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Market Orientation, Corporate Social Responsibility, and Business Performance

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ABSTRACT. This study examines the moderating effects of corporate social responsibility (CSR) on the association between market orientation and firm performance in the context of an emerging economy. The results from a sample of firms that operate in Dubai indicate that CSR has a synergistic effect on the impact of market orientation on business performance. The results of our research on the moderating effects of CSR on market orientation subsets reveal that although CSR moderates the association between customer orientation and business performance, it does not moderate the association between competitive orientation and interfunctional coordination and performance. The results of this study are discussed, and implications for practitioners and researchers are presented.

KEY WORDS: market orientation, corporate social responsibility, resource-based view, Dubai, emerging economies

Introduction

Unfolding the determinants of firm performance is a central aim of strategic management scholarship. For nearly two decades, the market orientation perspective has facilitated researchers' understanding of the link between firms' strategy and financial performance (Han et al., 1998; Jaworski and Kohli, 1996; Kirca et al., 2005; Kohli and Jaworski, 1990; Narver and Slater, 1990), customer satisfaction and retention (Narver and Slater, 1990; Slater and Narver, 1994), and employee commitment (Matsuno et al., 2002). The market orientation perspective is predicated on the assumption that firms gain and sustain their competitive advantage by effectively serving dominant stakeholders and constantly meeting the changing needs of the market (Narver and Slater, 1990).

Critics argue, however, that the market orientation perspective suffers from a significant ''black box'' challenge (Ellinger et al., 2008). That is, although scholars have offered a number of convincing arguments to assert the positive link between a firm's market orientation and its performance (Kirca et al., 2005), the underlying determinants for this assertion remain illusive. Zhou et al. (2008, p. 985) argue that despite the strong appeal of market orientation, ''simply assessing the direct link between market orientation and performance is not fruitful''. Scholars contend that the relationship between market orientation and firms' performance is an outcome of interactions amongst a number of strategic actions – a topic that is much less researched (Olavarrieta and Friedmann, 2008). Scholars have recently advocated that a better understanding of the association between market orientation and performance lies in the study of market orientation as a component of a bundle of other strategic actions (Cano et al., 2004). In response to their recommendation, this study aims to examine the interaction effects of market orientation and corporate social responsibility (CSR) on performance.

We chose to investigate the impact of bundling CSR activities and market orientations for several reasons. First, of all the factors that could influence the impact of market orientation, CSR is arguably one of the most central to the effectiveness of market orientation. CSR activities are crucial because an important feature of a market orientation perspective is its primary focus on a firm's ability and willingness to serve its stakeholders. Therefore, it is plausible to argue that CSR activities may foster a favourable relationship between the firm and its customers and other dominant stakeholders. This favourable relationship could ultimately strengthen the market orientation–performance link (Siu, 1993). Indeed, observations of the synergistic effects of CSR and market orientation are not new. Nearly two decades ago, a seminal paper by Narver and Slater (1990) acknowledged the link between CSR and market orientation. Their research argued that since market orientation requires a clear, external orientation from organizations, firms should be sensitive to the expectations and needs of society in general, not only to those of their customers and competitors. Narver and Slater (1990, p. 34) note that "the implication of a given magnitude of market orientation is that a business is, to some extent, sensitive and responsive to any stakeholder or issue that may affect its long-term performance". They propose that future research should examine "the relationship between the degree of a business's market orientation and the extent of its 'social responsibility' behavior" (p. 34). This study answers their call. The resource-based view (RBV) of complementary bundling amongst various practices (Sirmon et al., 2007, 2008) posits that in order for a firm to attain superior performance, its practices must fit, complement, and support each other. By building on these insights from RBV, we make the case that market orientation activities are more likely to lead to higher performance when bundled with complementary activities, such as CSR. Second, whilst the study of how CSR sits with other strategic actions is important in its own right, this study is of particular relevance in the current business environment where firms are expected to pursue CSR activities (Vogel, 2005).

In addition to shedding light on the association between market orientation and performance, this study refines the growing body of recent research on the interaction effects of market orientation and different strategic actions on performance (Wei and Lau, 2008). One of the major shortcomings of extant studies is their treatment of market orientation as a single cohesive strategy. In this study, we unpack market orientation into its three main subsets and examine the interactive effects of CSR upon each of them. Researchers have long argued that whilst market orientation encompasses three components – consumer, competitive, and inter-functional coordination – firms tend to focus on some components more than others (Day and Nedungadi, 1994; Hunt and Morgan, 1995; Jaworski and Kohli, 1993; Kohli and Jaworski, 1990; Theoharakis and Hooley, 2008). Furthermore, recent studies demonstrate that the combined effect of the three components is not necessarily synergistic (Grinstein, 2008) and that some subsets of market orientation may fit better with other strategic options than others. Therefore, this study examines the interactive link between CSR and each subset of market orientation. In so doing, this study provides a fine-grained analysis of the effects of the interaction between market orientation and CSR. Another key limitation of extant research is its over-reliance on financial performance, which, in isolation, does not capture a firm's overall performance (Husted and Allen, 2007). Market orientation literature identifies three different effects: financial performance, employee commitment, and corporate reputation (Jaworski and Kohli, 1993; Kohli and Jaworski, 1990). In this study, we examine the association between market orientation, CSR, and the oft-used financial performance measure, as well as two leading performance indicators: employees' commitment and corporate reputation. In so doing, we hope to provide a deeper insight into the interactions between CSR and market orientation and the different performance outcomes.

