Integrating Market and Stakeholder Orientation Theory

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Abstract
The paper compares and contrasts two similar yet different constructs: market orientation (MO) and stakeholder orientation (SO). This interdisciplinary approach combines both the marketing and management literatures. Both constructs link the orientation to the organizational performance, use similar moderators, and emphasize the notion of balancing the orientations at the component level. However, MO and SO differ in three important ways. While the focus of SO is balancing the conflicting interests of stakeholders to satisfy all groups, MO focuses on balancing the interests to satisfy customers only. Secondly, the definition of SO emphasizes the orientation itself; however, the definition of MO emphasizes the mechanism by which the orientation is achieved. Finally, the SO literature occasionally suggests modifications to the components of MO: customer orientation and competitor orientation. The paper concludes with a discussion on how to build an integrative theory with implications and future research directions.

Keywords: Market Orientation, stakeholder orientation, interdisciplinary approach

1. Introduction
The purpose of strategic actions by a firm can be defined basically as “to add value” to the firm. This value adding can be accomplished in a number of ways and is dependent on how the management of the firm orients its actions in the firm’s competitive environment. The concept of market orientation from the marketing literature and stakeholder orientation from the management literature are very similar to each other. Both conceptualizations link the orientation to organizational performance, use similar moderators (i.e. competitive intensity, market turbulence, technological turbulence…), and both emphasize the idea of balancing orientations at the component level within each conceptualization for better performance. However, these two constructs differ in many aspects such as the roots or theoretical foundations, main components that form the orientation, and the responsibility of forming and managing the orientation.

The purpose of this theoretical paper is to compare and contrast these two concepts by highlighting the similarities and differences between market orientation and stakeholder orientation. Suggestions on how to move both fields forward through an integrative approach are offered. The remainder of this paper is divided into three main sections. First, a review of the literature of both market orientation and stakeholder orientation is provided. Second, a discussion of the similarities and differences between both concepts and how the similarities could be used to create an integrative theory are shown. Finally, a discussion of the implications and directions for future research to deliver a more focused research effort are offered.

2. Literature Review
2.1. Market Orientation (MO)
Since the second half of the last century, the marketing concept has been the foundation of current marketing thought and practice (e.g. Drucker 1954, Keith 1960). The marketing concept proposes that “companies that are better equipped to respond to market requirements and anticipate changing conditions are expected to enjoy long-run competitive advantage and superior profitability” (Day 1994: 37). One of the fundamentals of the marketing concept is to recognize that satisfied customers are the main goal of organizations. The marketing concept suggests that firms should concentrate their efforts in the identification and satisfaction of customer’s needs (Kotler 1984).
As Kotler and Zaltman (1971: 5) put it, the marketing concept “…calls for most of the effort to be spent on discovering the wants of a target audience and then creating the goods and services to satisfy them.” In the early nineties Kholi and Jaworski (1990) and Narver and Slater (1990) proposed market orientation as a measure of implementing the marketing concept. Extant research shows that when a company effectively implements the marketing concept, the chance of sustainable advantage over competitors increase, and firm performance improves (Han, Kim and Srivastava 1998; Jaworski and Kohli 1993; Kohli and Jaworski 1990; Narver and Slater 1990; Slater and Narver 1994).

To better satisfy the customer, a company performs market oriented activities. These activities have been studied under two different frameworks. Jaworski and Kohli (1993) adopted an information processing approach and defined market orientation in terms of “organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments and organization wide responsiveness to it.” On the other hand, Narver and Slater suggest a cultural approach in which they define market orientation as “the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business” (1990: 21). These are the two original and thus the most common approaches to market orientation. However, several others have emerged in the last decade (Pandelica, Pandelica and Dumitru, 2009). Included in these is the point of view of the value chain system (Grunert, Jeppesen, Jespersen, Sonne, Hansen, Trondsen, and Young, 2005).

Following Narver and Slater’s (1990) definition, market orientation includes three behavioral components for the creation of superior value and continuous superior performance. These three components are: customer orientation, competitor orientation, and interfunctional coordination. Each element is briefly examined in turn.

