patterns regarding these three dimensions (cf. Gemünden, Walter and Helfert 1996, p. 30 ff.): While only 15.22% of the suppliers exploit all three success potentials of their customer relationship above average, 32.70% are high performers regarding two of the three dimensions, 29.41% make an above-average use of their customers only with respect to the sales dimension, and 22.67% are poor performers concerning all three dimensions in question. The four clusters and their exploitation of the relationship potential on the three success dimensions are shown in Figure 2. The grey centered triangle symbolizes the sample means on these three dimensions. Relationship effectiveness for a supplier firm thus equals the extent of goal attainment the company is able to reach due to the relationship.

INSERT FIGURE 2 ABOUT HERE

HYPOTHESES

In relationship management, information play a key role. The people involved form the service provider’s side do need to know their own firm in order to be able to put together a consitent, realistic, and at the same time customized offering. This also assumes that there are sufficient information available on customer’s needs and competitors’ offerings. put together with inhouse resources this will build the bases to convince the customer to make business with the service provider. Furthermore, good resources provide the relationship with substance to explore future opportunities in joint development activities. Also, a good resource situation will satisfy the customer which in turn may prove to be valuable to gain further market access through the customer.

Hypothesis 1: Better resource availability leads to higher relationship effectiveness.

A good relationship management task performance regarding exchange, coordination, and adaptation in the customer relationship is a necessary precondition for relationship effectiveness. This can be explained as follows: If the service provider is able to manage the exchange of goods, services, technology, information, attitudes etc. with the customer in the right way, to coordinate the actions of the own company with those of the customer, to solve conflicts in a constructive and timely fashion, and to recognize, initiate, and perform adaptation activities and processes, it is more likely that the goals of the relationship can be attained.

Hypothesis 2: Higher relationship management task performance leads to higher relationship effectiveness.

Empirical findings suggest that trust is an integral feature of successful relationships (e.g., Mohr and Spekman, 1994; Moorman, et al., 1992; Morgan and Hunt, 1994). Where partners trust each other, constructive dialogue and cooperative problem-solving allow difficulties to be worked out. Trust reduces fears of exploitation and minimizes feelings of vulnerability (Boon and Holmes, 1991). Therefore, trusting customers increase their business and are likely to share restricted information. Trusting partners feel less risks concerning (investment) decisions and activities connected with a partnership because they see negative consequences less likely (Dodgson, 1993; Littler, Leverick and Bruce, 1995).

Hypothesis 3: Higher customer trust leads to higher relationship effectiveness.

Scholars have recognized commitment as an essential ingredient for successful long-term relationships (e.g., Dwyer, Schurr and Oh, 1987; Gundlach, et al., 1995; Morgan and Hunt, 1994). Commitment encourages partners to resist attractive short-term alternatives in favor of the expected long-term benefits of staying in a relationship (Ganesan, 1994). Committed customers will cooperate because of a desire to make the relationship work (Morgan and Hunt, 1994).

Hypothesis 4: Higher customer commitment leads to higher relationship effectiveness.

All hypotheses are summarized in figure 3.

INSERT FIGURE 3 ABOUT HERE

EMPIRICAL STUDY

Data Collection and Sample

The data were collected in standardized personal interviews with managers in German software companies and advertising agencies. Originally, the authors had selected the companies randomly from German company directories of the two industries. The companies were first contacted by telephone in order to find an interview partner who had all the information we needed about a customer relationship. Regarding the research question of this study, 153 questionnaires are sufficiently completed. This equals an effective response rate of 37.8 % (compared to 405 companies that were contacted originally).

The sample can be described as follows: The average business relationship had been existing for 8.9 years. Mostly SMEs were interviewed which is reflected in an average number of employees of 111 (median = 13). The customers employed 776 persons on average (median = 200).

For the purpose of this study, respondents seemed to be appropriate as key informants who deal with relationship and network management and hold personal contacts to customers themselves. In the maority of our cases, the key informants were members of the top management or from middle management, and only a minority of the interview partners were members of the lower management.

Measures

The present study was preceded by a pretest. 12 semi-structured interviews were conducted with employees of supplier companies in Germany who were responsible for the management of business relationships. The purpose of these interviews was to develop a set of items that tap each of the relevant constructs and to provide an initial test of some of the measures. Furthermore, we modified several items that were extracted from various previous studies and verified them for their relevance to the context of the present study through the interviews with relationship managers. The managers in the pretest answered the questionnaire and verbalized any thoughts that came to mind. The items were revised following each personal interview until no further changes were suggested.

