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Effective forms of market orientation across the business cycle: A longitudinal analysis of business-to-business firms

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ABSTRACT

Macroeconomic developments, such as the business cycle, have a remarkable influence on firms and their performance. In business-to-business (B-to-B) markets characterized by a strong emphasis on long-term customer relationships, market orientation (MO) provides a particularly important safeguard for firms against fluctuating market forces. Using panel data from an economic upturn and downturn, we examine the effectiveness of different forms of MO (i.e., customer orientation, competitor orientation, interfunctional coordination, and their combinations) on firm performance in B-to-B firms. Our findings suggest that the impact of MO increases especially during a downturn, with interfunctional coordination clearly boosting firm performance and, conversely, competitor orientation becoming even detrimental. The findings further indicate that both the role of MO and its most effective forms vary across industry sectors, MO having a particularly strong impact on performance among B-to-B service firms. The findings of our study provide guidelines for executives to better manage performance across the business cycle and tailor their investments in MO more effectively, according to the firm's specific industry sector.

1. Introduction

Macroeconomic developments, such as the business cycle, have a remarkable influence on firms and their performance, thus posing a significant challenge for management (e.g., Deleersnyder, Dekimpe, Sarvary, & Parker, 2004; Naidoo, 2010). On the one hand, during economic downturns customers are likely to cut spending and become less loyal, which results in intensified competition and decreasing firm profitability (Grewal & Tansuhaj, 2001; Pearce & Michael, 2006). This is likely to lead to challenges particularly for firms operating in business-to-business (B-to-B) markets, since these firms are characterized by long-term customer relationships and a relatively low number of actors in the marketplace (e.g., Liao, Chang, Wu, & Katrichis, 2011). On the other hand, during periods of economic upturn, firms often face challenges in (re)allocating resources to meet growing demand, satisfying emerging customer needs, and identifying new opportunities for creating value (e.g., Christensen & Bower, 1996; Slater & Narver, 1994).

While the effective use of marketing-related resources across the business cycle is a crucial issue for many firms (e.g., Andersson & Mattsson, 2010; Srinivasan, Rangaswamy, & Lilien, 2005), extant conceptual and empirical studies on the topic remain scant. The majority of prior studies concentrate on aggregate-level marketing investments, proposing that these should be continued even in the face of tightening resources during an economic downturn (e.g., Srinivasan, Lilien, & Sridhar, 2011; Srinivasan et al., 2005). Another line of research (e.g., Deleersnyder, Dekimpe, Steenkamp, & Leeflang, 2009; Steenkamp & Fang, 2011) focuses mainly on the effectiveness of distinct marketing activities, such as advertising, across the business cycle.

From the resource perspective, existing studies emphasize that companies should be flexible in adjusting their marketing strategies and tactics to the changing economic environment during all phases of the business cycle (e.g., Quelch & Jocz, 2009). This general finding lays the groundwork for the present study, as we argue that organization-level market orientation (MO) reflects such alertness and flexibility to respond to changes in a firm's business environment, whether these relate to shifting customer needs or competitors' actions (Narver & Slater, 1990). We therefore suggest that MO plays an important role in creating customer value in B-to-B companies during economic upturns, and serves as an effective shelter against declining economic conditions and diminishing profits during times of intense competition and uncertain demand, which are hallmarks of economic crises (Alajoutsijärvi, Klint, & Tikkanen, 2001; Grewal & Tansuhaj, 2001).

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Although MO is often treated as a unidimensional construct (e.g., Grewal & Tansuhaj, 2001; Hult & Ketchen, 2001; Jaworski & Kohli, 1993), recent empirical studies (e.g., De Luca, Verona, & Vicari, 2010; Noble, Sinha, & Kumar, 2002) propose that the performance implications of its dimensions (Narver & Slater, 1990) differ in magnitude. Furthermore, recent studies evidence the economic environment in which firms operate to determine the performance outcomes of individual MO dimensions, and thus, the *effective forms* of MO (cf. Smirnova, Naudé, Henneberg, Mouzas, & Kouchtch, 2011). In other words, the performance implications of the distinct MO dimensions as well as their combinations may also vary in magnitude across the business cycle (cf. Andersson & Mattsson, 2010).

This study aims at identifying the most effective forms of MO for B-to-B firms operating in different industries and economic environments. Drawing on the above discussion, we examine the performance implications of distinct forms of MO, defined as different combinations of customer orientation, competitor orientation, and interfunctional coordination, 1) over the business cycle, and 2) among different types of B-to-B firms. Disaggregating MO into three dimensions in our longitudinal analysis enables us to address the relative importance of its different forms, especially in a firm's transition from an economic upturn to a downturn. Finally, we identify a number of forms of MO consistently associated with high performance. These forms are specific to distinct industry sectors, and thus, can be used as benchmarks for firms operating in specific B-to-B markets.

