

Implementing Market Orientation in Large Multi-Divisional Organisations

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Abstract

An in-depth case study is presented of a complex multi-divisional organisation that invested in Market Orientation as a fundamental plank to its customer-focused strategy. The case study explores the perceptual differences across its divisions, management levels and functions after four years in key antecedents found to influence business performance in the market orientation literature. Whilst an over-arching clan culture with hierarchical management of employees was found, there were significant differences in strengths of the culture and degree of change supportive of market orientation behaviours across the divisions. The differences in agreement on market orientation antecedents associated with the individual's perception of business performance across the divisions suggest multi-level and divisional cultural considerations when implementing a company-wide change.

Key words: Market orientation, organisational change, organisational culture

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Introduction

Managers face the perennial challenge of how to achieve superior business performance by maintaining a lead over competitors and, when they do, how to make this edge sustainable or, at the very least, difficult to replicate. One response has been to advocate Market Orientation (MO) – this has gained increasing interest since the 1990s with many studies of firms showing high levels of MO are associated with higher levels of business performance. There is, however, some debate on which antecedents exert the strongest influence on MO levels. Furthermore, some authors have highlighted that there is limited research on how best to implement what is essentially a culture change. Managers need to know where to invest their resources when developing a market oriented culture, i.e. which drivers will lead to higher levels of performance, and also how to go about implementing such a change. Most research on MO uses cross-sectional approaches, measuring the perceptions of a single representative of a firm at a single point in time. This paper provides a distinctive contribution by further developing theory through a deeper exploration on what is required to increase levels of MO in a large complex organisation that may have differences in culture across its divisions and varying perceptions of managers at different levels and across various functions.

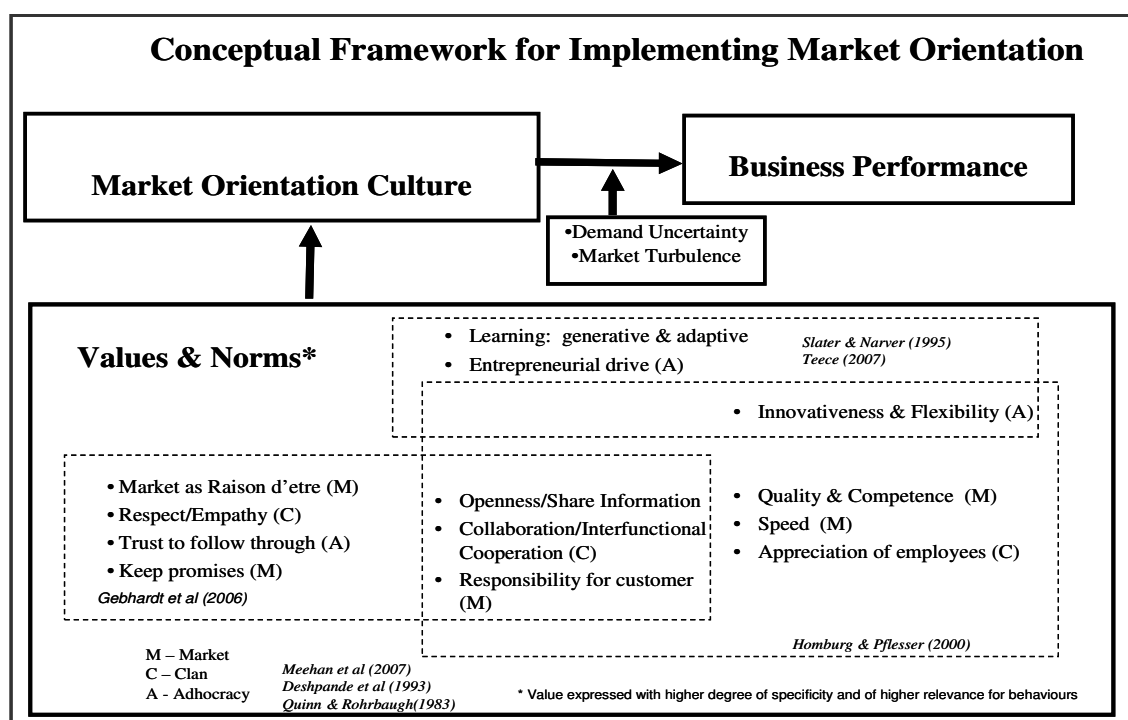
This paper addresses the following research questions to ascertain if cross-divisional and multilevel consideration is required in implementing MO to improve business performance:

Is there agreement in individuals' perceptions across the divisions, various levels and functions within a large organisation on the:

- RQ1. degree of change in the culture supporting MO, the MO behaviours and the operating environment that influence business performance after four years;
 RQ2. key antecedents to a market oriented culture that have an association with improved business performance?

The Conceptual Framework in Figure 1 shows the variables that are examined.

Figure 1. Conceptual Framework for Implementing Market Orientation



Literature Review

Strategic orientations that reflect various diverse priorities have been used to assist firms in achieving superior business performance such as quality, production and employee orientations (Fleming & Asplund, 2007; Sittimalakorn & Hart, 2004). There has been prolific research on MO as an alternative strategic orientation. Yet gaps in the literature remain on prescriptive frameworks, due to varying results on the predictive power of MO on business performance and different interpretations of the effects of various antecedents (Deshpande, et al., 1993; Jaworski & Kohli, 1993; Kohli & Jaworski, 1990; Narver & Slater, 1990).

Antecedents to a Market Orientation Culture

Change implementation is believed to be key in determining the degree of influence on performance (Avlonitis & Gounaris, 1999; Gauzente, 2000; Harris, 2000; Harris & Ogbonna, 1999). Thus studies that assert that it is how the antecedents interact as a more important determinant (Felix & Hinck, 2005; Kirca, et al., 2005; Pulendran, et al., 2000) require consideration. Useful contributions have been made by MO researchers who have drawn from organisational behaviour literature. These researchers argue that externally positioned and open culture types ("Market", focused on transactions with external parties such as customers and suppliers to create competitive advantage, and "Adhocracy", focused on rapidly changing environments requiring innovation and adaptation) are more likely to be associated with stronger performance and could influence values and norms than culture types that could inhibit (such as "Hierarchy", focused on stability and control, and "Clan", which emphasises loyalty, tradition and commitment) market orientation behaviours (Cameron, 2006; Deshpande, et al., 1993; Meehan, 2007; Quinn & Rohrbaugh, 1983). That is, existing culture may have an influence on success of the change effort. Consequently, consideration needs to be given to whether there is homogeneity of culture and behaviours when designing change (Harris, 1998).

Measuring Market Orientation and Performance

Market orientation has been associated with firms experiencing varying degrees of market turbulence, demand uncertainty, competitive intensity and technological turbulence (Jaworski & Kohli, 1993; Slater & Narver, 1994). However, empirical studies found mixed results on the moderating effects of these factors on business performance (Grewal & Tansuhaj, 2001; Pulendran, et al., 2000). The literature on consequences of market orientation on business performance show varied associations (Ellis, 2006; Vorhies & Harker, 2000).

A reason for mixed results is that most MO studies rely on self-reporting by a single informant in each firm at one point in time. This remains true despite calls for different methods and approaches to minimise these problems, such as the use of multi-informant, longitudinal studies (Uncles, 2000; Wilkinson, 2005). Debate continues on specific measurement scales, with some adaptations to the original scales (Deshpande & Farley, 1998; Deshpande, et al., 1993; Gray, et al., 1998; Matsuno & Mentzer, 2000; Narver & Slater, 1990). There are studies each contributing their own measures for culture, proactive behaviours, and learning (Baker & Sinkula, 1999; Farrell, 2000; Narver, et al., 2004) and others recommended from qualitative studies (Gebhardt, 2006) that could be measured in a more comprehensive composite of scale items describing MO culture.