All constructs were measured using seven point multiple-item scales. The proposed measures were purified by assessing their reliability and uni-dimensionality following guidelines of Anderson and Gerbing (1998). Item-to-total correlations were examined in each of the proposed scales and items with low correlations were deleted if they tapped no additional domain of interest. Then, a factor analysis was performed on items from subsets of theoretically related measures to assess the extent to which they reflected a single dimension. (Scale items are displayed in Appendix A).

Resource availability was measured by five items that were developed for this study. The items capture the access to resources the relationship managers in a market oriented firm will be provided with (cf., Kohli and Jaworski 1993, Narver and Slater, 1990): customer information, market information, information on strategic goals of the service provider, technical equipment, and time for relationship management.

The construct *relationship management tasks of the supplier* captures the positive influence of managers in the service provider firm within a focal customer relationship setting who fulfill relationship management tasks. The scale was based on scales to assess relationship management tasks (c.f., Mohr and Nevin, 1990; Hallén, Johanson, and Seyed-Mohamed, 1991). Several of their items were adopted and modified to the context of the present study. Some items were newly developed reflecting concepts of crucial relationship management tasks (c.f., Dwyer, Schurr, and Oh, 1987; Ruekert and Walker, 1987). A principal component analysis with varimax rotation was performed using twelve items assessing tasks of relationship managers in the supplier and customer firm. Four factors with eigenvalues greater than 1.0 were extracted which explained 64.4 % of total variance: adaptation activities (2 items, $\alpha = .73$); coordination activities (3 items, $\alpha = .83$), conflict handling activities (3 items, $\alpha = .66$), and exchange activities (4 items, $\alpha = .61$). The arithmetic means of the four multi-item scales were used to measure the construct relationship management tasks of the service provider.

Customer commitment was operationalized as a five-item scale adapted form the Anderson and Weitz (1992) study. The items represent the partners' loyalty, willingness to make short-term sacrifices, long-term orientation, and intention to invest in the relationship. The four item scale *customer trust* taps the three major facets of trust: honesty, benevolence, and competence. The four item scale was developed through a review of literature (e.g., Andaleeb, 1992) and from interviews with relationship managers.

Sales effectiveness was measured using five items covering high turnover, continuity of sales and high profits. This scale covers the main direct value creating functions are suggested by Walter, Ritter and Gemünden (1999). *Performance development effectiveness* was operationalized with four items covering various stages in the development process as well as judging the overall involvement of the customer in new offerings development. The *market* *development effectiveness* measure used fur items describing typical activites of customers helping suppliers to gain access to new customers.

As a more rigorous test of each of the constructs, a single-factor confirmatory factor analysis (CFA), with covariance matrix as the input, was then conducted using LISREL 8. Information on this is shown in Table 1. In the context of scale validation, CFA is considered superior to more traditional criteria, e.g., such as Cronbach's alpha (cf., Gerbing and Anderson, 1988). Separate single-factor models were evaluated for each of the constructs' measures. Because sample size constraints it was not possible to run CFA on all measures simultaneously (see Bagozzi and Baumgartner, 1994).

The Cronbach's alphas and extracted variances for each purified scale, along with the CFAs, are reported in Table 1. These results provide evidence of the uni-dimensionality of the seven constructs. All items exhibit reasonably high reliabilities. All Cronbach's Alphas except one exceed the threshold value of .7 (Nunnally, 1978). The fit indices suggested by Jöreskog and Sörbom (1996) were used to assess the model adequacy. The ratio of χ^2 over the degree of freedom (df) was used as a descriptive measure of overall fit. Values of this ratio smaller than 2 indicate a acceptable model fit (Medsker, Williams, and Holahan, 1994). The goodness-of-fit index (GFI) and the adjusted goodness-of-fit index (AGFI) are fit measures for which a minimum value of .9 usually is considered to be acceptable (Bagozzi and Yi, 1988; Baumgarten and Homburg, 1996). For the root mean square error of approximation (RMSEA) values up to .08 are usually considered to indicate a reasonable model fit (Browne and Cudeck, 1993).

We examined convergent validity by examining if each indicator's estimated coefficient was significant. All factor loadings were significant, indicating convergent validity (cf., Gerbing and Anderson, 1988). Discriminant validity between the seven constructs is given applying the criterion suggested by Fornell and Larcker (1981). The average variances extracted for the measures were all greater than the squared correlations between the constructs (Correlation matrix of measurement scales is displayed in Appendix B).

