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Department of Marketing

The Relationships between Market Orientation, Supplier Partnership, Environmental Factors, and Firm Performance in Indonesian Retail Firms

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The Relationships between Market Orientation, Supplier Partnership, Environmental Factors and Firm Performance in Indonesian Retail Firms

AGUS W. SOEHADI

To My Wife

and

In Memory of My Father

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Abstract

The purpose of this study is to examine the consequences of market orientation in the Indonesian retail context. In this context, this study presents a systematic framework to test the postulated "market orientation -supplier partnership – retail performance" chain. Moreover, this study takes a component-wise approach and examines how the four core components of market orientation (customer orientation, competitor orientation, inter-functional co-ordination and profit orientation) affect the supplier partnership en route to affecting retail performance.

Data to be used for testing the model were collected by a questionnaire survey. Hypothesised links depicted in the research model were tested using structural equation modeling. In addition, personal interviews were conducted to enrich the findings from the previous approach.

The findings show that market orientation affects positively not only supplier partnership and retail performance in general term but across components of supplier partnership and performance measurement. Further, this study finds that retail performance and supplier partnership vary with customer orientation, competitor orientation, inter-functional co-ordination and profit orientation. This underscores the importance of a component-wise approach to answering the question as to whether market orientation "significantly" or "insignificantly" correlates with firm performances or supplier partnership.

The empirical results suggest that the effect of environmental variables on market orientation and supplier partnership is inconclusive. Each environmental variable has a differential effect toward market orientation and supplier partnership: market turbulence has a positive effect, competitive intensity has no effect and demand volatility has a negative effect.

The perception of performance affects the results of the study. The indirect measures tend to have a high correlation value relative to the direct measures. Further, there is a positive relationship between non-financial and financial measures of performance.

Keywords: Market Orientation, Supplier Partnership, Firm Performance, Environmental Variables, Retail Industry, Indonesian Market, Modeling, CFA (Confirmatory factor Analysis), and LISREL (Linear Structural Equation Modeling).

THE UNIVERSITY OF STRATHCLYDE IN GLASGOW

Chapter One

Introduction

THE DEPARTMENT OF MARKETING

Chapter 1

Introduction

1.1. Rationale

During the 1990s, market orientation received a great deal of attention from marketing scholars (e.g., Baker *et al* 1999; Chang *et al.* 1999; Diamantopoulos and Hart 1993; Greenley 1995b; Kohli and Jaworski 1990; Narver and Slater 1990). These researchers have reported that firms implementing a market orientation approach may gain a number of positive benefits, including increased profitability (e.g., van Egeren and O'Connor 1998; Pelham 2000), service quality (e.g., Chang and Chen 1998;) and product innovation (e.g. Lukas and Ferrel 2000; Han *et al.* 1998; Hurley *et al.* 1998; Slater and Narver 1996).

Market orientation is the ability of a firm to learn about customers, competitors, and environmental forces, to continuously sense and act on events and trends in present and prospective markets (Day 1994). The earlier research on the subject focused heavily on the meaning and measurement of market orientation, and also on the consequences of market orientation (Deshpande and Farley 1990; Hooley *et al.* 1990; Kohli and Jaworski 1990; Narver and Slater 1990; Webster 1988). Then, the research focused on how to become market oriented (Lichtental and Wilson 1992; Narver and Slater 1991). More recently, new approaches for studying market orientation have been pursued. These include environmental forces as moderator variables (Diamantopoulos and Hart 1993; Greenley 1995a; Jaworski and Kohli 1993; Slater and Narver 1994), competitive strategy as moderator variables (Slater and Narver 1996; Langerak *et al.* 1997), innovation as mediator variables (Han *et al.* 1998), and firm effectiveness as mediator variables (Pelham 1997). In addition, these later studies added in their analysis the relationship between market orientation as attitudes and as behaviour (Avlonitis and Gounaris 1997). Finally, market orientation studies have focused on a variety of new contexts including country (Cadogan *et al.* 1997; Deshpande and Farley 1996; Pitt *et al.* 1996; Selnes *et al.* 1996), export market (Cadogan and Diamantopoulos 1995; 1996), service industry (Lado *et al.* 1998; van Egeren and O'Connor 1998) and small firms (Pelham 1997b).

The vast majority of published work has been conducted in western countries (e.g., USA, UK). Questions to be answered by marketing scholars concern the transferability of the findings to the eastern countries (e.g. Indonesia). Few authors have considered market orientation and performance in the context of the Chinese socio-cultural environment, who make up the majority of Indonesian retailers. For example, Lai et al (1992), and Ghosh (1994) showed that better performing firms in Singapore and Taiwan were found to be more committed to marketing than their lower performing counterparts. In a similar study, researchers showed that market orientation is a critical determinant of Chinese firm performance in Taiwan (Hong and Chen 1998), and Hong Kong (Ngai and Ellis 1998). Even though the majority of Indonesian business practitioners are Chinese, there is no systematic study of market orientation has been undertaken in Indonesian retailing to date.

Indonesia was chosen for the market orientation study, in part due to the background of the investigator and in part because many of its characteristics are diametrically opposed to those in a Western retailing context. Firstly, Indonesian retail industry is highly fragmented so that large retail companies account for less than 3 % of Indonesian retail sales (RIM 1997). Secondly, the Indonesian population is dominated by young people (almost 60% of the population) (BPS 1997). Thirdly, the overall retail outlet density is only 6.3 outlets per 1,000 of population and the average size per retail unit is also low (173 sq.) (Thailand has 17 per 1,000 of population). This is indicative of the problems created by the sized of country, the geography, and the population distribution. Over 200 million inhabitants spread out across more than 17,000 islands stretching a distance greater than the width of Australia (RIM 1998). As yet there has been no study investigating the effectiveness of market orientation in this country.

