Market orientation, firm strategy, and business performance: an empirical study of Chinese apparel industry

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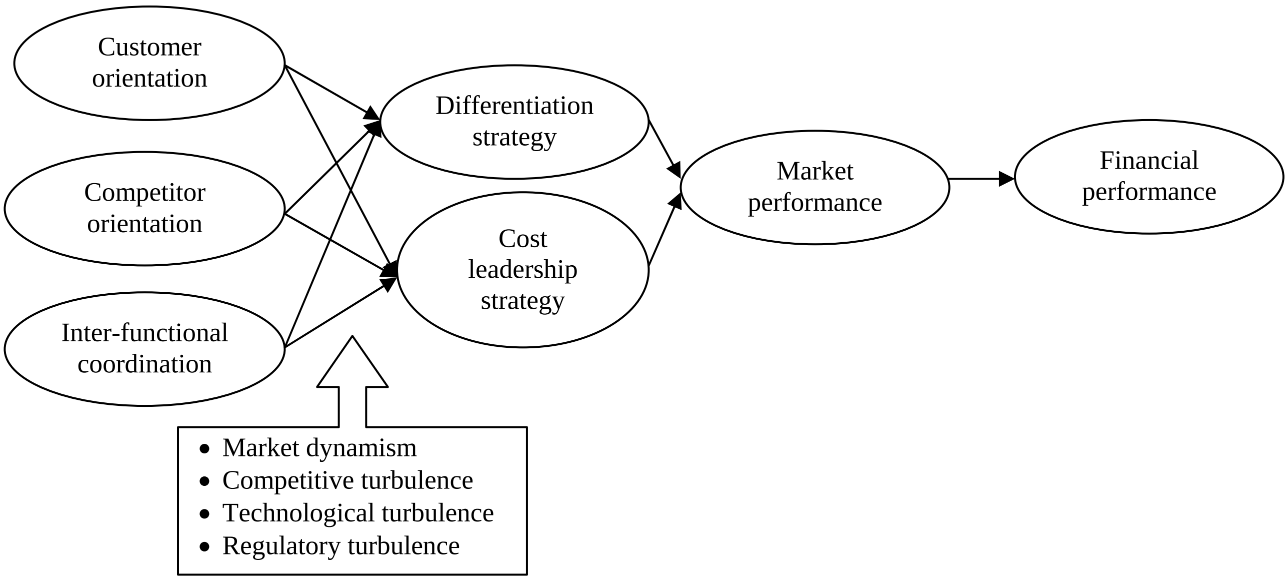
In moving from a self-sufficiency-based, centrally-planned system towards a commercially-driven, export oriented sector, the Chinese apparel industry experienced far-reaching changes. These affected the consumer needs they satisfied, the distribution channels they serviced, the product mix they manufactured, the technology and skill base they employed, the strategies that drove firms, and the organization of the industry. As a result of these changes, the Chinese apparel firms are facing a dramatic escalation in the level of environmental turbulence and have to adjust their market orientation and strategy to survive and grow.

The concept of market orientation stems from the theoretical development of marketing concept and generally refers to a firm's ability to meet the latent and expressed needs and wants of customers better than their competitors to achieve superior business performance (Narver and Slater, 1990). Market orientation is an organizational culture. Although a significant body of marketing literature suggests a significant, positive market orientation and business performance link, the empirical evidence for such a direct link is not unequivocal and belies the complexity in the relationship (Langerak, 2003). This disparity suggests the presence of other factors influencing the market orientation–business performance link, and demands further investigation into the indirect effects. Recent studies have sought to account for these indirect effects by investigating the strategic context of the organization. Studies including firm's strategies (e.g., Menguc *et al*, 2007) and external environmental factors (e.g., Langerak, 2003) found they could more effectively explain the market orientation–business performance link.

The purpose of this study was to determine the roles of firm's strategies and external environmental factors in converting a firm's market oriented culture into superior business performance. In specific, this study investigated how the individual components of market orientation (i.e., customer orientation, competitive orientation, and inter-functional coordination) affect a firm's choice of strategy (i.e., differentiation strategy vs. cost leadership strategy), explored how a firm's strategy affects its business performance (i.e., market performance and financial performance), and ascertained the moderating effects of external environmental factors (i.e., market dynamism, competitive turbulence, technological turbulence, and regulatory turbulence) on the relationships between market orientation and firm strategies. Using 176 eligible survey returns from Chinese apparel firms, factor analysis and structural equation modeling were utilized for data analysis and hypothesis testing. All latent constructs were measured by multiple items. Measurement model (i.e. individual latent construct) adequacy was examined through assessing model-to-data fit, unidimensionality, reliability, and construct validity, while full structural model adequacy was evaluated via hypothesis testing, model-to-data fit, and parameter estimates. Figure 1 illustrates the proposed research model.

Figure 1. Proposed market orientation- strategy-business performance research model



Results from this study show that, among the three components of market orientation, customer orientation and inter-functional coordination positively affect differentiation strategy while competitor orientation and inter-functional coordination positively affect cost leadership strategy. Both differentiation and cost leadership strategies positively affect market performance. Implications of this finding point to the opportunity for firms to maintain growth, grow share, and retain customers by employing a differentiation strategy to increase added value or by coordinating resources/capabilities to produce products at lower cost that it can pass on to customers. The result also reveals an indirect path from firm strategy to financial performance through market performance. For external environmental factors, the level of market dynamism positively moderates the relationship between customer orientation and differentiation strategy, while the degree of competitive turbulence positively moderates the relationship between competitor orientation and cost leadership strategy but negatively moderates the relationship between customer orientation and differentiation strategy.

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