Customer orientation is “the sufficient understanding of one’s target buyers to be able to create superior value for them continuously. A customer orientation requires that a seller understands a buyer’s entire value chain, not only today but also as it will evolve over time subject to internal and market dynamics” (Narver and Slater, 1990). In their proposition of a customer orientation, and following Day and Wensley (1988), Narver and Slater argue that a customer focus is important for a company to achieve competitive advantage.

Competitor orientation means that “a seller understands the short term strengths and weaknesses and long-term capabilities and strengths of both the key current and the key potential competitors” (Narver and Slater, 1990). The current and future ability of a company to effectively satisfy its customers depends on the customer’s perceived value of alternative choices in the market. For a company to sustain a competitive advantage, a company should also monitor costs, marketing initiatives from competitors, and look for their competitor’s edge in technology (Day and Wensley 1988). Thus, to better satisfy its customers, companies should also focus on their competition.

Interfunctional coordination refers to “the coordinated utilization of company resources in creating superior value for target customers” (Narver and Slater 1990: 22). Interfunctional coordination is necessary to integrate the resources and information to create value and sustainable advantage. The inclusion of the coordination element follows Porter’s (1985) argument that any individual in any function within the organization is able to add value for the customer. Thus, the value that a company generates is not merely a marketing function, but the aggregation of the value generated by all the functional units in the company. Following this idea, the coordination of the functions is an important aspect in the final value offered by a firm.

Since its introduction to the marketing literature, four main aspects of market orientation have been widely studied: its antecedents, its consequences, mediators, and moderators (for a meta-analysis on MO see Kirca, Jayachandran, and Bearden 2005). Studies that refer to its antecedents can be classified in three broad categories: studies on top manager factors (Webster 1988; Day 1994; Narver and Slater 1990), interdepartmental factors (Kennedy, Goolsby and Arnould 2003; Jaworski and Kohli 1993), and organizational systems (Jaworski and Kohli 1993; Matsuno, Mentzer, and Oszomer 2002; Ruekert 1992). Following Kirca et al. (2005), studies that refer to the consequences of market orientation may be organized in four categories: organizational performance (Narver and Slater 1990; Day 1994; Hult and Ketchen 2001; Jaworski and Kohli 1993), customer consequences (Jaworski and Kohli 1993, 1996; Brady and Cronin 2001; Slater and Narver 1994), innovation consequences (Atuahene-Gima 1996, Han, Kim and Srivastava 1998; Hult and Ketchen 2001; Im and Workman 2004), and employee consequences (Kohli and Jaworski 1990; Siguaw, Brown and Widing 1994).
Studies that refer to mediators between MO and performance include the investigation of customer quality and customer loyalty (Fornell 1992; Slater and Narver 1994), and innovativeness (Han, Kim and Srivastava 1998; Hurley and Hult 1998). Finally, market orientation has also been studied to include probable moderators in the MO-performance relationship. Such moderators include measurement characteristics (e.g. different performance measures), sample characteristics (e.g. industry type and cultural context), and substantive moderators (i.e. market turbulence, technological turbulence, and competitive intensity).

2.2. Stakeholder Orientation (SO)

Although the theoretical foundations of stakeholder orientation emerged in the beginning of the second half of the last century, the empirical investigation has been relatively recent. The first scientifically tested scale for stakeholder orientation was only recently published (Yau et.al. 2007). The importance of stakeholders was first emphasized by Abrams (1954). He stated that firms had a responsibility to maintain a balance among interested groups mentioning not only stakeholders but also employees, customers, and the public. The acknowledgement of stakeholders gave way to a discussion of social responsibility of both the corporation and of the individual managers.

This notion of responsibility influenced Ansoff (1965) in his writing about stakeholder theory as a way of “balancing the conflicting claims of the various ‘stakeholders’ in the firm: managers, workers, stockholders, suppliers, and vendors. The firm has a responsibility to all of these and must configure its objectives so as to give each a measure of satisfaction” (1965: 34). Freeman (1984) added that the objective of the firm is to create superior value for relevant stakeholders in the long run. Donaldson and Preston (1995) emphasized the concept of corporate social responsibility when dealing with stakeholders, a notion that expanded the stakeholder theory to include moral and ethical dimensions. Thus, firms should pay attention to the varied interests of all stakeholders beyond the concept of economic well-being (Jawahar and Mclaughlin 2001).