The remainder of this article is organized as follows. First, we provide an overview of the current literature on the dimensions of MO and firm performance, and develop hypotheses for the role the business cycle may play in these relationships. We also discuss the role of industry sector as a contingency factor. Second, we discuss our research methodology in collecting and analyzing the data. Third, we present the findings of our empirical analyses, and finally, conclude by discussing the study's contributions, managerial implications, limitations, and avenues for future research.

2. Theoretical background and hypothesis development

2.1. On the importance of considering distinct forms of MO

As an organizational culture concerned with enhancing firm performance by creating superior value for customers, MO reflects how a firm relates to its markets (Narver & Slater, 1990). The role of MO is often emphasized in B-to-B markets due to the importance of long-term customer relationships and the relatively small number of actors in the market, which both promote firms' dependence on individual customer relationships (e.g., Liao et al., 2011). Therefore, gaining a deep understanding of a firm's present and future customers as well as its competitors' strategies and offerings is considered an especially important determinant of firm performance (e.g., Mattsson, 2009; Tuominen, Rajala, & Möller, 2004).

To date, most empirical studies on the MO–performance relationship concentrate on the aggregate level MO (e.g., Grewal & Tansuhaj, 2001; Hult & Ketchen, 2001; Jaworski & Kohli, 1993). However, in this study, we posit that considering MO as an aggregate-level concept is somewhat misleading since the distinct MO dimensions are related to different strategic foci (Porter, 1980). While customer orientation relates mostly to enhancing profits by increasing revenue through superior customer value, interfunctional coordination, through enhanced effectiveness and efficiency, also contributes to reducing cost. Furthermore, strong competitor orientation enables a firm to closely follow and even imitate competitors' competitive actions or, alternatively, to differentiate its offering. Since firms may adopt strategies with diverse or multiple foci, it is useful to treat MO analytically as three distinct dimensions and their combinations.

2.2. Forms of MO, firm performance, and the business cycle

The general relationship between MO and firm performance varies depending on the economic environment (Grewal & Tansuhaj, 2001). In B-to-B markets, where demand is derived from the demand for further refined offerings in consumer markets, major shifts in the economic environment are even more likely to cause variation in the performance implications of a firm's marketing (cf. Alajoutsijärvi et al., 2001), including its adoption of MO. Due to the different strategic foci required from firms to cope with economic upturns and downturns, the business cycle is also likely to affect the performance outcomes of the different forms of MO.

Customer orientation refers to a shared set of beliefs that puts the customer's interest first (Deshpandé, Farley, & Webster, 1993). It also incorporates constantly seeking to uncover both expressed and latent customer needs (Narver, Slater, & MacLachlan, 2004). Since customer needs change over time, it is important for companies to constantly scan changes in customer preferences, which helps manage demand uncertainty throughout the business cycle (Grewal & Tansuhaj, 2001; Pearce & Michael, 1997).

In this study, we posit that during economic upturns characterized by less intense competition, firms are typically able to get better margins from their customers because of the customers' reduced price sensitivity compared to downturns (cf. Gordon, Goldfarb, & Yang, 2013; Van Heerde, Gijsenberg, Dekimpe, & Steenkamp, 2013). Therefore, in these environments, investing in customer value creation is also likely to generate higher profits. On the other hand, during an economic downturn, the firm's focus shifts from understanding expressed and latent customer needs to prioritizing short-term sales and survival (Wilkinson, 2010). This is because customers facing increased economic uncertainty are likely to postpone purchases and become more price sensitive, hence diminishing the value of factors such as customer loyalty or long-term customer satisfaction (cf. Rust & Zahorik, 1993). Based on this logic, we hypothesize that:

H1. *The positive relationship between customer orientation and firm performance is weaker during an economic downturn than during an upturn.*

Competitor orientation denotes a culture that promotes gaining and maintaining a deep understanding of competitors' strengths, weaknesses, capabilities, and strategies (Narver & Slater, 1990). During both prosperous and tight economic times, a firm that constantly scans its industry and competitive environment is better able to detect relevant business opportunities (Naidoo, 2010; Pearce & Michael, 1997), and to use this understanding in differentiating its offerings (Grinstein, 2008). Roberts (2003), for instance, argues that firms whose offerings customers perceive as better value for money than the offerings of their rivals, are more profitable during times of recession and also grow faster once recovery starts.

Competition generally intensifies during an economic downturn (Jaworski & Kohli, 1993), stressing the need for a firm to sense and react to competitors' actions rapidly. Furthermore, increased market uncertainty and the scarcity of marketing resources lead firms to seek legitimacy and reduced risk for their operations by focusing on offerings and procedures that have already been proved successful by competition (De Luca et al., 2010; Srinivasan et al., 2005; cf. Quelch & Jocz, 2009). Therefore, we hypothesize that:

H2. *The positive relationship between competitor orientation and firm performance is stronger during an economic downturn than during an upturn.*

Finally, *interfunctional coordination* relates to a firm's coordinated efforts and commitment to creating superior value for customers (Narver & Slater, 1990). Diminishing gaps between different business functions can lead to increased synergies and better operational efficiency and effectiveness (Rollins, Nickell, & Ennis, 2014; Ruekert & Walker, 1987).