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Effects of industry forces, market orientation, and marketing capabilities on business performance: An empirical analysis of Japanese manufacturers from 2009 to 2011[☆]

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ABSTRACT

This study examines the stability and relative importance of the effects of industry forces, market orientation, and marketing capabilities on business performance through partial least squares structural equation modeling (PLS-SEM) analysis of survey data ($n = 568$) from Japanese manufacturers over the course of three years (2009–2011). The findings indicate that the direct effect of marketing capabilities on performance is stable over the three years investigated. The results also suggest that marketing capabilities are the most important driver of performance, followed by industry forces, specifically, competitive rivalry and power of suppliers, and market orientation. Furthermore, market orientation has an indirect effect on performance through marketing capabilities. Marketing capabilities have a stronger effect on performance in cases of high competitive rivalry compared with those of low competitive rivalry. Within the different marketing capabilities, new product development and pricing are the primary factors. Channel management is more important in cases of high competitive rivalry.

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1. Introduction

Understanding the determinants of business performance is a key interest of business researchers and practitioners. Most researchers in the fields of industrial organization, strategic management, and marketing examine the sources of performance differences among firms or business units. Previous studies suggest that external and internal factors influence firms' performance differences. For example, external factors include industry structure (e.g., Porter, 1980) and country characteristics (e.g., Makino, Isobe, & Chan, 2004). Internal factors include firm resources (e.g., Barney, 1986, 1991), market orientation (e.g., Kohli & Jaworski, 1990; Narver & Slater, 1990), marketing capabilities (e.g., Morgan, Vorhies, & Mason, 2009), and dynamic capabilities (e.g., Teece, 2007; Teece, Pisano, & Shuen, 1997).

Previous empirical studies examine the question of principal sources of performance using secondary or primary survey data. Studies relying on secondary data (e.g., Fukui & Ushijima, 2011; Makino et al., 2004; Mauri & Michaels, 1998; McGahan & Porter, 1997, 2002; Roquebert, Phillips, & Westfall, 1996; Rumelt, 1991) decompose the variance in performance into components associated with external and internal factors. The findings indicate that internal factors (e.g., corporate and business effects) are more important than external factors (e.g., industry effects) in explaining the variance in performance. At

the same time, because these studies rely on secondary data, detailed information on internal factors, let alone external factors, are not available (Galbreath & Galvin, 2008).

Other studies using primary survey data more specifically capture the sources of performance. For example, Spanos and Lioukas (2001) explore the impacts of Porter's (1980) five forces of industry structure (competitive rivalry, barriers to entry, threat of substitutes, power of buyers, and power of suppliers) and firm assets on market performance and profitability. Morgan et al. (2009) examine the impacts of market orientation and marketing capabilities on subjective and objective performance measures. These studies attempt to provide information as to which specific industry forces or firm resources and capabilities are the primary determinants of performance. However, the results of empirical studies using survey data are often mixed. Moreover, because most studies only use data from a single year, the degree to which these impacts are attributable to stable effects is unclear.

This study focuses on the five forces of industry structure as external factors and treats market orientation and marketing capabilities as internal factors with regard to business performance. As Porter (1980) suggests, although external factors cover a broad range, including for example social and economic factors, the key aspect of the firm's environment is the industry structure in which the firm competes. The industry structure view, together with the resource-based view (RBV) of the firm, is one of two prominent views regarding the sources of firms' performance differences (Dyer & Singh, 1998; Galbreath & Galvin, 2008; Makino et al., 2004; McGahan & Porter, 1997). Market orientation (market knowledge generation, dissemination, and responsiveness) and marketing capabilities (new product development,

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pricing, channel management, and marketing communications) are the key distinct aspects of the firm's resources and capabilities in its marketing strategy (Kotler, 1999). These activities are important components of core dynamic marketing capabilities. The primary role of dynamic marketing capabilities in renewal of firm resources often characterizes market orientation (e.g., generation of new market knowledge) and marketing capabilities (e.g., promotion of new product development) as core components (Barrales-Molina, Martinez-Lopez, & Gazquez-Abad, 2014). Additionally, Morgan et al. (2009) view market orientation as a key market-based asset, and marketing capabilities as a key market-related deployment mechanism. As they suggest, these fundamental and complementary elements decide how successfully firms acquire and deploy resources in ways that reflect their market environment.

This study empirically examines the effects of industry forces, market orientation, and marketing capabilities on business performance using three years (2009–2011) of survey data ($n = 568$) from Japanese manufacturers and partial least squares structural equation modeling (PLS-SEM) method. In so doing, the study addresses the following research question: which specific factors have a stable effect on performance over the three years investigated? The findings present a noticeable pattern regarding the stability and relative importance of the aforementioned factors on performance. Also, this study provides important insight into the different roles of these factors in influencing performance.

The data in the present study are unique in two respects. First, the study uses three years of survey data, as opposed to the one-year period employed in similar studies. Second, the study obtains data from Japanese manufacturers. Comparable empirical studies (e.g., Galbreath & Galvin, 2008; Kamasak, 2011; Morgan et al., 2009; Ngo & O'Casey, 2012a, 2012b; Spanos & Lioukas, 2001) use only one year of survey data from American, European, or Australian firms.

