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How organizational culture influences market orientation and business performance in the restaurant industry

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ABSTRACT

This study contributes to the hospitality literature by examining the direct and indirect effects of organizational culture types on market orientation (MO) and performance in the context of the restaurant industry. A structured questionnaire was used to survey owners/managers of independent restaurants in the U.S. The direct influence of supportive and innovative cultural types on firm performance was confirmed. In addition, MO partially mediated the direct positive effect of innovative organizational culture on firm performance. Our results also confirm that innovative and supportive organizational culture types are important predictors of MO and that they are better predictors of performance than MO. The findings should enhance organizational design and marketing options available to restaurant businesses and offer guidance to managers attempting to shape and mold organizational culture and the behaviors associated with the implementation of MO in order to improve performance.

1. Introduction

Both organizational culture and market orientation (MO), have been held up as key determinants of business success (Joseph & Francis, 2015; Yaprak, Tasoluk, & Kocas, 2015). Moreover, while organizational culture may be an important predictor of MO (McClure, 2010; O'Cass and Viet Ngo, 2007) it may also be a better indicator of firm performance than MO (Deshpandé & Farley, 2004; O'Cass and Viet Ngo, 2007). Though there are different perspectives on the nexus of these two variables, one view is that market-oriented behaviors are a response derived from a firm's organizational culture (Leisen, Lilly, & Winsor, 2002; O'Cass and Viet Ngo, 2007). Accordingly, organizational culture is viewed as playing an instrumental role in driving market-oriented behaviors as well as diffusing MO throughout the firm (Deshpande, Farley, & Webster, 1993; Deshpandé & Farley, 2004; Leisen et al., 2002; O'Cass and Viet Ngo, 2007).

Following the pioneering work of Kohli and Jaworski (1990) and Narver and Slater (1990), a rich body of empirical research has found general support for a positive association between market orientation (MO) and business performance (e.g. Campo, Díaz, & Yagüe, 2014; Joseph & Francis, 2015; Lee, Kim, Seo, & Hight, 2015; Yaprak et al., 2015). However, and despite theoretical generalizations, empirical examination of how internal organizational variables such as organizational culture (or corporate culture) influence MO and subsequent performance is scarce (Kirca, Jayachandran, & Bearden, 2005; McClure, 2010). Researchers have argued that the lack of research on internal organizational variables limits both our understanding of MO and how it should be implemented (Gebhardt, Carpenter, & Sherry, 2006; Gao, 2017).

Given that MO and organizational culture appear to be inextricably entwined (Deshpandé & Farley, 2004; O'Cass and Viet Ngo, 2007), researchers have called for the investigation of a model that describes how market orientation mediates the relationship between organizational culture and business performance (Kirca et al., 2005; McClure, 2010). Yet, with a few exceptions (Appiah-Adu & Blankson, 1998; Joseph & Francis, 2015; McClure, 2010), research examining the mediating effect of MO on the interrelationship between organizational culture and firm performance is scarce. Furthermore, there is limited evidence of research that has investigated the indirect effect of organizational culture on performance via MO (Joseph & Francis, 2015). This study contributes to the hospitality literature by examining the mediating role of MO in the link between the dimensions of organizational culture and firm performance.

The primary purpose of this research is to provide insights into the interrelated effects of organizational culture and MO on firm performance. In particular, this research addresses the following questions: Do the a priori dimensions of organizational culture

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influence the adoption of a market orientation in the context of restaurants operations? Do the a priori dimensions of organizational culture directly influence firm performance, or does market orientation influence the link between the dimensions of culture and firm performance? And if so, what is the intervening mechanism by which they affect this link? This study contributes to the hospitality literature by investigating small restaurant businesses' ability to effectively exploit organizational culture and market orientation in order to improve firm performance. The findings should: 1) provide insight into how internal firm characteristics such as organizational culture combine with and influence the adoption and implementation of market orientation and their subsequent effect on performance, and 2) inform owners/managers about the need to effectively employ a combination of organizational capabilities to achieve superior performance. Evidence that particular types of organizational culture support market orientation will provide managers the motivation to shape organizational culture in an effort to effectively deploy the behaviors associated with a market orientation and thereby obtain superior performance.

This research is important to the hospitality sector comprised of restaurant businesses because these operations compete in a crowded and often undifferentiated market (Morgan, Rapp, Richey, & Ellinger, 2014). Moreover, research suggests that the hospitality industry is exposed to higher levels of risk and higher competitive rivalry than other industries in the U.S (Singal, 2015). The restaurant industry is characterized by fragmentation, low barriers to entry (Porter, 1980), low levels of access to both tangible and intangible resources, and imitation (Barney, 1991). Although major players appear to dominate the marketplace, a good proportion of the industry can be characterized as businesses that are managed by individual owner/operators. According to the National Restaurant Association (2015), more than seven in 10 restaurants are single-unit operations, and more than nine in 10 have fewer than 50 employees. These restaurant businesses must achieve competitive advantage not solely on the basis of their access to better resources, but because they are able to coordinate and combine their resources in superior ways (Kraaijenbrink, 2011). Among these restaurant businesses, the manager's strategic ability to shape and mold organizational culture and market orientation may determine their capacity to generate sustainable competitive advantage and enhance firm performance.

