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The reinforcing effect of a firm's customer orientation and supply-base orientation on performance

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ABSTRACT

Although the merits of maintaining strategic orientations such as customer orientation and supply-base orientation have been discussed in the literature, there is relatively little understanding of how these strategic orientations interrelate. Drawing on dynamic capability theory, this study examines how these strategic orientations, through the deployment of their underlying capabilities, are drivers of firm performance. Based on a cross-industry sample, the findings indicate that firm's customer orientation and supply-base orientation are complementary strategic assets that contribute to superior performance. The findings provide new insights regarding the interplay of different strategic orientations and the importance of capability deployment.

1. Introduction

Marketing researchers posit that a marketing orientation provides firms with a source of competitive advantage (e.g., Kirca, Jayachandran, & Bearden, 2005; Noble, Sinha, & Kumar, 2002). However, market orientation is not the only viable strategic orientation. Firms can successfully follow a *production orientation*, which is based on the principles that production efficiencies, cost minimization, and mass distribution can be used effectively to deliver quality goods and services to the customer at attractive prices (Noble et al., 2002). Another alternative is a *supply-base orientation*, which is based on the principles that close collaboration with suppliers can be used effectively to improve operational activities and to be more responsive to customers' needs (Chen, Paulraj, & Lado, 2004; Ziggers & Henseler, 2009). (See Fig. 1.)

Although some studies have included the effect of market orientation and other strategic orientations on performance (Gatignon & Xuereb, 1997; Noble et al., 2002; Zhou, Yim, & Tse, 2005), there is little understanding of how those strategic orientations interrelate. Noble et al. (2002, p36) advocate that "a configurational approach should be pursued to determine the relative combinations of various strategic orientations that lead to performance…. This would provide additional insights into the relative value of alternative strategic orientations that lead to performance." The value of strategic orientations is not a lever that can be pulled to directly increase performance (Hult, Ketchen, & Slater, 2005); rather, it is how these strategic assets, which consist of a set of capabilities (Foley & Fahy, 2009), are deployed to achieve performance and competitive advantage (Auh & Mengue, 2007; Morgan, Vorhies, & Mason, 2009; Noble & Mokwa, 1999). To address these limitations, this study examines one particular interplay of strategic orientations. More specifically, it examines whether it is rewarding to maintain both a customer and a supply-base orientation. Drawing on the dynamic capability perspective, it views both orientations as strategic assets that comprise a set of capabilities that represent deployment mechanisms.

Our study makes two contributions. First, we identify and empirically examine specific strategic orientations that enable firms to effectively improve their performance. The findings provide new insights regarding the interplay of different orientations and performance and indicate that firms can outperform rivals when they successfully capitalize on these assets. Second, we identify how both customer orientation and supply-base orientation comprise a set of capabilities that are important sources of competitive advantage. This finding provides empirical support for the dynamic capability theory propositions regarding the importance of capability deployment, which permits firms to position themselves in their market environment.

2. Literature review

2.1. Dynamic capability view

The dynamic capability theory of firms provides a useful conceptual lens for understanding the sources of firms' competitive advantage and the processes through which firms build, integrate, and configure their strategic resources to effectively respond to changes in the marketplace (Eisenhardt & Martin, 2000; Teece & Maritan, 2007). A basic assumption of the dynamic capability theory is that inter-firm performance variance

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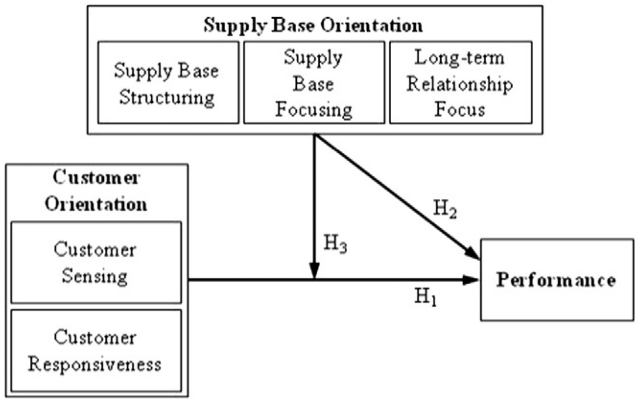

Fig. 1. Conceptual model.

over time is explained by firms' capabilities to acquire and to deploy resources in ways that match the firm's marketplace (Day, 1994; Teece & Maritan, 2007). These capabilities entail complex coordinated patterns of skills and knowledge that have become embedded as organizational routines (Grant, 1996), are being executed well relative to rivals (Eisenhardt & Martin, 2000; Foley & Fahy, 2009; Teece & Maritan, 2007), and can persist through time despite attempts by rival firms to copy these capabilities (Day, 1994; Teece & Maritan, 2007). This means that although possessing strategic assets may be beneficial, firms have to deploy these assets in ways that match the market conditions to accrue value for the firm. Modeling customer orientation and supply-base orientation within this perspective may facilitate a more satisfactory approach because the emphasis will be on identifying key capabilities that the firm must develop to accrue value (Foley & Fahy, 2009). Thus, given the presumed heterogeneity of firms' customer orientation and supply-base orientation, a firm's skills in configuring and deploying the underlying capabilities of these strategic assets could enable it to outperform its rivals and contribute to superior performance (e.g., customer responsiveness, cost reductions, innovation; Auh & Mengue, 2007; Noble & Mokwa, 1999; White, Conant, & Echambadi, 2003).