INSERT TABLE 1 ABOUT HERE

Hypotheses tests

The hypotheses were tested by regressing "resource availability", "relationship management task performance", "customer commitment", and "customer trust" on the three relationship effectiveness measures. To control for the effects of possible additional determinants of relationship effectiveness, the three variables "firm size of the service provider", "firm size of the customer" (both measured as numbers of employees), and "duration of the supplier-customer relationship" (measured in years) were incorporated as independent variables in the regression equation. We gathered this additional information from the key informants. The results of the three regression analyses are given in table 3.

INSERT TABLE 2 ABOUT HERE

Discussion

All but one of the proposed hypotheses were confirmed. The independent variables explain a substantial portion of the variance of relationship effectiveness. The standardized beta coefficients were used for interpreting the results of the multiple regression (Table 2). As was expected, relationship management task performance, commitment and trust were found to be significant predictors of relationship effectiveness (hypotheses 2, 3, and 4 supported). Resource availability as such had no significant impact. As this was contrary to our hypothesis we analyzed the correlations between resource availability and the other three independent variables. This resulted in highly significant correlations. Therefore, we have to interpret resource availability as an antecedent of relationship task performance, trust and commitment. Given that resource availability is a result of market orientation this result supports the findings of Siguaw, Simpson and Baker (1998) where a distributor’s market orientation had no direct but only an indirect impact on the distributor’s performance. Market orientation and resource availability build the context in which relationships and their effectiveness can prosper. Due to our sample size we were not able to test this interpretation using structural equation modelling.

Of the control variables only duration of the relationship shows a significant effect but with different direction. In terms of sales effectiveness there is a positive impact, i.e. the longer the relationship lasts the higher sales are. This is in line with our experience in practice where professional service providers do accept small profits or even losses at the beginning of a relationship in order to win the business. Over time the service provider learns to know the customer’s business better and as such can offer more value for a higher price. Regarding development activities, a negative impact of duration was found. This may underline the notion that over time the two parties become to accustomed to each other and do no longer challenge their views and look for innovations. As such there are not only gains in long term relationships but also losses in terms of creativity and progression. These additional results offer some indication for the development of inter-firm relationships (Ford 1980, Dwyer, Schurr, and Oh 1988).

Limitations

There are some limitations of the present study which must be recognized. Firstly, the data for this analysis were obtained from a single informant in the supplier company. This is a common practice in marketing research (Philipps, 1981). Kumar et al. (1993) have suggested that choosing the appropriate key informant could alleviate some of the potential problems. We have invested a considerable amount of time to identify a person that is equally well-informed about the supplier and customer company in general, and the inter-firm relationship in question. It remains vigorously debated in the literature whether multiple respondents from each interviewed supplier are necessary to ensure the validity of results such as those of this study (John and Reve, 1982). However, results from team member questionaires which were sent to members of the relationhip management team, did not indicate large differences between the key informant's view of the relationship and the view of others involved in the relationship, providing support for the validity of data collected solely from supplier informants.

Secondly there are more potential independent variables and also moderators which might explain relationship effectiveness.

IMPLICATIONS AND OUTLOOK

In this study, we have looked at the impact of market orientation on a relationship level. We have argued that market orientation will translate into (1) a specific resource availability which was supposed to have an effect on relationship effectiveness and (2) into a high degree of relationship task performance. However, the results show that resource availability has no direct impact on the relationship level. But it has an indirect one. A highly significant positive impact of relationship task performance on relationship effectiveness was found. As such, market orientation matters on the relationship level! The important message is that especially for service providers which are more likely to interact intensively with their customers, market orientation needs to be translated into relationship management tasks. Therefore, firms do need to look at the relationship level in addition to the corporate level of market orientation.

We have used professional service firms to illustrate our ideas because service firms do normally have more interactions with their customers than traditional manufacturers.

However relationships do exist in all areas of business and as such a further research could compare different industries and how the impact of market orientation on relationships may vary.

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Appendix A: **Measures**

Sales effectiveness (Mean = 4.25, SD = 0.80; 0 = not at all, 6 = to very high degree)
High turnover with this customer.
Continued sales of products to this customer.
Continued sales of services to this customer.
High profit margins with this customer.
Sales increase with this customer.

Performance development effectiveness (Mean = 3.59, SD = 1.27; 0 = not at all, 6 = to very high degree)
Development of new or improved offerings with this customer.
Use of this customer for testing new offerings.
Use of this customer for generating new offering ideas.
Use of this customer' know how for improving existing offerings.

Market development effectiveness (Mean = 3.68, SD = 1.27; 0 = not at all, 6 = to very high degree)
Image improvements through collaboration with this customer.
Contacts to new customers through this customer.
Information on potential customers from this customer.
Joint appearance with this customer to potential customers.