This study focuses on the association between market orientation, CSR, and firm performance in the context of an emerging economy. Given the recent adoption of market orientation (Wei and Lau, 2008) and CSR strategies by firms in emerging economies (Rettab et al., 2009), we believe that it is time to investigate the potential impact of bundling the two strategies on performance. The successful research of the effects of these strategies on firms in emerging economies closes a number of gaps in our knowledge about the association between market orientation, CSR, and performance. Compared to research in developed countries, research on the relationship between market orientation and performance in emerging economies is limited (Dwairi et al., 2007; Zhou et al., 2008). Almost all research on the strategic value of CSR has focused on firms that operate in developed countries (Rettab et al., 2009). Whilst extant research on developed Western countries is informative, this body of research aims to greatly increase the limited insight into the impact of market orientation and CSR on performance in emerging economies. Extant research advocates that firms in emerging economies tend to adopt strategic actions in a piecemeal fashion that may lead to the adoption of incompatible and internally inconsistent strategies. Furthermore, scholars have recently extolled the exploration of that link, and a number of studies, though limited, make the case for the necessity of examining the association between market orientation and performance in emerging economies (Anwar and Sohail, 2003; Dwairi et al., 2007; Kuada and Buatsi, 2005; Zhou et al., 2008).

In the next section of this article, we discuss related literature and develop five hypotheses. The following two sections explore our method and analyse the data, and the final section discusses the results and limitations of this study.

Literature review and hypotheses

Market orientation and performance

The market-oriented perspective has generated a substantive body of research over the years (Svensson, 2001). Indeed, as early as the 1950s, McKitterick (1958) highlighted the positive relationship of firms that are responsive to stakeholders' needs, manage the competitive landscape, and coordinate their internal activities and performance. Narver and Slater (1990, p. 21) define market orientation as "the organizational culture … 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". Recently, scholars have viewed market orientation as a key capability that has the potential to alter existing resources into superior performance (Hult et al., 2005; Zhou et al., 2008). There is near consensus in the literature that market orientation has a positive impact on business performance. Past research provides evidence to suggest that market orientation has a positive impact on business performance, including financial performance (Day, 1994; Han et al., 1998; Jaworski and Kohli, 1996; Kirca et al., 2005; Kohli and Jaworski, 1990; Narver and Slater, 1990), customer satisfaction and retention (Narver and Slater, 1990), and employee commitment (Matsuno et al., 2002).

Though limited, recent studies of emerging economies confirm the positive association between market orientation and business performance (Anwar and Sohail, 2003; Dwairi et al., 2007; Kuada and Buatsi, 2005; Wei and Lau, 2008; Zhou et al., 2008). We contend that Dubai is no exception to this association between market orientation and business performance. Given Dubai's free market economy, competition in the marketplace is the prime mechanism for achieving sustainable competitive advantage. Furthermore, the weak – and sometimes total absence of – regulations in Dubai facilitate fierce competition and increase the importance of market orientation. In particular, firms that develop managerial initiatives respond effectively to continuously changing consumer needs and achieve higher performance (Rettab et al., 2009). Therefore, this study proposes the following hypothesis for emerging economies.

H1: Market orientation has a positive association with business performance.

Market orientation, CSR, and performance

Central to this study's thesis is the concept of "fit" or complementary bundling amongst the various strategic actions (Sirmon et al., 2007, 2008). For superior performance to occur, the different strategic actions must fit, complement, and support each other. According to the RBV theory, the performance of firms largely depends on their ability to coordinate their strategic actions and bundle resources and capabilities in an effective yet efficient manner (Barney, 1991). An effective bundling of resources and capabilities produces what Teece et al. (1997, p. 509) call "the firm's portfolio of difficult-to-trade knowledge assets", which gives firms a sustainable competitive advantage. Indeed, the extensive research on firms' resources and capabilities shows that firms' synergistic activities often yield higher benefits when they are combined effectively (Black and Boal, 1994).

Theoretically, the presence of CSR may amplify the association between market orientation and performance, because CSR reinforces consumer and employee trust in the organisation. Scholars argue that CSR gives market orientation activities a humanistic touch that may improve consumers' perception of the firm (Barone et al., 2007; Bhattacharya and Sen, 2004; Du et al., 2007;

Sen et al., 2006; Vogel, 2005; Webb et al., 2007). McWilliams and Siegel (2001, p. 120) note that CSR "creates a reputation that a firm is reliable and honest". Furthermore, CSR increases employee commitment to the organisation, which ultimately enhances performance (Albinger and Freeman, 2000; Backhaus et al., 2002; Greening and Turban, 2000; Maignan et al., 1999; Peterson, 2004; Turban and Greening, 1997). Taken together, we contend that even though market orientation itself may yield high business performance, market orientation is likely to result in even higher performance when bundled with complementary activities, such as CSR. Therefore, the combination of market orientation and CSR has the potential to generate higher performance for organisations.

H2: CSR has a positive influence on the relationship between market orientation and business performance such that at a higher level of CSR, market orientation has a stronger association with performance than at a lower level of CSR.

Market orientation subsets, CSR, and performance

By building on past research (Jaworski and Kohli, 1993; Kohli and Jaworski, 1990), we conceptualise market orientation as a tripod for success that consists of three components: customer orientation, competitor orientation, and inter-functional coordination. *Consumer orientation* refers to the extent to which a firm identifies with its target customers, often through continuous market research, and learns the best ways to serve them. *Competitive orientation* refers to a firm's use of its capabilities, strengths, and weaknesses vis-à-vis its competitors. *Inter-functional coordination* refers to the level and magnitude of information sharing and coordination amongst the different levels and functions within a firm (Song and Montoya-Weiss, 2001). Researchers have long asserted that, whilst market orientation encompasses these three subsets of components, organisations tend to focus on some components more than others. As discussed below, CSR fits some market orientation subsets better than others; therefore, one would expect some interactive effects to be different. That is, the interactive effects of CSR with market orientation depend on the level of congruity between the subsets of market orientation and CSR activities. Below, we propose three hypotheses on the possible outcomes of the interactive effects of CSR with customer orientation, competitive orientation, and inter-functional orientation.