The paper has the following structure. Section 2 reviews the theoretical background and empirical studies of the drivers of performance and presents the hypotheses. Section 3 describes the sample and measures used in the analyses. Section 4 presents the empirical results. The paper concludes with a discussion of the findings and limitations.

2. Theoretical background, empirical studies, and hypotheses

2.1. Industry forces

Rooted in the structure-conduct-performance (SCP) paradigm of traditional industrial organization economics, Porter (1980) argues that industry forces influence performance. Industry forces include rivalry among existing firms, threat of new entrants, threat of substitute products or services, bargaining power of buyers, and bargaining power of suppliers. These five forces drive the intensity of industry competition and performance because they influence the prices, costs, and required investment of firms in an industry (Porter, 1980, 1985).

According to this framework, each of the five forces generally has a negative effect on business performance. This is because more intense competition and/or the lower bargaining power of firms in an industry lead to the decrease in the size of the benefit pie a firm gains in the industry. More specifically, when a few large firms do not dominate the industry and numerous firms compete against one another, or when product differentiation is difficult and the industry sees price competition, rivalry among existing firms escalates. Extended rivalry with new entrants or substitutes becomes intense when the industry is attractive and the barriers to entry are low, or when the price-performance alternatives of substitutes are attractive. In such highly competitive industries, the benefit share a firm receives shrinks in contrast to less competitive industries. Also, higher bargaining power of buyers allows them to drive prices down or demand costly services. Higher bargaining power of suppliers allows them to raise prices or reduce the quality of the purchased products. Their actions can reduce the benefit a firm realizes in the industry (Porter, 1980, 1985).

However, previous studies suggest that the effects of the five forces on business performance are contingent on various contextual factors. Porter (1980, 1985) suggests that the strength of the five forces varies according to contextual factors such as the country or the industrial characteristics, and can change as the context evolves. That is, in any particular context, not all of the five forces are equally important, and the most important force or forces differ over time.

Reflecting on this supposition, the results of empirical studies using primary survey data also vary with regard to the relationships between the five forces of industry structure and performance. For example, using a sample of 147 Greek manufacturers in various industries and path analysis, Spanos and Lioukas (2001) suggest that only the competitive rivalry and power of suppliers of the five forces of industry structure are significant with regard to market performance and profitability, respectively. Specifically, the direct effect of competitive rivalry on market performance is negative and marginally significant (-0.15 , $p < 0.10$), whereas the direct effect of power of suppliers on profitability is negative and significant (-0.32 , $p < 0.01$).

Using a sample of 148 manufacturing and 137 service firms in various industries in Australia and hierarchical regression analysis, Galbreath and Galvin (2008) show that only some of the five forces of industry structure are significant for performance. More specifically, in manufacturing firms, the effect of threat of substitutes is negative and significant (-0.26 , $p < 0.01$) and that of the power of buyers is negative and marginally significant (-0.14 , $p < 0.10$). In service firms, the effects of ease of entry and power of buyers are negative and marginally significant (-0.17 , $p < 0.10$ and -0.19 , $p < 0.10$, respectively).

These theoretical arguments and empirical results suggest that the direct negative effects of the five forces of industry structure on performance may exist, but that they vary according to the context and time of analysis. Thus, this study predicts the following:

Hypothesis 1. The five forces of industry structure will be negatively related to business performance. However, the results will vary.

2.2. Market orientation

The market orientation literature (e.g., Jaworski & Kohli, 1993; Kirca, Jayachandran, & Bearden, 2005; Kohli & Jaworski, 1990; Narver & Slater, 1990) argues that a firm's market orientation influences its performance. Market orientation is the organization-wide generation, dissemination, and responsiveness to market knowledge, particularly pertaining to current and future customer needs (Kohli & Jaworski, 1990) and relates to customer orientation, competitor orientation, and inter-functional coordination (Narver & Slater, 1990). As mentioned in Section 1, market orientation is one of the core dynamic marketing capabilities (Barrales-Molina et al., 2014) and a key market-based asset (Morgan et al., 2009).

Drawing on the RBV (e.g., Barney, 1986, 1991; Peteraf, 1993) and the dynamic capabilities framework (DCF) (e.g., Teece, 2007; Teece et al., 1997), the literature postulates that a firm with a superior market orientation achieves superior business performance because the firm can understand current and future customers and the factors (e.g., competition and regulation) affecting them. This superior performance owes itself to market research and coordinated efforts among functions that enable the creation and maintenance of superior customer value. Further, the firm's managers can select and combine resources to match changing market conditions (Kohli & Jaworski, 1990; Slater & Narver, 1995). Thus, the literature indicates that a firm's market orientation positively influences its business performance.

Although a meta-analysis by Kirca et al. (2005) shows a positive relationship between market orientation and performance, the results of empirical studies using primary survey data vary. For example, studying 230 U.S. manufacturing and service firms in various industries and using covariance-based structural equation modeling (CB-SEM) and

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