Customer commitment (Mean = 3.98, SD = 1.13; 0 = strongly disagree, 6= strongly agree)
This customer regards our current collaboration as part of a long-term relationship.
This customer is willing to accept short-term disadvantages in order to maintain our relationship.
This customer is willing to invest time and money in order to work together with us in the long run.
This customer would not make business with others at our expense.
This customer puts the long-term cooperation with us before his short-term profit.

Customer trust (Mean = 4.70, SD = 0.89; 0 = strongly disagree, 6 = strongly agree)
This customer believes that we would take advantage without looking at their interests (reverse scored).
This customer knows that they can count on our support in important matters.
This customer trusts us when we conduct activities they cannot perform on their own.
This customer is not open to additional information requests from our side (reverse scored).

Relationship management tasks performance (Mean = 2.99, SD = 0.55; 0 = strongly disagree, 6 = strongly agree)

Adaptation
Members of our relationship team adapt offerings to this customer's needs.
Members of our relationship team adapt delivering and usage of our offerings to customer's demands.

Coordination
Members of our relationship team discuss in collaboration this customer who is doing what.
Members of our relationship team control that promises on both sides are fulfilled.
Members of our relationship team discuss the steps with which the aims of the relationship are fulfilled.

Conflict
Members of our relationship team try hard to realize our firm's interest in case of conflicts (reverse scored).
Members of our relationship team wait a considerable time in case of conflicts in order to calm down the situation (reverse scored).
Members of our relationship team try to establish a compromise which is acceptable for both sides when a conflict arises.

Exchange
We send members of our relationship team to this customer to learn more about the particular needs of this customer.
Members of our relationship team react immediately if this customer has any problems with our offerings.
Members of our relationship team talk with employees of the customer about private matters.
Members of our relationship team jointly develop solutions for this customer.

Resource Availability (Mean = 4.50, SD = 0.79; 0 = strongly disagree, 6 = strongly agree)
Technical systems and equipment which the relationship team members can use
Information about customers which the relationship team members can use
Market information which the relationship team members can use
Information about our firm's strategic aims which the relationship team members can use
Time which can be used to maintain the relationship with this customer

Appendix B **Correlation Matrix of Measurement Scales**

Construct	1	2	3	4	5	6
1. Sales Effectiveness	**1.0**					
2. Performance Development Effectiveness	**.47**	**1.0**				
3. Market Development Effectiveness	**.37**	**.52**	**1.0**			
4. Customer Commitment	**.39**	**.42**	**.32**	**1.0**		
5. Customer Trust	**.48**	**.44**	**.36**	**.53**	**1.0**	
6. Relationship Management Tasks of the Supplier	**.50**	**.47**	**.46**	**.37**	**.50**	**1.0**
7. Resource Availability	**.13**	**.17**	**.12**	**.36**	**.25**	**.22**

Table 1. Measure-related information regarding multi-item measures

Construct	Number of Items	Cronbach's Alpha	Variance extracted	χ^2/df (p)	GFI	AGFI	RMSEA
Sales Effectiveness	5	.75	.52	1.84 (.10)	.98	.93	.08
Performance Development Effectiveness	4	.84	.68	2.85 (.06)	.98	.90	.12
Market Development Effectiveness	4	.80	.54	1.77 (.17)	.99	.94	.07
Customer Commitment	5	.76	.52	1.57 (.17)	.98	.94	.06
Customer Trust	4	.71	.54	1.43 (.24)	.99	.96	.05
Relationship Management Tasks of the Supplier	4	.68	.52	0.34 (.74)	1.00	.99	.00
Resource Availability	5	.77	.53	1.72 (.13)	.98	.93	.07

Table 2. Antecedents of relationship effectiveness of the supplier

	Dependent Variable		
Independent Variable	**Sales Effectiveness**	**Performance Development Effectiveness**	**Market Development Effectiveness**
Customer Commitment	.14**	.20***	.12*
Customer Trust	.25***	.17**	.12*
Relationship Management Tasks of the Supplier	.32***	.30***	.36***
Resource Availability	n.s.	n.s.	n.s.
Duration of the relationship	.10*	-.10*	n.s.
Number of Employees Service Provider	n.s.	n.s.	n.s.
Number of Employees Customer	n.s.	n.s.	n.s.
R^2	.34	.32	.24
F	18.97***	17.05***	16.03***
N	153	153	153