The general retail environment in Indonesia exhibits increasingly tough competition as a result of the Indonesian government having relaxed its restriction on foreign investment in the retail and wholesale markets since 1998. The imminent relaxation of rules on foreign trade competition in Indonesia is expected to change local retail trade. For instance, the presence of French hypermarket chains Carrefour and Continent influences the way local retailers do their business practices. Larger stores having larger overheads per store which need to be recovered from high sales per store. They are more aggressive in below the line activities such as consumer promotion and price discounts. This has led to price competition with existing players (Warta Ekonomi 1999).

In addition, retailers deal with a variety of products and services aimed at a large number of customers. As would be expected with a large variety of offerings, the retailer must manage a high number of low cost transactions. Further, retailers must serve local markets which makes it important to offer different product mix for each local store. To encounter changing market situations, retailers must be able to react faster to changes in the market place.

Additionally, the relatively low entry barriers to retailing and the ease with which competitors can copy successful retail strategies serve to emphasise the point that any factors contribute on retail performance is important to know. Market orientation is widely believed to influence firm performance. However, to date little research has investigated the influence of market orientation in the retail industry. The retail industry provides a relatively unexamined setting for the empirical examination of the influence of market orientation on firm performance. The conceptualisation of the market orientation construct encompasses both commitment to customer and processing market information. Given these two components of the construct, the retail industry provides a good arena for further study of market orientation and its components. On the one hand, retailing represents the final activities and steps needed to place merchandise in the hands of consumers or to provide service to the consumer (Dune *et al.* 1995). Given the position of retailers in the distribution channel with their close proximity to the customers they are servicing, a customer focus would be expected of retailers. On the other hand, the retail industry is very competitive. Where retail growth and success often depend on doing better job than one's competitors, how much focus should be directed towards competition?

Given the interdependent nature of the relationship between retail firms and their suppliers, an examination of the influence of supplier partnership on the market orientation and performance association is warranted. It is possible that the influence of market orientation on firm performance is indirect, through variables that have been shown to affect retail profitability such as supplier partnership (Groves and Valsamakis 1998). Supplier partnership, as a field of study, began to attract attention in the early 1990s as firms began to enter into long-term relationships to balance the effects of increased customer demands and intensifying competition (Cravens 1995). The importance of creating these long-term relationships in the retail sector, has been made explicit by Ganesan (1994, p. 1), who states that "retailers with long-term relationships can achieve a competitive advantage by receiving merchandise in short supply, information on new and best-selling products and competitive activity, best allowable prices, and advertising and mark-down allowances."

The recent literature has yet to address how market orientation and supplier partnership together influence firm performance (Baker *et al.* 1999; Sigauw *et al.* 1998). By embracing a market orientation approach, retailers can improve their channel relationships with the suppliers and place themselves in a position to be of greater value to their suppliers. According to Baker *et al.* (1999) there is a significant correlation between a supplier's perception of a retailer as highly market orientated and the supplier's willingness to preserve the relationship. Market-oriented retailers may also be able to wield power in the channel and obtain special concessions from the supplier.

Unfortunately, the study of market orientation did not focus the potential impact of market orientation on performance in a retailer-supplier partnership context.

In addition to this, there is an interesting finding from previous market orientation studies that the type of performance measurement affects the result. The results indicate that market orientation is strongly related to performance for subjective performance measures but not for objective performance measurement (e.g. Diamantopoulos and Hart 1993; Jaworski and Kohli 1993). This is consistent with the notion that each type of performance provides a unique characteristic (Kaplan and Norton 1992).

Apart from the type of performance measurement, environmental forces are the commonly causes of variability findings regarding to the relationship between market orientation and performance. For examples, the relationship between market orientation and performance may be stronger in cases of high environmental turbulence when managers need to be more sensitive to market changes (Greenley 1995). Alternatively, managers may be less sensitive to customers' needs and competitor's actions when there is a strong demand, and when customers have relatively low buying power and restricted choice (Doyle and Wong 1996). With respect to this Cadogan (1997) study in UK and Holland, found that environmental forces moderate the relationship between market orientation and performance. This finding is widely confirmed in other studies (Doyle and Hong 1996; Gray et al. 1997; Greenley 1995). However, the findings of Avlonitis and Gounaris (1999) suggested that environmental forces should be treated as antecedence of market orientation. They found that environmental forces affect positively on the market orientation level.

1.2. Research Objective and Questions

The specific objectives and questions addressed by this study are listed below.

1.2.1. Research Objectives:

1. To re-examine the theoretical underpinning of market orientation construct within the retailing context in the Indonesian market.
2. To examine the influence overall and of components of market orientation on retail performance.
3. To examine the influence of supplier partnership as mediating the relationship between market orientation and retail performance.
4. To examine the influence of the environmental forces on the level of market orientation and supplier partnership.
5. To examine the influence of type of performance measurement on the market orientation-performance relationship.

1.2.2. Research Questions:

1. To what extent can the market orientation be generalised in Indonesian market?
2. If yes, (a) to what extent does market orientation significantly explain the variance of retail performance? (b) does each component of market orientation have the same magnitude? (c) to what extent do the different types of performance measurement affect the magnitude of the relationship?

3. To what extent does supplier partnership mediate the relationship between market orientation and retail performance?
4. To what extent do environmental forces affect positively the market orientation and supplier partnership?

