



# How important is customer orientation for firm performance? A fuzzy set analysis of orientations, strategies, and environments<sup>☆</sup>



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## ABSTRACT

Prior literature suggests that customer orientation interacts with other strategic factors, but yields mixed effects in terms of performance outcomes. In addition, capturing performance outcomes of complex systems of interdependencies using commonly employed methods, such as regression models, is often difficult. Thus, this study employs a configurational approach, using fuzzy set Qualitative Comparative Analysis (fs/QCA), to analyze the constellations of differential strategic orientations, strategy types, and market conditions that yield superior performance. The study finds no evidence of high-performing configurations without customer orientation and shows that highly performing firms configure themselves around their customer orientation in three different ways. The results have implications for market orientation theory as well as for configurational and (marketing) strategy research in general.

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## 1. Introduction

Customer orientation is a key focus for any firm's relationship to its market (Deshpandé, Farley, & Webster, 1993; Kohli & Jaworski, 1990; Leeflang, 2011). As the central component of market orientation, customer orientation is also an important driver of firm performance (Kirca, Jayachandran, & Bearden, 2005). A number of studies, however, have raised questions regarding a universally positive effect of customer orientation (e.g., Danneels, 2003; Hult, Ketchen, & Slater, 2005). Findings from previous studies suggest that enhancing customer orientation may cause firms to focus on their customers too much and, as a result, to overlook newly emerging customer needs (Christensen & Bower, 1996), decreasing the novelty of their products (Im & Workman, 2004) and their ability to develop market-breakthrough innovations (Zhou, Yim, & Tse, 2005) as well as reducing firm performance (Voss & Giraud Voss, 2000).

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The effectiveness of customer orientation also depends upon environmental conditions. In markets with low demand uncertainty, in particular, studies report that customer orientation fails to enhance innovation performance (Gatignon & Xuereb, 1997). Some studies, therefore, push toward more contingent explanations, including those that focus on the moderating role of business strategy and firm environment (Matsuno & Mentzer, 2000; Olson, Slater, Tomas, & Hult, 2005; Woodside, Sullivan, & Trappey, 1999) and high-performing combinations with other strategic orientations (Gatignon & Xuereb, 1997; Voss & Giraud Voss, 2000). This literature is developing toward a perspective of firms as complex systems of interdependent characteristics and choices in which competitive advantage frequently does not rest on a single attribute but, instead, resides in the relationships and complementarities between multiple characteristics (Burton & Obel, 2004; Fiss, 2007; Ketchen, Thomas, & Snow, 1993; Miller, 1986; Siggelkow, 2002).

A sound understanding of drivers of firm performance, therefore, requires the acknowledgement and approach of the complexity of firms and their environment. The notion of organizational configurations expresses this idea by suggesting that “organizational structures and management systems are best understood in terms of overall patterns rather than in terms of analyses of narrowly drawn sets of organizational properties” (Meyer, Tsui, & Hinings, 1993, p. 1181).

A configurational approach comes, however, with several challenges. Theoretically, researchers have to take a novel approach because

different antecedents and contingencies may lead to multiple configurations with comparable outcomes. In configurational analysis, therefore, the focus shifts from the net effect of a single characteristic on performance to the analysis of multiple configurations associated with high performance. Empirically, configurational arguments also face the methodological challenges of modeling multiple, complex relationships between the elements of a configuration (Doty, Glick, & Huber, 1993; Fiss, 2007, 2011). Traditional multivariate analytical methods are frequently less adept at capturing complex systems of interdependencies among the elements of a configuration and outcome variables. Given these challenges, development of a theory on configurations and empirical tests of configurational approaches is unsurprisingly scarce in research on customer orientation, as they are in many other fields (Fiss, Cambré, & Marx, 2013; Vorhies & Morgan, 2003).

This study draws on extant work in strategy and marketing to develop hypotheses about the performance of four configurations of customer orientation with strategy types, alternative orientations (competitor and technology), and market conditions. To overcome the methodological challenges of testing the hypothesized configurations, the current research uses fuzzy set qualitative comparative analysis (fs/QCA), a set-theoretic configurational approach with the ability to handle high degrees of complexity in how different causal conditions combine to bring about an outcome (Ragin, 2000, 2008). Several recent studies suggest that applying QCA and fuzzy sets in organization and strategy settings can offer new insights into causally complex issues (Bell, Filatotchev, & Aguilera, 2013; Crilly et al., 2012; Fiss, 2007, 2011; Grandori & Furnari, 2008; Greckhamer, 2011; Greckhamer, Misangyi, Elms, & Lacey, 2008; Misangyi & Acharya, 2014; Woodside, 2013). In the current study, this approach allows the study of orientations, strategies, and environment interdependently. Rather than estimating the average net effect of a particular orientation or strategy, the study assesses how multiple, alternative configurations of orientation, strategy, and environment explain firm performance. The results shed light on the performance effects of customer orientation in relation to strategic choice and in relation to other orientations and their environmental contingencies.