Customer orientation: CSR and performance

Customer orientation refers to the degree to which firms seek to understand and satisfy their core customers' needs (Donavan et al., 2004; Theoharakis and Hooley, 2008), which includes delivering products safely and reliably, helping customers to make the right purchase, and "providing responsive, fair and friendly after-sale service" (Liao and Subramony, 2008). Although customer orientation focuses on achieving superior customer satisfaction (Kirca et al., 2005), the process through which this is attained is congruent with the primary aim of CSR activities. Providing safe and reliable products or offering effective after-sale services helps firms to carry out customer orientation activities whilst pursuing CSR objectives. In general, a firm's predisposition to meeting customers' needs sits comfortably with its quest to be a socially responsible organisation. What is even more promising is that research shows that employees – salespeople in particular – are more committed to their organisation, have higher levels of job satisfaction, and are more enthusiastic about market orientation activities when they perceive their firm's activities as socially responsible (Bhattacharya and Sen, 2003; McWilliams and Siegel, 2001). Their enthusiasm comes from the fact that employees generally have an ethical and responsible tendency or predisposition to meet customer needs (McWilliams and Siegel, 2001). Based on the aforementioned discussion of the synergistic combination of the two practices, this study predicts that, when combined, customer orientation and CSR have a synergistic effect on business performance.

H3: CSR has a positive influence on the relationship between customer orientation and performance such that at a higher level of CSR, the association between customer orientation and performance is stronger than at a lower level of CSR.

Competitive orientation: CSR and performance
Competitive orientation is defined as a firm's efforts to monitor its rivals' activities, resources, and capabilities, and how the firm seeks to outperform its rivals or to remove its rivals from the competitive arena. Competitive orientation fosters an aggressive culture that emphasises winning and outperforming at any cost. Thus, we contend that competitive orientation actions are not always congruent with CSR activities, because CSR is not essential to the success of competitive orientation activities (Cottrill, 1990). Rather, under the pressure to outperform competitors, organisational members may pay less attention to the well-being of some of its core stakeholders and its wider society. As a result, a firm may reduce CSR to organisational rhetoric that could ultimately do the firm more harm than good. Furthermore, it is plausible that organisational members may not be able to align their efforts of achieving the ultimate goal of outperforming competitors at any cost and being socially responsible (Mellahi et al., 2009). Consequently, CSR may become a distraction to an aggressively competitive firm, as its members must pay lip service and pretend to display CSR-oriented attitudes whilst they would rather be conducting other types of performance tasks. Therefore, we argue that if a firm bundles activities that are not complementary, such as competitive orientation and CSR, this bundling is likely to lead to diminished business performance.

H4: CSR has a negative influence on the relationship between competitive orientation and performance such that at a higher level of CSR, competitive orientation has a negative relationship with performance, and at a lower level of CSR, competitive orientation has a positive relationship with performance.

Inter-functional orientation: CSR and performance
Inter-functional orientation refers to the degree of communication and interaction amongst organisational members in their pursuit to offer superior value to customers (Im and Workman, 2004). Narver and Slater (1990) argue that cross-function coordination helps firms to acquire, integrate, and disseminate market intelligence systematically, which, in turn, helps them to develop innovative marketing programs to serve customers. CSR and inter-functional orientation address fundamentally separate activities; therefore, their combination would not have a synergistic effect on performance. Although inter-functional orientation may help individuals who are keenly aware of and enthusiastic about CSR to disseminate such activities across functions, the two sets of activities do not synergistically interact to improve business performance.

H5: CSR does not significantly influence the relationship between inter-functional orientation and performance.

Data collection

The sampling frame consisted of 2,200 companies that were drawn from the membership database of the Dubai Chamber of Commerce and Industry (DCCI). Each of the 2,200 questionnaires was e-mailed and/or faxed to a top manager in each firm along with a letter that explained the nature of the study and promised confidentiality. Three weeks after the original mailing, the researchers sent two follow-up distributions, which included duplicate cover letters and questionnaires, to all firms that did not respond. Repeated follow-ups were sent 3 weeks after each previous mailing. This study used Armstrong and Overton's (1977) extrapolation procedure to assess non-response bias. The analysis did not show significant differences between early and late respondents. The response rate was 14% (310 firms). A total of 280 firms remained in the sample after we eliminated those that missed market orientation, CSR, and/or business performance data, resulting in a final response rate of 13%.

Measures

Independent variables

Market orientation: We used Narver and Slater's (1990) scale to measure market orientation (see Deng and Dart, 1994; Deshpandé and Farley, 1998; Deshpandé et al., 1993; Pelham, 2000; Ruekert, 1992). All items are scored on a 5-point scale in which 1 equals "strongly disagree" and 5 equals "strongly agree". All Cronbach αs are above the threshold of 0.72.

CSR: This study used the well-established construct developed by Maignan and Ferrell (2004) to measure CSR: a 26-item scale for six CSR practices, including community responsibility, environmental responsibility, employee responsibility, investor responsibility, customer responsibility, and supplier responsibility. Respondents were asked to indicate the extent to which each item reflected their organisation by applying a 5-point Likert scale with 1 equalling "strongly disagree" and 5 equalling "strongly agree". The scale reliabilities (Cronbach αs) are: community responsibilities (a 4-item scale, Cronbach $\alpha = 0.87$), environmental responsibilities (a 4-item scale, $\alpha = 0.83$), employee responsibilities (a 5-item scale, $\alpha = 0.78$), investor responsibilities (a 4-item scale, $\alpha = 0.78$), customer responsibilities (a 4-item scale, $\alpha = 0.85$), and supplier responsibilities (a 5-item scale, $\alpha = 0.78$).

Dependent variable

One of the key limitations of extant research is researchers' over-reliance on financial performance, which, in isolation, does not capture a given firm's overall performance (Husted and Allen, 2007). This study adopted a measure of business performance, which includes three indicators: financial performance, employee commitment, and corporate reputation. For financial performance, the survey includes seven items: a one-item scale developed by Samiee and Roth (1992), along with four specific performance items that assess market share, growth, profitability, and size (adapted from the scale by Deshpandé et al., 1993). This study also used two additional items to assess general performance and performance relative to competitors (adapted from Jaworski and Kohli, 1993). Respondents reported the extent to which their organisation's return on investment, return on assets, sales growth, and profit growth had been substantially better over the last year in relation to their most relevant competitors.

