

**INTER-FIRM MARKET ORIENTATION –
AN OPERATIONALIZATION OF THE MISSING LINK TO
UNDERSTANDING BUSINESS PERFORMANCE (!?)**

Extended Abstract

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Many researchers have studied the relationship between Market Orientation (MO) and a number of consequences, such as performance outcomes (Raaij and Stoelhorst, 2008; Shoham et al., 2005). While there has been much consideration of the MO of manufacturers as well as other channel members, most of the research to date has been focused on a focal firm perspective, i.e. the focus was on what can be termed ‘intra-firm market orientation’. Little is known about aspects of MO within business relationships, i.e. inter-firm market orientation (IMO), which refers to the *joint market orientation efforts that take place between manufacturers and their channel partners in networks*.

While the resource-based view of the firm (Birger, 1984) and transaction cost economics theory (Williamson, 1981) would support a view of intra-firm market orientation, using an interaction approach (IA) challenges the traditional view of MO on the basis of structure and process (Ford and Håkansson, 2006). IA suggests that it is not enough to only consider what takes place inside a business to explain performance but to consider the interactions between companies (Ford et al., 2008). Consequently, when studying MO, it is necessary to consider also the joint market orientation efforts that occur among the partners. In this study, we therefore introduce a conceptualization of inter-firm market orientation, and develop a scale to measure it..

The research on market orientation originated in studies defining the dimensions of MO, as well as understanding the effect on performance within a firm (Day, 1994; Deshpande and Webster, 1989; Kohli and Jaworski, 1990; Narver and Slater, 1990). The conceptualization of MO can be classified as behavioral (Day, 1994; Kohli and Jaworski, 1990) or cultural (Deshpande et al., 1993; Narver and Slater, 1990). While both classifications have merit, the cultural approach is often difficult to operationalize and measure (Deshpande et al., 1993). Therefore, this research will take its starting point in a behavioral conceptualization of MO (Jaworski and Kohli, 1996).

Since the initial work on MO in the 1990s, research that looks at the role of the value chain or of value networks on the market orientation – performance relationship has been abundant (Baker et al., 1999; Grunert et al., 2002; Langerak, 2001; Martin and Grbac, 2003; Min et al., 2007; Siguaw et al., 1998). However, the extant research does remain focused on a *focal firm perspective of MO* and does not look at the joint efforts of the members in the network. Rather, the existing research considers each party’s perceptions of market orientation of the other member in the relationship, but does not look at joint market orientation (i.e. what the parties do together).

As such, the concept of inter-firm market orientation (IMO) is innovative and has gained little attention in the literature to date. In this context, the studies by Elg and Paavola (2008) and Elg (2007b) are noteworthy. However, to our knowledge, IMO has not been operationalized so far, nor has a scale been developed to measure it. Previous research focuses on outlining the IMO concept and defines inter-firm market orientation as “*the activities that two or more independent companies carry out together to make a network or an individual relationship more sensitive to the demands of the market.*” (Elg, 2007a, pg. 56) The key differentiator to a focal firm conceptualization of MO is that IMO is conceptualized as the joint efforts of channel members, and not the individual efforts of the firms.

Thus, for the purposes of this study, IMO is conceptualized as the *joint activities of a manufacturer and a reseller in intelligence generation, intelligence dissemination, and proactive and reactive responsiveness to customer needs*. While the concept of IMO has been advanced in the literature in this context, to date research has been primarily qualitative using case study analysis (Elg, 2007a; Elg, 2007b). In contrast, this study develops a scale for IMO using quantitative methods.

In order to develop an operationalization an initial list of scale items for IMO was developed by adapting the Kohli et al. (1993) MARKOR scale to reflect joint market orientation efforts between a manufacturer and their partners. Next, these scales were used in different phases of a qualitative and quantitative pre-test. Items that were unclear were identified and reworded. A small number of item wordings were changed as a result of this pre-tests but no items were removed from the scale list.

The sample for the quantitative survey was drawn from the member companies of the Institute for the Study of Business Markets (ISBM). Several manufacturer companies were contacted to solicit their participation in the study. Overall four companies agree to participate. A quasi-snowballing technique was used. A combined sample of 130 respondents resulted. Given that manufacturer partner companies were responsible for distributing the survey to their employees, it is difficult to ascertain a response rate. The participating companies came from Canada, the US and the European Union and represented more than one industry.

An exploratory factor analysis (EFA) with oblique rotation was conducted, followed by a confirmatory factor analysis (CFA) to refine and validate the measurement models for IMO. As a robustness check, two random samples were created consisting of two-thirds of the original sample, and the analyses were repeated with each. A new EFA analysis was done using one of the two-thirds samples created from the original. Finally, the factor model was tested with the second two-thirds sample using partial least square SEM using SmartPLS (version 2.0 M3).

The final analysis resulted in two factors, with a total of nine items for the measurement model. The two resulting factors were termed *joint intelligence cooperation* and *joint customer responsiveness*. The fit statistics for the model are well within the acceptable range, therefore suggesting a good fit for the IMO scale.

The results of our operationalization of IMO indicate that the concept of inter-firm market orientation consists of two factors instead of three as originally hypothesized based on the behavioral MO literature; joint intelligence cooperation and joint customer responsiveness. The results suggest that when it comes to market intelligence between the manufacturer and their partners, the joint generation and dissemination of the intelligence are combined into one factor defined as joint intelligence cooperation (JIC). JIC is the combined generation and dissemination of market intelligence between the manufacturer and their partners. Joint customer responsiveness (JCR) is the joint response effort taken by the manufacturer and their partner to respond to customer needs based on the market intelligence shared between them. The scale items that make up this factor would indicate that the responsiveness efforts between the manufacturer and their partner appear to be focused primarily on a reactive instead of a proactive effort. The proactive responsiveness scale items do not appear to load onto this factor as compared to the scale items that make up the original customer responsiveness factor of market orientation.

The operationalization of inter-firm market orientation provides insight into the differences between the intra- and inter-firm market orientations (MO and IMO) of firms. Now that we have established an IMO operationalization, it is important to consider what role it may play in the market orientation – performance relationship. Further research is necessary to address the question whether IMO has an effect on the market orientation - performance relationship.

REFERENCES AVAILABLE UPON REQUEST