2.2. Customer orientation

A firm's customer orientation refers to the degree to which the firm obtains and uses information from customers, develops a strategy that will meet customer needs, and implements that strategy by being responsive to customer needs (i.e., the firm's understanding of its target customers; Day, 1994; Feng, Sun, Zhu, & Sohal, 2012; Hult et al., 2005; Liu, Ke, Wei, & Hua, 2013; Theoharakis & Hooley, 2008). A customer-oriented firm, therefore, is considered as a firm that places high priority on present and future customer needs and has advanced its abilities to sense events and trends in their customer base (i.e., *customer sensing*) and to respond to that information (i.e., *customer responsiveness*). Customer orientation is viewed as a strategic asset that results from a firm's continuous improvement of its customer sensing and customer responsiveness capabilities (Day, 1994; Foley & Fahy, 2009). A firm with a strong customer orientation may outperform its rivals because it better understands customer needs, adjusts products and services, and forecasts demand (Danneels, 2003; Feng et al., 2012; Theoharakis & Hooley, 2008). Among the benefits that may be achieved are greater customer satisfaction, delivery to specifications, and delivery reliability (Danneels, 2003; Feng et al., 2012; Martin & Grbac, 2003; Theoharakis & Hooley, 2008).

2.2.1. Customer sensing

For firms, it is important to gather information about customers' needs and preferences because they are dynamic in nature. This information may help firms understand customers' concerns and future preferences and anticipate future trends (Feng et al., 2012; Lin & Germain, 2004). The generation of such information relies on several mechanisms, including, e.g., meetings and discussions with customers and trade partners, analyses of sales reports, and customer surveys. Frequent, timely and accurate contacts between a firm and its customers have shown the necessity of interacting with customers; this interaction provides major inputs to improve efficiency and to capture market information more effectively (Brown & Eisenhardt, 1995; Day, 1994; Feng et al., 2012). The point is that the generation of customer information is more than obtaining customer opinions; it also entails the careful analysis and subsequent interpretation of the developments that might affect future customer needs and preferences (Day, 1994).

2.2.2. Customer responsiveness

A firm can generate customer information, but unless it responds to this information, little is achieved. Responsiveness is the action taken in response to the acquired customer information. Within the firm, it takes the form of educating, communicating and planning with other functions, which provides a shared basis for concerted actions (Day, 1994), which install the customer orientation profile (Nwankwo, 1995). By means of interacting with customers (e.g., customer relationship programs, inter-organizational teams), it takes the form of selecting target markets, designing and offering products that cater to their current and anticipated needs, and producing, distributing, and promoting products in ways that bring forth favorable customer needs (Day, 1994; Feng et al., 2012; Theoharakis & Hooley, 2008).

Thus, firms with a superior customer orientation may achieve superior performance because they have a greater understanding of customers' expressed and latent needs and how to respond to these needs. Therefore, it is hypothesized that:

H1. A firm's customer orientation contributes positively to its performance.

2.3. Supply-base orientation

A firm's supply-base orientation refers to the degree to which a firm analyzes, plans, and controls interactions with suppliers (Corsten & Felde, 2005; Ivens, van de Vijver, & Vos, 2013; Pardo, Missirilian, Portier, & Salle, 2011). It helps firms improve supplier-related routines and processes to adequately respond to technological and customer changes (Rosenzweig, 2009). A supply base-oriented firm, therefore, is considered a firm that places a high priority on present and prospective buyer–supplier relationships and has advanced its ability (1) to create a strong network of suppliers to reposition themselves in competitive markets, i.e., *supply-base structuring*, (2) to foster close working relationships with a limited number of suppliers to increase (customer) responsiveness, i.e., *supply-base focusing*, and (3) to adopt a long-term orientation towards suppliers, promoting knowledge development and exchange, i.e., *long-term relationship focus* (Chen & Paulraj, 2004a; Holmen, Aune, & Pedersen, 2013; Paulraj, Lado, & Chen, 2008). A supply-base orientation is viewed as a strategic asset that results from a firm's continuous improvement of its supplier management capabilities (Chen et al., 2004). A firm with a strong supply-base orientation may outperform its rivals because it has a greater understanding of how to coordinate and synchronize activities within its network of suppliers and to create a context that fosters collaboration. The potential benefits of a supply-base orientation are, among others, reduced lead time and inventory, improved quality, improved earnings, more competent suppliers, and increased (customer) responsiveness (Chen et al., 2004; Flynn, Huo, & Zhao, 2010; Ivens et al., 2013; Rosenzweig, 2009).

2.3.1. Supply-base structuring

Firms can lose their competitive positional advantage if their existing resources and capabilities become obsolete because of the environmental uncertainty that surrounds them in their markets (Hite & Hesterley, 2001). Facing these conditions, firms that are capable of creating a strong