

THE EFFECT OF MARKET ORIENTATION AND MARKETING DYNAMIC CAPABILITIES ON ORGANIZATIONAL PERFORMANCE — MARKET DYNAMISM AS THE MODERATOR

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ABSTRACT

This study adopts the dynamic capabilities perspective to examine the impacts of market orientation and marketing dynamic capabilities on organizational performance and highlights the moderating role of market dynamism in interacting with marketing dynamic capabilities. Using data collected from 211 companies in Taiwan, the findings suggest that both market orientation and marketing dynamic capabilities affect organizational performance positively. However, the effect of marketing dynamic capabilities on organizational performance is stronger in low market dynamism than in high market dynamism. This is not expected. The research findings have implications for theory and practice.

INTRODUCTION

This research applies dynamic capabilities to explain how and why organization creates superior values for the customer. This study focuses on marketing management mechanisms because marketing processes directly contribute to the delivery of customer value and consequently, organization's financial performance. Following the studies of Narver and Slater [1] and Fang and Zou [2], this study proposes market orientation and marketing dynamic capabilities as two important antecedents leading to improved organizational performance. Market dynamism is treated as a moderating variable that has contingent effect on the relationship between marketing dynamic capabilities and organizational performance. Through this empirical investigation, the findings of this research not only provide empirical evidence to the contention of dynamic capabilities but also add to current understanding of how both customer-oriented culture and marketing dynamic capabilities affect firm competitiveness.

THEORETICAL BACKGROUND AND HYPOTHESES

Dynamic capabilities and Organizational performance

Derived from resource-based view of the firm, dynamic capabilities have been considered to be the cornerstone for organizations to sustain competitive advantage [3][4][5]. Eisenhardt and Martin [4] define dynamic capabilities as the organizational processes that coordinate, integrate, and transform organizational resources and competences in order to respond to volatile business environment. Recent literatures have applied the concept of dynamic capabilities to explore the key practices in major management fields such as marketing [2] and innovation management [6][7]. Fang and Zou [2] propose marketing dynamic capabilities as major mechanisms delivering customer value. Their empirical study

demonstrates a positive relationship between marketing dynamic capabilities and organizational performance, including financial performance and competitive advantage.

Market Orientation

Market orientation refers to organizational culture that focuses on acquiring, disseminating, and responding to customer and competitor information [8]. Market orientation manifests the organization's marketing philosophy and highlights the necessary behaviors of organizational managers and employees for the creation of values for customers. It also entails the implementation of customer-focused marketing concept through which organizations achieve competitive advantage [9].

Narver and Slater [1] identify three behavior dimensions of market orientation, namely, customer orientation, competitor orientation, and inter-functional coordination. Customer orientation addresses the activities involved in acquiring and disseminating customer information throughout the organization. Customer orientation helps firms to create superior customer value. Competitor orientation highlights the actions contributing to the understanding of the short-term strengths and weakness as well as the long-term capabilities and strategies of the business competitors. Competitor orientation helps firms to anticipate competitors' moves and develop contingencies to address them. Finally, inter-functional integration highlights the synergistic effect of coordinating organizational subgroups and resources in creating superior value for customers. Inter-functional integration enables the firm to effectively coordinate and tailor valuable resources and competences to satisfy the changing customer demand. All the above three dimensions should be seen as a gestalt and be systematically incorporated in an organization's marketing strategy. The three dimensions can improve organizational performance.

Hypothesis 1: Market orientation positively affects organizational performance.

Marketing dynamic capabilities

Researchers have attributed marketing dynamic capabilities as one of the major success factors of businesses [2][10]. Marketing dynamic capabilities refer to the responsiveness and efficiency of cross-functional business processes for creating and delivering superior customer value and consequently, sustained competitive advantage [2].

Fang and Zou [2] classify three cross-functional processes that manifest marketing dynamic capabilities of the organization. They are product development management, customer relationship management, and supply chain management. The product development process comprises cross-functional processes in designing, developing, and launching new products to satisfy customer needs. Customer relationship management is a mechanism to capture the needs of customers or channel members. Likewise, supply chain management highlights the cross-functional process of designing, maintaining, and integrating channel members across the supply chain. These three cross-functional processes are interrelated and comprise resource deployment mechanisms that are essential in sustaining the competitive advantage of the organization.