We used three items adapted from a scale developed by Fombrun et al. (2000) to measure executives' perceptions of their firms' reputations, and Jaworski and Kohli's (1993) three-item scale to measure employee commitment. A number of scholars (Roberts and Dowling, 2002; Weigelt and Camerer, 1988) argue that firms that possess positive reputations have a competitive edge over their rivals.

We asked respondents to indicate the extent to which each item reflected their organisation by using a 5-point Likert scale (1 equals "strongly disagree" to 5 equals "strongly agree"). The Cronbach αs for financial performance, corporate reputation, and employee commitment were 0.85, 0.70, and 0.84, respectively. The business performance measure combined the three measures – financial performance, employee commitment, and reputation – into a single calculation.

Control variables

This study controlled for three variables that are reported to have a significant impact on the effects of market orientation and CSR on business performance. First, past research provides evidence that the size of a firm has an impact on the association between market orientation (Liu, 1995), CSR (Moore, 2001; Preston, 1978; Stanwick and Stanwick, 1998), and business performance. Stakeholders expect more social initiatives from large corporations than from small ones. For example, large multinationals and publicly traded companies are pressured to display a commitment to CSR as a result of consumer and shareholder activism against large multinationals (Drawbaugh, 2001; Klein, 1999). Furthermore, small firms are less able than their large counterparts to communicate their CSR activities to external stakeholders. Thus, this study controlled for the size of the firm and measured size by the number of employees.

Second, the relationship between market orientation and performance depends on the sector of activities (Sanzo et al., 2003). Further, Kolk (2003) reported that different types of industries will have varying propensities to engage in CSR initiatives. Thus, this study controlled for the sector of activities. Third, consistent with past research (Delaney and Huselid, 1996; Sanzo et al., 2003), this study controlled for the age of the firm. This study measured age by the number of years since the firm's establishment in Dubai.

Sample characteristics and descriptive statistics

The sample comprised 61 manufacturing firms; 51 trading and repair services firms; 64 hotels and restaurants; 65 real estate, property management, and business services firms; 18 educational organisations; 17 banking and financial services firms; 2 mining firms; and 2 firms that were unable to classify their sector of activity. The executives who responded had been with their firms for an average of 11 years and represented firms that had existed for an average of 18 years and employed an average of 276 individuals.

Table I presents the means, standard deviation, and correlations amongst the different sets of variables that we used to test our hypotheses. Correlations amongst business performance, CSR, and the three components of market orientation are significantly interrelated, suggesting a potential association amongst these variables.

Analysis[1]

Our analyses include a hierarchical regression examination to test the hypotheses (Cohen and Cohen, 1983). Following Cohen and Cohen (1983), our analyses standardised all variables to reduce the potential effects of multicollinearity. The analyses employed a mean-centring procedure for the variables of CSR, business performance, market orientation, customer orientation, competitor orientation, and inter-functional coordination. In turn, the variance inflation factor for each of the regression coefficients was well below the recommended threshold of 10 (lowest = 1.04, highest = 4.89) (Neter et al., 1985), indicating that multicollinearity does not affect the weights of the controls or the hypothesised variables (Mason and Perreault, 1991).

As a first step in testing the hypotheses, we entered CSR and control variables, including industry sector (IS), firm size (FS), and firm age (FA), as a block, followed by the main effects of market orientation (MO) and the interaction effects of CSR and MO. Specifically, this study analysed the following regression equation in three hierarchical steps:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X4X5 + \varepsilon \quad (1)$$

where Y is the business performance (BP), α is the intercept, X_1 is the industry sector (IS), X_2 is the firm size, X_3 is the firm age, X_4 is the CSR, X_5 is the market orientation (MO), and ε is the random disturbance terms.

Although this study did not hypothesise the relationship between CSR and business performance, the first step of this study tested this relationship by entering control variables (industry sector, firm size, and firm age) and CSR. The results show a significant positive association between CSR and business performance, which explains 32% of the variance in business performance as F (4,181) = 21.2, $p < 0.05$.

TABLE I

Descriptive statistics and correlations

	Mean	SD	1	2	3	4	5	6	7
1. Business performance	4.0	0.40							
2. Corporate social responsibility (CSR)	3.9	0.45	0.50**						
3. Customer orientation (CSO)	4.3	0.58	0.44**	0.44**					
4. Competitor orientation (CPO)	4.1	0.54	0.44**	0.40**	0.55**				
5. Inter-functional coordination (IFC)	4.1	0.58	0.47**	0.50**	0.77**	0.50**			
6. Industry sectors (IS)	–	2.38	−0.08	−0.75	−0.03	0.03	−0.06		
7. Firm size (FS)	2.8	1.26	−0.06	0.145*	0.04	−0.04	0.02	0.16**	
8. Firm age (FA)	6.4	2.09	0.11	0.67	0.134*	0.02	0.12	−0.37**	−0.20**

**$p < 0.01$; *$p < 0.0$.

In step 2, this study tested for the main effect of market orientation on business performance. The results support the first hypothesis ($F = 21.6$, $p < 0.05$, $R^2 = 0.37$). In step 3, this study tested hypothesis 2 by examining the interactive effects of CSR × MO, (Model 3). The results were statistically significant. The inclusion of the interaction terms in step 3 explained 40% of the variance in business performance, F (6,181) = 19.06, $p < 0.05$, and a very small significant variance beyond step 2 (Ä $R^2_{(CSR \times MO)} = 0.02$, $p < 0.05$), providing support for hypothesis 2. The results are presented in Table II. To further explore the interactive effects of CSR and market orientation on each of the three performance measures (i.e. financial performance, corporate reputation, and employee commitment), we repeated the above steps by applying single performance measures. To reduce the amount of visual documentation, we summarised the regression results in a single table (Table III) to depict only the full models. Table III reveals that whilst CSR significantly moderates the relationships between market orientation, financial performance, and corporate reputation, it has no moderating effects on employee commitment.