1.3. Expected Outcomes

Only within the last ten years have marketing researchers such as Kohli and Jaworki (1990, 1993) and Narver and Slater (1990) begun the development and testing of theory of market orientation and its relationship to firm performance. At one level, this study serves to replicate their research regarding market orientation and performance. However, this study builds on and extends their research by offering the following unique contribution:

1) It will examine the relationship between environmental forces, market orientation, supplier partnership and retail performance.
2) It will examine the different types of performance measurement effect on the market orientation research.
3) It will examine the relationship between market orientation and retail performance mediate by different levels of supplier partnership.
4) It will examine the level of market orientation practices by Indonesian retailers

1.4. Organisation of the Thesis

The remaining chapters of this thesis are organised as follows. Chapter 2 reviews the extant literature in market orientation. The literature review builds a theoretical background for the developing market orientation construct and research instrument. Chapter 3 elaborates variables, which are relevant to the research problem and to identified components of each variable, which can be used for instrument development. In this chapter, three theoretical constructs appropriate to the research problem are described: supplier partnership, performance measurement and environmental variables. Chapter 4 proposes the research hypotheses of this study based on the theoretical framework. The rationale underlying the hypotheses is thoroughly discussed and the hypothesised relationships among the constructs are translated into a model for testing.

Chapter 5 addresses the methodological issues with respect to research design, data collection and sample characteristics. The study proposes to employ two approaches, personal interview and mailed questionnaire. The procedure for collecting data for both approaches is explained in detail. Chapter 6 focuses on developing the research instrument and assessing the instrument quality. The purpose of this chapter is to provide an empirical estimate of each theoretical construct of interest.

Chapter 7 presents findings from the hypotheses testing. An empirical model is finalised and expressed with reference to the research hypotheses. Chapter 8 further discusses the research findings, gaining insights into the phenomena of interest. The rationale underlying both confirmed and contradictory relationships is also explained.

Finally, Chapter 9 contains the conclusions drawn from this research. It summarises the research findings, discusses the academic implications of the research, reveals limitations and suggests the directions for further research.

1.5. Summary

This chapter introduced the rationale of choosing the topic, research objectives and research questions, expected outcomes, and the organisation of the thesis in order to provide an overview of how the research has developed and written.

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Chapter Two

Market Orientation

Chapter 2

Market Orientation

There has been continuous interest amongst marketing scholars in investigating market orientation constructs, their consequences and factors might moderate or mediate the relationship (Kohli and Jaworski 1990; Slater and Narver 1990; Jaworski and Kohli 1993; Diamantopoulos and Hart 1993; Narver and Slater 1994; Greenley 1995b; Cadogan and Diamantopoulos 1995; Orvis 1996; Hong and Davies 1997). This chapter focuses on reviewing an market orientation. Market orientation has been defined and empirically validated as a way of improving firm performance. However, the marketing literature reveals numerous distinct definitions of the market orientation construct based on the dominant research tradition in this particular area of marketing discipline (Hunt and Morgan 1995).

In conjunction with this line of thinking, this chapter's objective is to examine the theoretical background for the market orientation construct by reviewing the literature. Then it describes the individual components of market orientation in more detail. Detailed explanation is necessary for the development of the research instrument in the current study.

2.1. The Market Orientation Construct

A review of the literature shows that there is no common precise understanding of the term market orientation among marketing scholars (Dreher 1994). Table 2.1 illustrates a number of recent studies have used the market orientation construct. From these studies, the market orientation definitions can be categorised as:

- ***a business philosophy*** (Cespedes 1990; Hooley *et al.* 1988; Lichtental and Wilson 1992),
- ***a form of culture*** and ***an attitude*** (Day and Wensley 1988; Gounaris and Avlonitis 1997; Narver and Slater 1990; Verhees 1998),
- ***company beliefs and values*** (Deshpande *et al.* 1993; Payne 1988; Webster 1988),
- ***behaviours*** (Avlonitis and Gournaris 1997; Langerak and Commandeur 1998; Narver and Slater 1990),
- ***activities or processes*** (Cadogan *et al.* 1997; Day 1994; Hunt and Morgan 1995; Kohli and Jaworski 1990; Ruekert 1992; Shapiro 1988).

Further, other scholars try to use several related concepts within market orientation constructs such as:

- ***market information processing*** (Jaworski and Kohli 1996; Tuominen and Moller 1996),
- ***learning organisations*** (Slater and Narver 1995; Tuominen and Moller 1996),
- ***decision criteria*** (Deng and Dart 1994; Gray, Matear and Matheson 1998; Narver and Slater 1990),
- ***inter-functional integration*** (Cadogan and Diamantopoulos 1995; Narver and Slater 1990; Shapiro 1988),
- ***supplier orientation*** (Langerak et al. 1997; Parkinson and Chambers 1998), or
- ***quality orientation*** (Fritz 1996; Parkinson and Chambers 1998).

Table 2.1. Summary of Market Orientation Research

STUDY	SAMPLE AND COUNTRY	TYPE OF INDUSTRY	ELEMENT OF MARKOR
Narver and Slater 1990	113 SBU (36, 51, 23, 3) USA	Forest Product Industry: Commodity Distribution Specialty, Exporters	Customer orientation, competitor orientation, inter-functional co-ordination, long-term profit focus
Hooley *et al.* 1990	1010 Chief marketing executives UK	Across Industry (from Dun and Bradstreet)	Role and function of marketing (5)
Ruekert 1992	5 SBU in one firm (400 data set: managers and sales representatives)	High Tech Industry	Use of information sub-scale (9), development of a market oriented strategy (8), implementation of a market oriented strategy (6)
Doyle & Hooley 1992	1380 firms UK (Chief Marketing Executives)	Across Industry (From Dunn and Bradsheet)	Approach to marketing (3), CEO's attitude towards marketing (3), the role of marketing in the company (4s), close working links with other function (1)
Kohli *et al.* 1993	229 SBU (sample 1 MSI) 230 SBU (sample 2) USA	Across Industry (Marketing and Non Marketing Informant)	Intelligence generation (10), intelligence dissemination (8), responsiveness (14) and two items for validity test.
Jaworski and Kohli 1993	222 SBU (sample 1) 230 SBU (sample 2) USA	Across Industry (MSI members and Dun and Bradstreet top US firms); Marketing and Non Marketing Informant (no significance)	Intelligence generation (10), intelligence dissemination (8), responsiveness (response design (7), response implementation (7))

cont.

