

MARKET-ORIENTED SEARCH IN DIFFERENTIATED INDUSTRIES

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ABSTRACT

How is the success of a firm's market-oriented activities influenced by the marketing mix? This paper contributes to existing marketing research by advancing our understanding of the process by which market orientation transforms into superior performance. This process is investigated on the basis of appropriate organizational search models drawn from the behavioral theory of the firm. Specifically, we draw on the NK model to develop testable propositions that substantiate and extend prior theoretical market orientation research. Our results provide new insight into organizational characteristics and consequences of responsive and proactive marketing behaviors, as well as the allocation of attention towards customers and competitors.

THEORY AND CONTRIBUTION

We infer from Day (1994), Slater and Narver (2000), and Kyriakopoulos and Moorman (2004) that the advantage of market orientation is that it enable firms to position products more successfully in the market. However, the process by which market orientation via advanced positioning transforms into superior performance still remains unclear. We propose to treat the managerial challenge of finding a marketing mix and configuring one's market-oriented activities as a problem of organizational search (Cyert and March, 1963).

Looking at related and influential management research, prior marketing and market orientation research has incorporated theories of organizational learning (Cyert and March 1963; Argyris 1977; Argyris and Schön 1978; Senge 1990; March 1991; Cohen 1991; Cohen and Levinthal 1990; Huber 1991) to enhance our understanding of how organizations develop, process, and absorb new market knowledge to improve performance (e.g., Sinkula 1994; Slater and Narver 1995, 1998; Day 1994a; Atuahene-Gima et al. 2005; Rindfleisch and Moorman 2001; Kyriakopoulos and Moorman 2004). Crucially, this research does not address how firms' market-oriented activities enable firms to select superior product or service attributes demanded by current and prospective customers. Rather, prior research offers only a cursory explanation, by pointing out that a firm needs to have a capability for it. The actual process of finding and selecting attributes of the marketing mix remains a black box. This appears to be a puzzling limitation of current marketing research. To open this black box, the insights from organizational search prove to be a useful key. From an organizational search perspective, the boundedly rational (Simon, 1997) marketing manager faces sets of alternatives (i.e., different configurations of the marketing mix) constructed through a process of costly search (i.e., responsive or proactive search based on customer or competitor information). Despite much robust research on organizational search in the management literature (Cyert and March 1963; Nelson and Winter 1982; Levinthal 1997; Greve 2003; Rivkin 2000; Gavetti and Levinthal 2000; Knudsen and Levinthal 2007; Hodgson and Knudsen 2006), the organizational search processes underlying the selection and adoption of the marketing mix has received little, if any, attention in marketing research. For this study the three main elements in organizational search are: a) search profile – we argue that proactive and responsive approaches to market orientation represent two very different search profiles, with their effectiveness depending on organizational and environmental factors, b) allocation of attention towards customers and/or competitors, and c) market complexity, represented by the interrelatedness of the components of the marketing-mix.

This paper contributes to existing marketing research by advancing our understanding of the process by which market orientation transforms into superior performance. We also propose a conceptual platform for further empirical and theoretical research on market orientation. In our contribution, we analyze how firms search for and select the attributes of the marketing mix. Specifically, we draw on the NK model of organizational adaptation (Levinthal 1997) to study the market orientation of firms. While the NK model has been widely applied to issues in organization theory and strategy (for reviews, see Sorensen 2002; Chang and Harrington 2006), prior research has so far not examined the relevance of this model for marketing problems. Our aim here is not to provide a rigorous modeling of a particular aspect of the search problem, but rather a systematic exploration of the model's relevance for understanding the underlying processes of successful firms' market orientation. Analytically, we draw on existing contributions from well-established management and organization research and relate them to market orientation. Our analysis thus validates existing empirical research on market orientation, develops new propositions for further research, and provides a conceptual platform for further market orientation research.

References Available on Request.