Methodology

This report is on the quantitative phase of a wider case study approach using mixed methods (Yin, 2009) that will enable explanatory research with multiple respondents and objective measures, through an in-depth investigation of an organisation that has implemented market oriented culture change, measuring the influence on business performance. A stratified sampling frame with a cross-business unit, multi-level and cross-functional design is used to examine differences and alignment of perceptions. An established organisation that had undergone change from a public to a private enterprise over a decade is the focus of the study with a company-wide change to be more market and customer-focused commencing recently. Four customer-facing divisions' responses described their business unit and two corporate divisions described the organisation in their responses. The collection of data on two time periods, "Today" and "Four Years Ago" when MO implementation commenced, also provides a longitudinal perspective of the change and its consequences.

Data Collection

An online questionnaire was developed using culture diagnostic items (Cameron, 2006) with an ipsative scale that describes Adhocracy, Hierarchy, Market and Clan culture types. A seven-point Likert Scale was used for the scale items (1 = "strongly disagree"; 7 = "strongly agree"). There were 24 items diagnosing culture type, 10 MORTN standard scale items (Deshpande & Farley, 1998), 29 additional values and norms items, new or sourced from several authors (Farrell, 2000; Gebhardt, 2006; Homburg & Pflesser, 2000; Kohli, et al., 1993; Matsuno & Mentzer, 2000; Pulendran, et al., 2000), six organisational performance standard scale items (Matsuno, et al., 2000) and one validation question (Kohli, et al., 1993). Eight demographic questions were included to enable responses to be classified for the two time period and multi-level analyses.

The online questionnaire was piloted for validity with 54 respondents that reflected the stratified sampling frame. Feedback indicated respondents had difficulties with the ipsative scale for the culture diagnostic. A simpler rank order scale was substituted and recommended language changes were made. The revised tool was piloted again with six managers. The final questionnaire, with three sets of varying question order, was sent to 3,000 managers across six business units with a two week period for completion. A 22% response rate was achieved with 660 respondents, with the distribution sufficient for robust stratified analysis.

Results and Analysis

To examine RQ1, a paired sample t-test provided a comparison of the means between perceptions of respondents who were employed in the same divisions for both time periods that they rated "Today" and "Four Years Ago". This provided insights into the degree of change between Years 0 and 4. Independent sample t-tests were undertaken to compare the means of the culture diagnostic items, MORTN and key antecedents, moderator variables and business performance scale items between business units, and also by levels of management and role functions. To examine RQ2, regression analysis was undertaken at different levels of the organisation and across divisions to determine which key antecedents influence business performance.

Change in Organisational Culture, Market Orientation and Performance

With respect to RQ1, the organisation was found to have made significant inroads in shifting from predominantly Clan and Hierarchy culture dimensions to a more competitive Market culture. All items showed significant changes ($p < .05$) between the two time periods across the company and within each business unit. The participating business units were also described as Clan, with a management style of Hierarchy and weak scores for the glue that holds the organisation together. The differences between the business units were in the strengths of the scores for each culture dimension, their “dominant characteristics”, “organisational leadership”, “management of employees”, “strategic emphasis”, and “criteria for success”, as defined by Cameron and Quinn (2006).

The changes between the time periods show significant positive increases in all scale items describing a Market culture type, such as market and customer influence on decisions, winning in the market, responsibility for the customer across the organisation and within 2 out of 3 divisions (NB: the fourth division did not exist 4 years ago) (Hooijberg & Petrock, 1993). However, differences exist in behaviours supportive of MO across business units from 58% to 84% of items, some positive significant changes in Clan (Divisions A -66%, B-33%, C-16%) values and behaviours supportive of MO such as cross team collaboration, openness and rewarding of staff with customer-focused behaviours. Likewise, there were positive significant changes in Adhocracy behaviours supportive of MO such as innovativeness and entrepreneurial drive (Divisions A -50%, B-50% but not the same items). Division C differed markedly from Divisions A and B, reporting reductions in Clan behaviours (Division C-33%) and Adhocracy behaviours (Division C-66%) supportive on MO. Division A also reported a significant reduction in “trusting staff” between the two time periods.