Marketing dynamic capabilities are different from market orientation. Market orientation embodies the organizational culture and philosophy about the importance of satisfying customer needs, whereas marketing dynamic capabilities are operational processes that implement the philosophy, satisfy customer needs and respond to market changes [1][2]. Indeed, market orientation is the precursor of marketing dynamic capabilities. The organizational culture that focuses on creating customer values

guides the organizational activities and processes in terms of product development, customer relationship management, and supply chain management to coordinate, integrate, and deploy inter-functional and inter-organizational resources and competences. In this regards, developing market-oriented business culture may contribute to the idiosyncratic cross-functional processes coordination and integration. Thus,

Hypothesis 2: Market orientation positively affects marketing dynamic capabilities.

Hypothesis 3: Marketing dynamic capabilities positively affect organizational performance.

Market dynamism

Fang and Zou [2, p.749] define market dynamism as "the changes in customers' and competitors' behaviors that occur frequently and are difficult to predict". Market dynamism addresses the shifting customer demands and uncertainty of market competition. Such volatile business environments can challenge the organization's market position and leads to a downturn of business performance [4].

Marketing dynamic capabilities provide a window of opportunities for an organization to deal with the highly demand uncertainty of customers [10]. Organizations with marketing dynamic capabilities are able to track, monitor, and react to changing customer demands. Marketing dynamic capabilities enable an organization to capitalize on these opportunities through product differentiation and positive customer responsiveness [2]. With resources and competences invested in cross-functional coordination and integration, marketing dynamic capabilities enable an organization to take a better competitive position. Thus, we hypothesize:

Hypothesis 4: The effect of marketing dynamic capabilities on organizational performance is stronger under high market dynamism than under low market dynamism condition.

RESEARCH METHOD

Research Design and Data Collection

Questionnaire survey was conducted for data collection, seeking responses from marketing managers of the top 1000 companies listed in the Common Wealth magazine, Taiwan. Two hundreds and eleven usable questionnaires were responded to out of the 1000 firms, yielding an effective response rate of 21.1%.

Measures

The questionnaire adopts the seven-point Likert-type scale, ranging from 1 (strongly disagree) to 7 (strongly agree). As all the scale items were adopted from those developed in the Western literature, a translation and back-translation process was used with scholars with bi-lingual capabilities. The measurement of market orientation is adopted from Narver and Slater [1]. The measurement of marketing dynamic capabilities and market dynamism is adopted from Fang and Zou [2]. The measurement of organizational performance comes from Pelham [9]. Company size (number of employees) and industry dummy variables are included as controls.

ANALYSIS AND RESULTS

All our scales measuring the constructs of our interest have been subjected to confirmatory factor analysis (CFA). The fit indices for CFA suggest good model fit. Structural equation modeling (SEM) was employed to analyze the casual structure of the research model.

Hypothesis 1 is supported, indicating that understanding customers and competitors as well as coordinating inter-functional processes are important in creating superior organizational performance. Hypothesis 2 is supported, indicating that market orientation leads to marketing dynamic capabilities. Hypothesis 3 is also supported, suggesting a positive relationship between marketing dynamic capabilities and organizational performance. The fact that the above three hypotheses are supported indicated that marketing dynamic capabilities partially mediate the relationship between market orientation and organizational performance.

This study further examined the moderating effect of market dynamism on the relationship between marketing dynamic capabilities and organizational performance. Hypothesis 4 was tested using regression analysis. The result fails to support Hypothesis 4. To understand how market dynamism interacts with marketing dynamic capabilities to affect organizational performance, we further classified market dynamism into two groups - high market dynamism vs. low market dynamism. Figure 1 presents the interaction effect. The result shows that the impact of high market dynamism and low market dynamism are not parallel. The impact of marketing dynamic capabilities on organizational performance is relatively significant when market dynamism is low rather than high.