Diamantopoulos and Hart 1993	87 firms (MD) UK	Manufacturing Companies	Marketing concept perceptions (four dimensions (purpose of marketing, market focus, centrality of marketing and customer orientation), market orientation (Kohli's dimensions: generation (5), dissemination (2), responsiveness (4))
Slater and Narver 1994	81-SBU in one firm; 36 SBU in another firm) USA	Forest Product (Commodity, Non commodity, Specialty, and Distribution)	Slater and Narver dimensions (No multicollinearity problems means each dimension measuring different constructs)
Deng and Dart 1994	248 firms Canada	Across Industry (22 % Service Institutions)	Customer orientation (8), competitor orientation (6), inter-functional co-ordination (6), profit emphasis (5)
Greenley 1995a	240 firms UK	Across Industry	Replicated Narver and Slater three component scale
Atuahene-Gima (1996)	275 firms Australia	158 Mfg and 117 service firms	Adapted from Ruekert collection and use of market information (9), development of market-oriented strategy (8), and implementation of market-oriented strategy (6)
Deshpande and Farley 1996	82 Marketing Executives (27 Firms) American and European firms	Nine Industry Categories, Including Retailing, Wholesaling and Financial Services	Combined of Narver and Slater (N-S), Deshpande *et al.*(D-F-W), and Jaworski and Kohli (K-J-K) (result 10 items)
Fritz 1996	144 firms Germany	Across Industry	Customer-oriented, importance of customer satisfaction, sales market-oriented thinking
Pitt *et al.* 1996	161 firms UK; 193 firms Malta	Across Industry	Replicated from Kohli and Jaworski three component scale
Selnes *et al.* (1996)	198 SBUs USA 237 SBUs Scandinavian	Across Industry	Replicated from Kohli and Jaworski three component scale

cont.

Pelham 1997a	160 firms USA	Small Firms Across Industry	Customer understanding orientation (3), customer satisfaction orientation (3), competitor orientation (3)
Langerak *et al.* 1997	483 industrial firms Netherlands	Across Industry (manufacture)	Customer orientation (6), competitor orientation (7), supplier orientation (5) and inter-functional co-ordination (7)
Cadogan *et al.* 1997	198 firms from UK 103 firms from Dutch	Exporting Companies	Export intelligence generation (11), export intelligence dissemination (18), export market responsiveness (17), co-ordinating mechanism (25)
Gounaris and Avlonitis 1997	444 firms (Greek) (Marketing Manager)	Across Industry (10 % Service Industry)	Market orientation as attitudinal (six dimensions with 15 items), market orientation as behavioural (Kohli's dimensions: generation (5), dissemination (6), responsiveness (4)
Liu and Davies 1997	115 firms (over 50 stores for each firm) UK	Retail Industry	Market intelligence (3), responsiveness (3), competitor orientation (5), co-ordination of business operations (2)
Caruana *et al.* 1998	84 Universities New Zealand	Universities	Adapted from Jaworski and Kohli's scales
Kumar *et al.* 1998	159 Hospitals USA	Hospitals	Adapted form Narver and Slater' scales
Kokkinaki and Ambler 1998	531 Marketing and Finance senior executives	Across Industry	Customer orientation and competitor orientation
Lado *et al.* (1998)	34 firms in Belgium and 32 firms in Spain (46 % marketing managers and 54 % non-marketing managers)	Insurance Industry	Analysis of final client (6), analysis of distributor (5), analysis of competitors (4), analysis of environment (1), inter-functional co-ordination (5), strategic actions on final customers (6), strategic actions on distributors, strategic actions on competitors (2), strategic actions in macro-environments (2)

cont.

van Egeren and O'Connor (1998)	67 firms (top management team (TMT)) USA and 289 individual TMT members	Across service industries	Customer orientation (5), competitor orientation (5), and inter-functional co-ordination
Chang and Chen (1998)	150 firms in Taiwan	Retail stock brokerage	Customer orientation (6), competitor orientation (4), inter-functional co-ordination (5), and profit orientation (3)
Gray *et al* (1998)	374 senior executive New Zealand	Across Industry	Customer orientation (5), competitor orientation (3), inter-functional co-ordination (6), responsiveness (2), and profit emphasis (4)
Han *et al* (1998)	134 firms USA	Bank	Customer orientation (6), competitor orientation (4), inter-functional co-ordination (5)
Harris and Piercy (1999)	107 store managers (UK)	Retail Industry	Customer orientation (5), competitor orientation (3), inter-functional co-ordination (5)
Vorhies *et al.* (1999)	87 firms Australia	Across Industry	Intelligence generation (7), intelligence dissemination (5), responsiveness (11)

Apart from the variety definitions, market orientation has been approached in the marketing literature from two perspectives: 'adoption of the marketing concept as a business philosophy' and 'market orientation as a behaviour (the level of concrete activities)' (Dreher 1994, p. 162). The notion of business philosophy is defined as the pattern of shared values and beliefs that help individuals understand organisational functionality and thus provide them with norms for behaviour in the organisation (Despande and Webster 1989, p. 4). On the other hand, the behavioural perspective is concentrated on characteristics of the organisation (strategies, structures, systems and activities) (Dreher 1994, p. 158).