To explore the direction of these significant interactions, we plotted the different interactions (Aiken and West, 1991). We set the level of CSR at one standard deviation above and below the mean. All control variables are fixed at their means. Figure 1 reveals that, at a high level of CSR, the association between market orientation and business performance is positive and strong. However, as indicated by the flat slope, the strength of the association between market orientation and business performance diminishes significantly at a low level of CSR. Thus, hypothesis 2 is supported. Figures 2 and 3 reveal that, at a high level of CSR, the associations between market orientation and financial performance and corporate reputation are positive and strong; however, the strength of these associations is greatly diminished and becomes insignificant at a low level of CSR, thus providing further support for hypothesis 2.

To test hypotheses 3, 4, and 5, this study examined the interaction effects of CSR, customer orientation, competitor orientation, and inter-functional coordination (see Table IV). This study analysed the following:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + \beta 7X7 + \beta 8X4X5 + \beta 9X4X6 + \beta 10X4X7 + \varepsilon \quad (2)$$

where Y is the business performance (BP), α is the intercept, X_1 is the industry sector (IS), X_2 is the

TABLE II

Hierarchical regression results: market orientation, CSR, and business performance

	Model 1		Model 2		Model 3	
	β	*t*-value	β	*t*-value	β	*t*-value
Step 1						
Business performance (BP)	2.44	10.03	1.91	7.00	1.82	6.69
Industry sectors (IS)	−0.09	−1.36	−0.09	−1.30	−0.09	−1.32
Firm size (FS)	−0.04	−0.54	−0.05	−0.67	−0.06	−0.96
Firm age (FA)	−0.13*	−2.00	−0.12**	−1.91	−0.12**	−1.91
Corporate social responsibility (CSR)	0.56*	8.79	0.41*	5.75	0.41*	5.80
Step 2: Main effect						
Market orientation (MO)			0.27*	3.76	0.29*	4.12
Step 3: Interactions						
CSR × MO					0.15*	2.46
R^2	0.32		0.37		0.40	
ΔR^2			0.05		0.02	
F	21.2		21.06		19.06	
ΔF			14.17		6.06	

** $p < 0.01$; * $p < 0.0$.

TABLE III

Business performance, CSR, and market orientation

Factors	Financial performance				Corporate reputation				Employee commitment			
	Model 1		Model 2		Model 1		Model 2		Model 1		Model 2	
	β	*t*-value	β	*t*-value	β	*t*-value	β	*t*-value	β	*t*-value	β	*t*-value
Business performance	1.47**	3.22	1.33**	2.90	2.26**	5.96	2.17**	5.74	1.50**	3.99	1.47**	3.84
Industry sectors (IS)	0.03	0.46	0.03	0.45	−0.08	−1.17	−0.08	−1.12	−0.09	−1.45	−0.09	−1.42
Firm size (FS)	0.13*	1.75	0.13*	1.66	−0.12*	−1.65	−0.12*	−1.74	−0.03	−0.46	−0.03	−0.46
Firm age (FA)	−0.02	−0.27	−0.03	−0.41	0.08	1.17	0.07	1.12	0.12**	1.96	0.12	1.94
Corporate social responsibility (CSR)	0.24**	2.85	0.24**	2.87	0.31**	4.06	0.30**	3.98	0.31**	4.43	0.31**	4.41
Main effect												
Market orientation (MO)	0.12	1.47	0.15*	1.77	0.24**	3.11	0.26**	3.39	0.34**	4.92	0.35**	4.92
Interaction effect												
CSR × MO			0.15**	2.19			0.15**	2.30			0.03	0.48
R^2	0.13		0.15		0.25		0.25		0.35		0.35	
ΔR^2	0.01		0.02		0.04		0.02		0.08		0	
F	5.35**		5.35**		12.20**		11.29**		20.55**		17.09**	
ΔF	2.17		4.8**		9.69**		5.31**		24.15**		0.23	

**$p < 0.05$; *$p < 0.1$.

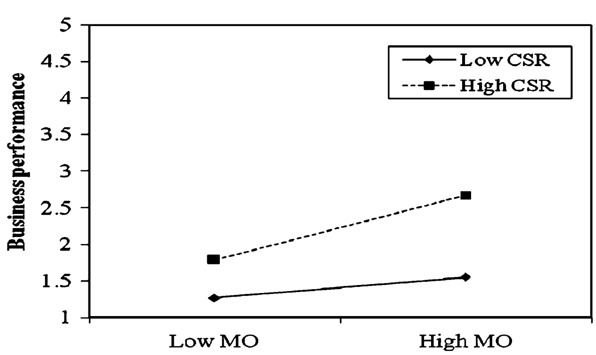

Figure 1. Market orientation and business performance by CSR.

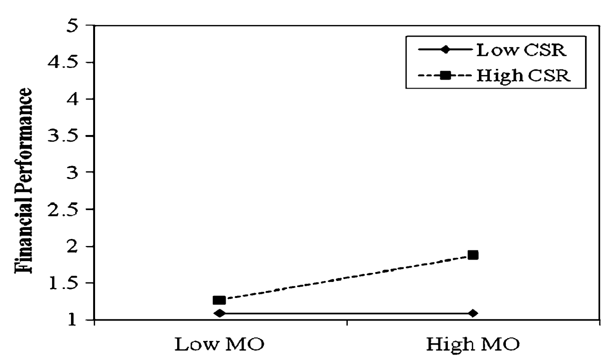

Figure 2. Market orientation and financial performance by CSR.

firm size, X_3 is the firm age, X_4 is the CSR, X_5 is the customer orientation (CSO), X_6 is the competitor orientation (CPO), X_7 is the inter-functional coordination (IFC), and ε is the random disturbance terms.