Greenley and Foxall (1997) define stakeholder orientation as the strategic attention that an organization directs to its diverse groups of stakeholders such as customers, shareholders, and employees. However, researchers have included competitors as a fourth dimension of stakeholder orientation (Narver and Slater 1990; Greenley et al. 2004; Payne et al. 2001). In the following section each component of stakeholder orientation is briefly examined.

Customer Orientation: The conceptualization of customer orientation as a component of stakeholder orientation is similar to its conceptualization as part of market orientation. It refers to the firm’s focus on customer interest. According to Narver and Slater (1990) customer orientation is defined as actions designed to understand target buyers so as to create superior value for them. To achieve this, Dawes (2000), following Kholi and Jawarski (1990), suggested that firms should conduct customer analysis and gather relevant information about customers and respond to that information in the best way. Homburg and Pflesser (2000) argue that such orientation will affect employees’ attitudes toward customers in a positive way.

Competitor Orientation: Similar to customer orientation, competitor orientation was originally a component of market orientation. It is defined as an understanding of the strengths, weakness, capabilities and strategies of competitors (Narver and Slater 1990). An issue with competitor orientation is that too much reliance on it often can lead to unbalance in business strategies, making a firm too reactive to competitors’ strategies (Han et al.; Day and Wensley 1998).

Shareholder Orientation: This orientation pertains to both the equity and risk stakes of shareholders (Mitchell et al. 1997). They indicate that shareholders have a legitimate relationship with the firm and may choose to monitor the performance of the firm so as to protect their interests or benefits. In terms of risk, shareholders are investors looking for short- or long-term returns. Thus, shareholders will voice their concerns by expressing them at the shareholder meetings and/or by simply selling their share.

Employee Orientation: Employee orientation refers to the company’s intent to address the interests of its employees and satisfy their employment needs (Webster 1992). Freeman (1984) treats employees as a major group of stakeholders. According to the findings in human resource management research, satisfied employees have higher morale and job motivation; they will work harder, more effectively and efficiently (Becker and Gerhart 1996).
In contrast to market orientation, stakeholder orientation has not received much empirical study. The four aspects most widely studied in the market orientation literature, antecedents, consequences, mediators, and moderators, have not been studied in depth in the stakeholder orientation literature. In fact, there have been no published articles found that discuss the antecedents to stakeholder orientation. Studies of the consequences of stakeholder orientation have most often examined organizational performance (Greenley and Foxall 1997, 1998; Berman, Wicks, Kotha and Jones 1999; Yau et.al. 2007). In one other publication, Greenley and Foxall (1996) studied the consequences of stakeholder orientation in terms of the actual stakeholder groups to examine the different levels of orientation among the groups. There has also been only one publication found of stakeholder orientation that introduced a mediator. Berman et.al. (1999) used business-level strategy as a mediator in a model of stakeholder orientation with firm performance. Finally, moderators have been used in most empirical studies of stakeholder orientation to date; although, all can be classified as substantive moderators of the environment. These moderators include competitive hostility, market turbulence, market growth, and technological change (Greenley and Foxall 1996, 1997, 1998).

In summary, Figure 1 indicates the intersection of the two orientations—market and strategic. While they have several common characteristics, there is much that each can learn from the other in future research directions.

Figure 1: The intersection of market orientation (MO) and stakeholder orientation (SO)

3. Discussion

The ultimate goal of this paper is to suggest integrative ways to move both fields together through the identification of future research directions for both market orientation and stakeholder orientation. It is important to note that among the similarities the most important one is that both literatures link the orientation to higher organizational performance.
In other words, the firms that develop or maintain a market orientation and/or a stakeholder orientation will report higher organizational performance when compared to those who do not. The rationale behind this assumption is that the orientation will be reflected in behaviors that treat each group (stakeholder) in a manner that is beneficial for the organization’s long-term objectives. However, the focus of each orientation is somewhat different.