The philosophy and behavioural perspectives both seem to have advantages. It may be argued that values and beliefs are among the key factors that affect the behaviours in an organisation. However, their measurement may lead to more socially desirability biases than the measurement of actual behaviours or activities. In addition, an organisation may believe something important , but fail to act on its beliefs for a variety of reasons. Hence, from a manager's perspective, it may be more important to focus on what an organisation actually does than what it feels is important (Jaworski and Kohli 1996, p. 121).

The behavioural perspective of market orientation will be used in this study. Narver and Slater's (1990), and Jaworski and Kohli's (1993) operationalisation fall into this perspective (Cadogan and Dimantopoulos 1995). Narver and Slater (1990) provided the operational measure of market orientation. They stated that market orientation consists of three behavioural components - customer orientation, competitor orientation, and inter-functional co-ordination - and two decision criteria - long-term focus and profitability. The latter development is restricted to the behavioural components since the scales that have been employed for the measurement of the decision criteria turn out to lack reliability. The findings of Deng and Dart (1994) however, revealed that profit orientation had a strong correlation with three other components of market orientation. This means that profit orientation is convergent on a common underlying construct along with customer orientation, competitor orientation, and inter-functional co-ordination.

Kohli and Jaworski (1990) defined market orientation as "organisation wide generation of market intelligence pertaining to current and future customer needs, dissemination of intelligence across departments, and organisation wide responsiveness to it" (p. 6). Further, Ruekert (1992), and Hunt and Morgan (1995), postulated that market orientation consisted of three activities: (1) the systematic gathering of information on customers and competitors, both present and potential, (2) the systematic analysis of the information for the purpose of developing marketing knowledge, (3) the systematic use of such knowledge to guide strategy. Therefore, market orientation represents the set of cross-functional processes and activities directed at creating and satisfying customers through continuously assessing market information (Deshpande and Farley 1996). This definition puts emphasis on the market information processing perspective.

In attempting to integrate the earlier definition, Day (1994) has concluded that market orientation consists of three principal features: (1) a set of beliefs that puts the customer's interest first (Deshpande *et al.* 1993), (2) the ability of the organisation to generate market intelligence, disseminate and response to it (Kohli and Jaworski 1990), and (3) the co-ordinated application of inter-functional resources to the creation of superior customer value (Narver and Slater 1990).

In the same vein, Cadogan and Dimantopoulos (1995) reconceptualised market orientation based on integration two dominant conceptualisations of the market orientation construct provided by Kohli and Jaworski (1990), and Narver and Slater (1990). Accordingly, three behavioural components suggested by Narver and Slater

(1990) overlap with Kohli and Jaworski's (1990) conceptualised of market orientation in conceptual and operational aspects (Figure 2).

Additionally, Mavondo and Farrell (2000) pointed out the similarities between Kohli and Jaworski (1990), and Narver and Slater (1990) concept. First, both focus on the central role of the customer in the manifestation of market orientation. Second, both can entail an external orientation. Third, both recognise the importance of being responsive to customers at an organisational level. Finally, there is a recognition that interest of other stakeholders and/or other forces shape the needs and expectations of customers. It can be said, to some extent, the market orientation's components developed by Kohli and Jaworski (1990), and Narver and Slater (1990) tap the same construct.

Figure 2.1. Conceptual and Operational Overlaps in two Dominant Market Orientation Constructs: Narver and Slater, and Kohli and Jaworski.

Narver and Slater (NS)	**Kohli and Jaworski (KJ)** Intelligence Generation	Intelligence Dissemination	Responsiveness
Customer Orientation	Conceptual Overlap: yes Operational Overlap: yes Operational examples KJ: *we meet our customers frequently to find out their preferences* NS: *measure customer satisfaction*	Conceptual Overlap: yes Operational Overlap: ambiguous Operational examples KJ: *periodically circulates documents of customers' information* NS: *understand customer needs*	Conceptual Overlap: no Operational Overlap: yes Operational examples KJ: *tend to ignore customer complaints* NS: *strategies driven by customer values*
Competitor Orientation	Conceptual Overlap: yes Operational Overlap: ambiguous Operational examples KJ: *competitor intelligence generated by several departments* NS: *top managers discuss competitor's strategies*	Conceptual Overlap: yes Operational Overlap: yes Operational examples KJ: *a lot of informal 'hall talk' concerns our competitors' tactics and strategies* NS: *sales people share competitor information*	Conceptual Overlap: no Operational Overlap: yes Operational examples KJ: *implement responses to competitors' actions immediately* NS: *respond rapidly to competitors' actions*
Inter-functional Co-ordination	Conceptual Overlap: yes Operational Overlap: yes Operational examples KJ: *members of manufacturing departments interacts with customers* NS: *engage inter-functional customer calls*	Conceptual Overlap: yes Operational Overlap: Yes Operational examples KJ: *marketing staff spend time discussing customers' future needs with other functions* NS: *customer information share among functions*	Conceptual Overlap: yes Operational Overlap: yes Operational examples KJ: *activities of different departments are well co-ordinated* NS: *all functions contribute to customer value*

Source: Modified from Cadogan and Diamantopoulos (1995, p 44)

The market orientation literature focuses almost exclusively on firms' producer organisation (see Table 2.1); very little attention has been paid to the market orientation of trader organisations, especially retailers. However, market orientation is logically appropriate for the retail organisations, given their close interaction with the customers and the competitive intensity confronting most retailers (Orvis 1996). In addition to this, Piercy and Alexander (1988) conducted a survey of British retailer's, found that 6 per cent of sample firms were "merchandising oriented", 29 per cent were "sales oriented" and 65 per cent were "market oriented." This finding is inline with Berry *et al.* (1990) notion that growing competitive pressures in retailing world-wide should result in a concerted effort within retail companies to developing stronger market orientation programmes.