After controlling for sectors, size, and age and entering CSR, CSO, CPO, and IFC in four simultaneous steps, explaining significant variance in business performance of 32%, 34%, 38%, and 40%, respectively, F (4,181) = 21.2, $p < 0.05$; F (5,181) = 18.19, $p < 0.05$; F (6,181) = 18.26, $p < 0.05$; and F (7,181) = 16.33, $p < 0.05$, the analysis simultaneously included the interaction terms CSR × CSO, CSR × CPO, and CSR × IFC. The inclusion of the interaction terms explained a total variance of 41%, 42%, and 42%, respectively, as well as F (8,181) = 15.3, $p < 0.05$; F (9,181) = 13.62, $p < 0.05$; and F (10,181) = 12.19, $p < 0.05$.

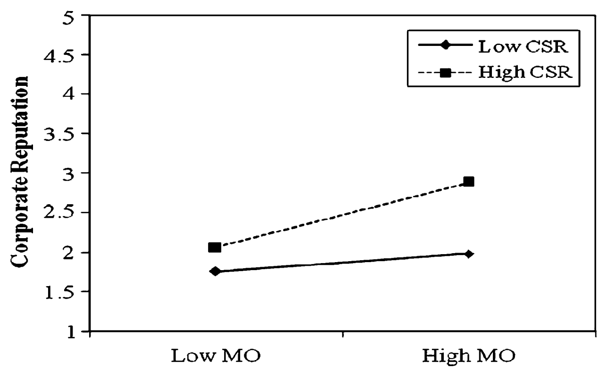

Figure 3. Market orientation and corporate reputation by CSR.

The results in Table IV reveal that CSR significantly moderates the association between customer orientation and financial performance, but this effect only partially supports hypothesis 3, as this moderation becomes insignificant in the full model (Model 7). The results show no significant interactive effects between CSR and the other two subsets of market orientation, thus rejecting hypothesis 4 and supporting hypothesis 5. To further explore these results, we conducted additional analyses on the association between CSR, market orientation, and the three performance measures: financial performance, corporate reputation, and employee commitment. The results in Table V show that all interactions are insignificant, with the exception of the relationship between customer orientation and financial performance, thus lending further support for hypothesis 3.

We plotted the significant interaction between customer orientation and financial performance in order to explore the directions of the interaction. Figure 4 reveals that, at a low level of CSR, customer orientation has a significant negative moderating effect on financial performance. However, this association becomes positive, albeit weak, at a high level of CSR.

Discussion

This study advocates the need for strategy scholars to look beyond the main effects, such as market orientation and firm performance, in their examination of associations between strategic actions. The core argument of this study is that strategic actions do not operate in isolation, and studying them under such a condition fails to capture their simultaneous effects on performance. Specifically, this study examines the moderating effects of CSR and proposes that CSR activities have a synergistic influence on the relationship between market orientation and business performance. The results provide support for this article's core proposition and demonstrate that the association with performance is strongest when market orientation and CSR are bundled together.

These findings support previous studies in RBV and dynamic capabilities literature that advocate a bundling hypothesis. Furthermore, recent market orientation studies suggest that bundling market orientation with other compatible management activities is likely to enhance business performance (Baker and Sinkula, 1999; Matsuno and Mentzer, 2000; Wei and Lau, 2008). Our results specifically reveal that the association between market orientation and business performance is stronger at a high level of CSR than at a low level of CSR. This means that high levels of CSR and market orientation lead to optimal performance levels. Given the lack of consensus on how and even whether or not CSR affects business performance (Husted and Allen, 2007; Margolis and Walsh, 2001, 2003; McWilliams and Siegel, 2000; Orlitzky and Benjamin, 2001; Orlitzky et al., 2003; Wright and Ferris, 1997), these results provide support for the positive impact of CSR on performance. For practitioners, these results suggest that organisations ought to view CSR and market orientation as synergistic rather than as two strategies that compete for resources. These findings are particularly important in the context of an emerging economy in which a number of scholars have made a case for a negative effect of CSR on business performance. Their argument is predicated on the assumption that CSR is incompatible with market strategies in emerging economies due to the absence of strong institutional support for CSR and the presence of weak and ineffectual laws to guard against unethical practices. Firms in emerging economies may not capture rents from their CSR activities, and such activities may even put firms at a competitive disadvantage vis-à-vis their competitors (Foo, 2007). Rettab et al. (2009) note that, due to the lack of communication platforms for disseminating information about CSR activities in emerging economies, CSR efforts often go unnoticed and are

TABLE IV

Market orientation subsets, CSR, and business performance

Factors	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6		Model 7	
	β	t-value	β	t-value	β	t-value	β	t-value	β	t-value	β	t-value	β	t-value
Business performance (BP)	2.44	10.03	2.19	8.18	1.85	6.71	1.82	6.64	1.70	6.12	1.65	5.80	1.65	5.75
Industry sectors (IS)	−0.09	−1.36	−0.09	−1.36	−0.09	−1.39	−0.08	−1.26	−0.08	−1.32	−0.08	−1.32	−0.09	−1.32
Firm size (FS)	−0.04	−0.54	−0.05	−0.72	−0.03	−0.44	−0.02	−0.37	−0.04	−0.62	−0.03	−0.51	−0.03	−0.50
Firm age (FA)	−0.13	−2.00	−0.13	−2.06	−0.11	−1.69	−0.10	−1.59	−0.11	−1.72	−0.11	−1.78	−0.11	−1.78
Corporate social responsibility (CSR)	0.56*	8.79	0.49*	6.90	0.44*	6.34	0.41*	5.76	0.42*	5.92	0.43*	5.95	0.43*	5.94
Main effects														
Customer orientation (CSO)			0.15*	2.12	0.03	0.39	−0.09	−0.89	−0.01	−0.13	0.00	−0.04	0.00	−0.01
Competitor orientation (CPO)					0.26*	3.55	0.26*	3.57	0.23*	3.16	0.22*	3.10	0.22*	3.09
Inter-functional coordination (IFC)							0.17**	1.82	0.16**	1.67	0.16**	1.67	0.15	1.60
Interactions														
CSR × CSO									0.14*	2.30	0.18*	2.22	0.20	1.51
CSR × CPO										−0.06	−0.72	−0.06	−0.72	
CSR × IFC													−0.02	−0.13
R^2	0.32		0.34		0.38		0.40		0.41		0.42		0.42	
ΔR^2			0.02		0.04		0.03		0.001		0.001		0.00	
F	21.2*		18.19*		18.26*		16.33*		15.3*		13.62*		12.19*	
ΔF			4.84		12.61		3.32		5.28		0.52		0.02	