2. Theoretical background and hypotheses

2.1. Market orientation

The concept of market orientation lies at the heart of marketing theory (Levitt, 1960). According to the marketing concept, an organization's purpose is to determine the needs and wants of its customers and to satisfy those needs more effectively and efficiently than the competition (Slater & Narver, 1998). Market oriented organizations aim to satisfy their customers by organizing and coordinating their activities and efforts around the needs of the customer (Levitt, 1960). In essence, a market oriented approach focuses primarily on improving the customer-provider relationship and, it is reflected in an organization's culture, shared values, and beliefs about focusing first on the customer's interests (Deshpande & Farley, 1999). MO has been examined in terms of both behavioral as well as cultural perspectives. Kohli and Jaworski (1990) described MO as being associated with three behavioral components, namely, intelligence generation, intelligence dissemination, and responsiveness. Narver and Slater (1990) on the other hand, conceptualized MO as consisting of three cultural dimensions including, customer orientation, competitive orientation, and inter-functional coordination. This study views MO as a behavioral construct and adopts the Kohli and Jaworski (1990) conceptualization of MO because it is better suited to the focus of this study and its intent to examine the effect of an organization's cultural dimensions on the behavioral perspective of market orientation.

2.2. MO in the hospitality industry

In the hospitality industry, market orientation has been studied in relation to a variety of related variables including business strategy (Lee et al., 2015; Wu, 2004), information and communications technology (Peña, Jamilena, & Molina, 2013), tourist behavior (Peña, Jamilena, & Molina, 2012), total quality management (Wang, Chen, & Chen, 2012), and competitive advantage (Zhou, Brown, & Dev, 2009). In general, hospitality managers have been urged to become more market oriented to better satisfy customer needs and achieve their business performance objectives (Lee et al., 2015; Wang et al., 2012). The dominant view is that market orientation is positively related to performance (Jaworski & Kohli, 1993; Slater & Narver, 1994). Though the greater emphasis on market orientation may be an intuitively attractive response to rapidly changing market conditions, empirical findings pertaining to the relationship between MO and performance in the hospitality services industry is mixed. While some studies have found general support for a positive association between market orientation and business performance as it applies to a range of hospitality businesses (Campo et al., 2014; Lee et al., 2015; Peña et al., 2012; Wang et al., 2012), others have found no evidence that MO is directly related to firm performance (Au & Tse, 1995; Sargeant & Mohamad, 1999). It also appears that the link between MO and performance may be mediated by factors such as innovation (Agarwal, Erramilli, & Dev., 2003; Sandvik & Sandvik, 2003). Besides, according to a meta-analytic study by Kirca et al. (2005), the magnitude of the relationship between MO and performance varies broadly from a high correlation of $r = 0.37$ in manufacturing firms to a low of $r = 0.26$ in service firms.

The restaurant business, like many other services, is people intensive, and characterized by intangibility, simultaneity of production and consumption, heterogeneity of service performance, and perishability (Parasuraman, Zeithaml, & Berry, 1985). These characteristics along with the critical need for direct person-to-person interactions imply that the gratification of customer needs in the restaurant industry involve a higher level of customization relative to manufacturing firms (Anderson, Fornell, & Rust, 1997). Yet, there appears to be a lack of consensus in the literature regarding the extent to which the concept of market orientation is practiced (Becherer & Maurer, 1997; McLarty, 1998) and/or appreciated by small businesses (Stokes, 2000; Becherer, Halstead, & Haynes, 2003). Many small firms, including those in the restaurant industry, may be constrained by their meager access to resources (e.g. time, labor, expertise, finance) (Didonet, Simmons, and Diaz-Villavicencio, and Palmer, 2012) and therefore limited in their ability to adopt the behaviors associated with a market orientation (Becherer et al., 2003; Harris & Watkins, 1998). The lack of access to key resources, for instance, may restrict small restaurant business' ability to adopt the traditional view of marketing that is characterized by a reliance on deliberate and complex processes, the adoption of formal research to identify market needs, and the purposeful development of new products and services (Stokes & Blackburn, 1999). Harris and Watkins (1998) argued that factors such as an unclear view of the customer, satisfaction with the status quo, ignorance of market orientation, and lack of competitive differentiation may inhibit the ability of small hotels to focus on market trends and customer needs. Yet, as Hills (1999) remarked, it is marketing and entrepreneurship that largely determine the