GAINING SUPERIOR BUSINESS PERFORMANCE FROM MARKET ORIENTATION: THE MEDIATING ROLE OF THE CORE BUSINESS PROCESS CAPABILITIES

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ABSTRACT

The concept of market orientation (MO) and its association with business performance have been key research themes in contemporary marketing. While most studies conclude that MO positively affects performance (Kirca *et al.* 2005), only few studies to date have considered the actual performance mechanisms (Hult *et al.* 2005), though several scholars (e.g. Hunt and Morgan 1995) have argued that MO translates into superior performance only when aligned with other organizational elements, such as capabilities. Additionally, only very few studies (e.g. Murray *et al.* 2010) have simultaneously considered several business process level capabilities as drivers of this relationship. Comparing the relative importance of different mediators in the relationship has thus been difficult. Still another shortcoming is lack of evidence on robustness of the results in different contextual settings, such as under varying levels of environmental turbulence (Ramaswami *et al.* 2009). Given these gaps, we make several contributions to the existing literature on MO, using a recent sample of 480 product-focused firms in Finland. First, we explore whether and how capabilities in the core market-relating business processes in concert mediate the relationship between cultural MO (Narver and Slater 1990) and business performance. Second, building on Srivastava *et al.* (1999), we demonstrate what is the relative role of each process capability (product development management; PDM, customer relationship management; CRM, supply-chain management; SCM) in realizing the potential value of MO. Ours is the first study to empirically test an integrated model where capabilities in all business processes mediate the MO–performance relationship, thus extending the recent framework of Ramaswami *et al.* (2009). Third, in addition to the “within a firm” analysis, we investigate the potential moderation of business environment’s dynamism.

Measurement items were adopted from previous literature, and CFA was used for scale validation. To reveal the potential mediating effect of core business process capabilities, we analyzed a series of structural equation models (Kenny *et al.* 1998). Our results indicate that, in aggregate, capabilities in the core business processes fully mediate the MO-performance relationship. However, we identify notable differences in the role of individual business process capabilities. While PDM process capability strongly mediates the MO-business performance relationship and also CRM capability to a moderate extent (in support of e.g. Hult *et al.* 2004; Rapp *et al.* 2009), no mediation was identified for SCM capability (not supporting Min *et al.* 2007). In terms of moderating effects, market turbulence positively moderates the effect of PDM capability on business performance and negatively the CRM capability–performance relationship. Furthermore, technological turbulence moderates positively the SCM capability–performance and negatively the CRM capability–performance relationship. The model explains business performance significantly better than the mediated model itself (27.4 % vs. 15.8 %). As the three business process capabilities might be intertwined and affect each other (Ramaswami *et al.* 2009), we conducted a post-hoc analysis on the combined effects, but did not find any synergies between different processes on performance.

This study has shed light on the performance mechanisms of MO and somewhat unlocked the “black box” of firm performance in different levels of environmental turbulence. In line with e.g. Murray *et al.* (2010), our findings evidence that high MO alone is insufficient condition for superior performance, as the capabilities in core business processes help firms realize its potential value. More specifically, it seems that the process through which MO influences business performance culminates in the PDM and CRM process capabilities. Our findings, thus, partly contradict Ramaswami *et al.* (2009), but lend support for Krasnikov and Jayachandran (2008), who also found CRM capability’s contribution to performance, but not that of SCM capability. Our results indicate that, although operational efficiency might be critical in ensuring that firms do not lag behind competitors, more performance gains could emerge from value-creating capabilities. Our findings also suggest that environmental turbulence moderates the relationship between core business capabilities and business performance, in support of Eisenhardt and Martin (2000). From a managerial perspective, this study highlights the primary function of MO as an impetus that fuels the functioning of core business processes, while systematic efforts are necessary to track the market changes and to refine existing capabilities and to develop the necessary new ones for the new environment.

References Available on Request.