**$p < 0.05$; *$p < 0.1$.

TABLE V

Market orientation subsets: CSR and financial performance, corporate reputation, and employee commitment

Factors	Financial performance						Corporate reputation					
	Model 1		Model 2		Model 3		Model 1		Model 2		Model 3	
	β	t-value	β	t-value	β	t-value	β	t-value	β	t-value	β	t-value
Dependent var.-performance	1.23**	2.66	1.08**	2.29	1.08**	2.27	2.01**	5.23	2.04**	5.17	2.05**	5.18
Industry sectors (IS)	0.03	0.40	0.03	0.34	0.02	0.33	−0.09	−1.30	−0.09	−1.28	−0.08	−1.22
Firm size (FS)	0.13*	1.73	0.14*	1.88	0.14*	1.84	−0.11	−1.54	−0.11	−1.56	−0.11	−1.51
Firm age (FA)	−0.04	−0.51	−0.02	−0.30	−0.02	−0.28	0.07	1.05	0.07	1.01	0.07	1.00
Corporate social responsibility	0.24**	2.93	0.26**	3.15	0.26**	3.14	0.32**	4.24	0.32**	4.12	0.32**	4.09
Main effect												
Customer orientation (CSO)	−0.08	−0.63	−0.05	−0.38	−0.04	−0.31	0.13	1.21	0.13	1.15	0.12	1.02
Competitor orientation (CPO)	0.13	1.56	0.12	1.45	0.12	1.44	0.22**	2.84	0.22**	2.85	0.22**	2.84
Inter-functional coord. (IFC)	0.15	1.36	0.15	1.32	0.14	1.24	−0.04	−0.35	−0.04	−0.36	−0.03	−0.26
Interaction effect												
CSR × CSO	0.18**	2.47	0.28**	2.92	0.31**	2.04	0.13*	1.88	0.11	1.18	0.04	0.29
CSR × CPO			−0.15	−1.59	−0.15	−1.58			0.03	0.37	0.03	0.35
CSR × IFC					−0.03	−0.22					0.08	0.65
R^2	0.18		0.19		0.19		0.2		0.29		0.29	
ΔR^2	0.03		0.01		0		0.01		0.00		0.00	
F	4.76**		4.55**		4.08**		9.05**		8.02**		7.24**	

Factors	Employee commitment					
	Model 1		Model 2		Model 3	
	β	t-value	β	t-value	β	t-value
Dependent var.-performance	1.49	3.86	1.5**	3.86	1.5**	3.85
Industry sectors (IS)	−0.09	−1.47	−0.09	−1.40	−0.09	−1.39
Firm size (FS)	−0.03	−0.40	−0.03	−0.42	−0.03	−0.42
Firm age (FA)	0.11	1.78	0.11**	1.75	0.11	1.74
Corporate social responsibility (CSR)	0.30**	4.21	0.29**	4.14	0.29**	4.13
Main effect						
Customer orientation (CSO)	0.01*	0.10	0.00	0.00	0.00	−0.01
Competitor orientation (CPO)	0.19**	2.60	0.20**	2.63	0.20**	2.62

TABLE V

continued

Factors	Employee commitment					
	Model 1		Model 2		Model 3	
	β	*t*-value	β	*t*-value	β	*t*-value
Inter-functional coord. (IFC)	0.22**	2.28	0.22**	2.29	0.22**	2.25
Interaction effect						
CSR × CSO	0.01	0.15	−0.01	−0.15	−0.01	−0.12
CSR × CPO		0.03	0.45	0.03	0.44	0.03
CSR × IFC				0.00	0.03	0.00
R^2	0.36		0.36		0.36	0.36
ΔR^2	0.00		0.00		0.00	0.00
F	13.06**		11.58**		11.37**	13.06**

$^{**}p < 0.05$; $^{*}p < 0.1$.

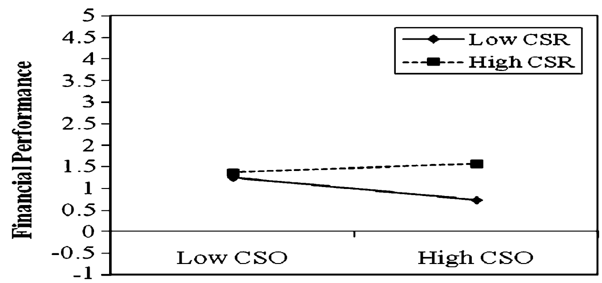

Figure 4. Customer orientation and financial performance by CSR.

largely unknown to stakeholders. Thus, CSR activities in emerging economies may not have an impact on performance. Further, Mellahi and Wood (2003) caution that stakeholders are often not aware of CSR activities in emerging economies and, as a result, such activities may even have a negative impact on financial performance. Taken together, this body of literature stipulates that CSR has no place in these countries (Rettab et al., 2009). Foo (2007) argues that the dominant paradigm in emerging economies is captured by the saying: "they (competitors) are ethical, so we have the competitive edge!" This study challenges this notion by showing that the higher the level of CSR, the stronger the impact of market orientation on performance.