Retailing has long had the opportunity to be market oriented because retailers engage in close contact with market. However, retailer have been slow in taking advantage of their closeness to the market as they have placed the highest priorities on buying decisions, operational concerns and merchandising practices, not customer management. In general, most retailers are very product oriented as they attempt to manage an assortment of merchandise in a profitable manner. This orientation is changing because of the availability of databases on the purchases of individual customers. Such databases allow retailers to conduct an integrated approach to marketing that systematically ties merchandising practices to customer buying behaviour (Mulhern 1997).

The shift toward an integrated approach to retailing has many important implications among them (Mulhem 1997, p.104 - 105)):

- Retailers will be less oriented toward volume and more oriented to individual customer profitability.
- Merchandising efforts will be concentrated on the small portion of shoppers who contribute the most toward profits.
- Retailers will manage customer relationships by combining products and services into meaningful offerings for individual customers.
- Less emphasis will be placed on attracting additional shoppers to stores as more emphasis is put on rewarding regular shoppers.

These implications lead to further implement market orientation in the retail organisations. Liu and Hong (1997) noted that market-oriented retail companies had similar characteristics to those identified in market-oriented manufacturing companies such as responding to market information, co-ordinating business activities and having a market focus. The next section will present a brief justification of the components utilised in this study to measure market orientation.

2.2. Components of Market Orientation

2.2.1. Customer Orientation

The importance of organisations being responsive to customer preferences has had a long history within both the academic and popular press. The concept of the customer-oriented firm has, at it roots, the development of the marketing and management literature. Customer orientation can be defined as the sets of beliefs that put the customer's interest first in order to develop long-term profitable firms (Deshpande *et al.* 1993). In accordance with this view, Peters and Waterman (1982) noted that being "close to the customer" was a key distinguishing feature of the best of American enterprise. Moreover, they carefully determined the wants and needs of various consumers and then tried to satisfy them in some fashion consistent with general strategies and financial objectives (Levitt 1979, p. 80).

Kelly (1992) argued that customer orientation played a more important role in service firms than in other firms because of the intangibility, heterogeneity and inseparability of service (Parasuraman *et al.* 1985). These characteristics are likely to make the service process (i.e. customer service) an important determinant of customers' value perceptions (Kelly 1992). Perceived value is important in customer retention especially in retail businesses (Hughes 1996). If a store cannot meet a consumer's expectations, the consumer moves on. Switching is easy – just find another place that fits into the routine can deliver on expectations. The expectations toward retail services are high and getting higher. Wortzel (1988) identified retail customers as "smart shoppers." Being a smart shopper means being informed about the products one wants to buy, and being able to compare and choose independently of brand, advertising, store and salespersons' recommendations.

Although consumers generally are deeply concerned with value, there is much less uniformity in what various consumers perceive as retailer-provided value across product and even across buying situations. A value-adding service to some consumers, for instance, may mean having a sales assistant find and offer the merchandise they want to buy. To others it may mean having the merchandise easily identifiable and accessible on a self-service rack. Also, convenience may mean a short driving time to the store for some, and for others, efficient completion of the transaction in the store (Wortzel 1988). Significant opportunities are opening up for store that position themselves to serve particular consumer segments. In addition, the availability of customer databases in retail organisations allows retailers to integrate merchandising practices and customer buying habits. Retail analysts suggest that future retail battles will be won by companies who best understand, anticipate and meet customer needs (Clarking 1998). This indicates the importance of customer orientation in retail businesses.

To create superior values for customers, requires that a seller understand a customer's entire value chain, not only as it is today but also as it evolves over time. Customer value can be created at any point in the chain by making the customer either more effective in its markets or more efficient in its operation (cf. Slater and Narver 1991, p.2). Apart from this, a seller must be grounded in an intimate understanding of customer behaviour, latent needs, changing requirements and deep-seated dissatisfaction with current products or services. Such deep insight results in having the key decision-makers in day-to-day contact with customers, observing them in their natural habitat and seeking out lead customers who have needs well in advance of the rest of the market (Day 1988).

Additionally, businesses must make a long-term commitment to understanding their customers' expectations and how they change, motivating employees to view customer satisfaction as a primary objective, and monitor customer satisfaction frequently. In addition, this commitment should be held on every level within the organisation and every one of the organisation's employees should share a deep commitment to customer satisfaction and retention (Fogt 1995). This point is consistent with the notion that a commitment to serve and satisfy customers is the organisation's core beliefs and values and these provide a unifying focus for the efforts and projects of individuals and departments within organisations (Kohli and Jaworski 1990; Webster 1988). Hence, knowing the customer, commitment to satisfy customer and continuous monitoring are the characteristics of customer orientation.

Despite customer orientation being the basic requirement for a market-oriented firm, competitor orientation is also needed. This means tracking new entrants and present competitors through understanding their capabilities, intentions, and strategies. The reason is that competitors' strategies will affect the perceived value of a firm's products or services (Day 1998).

2.2.2. Competitor Orientation

The business world is an arena of competition. For this reason, several authors in strategic management suggest that a firm has to beat the competition for outstanding performance (e.g. Ghemawat 1986; Porter 1996; Wee 1993). In surveys of 170 Masters of Business Administration (MBA) students and 72 managers from a variety of firms, Armstrong and Collopy (1996) concluded that the majority of respondents agreed that "the primary purpose of the firm is to be better than its competitors," and " the best way to judge the success of a firm is how well it does relative to its competitors." In support of this, Jack Welch, the chairman of GE, advised his managers to "hit your competitors before they are big enough for it to be a fair fight," (cf. Day 1998, p. 4).