Whereas market orientation focuses on how to achieve the orientation, the stakeholder orientation focuses on the orientation itself. This notion of “How” vs. “What” is obvious in the definitions of these concepts. On the one hand, stakeholder orientation is defined as “the strategic attention directed toward stakeholders”. On the other hand, the market orientation definition focuses on the process by which the orientation is achieved. This is evident in words like “inter-functional coordination” in the Narver and Slater model (1990) and the “dissemination” of information in the Kohli and Jaworski model (1990). In fact, this activity of coordination or of sharing information about customer and competitors within the organization is the second step to achieve a market orientation. It is preceded by “gathering” relevant information and followed by the “organization-wide response” to it. Thus, stakeholder orientation lacks the mechanism by which the orientation is achieved.

Since market orientation takes one stakeholder (customers), and having already identified the “what” in terms of the stakeholder, it is able to develop in much greater depth the “how” in terms of the different approaches a firm can take to serve this stakeholder. This can be seen as analogous to the role the financial economics literature plays in establishing a benchmark for the expectations capital providers should have from a successful firm (Canto, Findlay and Reinganum 1983). The capital providers fulfill the role of “what” in terms of investor stakeholders or shareholders, and the financial economics literature offers the “how” by suggesting reasonable expectations for returns on the investment.

Another point is the notion of balancing the orientations at the component level for each construct. Both literatures highlight the idea that the best results come from balancing the orientations within each construct. However, the goal or the focus of this notion of balancing is different. The stakeholder orientation literature refers to this notion of “balancing the conflicting claims” (Ansoff 1965, p. 34) as the main task of management in order to satisfy the needs of all possible stakeholders (customers, employees, shareholders, suppliers...), whereas market orientation literature calls for a balance between customer and competitor orientations to satisfy customers. In other words, the focus of market orientation is always the customer. Greenley and Foxall (1996: 106) referred to this focus by mentioning that “in the marketing literature, consumers constitute the central group.” This does not mean that market orientation undermines the importance of other groups, but it does not recognize these other groups within the market orientation construct.

Although there is no consensus among management scholars on which stakeholders should be included in stakeholder orientation, the majority of scholars agree that employees and shareholders are primary stakeholders and should be included along with customers and competitors. This conceptualization of stakeholder orientation as having four major components was reflected in the scale development by Yau et al. (2007). On the other hand, there is a consensus among marketing scholars that market orientation consists of two major components: customers and competitors. For a more integrative approach, researchers could consider customer orientation as a currently more detailed subset of stakeholder orientation rather than a competing paradigm with its own unique elements.

Additionally by focusing only on customers and competitors, market orientation ignores the importance of other market-driven major players such as suppliers. It is clear that the market orientation literature has focused on the downstream of the supply chain (customers) and the horizontal or bi-lateral relationships (competitors) however; it ignores the upstream part of the supply chain (suppliers) in creating value for the customers. Thus, market orientation could be expanded to include other components such as suppliers in addition to customers and competitors.

Although the conceptualization of the two shared or common components (customers and competitors) is similar in both literatures in general, the literature of stakeholder orientation provides occasionally, explicitly or implicitly, some modifications. For example, Brown and Butler (1995) focused on small firms competing in large markets. In the conceptualization of competitor orientation, they found small businesses felt it was more advantageous to network with other small business competitors when competing in markets with large, well-established competitors.
Small businesses were likely to use the network to create a larger market presence in terms of buying power, cooperative advertising, and common signage. They were likely to view each other as allies against larger competitors. These cooperative networks of “competitors” may provide tools for gathering and sharing more information. As for customer orientation, the concept of strategic groups from the management literature could be expanded to include customer groups. Most companies have different groups of customers that contribute in varying levels to company revenues. For example, Kotler (1999) states in general, eighty percent of the revenue comes from twenty percent of the customers. Given the importance of such customer groups, companies may vary their customer orientation to reflect such importance. On the other hand, companies may pay more attention to the less important group of customers (the larger group), by allocating resources to improve the relationships aiming to switch some of these customers to the more important group (the smaller group) in the future. Table 1 provides a summary of the comparison between market orientation and stakeholder orientation.