*** p < .01 (one-sided tests for coefficients)
** p < .05
* p < .10

FIGURE 1
A relationship concept of market orientation

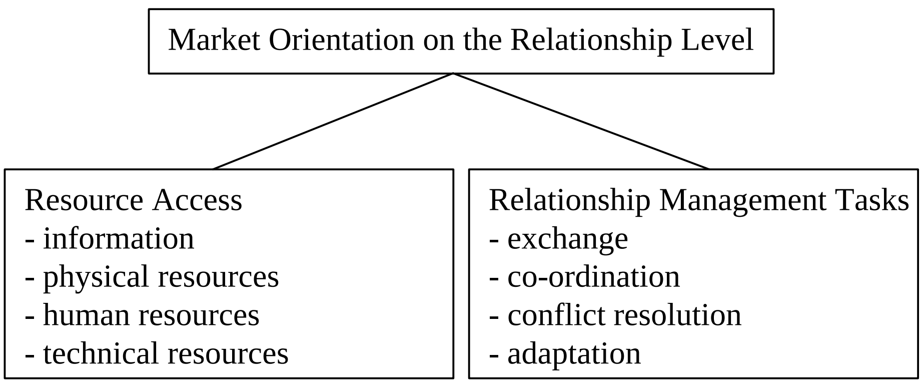
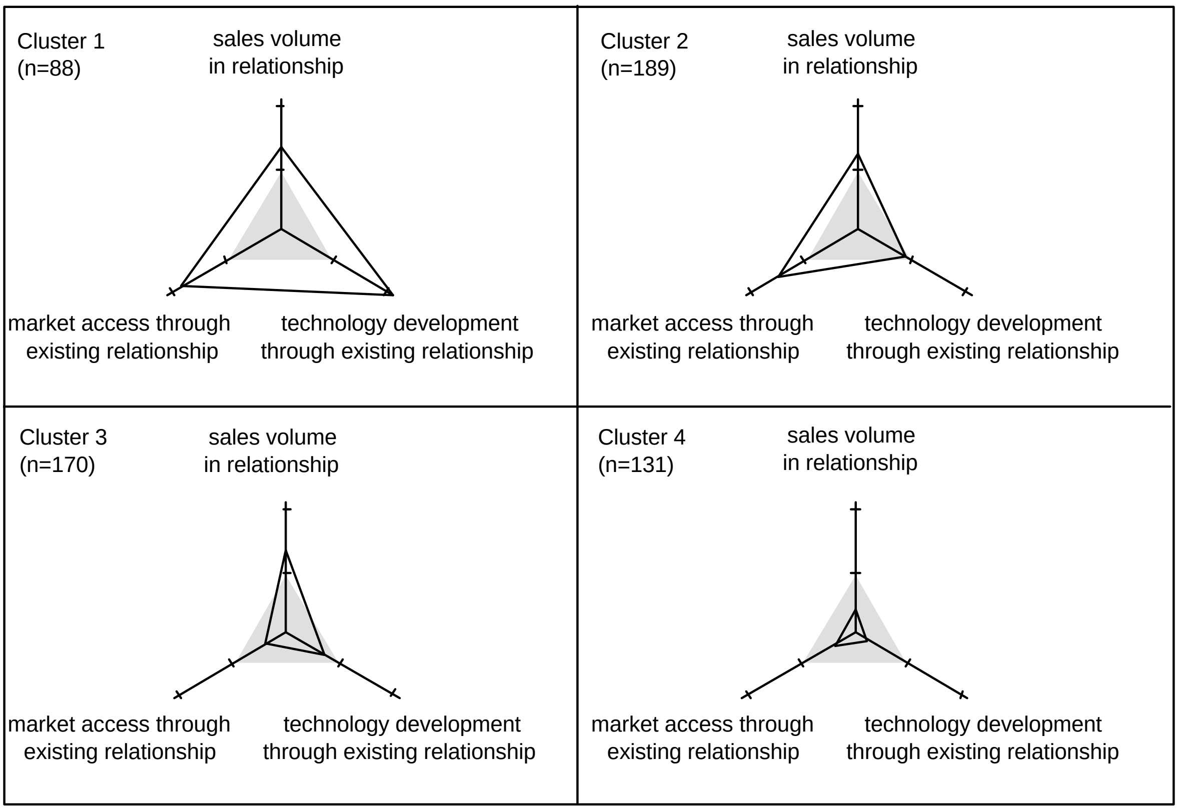


FIGURE 2
Success patterns in 578 European business relationships



from: Gemünden, Walter, and Helfert (1996, p. 31))

FIGURE 3
Conceptual Model