Liu and Davies (1997) found that the majority of the UK retailers seemed to understand competitors behaviour and tended to be sensitive to competitors' moves in price and products. A survey conducted by Benchmark Research Ltd (Anonymous 1994) found that majority retailers (73 % of respondents) showed that the strategies and moves of competitors were considered the most important issues. There are two types of competitor in retail businesses: intratype and intertype competitors. Intratype competitors are competitors from the same retail format such as Tesco vs. Sainsbury. Intertype competitors are competition from different retail format but sell similar offerings such as Asda vs Mark and Spencer. Retailers typically are facing more intertype than intratype competitors (Berry and Lusch 1997).

It is important to array intratype competitors and analyses their market and financial performance, competitive tendencies and strength and weaknesses. Competitors' strength to which customers respond and weaknesses that can be exploited are of particular concern. In the case of intertype competitors, the first task is to classify intertype competitors and document their relative impact because most retailers compete against multiple kinds. Once intertype competitors are classified and profiled, they can be analysed in much the same way as intratype competitors (Berry and Lusch 1997).

Despite the importance of competitor orientation for market-oriented retailers, it needs carefully implementation. Managers who focus excessively on competitors' strategies and tactics run the risk of subtly developing a "me-to" orientation (Bell 1992). Moreover, Armstrong and Collopy (1996) noted that a firm's stress on competitor orientation tended to detract their profitability. Accordingly, these firms were willing to sacrifice part of their firm's profits to beat or harm the competitor. Hence, to provide a stepping-stone toward becoming market-oriented retailers, competitor orientation must be driven by a customer-oriented perspective (Bell 1992).

A continuing point of notion is whether a firm can have both customer and competitor orientation. Can the marketing concept that believes that the customers should be put first in all decisions co-exist with the objective of the aggressive firms that stresses beating competitors? The answer depends on the focus of competitive energies in a firm in delivering superior customer value: more benefits at a lower cost (Day 1998).

For instance, being market-oriented requires viewing the competitors through the eyes of current, as well as potential, customers. The information gathered must go beyond competitors' strength and strategies. Rather, emphasis must be placed on understanding which various strategies and tactics are or are not successful in creating value for the customer. The focus of this approach is on understanding how well competitors perform on the important factors that customers use to judge product or service value (Bell 1992). Further, Chen and Foster (1996) suggested that retailers' goal is to go beyond merely matching what the competitors are doing. The retail firms must outperform the competitors by meeting critical customer requirements.

In addition, market-oriented firms are especially proficient at anticipating the moves of their competitors, both the moves they initiate and their reactions, and diffusing this information through the organisation. The unskilled firms are frequently caught by surprise when attacked by a competitor (Day 1998). It can be said that knowing the competitor strengths and weaknesses, analyse the competitor behaviour and respond to the competitor activities are the characteristics of competitor orientation.

2.2.3. Inter-functional Co-ordination

As organisations deal with their external environments, they become segmented into units, each of which has as its major task the problem of dealing with a part of the conditions outside the firm. This is a result of the fact that any one group of managers has a limited span of surveillance. Each of them has the capacity to deal with only a portion of the total environment. For example, the marketing department faces problems associated with the market, the customers, the competitors, and so on. On the other hand, the production department deals with production equipment sources, raw material sources, labour markets and the like. This situation leads to a state of integration within any organisation. The integration is defined as "the quality of the state of collaboration that exist among departments that are required to achieve unity of effort by the demands of the environment" (Lawrence and Lorsch 1967, p. 8).

Since the different points of view held by various functional specialists are frequently going to lead to conflicts, such an automatic process does not achieve the integration. Reducing and resolving the conflicts are the prerequisite for achieving effective integration. For example, in many firms integrated committees and teams are established or individual integrators are designated to facilitate collaboration among functional departments at all management levels. Routine control and scheduling procedures also provide a means of achieving integration (Lawrence and Lorsch 1967, p.12; Menon et al. 1997).

In an attempt to examine the effect of integration between marketing and operation on performance in the banking industry, Nie and Young (1997) used goal consensus as the operational variable for measuring the level of inter-functional integration. Goal consensus is defined as an "agreement among top, middle, and operating level managers on the fundamental priorities of the organisation" (Floyd and Wooldridge 1992, p.27). They found that there was a positive relationship between goal consensus and performance.

In a related study, Menon *et al.* (1997) used inter-functional interactions for measuring integration. They detected that inter-functional interactions appeared to influence the perceived product quality. On the basis of their findings, they suggested that top management should implement interventions that increase interdepartmental connectedness. For instance, top management must carefully develop programs and incentives aimed at encouraging co-operations among various functional units. Further, positive inter-functional interactions appear to require a certain level of risk taking by top management and a willingness to accept occasional failures of new organisational processes as a normal part of the business. In the absence of such conditions, employees are likely to be reluctant to try innovative ideas and be involved in the overall process (Menon *et al.* 1997, p.195).

Liu and Davies (1997) noted that functional co-ordination is a critical factor in retail businesses. Accordingly, retailers need to co-ordinate their business activities to offer target consumers with a planned product/service assortment and create a consistent and desirable image. Further, Aufreiter *et al.*(1993) found that the best-performing retailers have fundamentally rethought their retailing approach and repositioned it as the core of their business – an integrated set of activities designed to deliver a clear, narrowly-defined set of benefits to target consumers. Retailing is an integrated processes, end-to-end business process that runs from planning the merchandise assortment, to sourcing, to distribution, to allocation of goods to stores, to promoting and selling the assortment to customers and finally, to replenishing inventory as necessary. Therefore, retailers need to co-ordinate cross-functional activities in integrated fashion rather than as the three distinct functions of buying, selling and distribution.