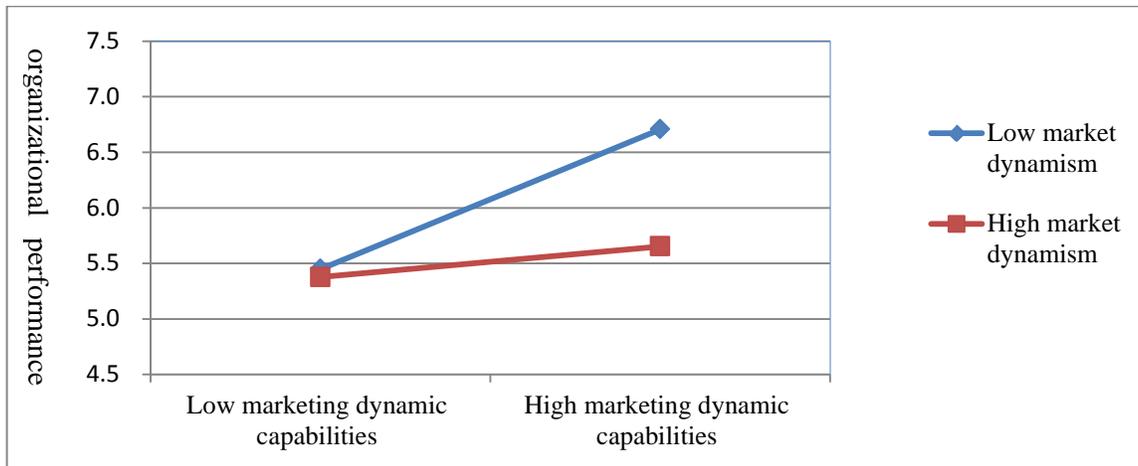


Figure 1. The interaction plot

DISCUSSION

This study has implications for theory and practice. Theoretically, this research supplements dynamic capabilities studies by laying out the implications of customer relationship management, product development management, and supply chain management for improved organizational performance. The customer-focused culture should incorporate market-oriented operational processes for the creation of superior value for customers. Furthermore, while developing marketing dynamic capabilities are important, the impact of such capabilities is subject to market dynamism. Thus, organizations that are able to predict and respond to changing market conditions are expected to develop competitive advantage.

However, our results are unexpected in that marketing dynamic capabilities are not as effective in improving organizational performance in high market dynamism as in low market dynamism. This finding may serve as an important indication as to the relevance of dynamic capabilities theory in environmental conditions of high dynamism. Marketing dynamic capabilities may be more relevant for firm-level outcomes in low-moderate dynamism, but not for high dynamism [4][11]. This should require further investigation so that the relevance of marketing dynamic capabilities in high market dynamism is clarified.

Three practical implications are identified. First, the results of this research suggest that for the creation of superior customer value, the organization should develop a market oriented culture and facilitate inter-functional cooperation, integration, and resource sharing. Second, organizations should develop marketing dynamic capabilities to not only manage the new product development but also coordinate the activities of the supply chain to satisfy the changing demand of customers. Third, the moderating effect of market dynamism highlights the impact of the action of competitors and the demand of customers on deflating the effect of marketing dynamic capabilities on organizational performance. Organizations should consider differentiating products and responding to the changing customer demands to reduce market uncertainty.

While this research contributes to the understanding of the focal issues, there are two major research limitations. First, the research result reports the snapshot of organizational strategies only. A longitudinal study is needed to trace the causal effects of market orientation and marketing dynamic capabilities on organizational performance. Second, theoretical considerations and concerns for parsimony have led us to construct the theoretical model examined in this paper. We excluded other potential moderating effects, such as organizational size on the relationship between marketing dynamic capabilities and organizational performance. Potentially important variables, such as firm strategy, have not been included, either.

CONCLUSION

This paper has proposed a research model that facilitates the investigation of the effects of market orientation and marketing dynamic capabilities on organizational performance. The model also guided the examination of the moderating effect of market dynamism on the relationship between marketing dynamic capabilities and organizational performance. The model was tested through analyzing data collected from 211 large manufacturing and service companies in Taiwan. As expected, the results support the role of both market orientation and marketing dynamic capabilities in leading to improved organizational performance, which result in competitive advantage. However, marketing dynamic capabilities contributes to organizational performance when market is relatively stable. Overall, this paper provides empirical support for the proposition that developing market-oriented culture and marketing dynamic capabilities are critical to the success of business operations.

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