Importantly, the possible negative flow-on effects of some behaviour changes in the effort to be more market oriented should be considered in planning for successful implementation. Those clan behaviours that decreased as a result of change (e.g. collaboration, information sharing, respect for staff and customers) are fundamental to a market oriented culture. Likewise, the adhocracy behaviours that support market orientation that decreased, such as trust to deliver and make decisions, innovativeness and entrepreneurial drive, also deserve consideration.

Market Orientation (MORTN and Additional Variables)

The change to a more market oriented culture, measured by MORTN and other scale items, varied across the business units (e.g., in Division A, 79% of items showed significant changes, whilst in Division B the figure was 64%). In Division C, of the 56% showing significant change, only 5% were positive movements to market orientation. Comparisons between the divisions indicated the differences in the means across different items: Divisions A and C reported significant differences in 33% of items whilst Divisions A and B reported differences in 28% of the items, with only 50% being the same items.

Differences also existed in how different levels of the organisation reported their perceptions, with senior management rating higher than lower management levels. A comparison between senior and middle management showed significant differences for 13% of the items whilst 33% were significantly different between senior and front line management. There were also differences across functions, with Sales ratings higher than Marketing with 61% of items being significantly different between the groups. Sales also rated higher than Service but the differences were not as marked, with only 13% of items being significantly different. The

differences in the perceptions are important as lower levels of management operationalise strategy and approaches may need to be differentiated during implementation.

Moderator Variables and Organisational Performance

Each division reported a change in the operating environment, with significant increases in market turbulence and demand uncertainty, however, there were no significant differences between each division. Perceptions of Organisational Performance were varied, with Division A reporting significantly improved performance for all six measures: Division B showing in only two of the measures and Division C reporting a significant decrease in all six performance measures.

Key Antecedents to Market Orientation

Analyses for RQ2 show differences in the agreement with market orientation variables that influence the individual's perception of divisional or company performance. The associations between market orientation variables and business performance were varied with different sets of variables that had statistically significant influence on different performance variables. Division A ($r^2=0.290$) had six independent variables, with Sales Performance versus Competitors as the dependent variable. Division B ($r^2=0.358$) had five independent variables, (two shared with Division A) but with Performance versus Expected as the independent variable. Division D also shared the same dependent variable as Division B with four different independent variables ($r^2=.317$). Division C had 4 independent variables with an association with Performance compared to previous year ($r^2=.228$). Diagnostics for multicollinearity and Goodness of Fit were performed and residuals were normally distributed.

The findings indicate divisional differences support research that organisational cultures are not homogenous and support the need to analyse differences in these cultures to ensure implementation promotes only the increase in behaviours supportive of market orientation, especially those with strong cultures. The research strongly suggests the need for stratified analysis when planning and implementing change in large multi-divisional organisations.

Limitations and Extensions

The associations between MO variables and performance were weak. The identification of key antecedents that are more definitive in predicting improved business performance is still unproven. Structural equation modelling in the next phase of analysis may enable an investigation of interactions between the variables. It could also include the modelling of culture as a mediating variable to examine which of the culture dimensions and culture types need to be enhanced or diminished during the process of MO implementation.

It is acknowledged that the methodology has limitations in memory and informant biases that may exist when responding to the items "four years" ago, even with the support of qualitative methodology to confirm alignment. Nevertheless, the qualitative analysis in the next phase of our multi-method study may find alignment with the quantitative findings and reveal why differences exist. This will enable the development of a robust implementation plan that encourages appropriate behaviours supportive of a MO culture.

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