## 2. A configurational approach to customer-oriented firms

Customer orientation is “the sufficient understanding of one’s target buyers to be able to create superior value for them continuously” (Narver & Slater, 1990, p. 21). The concept is at the heart of a market orientation because customer orientation best reflects the core of the marketing concept (e.g., Deshpandé et al., 1993; Han, Kim, & Srivastava, 1998; Inglebleek, Tessema, & van Trijp, 2013). By firms’ organizing around the mission to create customer value, they generate higher levels of satisfaction, loyalty, innovation, and performance (Kirca et al., 2005).

Configurational approaches to understanding the performance effects of customer orientation are not common. Most prior work focuses on market orientation as an aggregate construct that also consists of competitor orientation and interfunctional coordination (Narver & Slater, 1990) or of components that concern the generation and dissemination of and responsiveness to market intelligence (Jaworski & Kohli, 1993), each of which includes an orientation toward customers and competitors (Kirca et al., 2005). Several studies considered the interaction effects of individual orientations separately from one another (Atuahene-Gima, 2005; Inglebleek, Frambach, & Verhallen, 2010; Lukas, 1999; Olson et al., 2005; Slater, Hult, & Olson, 2007). While almost all studies use regression analysis or structural equation modeling for data analysis, some employ deviational profile analysis that assesses, by means of regression, which variables account for deviations from the ideal organizational configuration displayed by top-performing firms (Vorhies & Morgan, 2003). Although such correlation-based approaches are useful for examining the relative contribution of different elements, they face considerable challenges

in modeling the ways that causes may combine rather than compete in bringing about the outcome of interest (Fiss, 2007; Ragin, 2008; Woodside, 2013). In contrast, a set-theoretic approach is uniquely suited to analyzing this kind of complex configurational relationship because this approach explicitly focuses on combinations of attributes and allows for a sophisticated analysis of complex causal relationships (Ragin, 2000, 2008). Fs/QCA differs from conventional, regression-based approaches in that fs/QCA employs Boolean algebra, which allows an analysis of how different causal factors combine to bring about the outcome of interest (see Ragin, 2000, 2008; Schneider & Wagemann, 2012).

Shifting to a configurational understanding of market orientation seems warranted because increasing evidence shows that its individual components behave differently under different conditions (Atuahene-Gima, 2005; Gatignon & Xuereb, 1997; Homburg, Grozdanovic, & Klarmann, 2007; Lukas, 1999; Olson et al., 2005; Slater et al., 2007). A meta-analysis on market orientation’s components shows that the level of customer orientation affects competitor orientation’s effect (Grinstein, 2008), with a focus on “the short-term strengths and weaknesses and long-term capabilities and strategies of both the current and the key potential competitors” (Narver & Slater, 1990, pp. 21–22). In addition, researchers conceptualize technology orientation, which focuses on technological developments within the firm environment, as part of a firm’s strategic orientation that potentially interacts with other orientations (Gatignon & Xuereb, 1997; Voss & Giraud Voss, 2000; Zhou et al., 2005). Therefore, customer, competitor, and technology orientations are likely to have interdependent effects on firm performance.

Research in marketing further suggests that orientations have different effects on performance, depending on the market environments (Gatignon & Xuereb, 1997; Slater et al., 2007). Nevertheless, research largely fails to find a systematic relationship between environmental conditions and market orientation (Kirca et al., 2005). A possible explanation for these divergent findings may be that the complexity of interdependencies between strategic orientations and environmental conditions inhibits performance effects from surfacing. The current study thus considers orientations interdependently of the firm’s environment.

In addition, prior work also suggests that the performance effects of customer orientation depend on the strategy type (Matsuno & Mentzer, 2000). Both orientations and strategies are outward-oriented aspects of an organizational configuration, suggesting that a particular orientation helps the firm to adapt to its environment within the context of a particular strategic choice (Lukas, 1999; Olson et al., 2005; Slater et al., 2007). To examine the role of different strategies, this study follows prior work (e.g. Hambrick, 2003) by employing the strategy typology proposed by Miles and Snow (1978). According to Miles and Snow, *defenders* are organizations that have narrow product-market domains and that do not search outside their domains for new opportunities. Consequently, these organizations seldom need to make major adjustments in their technology, structure, or methods of operation. In contrast, *prospectors* are organizations with an external orientation that almost continuously search for market opportunities and compete by pioneering new products and developing innovative marketing techniques. Because those firms constantly engage in monitoring the external environment and developing alternative responses to emerging trends, those firms are the creators of change and uncertainty in an industry to which their competitors must respond. *Analyzers* take a position in between defenders and prospectors. They do not necessarily constitute a separate group “but rather tend to be ‘like’ prospectors... or ‘like’ defenders” (DeSarbo, Di Benedetto, Song, & Sinha, 2005, p. 62). Finally, *reactors* do not display consistent strategy choices; this study does not consider reactors, consistent with prior studies (Matsuno & Mentzer, 2000; Olson et al., 2005). Accordingly, this study focuses on the defender and prospector strategy types as the two ends of a continuum and hypothesizes four high-performing configurations of strategic orientations for

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