The results, which portray the interactive effects of CSR and market orientation using different business performance measures, reveal interesting information. They show that whilst CSR has a synergistic effect on the association between market orientation and financial performance and corporate reputation, it does not moderate the association between market orientation and employee commitment. A plausible explanation for our results is the fact that over 80% of employees in Dubai are expatriates who are employed on short-term contracts in which human resource strategies are based primarily on calculative commitment with little emphasis on attitudinal dedication (Budhwar and Mellahi, 2007). In such a context, employees are unlikely to care about CSR activities as they are more attached to their home country than the host country in which CSR activities have most impact (Forstlenlechner and Mellahi, 2011). Organizations may address this issue by engaging in CSR activities in expatriates home countries.

In brief, the results suggest that scholars need to study the integration of market orientation with other practices in order to offer a more holistic understanding of the association between market orientation and performance. Scholars could better predict the association between market orientation and performance by taking into account the interactive impact of the other strategic actions that are pursued by organisations. Indeed, if an organisation pursues market orientation and simultaneously enacts practices that may cancel out its effects, the chances that market orientation will have a significant impact on performance are low. For practitioners, these findings suggest that organisations reap more value if they bundle market orientation with complementary practices; therefore, market orientation and CSR should be seen as part of a bundle of practices rather than isolated components.

In addition to exploring the moderation of CSR on market orientation and business performance, this study provides a more fine-grained analysis of CSR by examining the interactive effects amongst CSR and the market orientation subsets. This study posits that the interactive effects of CSR on the association between market orientation and performance might vary. In so doing, it advances the body of research that states that market orientation is not a unified set of practices, and argues that CSR is more compatible with some subsets of market orientation than others. As expected, our results show that CSR moderates the performance–customer orientation relationship; however, this moderation was not significant in the full mode. Contrary to the expectations of this study, the presumed deleterious effect of CSR on the association between competitive orientation and performance was not supported; rather, the results show that, when combined, the two practices would have no significant impact on performance. Finally, as expected, the results show that the combination of CSR with inter-functional orientation does not lead to significantly superior performance. These results confirm our assertion that CSR interacts differently with the different market orientation subsets. Overall, the results show that the association between market orientation subsets and performance, with the exception of customer orientation, did not change significantly at different levels of CSR. These results indicate that firms are likely to benefit from bundling market orientation with CSR when market orientation is approached as a holistic strategy, using its three subsets simultaneously.

To shed further light on these results, we conducted an extensive analysis on the moderating effects of CSR on the association between market orientation subsets and business performance by using different measures for business performance. The results reveal that, at a low level of CSR, customer orientation has a significant negative moderating effect on financial performance. Such an association becomes positive, albeit weak, at a high level of CSR. This result indicates that reacting to perceived customer needs in order to produce superior value for customers is inadequate for generating higher financial performance in the absence of CSR activities. To the best of our knowledge, this is the first study that provides evidence to show that a high level of CSR does not only enhance performance, but even financial performance may suffer if a firm does not pay attention to CSR issues.

Limitations

The results and their interpretation must be considered in the context of this study's limitations. Whilst the findings support the interactive effects, this study does not disentangle how CSR and market orientation and its subsets interact to influence performance. Additional fine-grained research using in-depth case studies is needed to help us fully understand the dynamics and processes through which CSR and market orientation impact performance. Another major caveat of this study is that the sample draws from a fast-growing and highly competitive emerging economy with a unique institutional environment. Although we went beyond merely financial performance and combined three different performance indicators into an overall measure of business performance, one could include new indicators, such as customer satisfaction and loyalty. It would be interesting to explore whether the findings of this study hold in other emerging economies. Furthermore, our study is based on perceptual data, and although perceptual measures of business performance are well established and widely accepted, we welcome studies that are based on objective data, particularly regarding financial measures of performance.

Note

[1] Before we conducted the analysis, we subjected our constructs to a number of tests to check their reliability and validity. Following the steps used by Slater et al. (2006, p. 1226), we analysed the psychometric properties of the constructs used in this study with the confirmatory factor analysis (CFA) using LISREL 8.80. In addition, we evaluated the fit of the measurement model. Again, following Slater et al. (2006), we examined the high-order structure of CSR to provide empirical support for the focus on the CSR construct at the higher-order aggregate level. We assessed the construct reliability by calculating a composite reliability (CR) for each construct. We used the procedures suggested by Fornell and Larcker (1981) to calculate the CR index (CRI). Along with the reliability calculations, we also examined the parameter estimates and their associated *t*-values and assessed the average variance extracted (AVE) for each construct (Anderson, 1982; Bagozzi and Lynn, 1982). AVE was used to gauge convergent validity (Fornell and Larcker, 1981; Ping, 2004). Fornell and Larcker (1981) and Ping (2004) suggested that convergent measures should contain less than 50% error variance (i.e. AVE should be 0.5 or above). We used the cut-off value of 0.70 and 0.50 for CR and AVE, respectively (Bagozzi and Yi, 1988; Hair et al., 1998). The scales' reliabilities ranged from 0.78 to 0.88, the factor loadings ranged from 0.40 to 0.92 ($p < 0.01$), and the AVE ranged from 0.50 to 0.89. Following the reliability analysis, we established discriminant validity by calculating the shared variances between each pair of constructs and verifying that it was lower than the AVE from the individual constructs (Bagozzi and Lynn, 1982). The shared variances between pairs of all possible scale combinations indicated that the average variances extracted were higher than the associated shared variance in all cases. In other words, they are more internally correlated than they are with other constructs. This suggests the discriminant validity of the construct in this study. The model fit was evaluated using a series of indices recommended by Hu and Bentler (1999): the DELTA2 (Bollen, 1989), comparative fit (CFI) (Bentler, 1990; Hu and Bentler, 1999), goodness-of-fit index (GFI), Tucker–Lewis (TLI), and the root mean square error of approximation (RMSEA) indices. A fit to the data was achieved for the first-order-based CFA.

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