Table 1: Similarities and differences between market orientation (MO) and stakeholder orientation (SO)

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<tr>
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<th>Market Orientation</th>
<th>Stakeholder Orientation</th>
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<tr>
<td><strong>Roots</strong></td>
<td>The Marketing Concept</td>
<td>Stakeholder Theory</td>
</tr>
<tr>
<td><strong>Framework</strong></td>
<td>- Kholi and Jaworski 1990 (information integration)</td>
<td>- Donaldson and Preston 1995 (Normative, Instrumental, and</td>
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<td></td>
<td>- Narver and Slater 1990 (culture)</td>
<td>Descriptive/Empirical)</td>
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<tr>
<td><strong>Main Components</strong></td>
<td>- Customers</td>
<td>- Customers</td>
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<td></td>
<td>- Competitors</td>
<td>- Competitors</td>
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<td>- Employees</td>
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<td>- Shareholders</td>
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<tr>
<td><strong>Responsibility of</strong></td>
<td>It is a firm wide concept that must be shared and practiced by all</td>
<td>It belongs more to the CEO or management of the organization</td>
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<td><strong>Forming and</strong></td>
<td>individuals/ departments</td>
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<td><strong>Managing the</strong></td>
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<td><strong>Orientation</strong></td>
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<tr>
<td><strong>Focus</strong></td>
<td>- Inter-functional coordination</td>
<td>The strategic attention given to a stakeholder group. The focus is the</td>
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<td></td>
<td>- Gathering, disseminating &amp; responding to market intelligence</td>
<td>orientation itself</td>
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<td><strong>Similarities</strong></td>
<td>- Both link the orientation to organizational performance</td>
<td>- Both use similar moderators to some degree (competitive intensity,</td>
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<td>market turbulence, technological turbulence...)</td>
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4. Implications and Future Research

4.1. Stakeholder orientation

The main implication for stakeholder orientation is the lack of a mechanism or process (i.e. the “How”) for achieving the desired level of the orientation. On the other hand, market orientation provides such a mechanism. Future research could consider this gap by building a strong theoretical argument for a proposed mechanism. Since the process of customer and competitor orientations have been studied in market orientation, these can serve as building blocks or a subset to stakeholder orientation. Stakeholder orientation could evolve to include similarly detailed analyses of all stakeholders. A modified version of the current market orientation could serve as a proposed mechanism. For example, the notions of Narver and Slater’s (1990) inter-functional coordination and Kholi and Jaworski’s (1990) dissemination could be expanded to include other stakeholder groups such as shareholders, employees, and suppliers. Narver and Slater’s inter-functional coordination is strongly related to Porter’s (1985) value chain model. By looking at the value chain, strategic scholars can explore how different orientations can add value. For example, employee orientation would be key in the primary value chain activities of inbound logistics, operations and outbound logistics, while customer orientation is key to marketing and sales. Suppliers would be of importance in adding value to procurement. While not all of the orientations found in stakeholder orientation are as obvious, the methods for adding value could raise some interesting process questions for future study.
4.2. Market orientation

One of the main implications for market orientation is the lack of other major market-driven components such as suppliers. The inclusion of suppliers may contribute to higher variance explained in organizational performance. As mentioned in the discussion section, market orientation literature has ignored such important stakeholder groups. Future research may contribute to the literature by developing a scale to measure the supplier component under the market orientation umbrella. Another implication is measuring the level of the orientation across different customer/competitor groups. The extant literature on market orientation perceives customers/competitors as a homogenous group. However, in practice, the importance and the influence of some customer/competitor groups are higher and more critical to the performance of the organization. Future research may target this gap by measuring the level of the orientation across groups to check for any significant differences, and then to measure their impact on performance if such differences exist.

Market orientation could also consider a modified definition of the competitor component (e.g. cooperative networks of small competitors in order to compete with larger organizations) in a small businesses context. Future research may conceptualize and measure such orientation.

In conclusion, although there is a common genesis and many similarities between market orientation and stakeholder orientation, but there are also several important differences. A study of the differences provide substantive areas to improve our understanding of the constructs. The evolution of stakeholder orientation to include detailed analysis of all stakeholders as market orientation has done with customers provides for a more focused research effort, fruitful research opportunities, and a more integrated theory. Additionally, implications for managers arise as more focused research may result in better explanations of how market and stakeholder orientation can lead to improved organizational performance.

References