The notion of functional co-ordination is in line with market orientation values that the whole firm is organised and coordinated in creating superior value for the customer (Slater and Narver 1991). Similarly, Shapiro (1988) noted that inter-functional integration is an important contributor for market-oriented firms. Specifically, there are three factors that make an inter-functionally integrated firm: information on all important buying influences permeates every firm function, strategic and tactical decisions are made inter-functionally and inter-divisional, and divisions and functions make well coordinate decisions and execute them with a sense of commitment. Hence the degree to which different functions are well co-ordinated and information are disseminate across functions are the characteristics of inter-functional co-ordination.

2.2.4. Profit Orientation

Apart from the three market oriented behaviours, this study proposes profit orientation as component of market orientation. The argument that is a firm with a true market orientation is not only concerned with the creating customer values but also the cost to the firm. Market oriented firms would be expected to monitor their activities in terms of costs and revenues. It allows market oriented firm to enhance their profitability and avoids misallocation of resources (Speed and Gareth 1995). Further, drawing on diverse literature, Narver and Slater (1990) conceived that profits are perceived as a component of market orientation. Accordingly, the firm seeks to serve customer needs in order to meet its requirements for achieving objectives/profit. Also, retail firms deal with a huge number of item products, it is a need to monitor cost of each item product or group product in order to maintain cumulative mark-on (margin). Therefore, we proposed profit orientation along with customer orientation, competitor orientation, and inter-functional co-ordination as components of the market orientation construct.

The idea of incorporating profit orientation as one of the components of the market orientation construct is arguable. Kohli and Jaworski (1990) noted that profitability as a component of market orientation was obviously absent in their interview findings. Accordingly, profitability should be treated as a consequence of market orientation rather than part of it. On the other hand, Deng and Dart (1994) suggest that profit orientation should be treated as a behavioural component of market orientation. They argue that profit orientation is an inherent practice in the day-to-day operation of most successful business operations. For instance, in Japan, the used of target costing is inherent in their system of product development. The target costing process begins by establishing a selling price, based on market research, for the new product. From this target selling price, the desired (target) profit subtracted to determine target cost. In all likelihood, this target is below the company's current manufacturing cost (cf. Gagne and Discenza 1995, p. 18). It helps to motivate market-oriented behaviour by using a market-based allowable cost that has to be realised if the company is to be profitable in a competitive market.

The difference reflects the divergence in perspective. Jaworski and Kohli's viewed profitability as an output, but Deng and Dart's viewed as an inherent practice by the firm. The author tends to follow Deng and Dart's notion as the study focuses on firm's behaviour. Also, market orientation requires a firm to balance aggression and prudence. Failing to identify the return from marketing efforts in terms of profits will lead to poor financial performance (Speed and Smith 1995). Therefore, market orientated activity must be guided by the profitability constraint.

Aufreiter *et al.* (1993) suggested retailers are necessary to review frequently products' sales and margin performance in season – and then taking quick action to improve that performance wherever possible. Retailers are then expected to work with suppliers to plan how to capitalise on the problem or opportunity. For example, for under-performing T shirt, this might mean taking earlier mark-downs if the colour is just not a winner, or perhaps making small design or colour changes on the next delivery if the department store has arranged for staggered production. On the other hand, if the T shirt is flying off the shelves, the buyer may demand quicker delivery of orders, reallocate the stock among stores, or even go out into the market mid-season to buy substitute T shirt if it is not possible to buy additional quantities of that precise item. It can be said that knowing and monitoring the profitability of each individual product categories and suppliers' product are the characteristics of profit orientation.

2.3. Market Information Processing Activities.

Moorman (1995, p.21) defines "market information as data concerned with a firm's current or potential external stakeholders.......... It refers to an external information that cut across all functional areas of the firm rather than limited only to marketing departments". This information could come from a variety of resources, both internal and external. It covers a broad array of issues, including customers and competitors, the dominant economic characteristics of an industry, factors determining competitive success, industry prospects for profitability etc. (cf. Tzokas *et al.* 1997). In addition, the term "market information processing" refers to the activities that encompass the generation, dissemination and responsiveness of market information (Sinkula 1994).

As was suggested previously, market orientation stresses the importance of generating and use of market information for the formulation of strategy. Hence, the capability to process market information is a basic requirement for becoming a market-oriented firm (Day 1994). Additionally, Hunt and Morgan (1995) note that market orientation consists of (1) the systematic gathering of information on customers and competitors, both present and potential, (2) the systematic analysis of the information for the purpose of developing market knowledge and (3) the systematic use of such knowledge to guide strategy recognition, understanding, creation, selection, implementation and modification. This is paralleled by Jaworski and Kohli's (1990) work that market orientation entails:

- one or more departments engaging in activities geared toward developing an understanding of customers' current and future needs and the factors affecting them (*information generation*),
- sharing of this understanding across departments (*information dissemination*), and
- the various departments engaging in activities designed to meet select customer needs (*responsiveness*).

2.3.1. Information Generation

The starting point of market information processing is the information generation process. It refers to the collection of primary or secondary information from the market. The generation of market information relies not only on customer surveys, but also on a host of complementary mechanisms. The mechanism may arise, for instance, through formal market research surveys, or competitive intelligence activities; through informal collection of information from sales personnel who interact with customers or from competitors who share information at industry association meetings. It is generated collectively by individuals and departments throughout an organisation. Moreover, the activities do not stop at obtaining market information, but also involve careful analysis and subsequent interpretation of the forces that impinge on customer preferences and competitor threats (Kohli and Jaworski 1990). In general, information generation involves bringing information about the external environment into the boundaries of the organisation (cf. Moorman 1995).

There are four basic ways to generate information: scanning, direct experience, imitation, or problem solving inquiries. Market-oriented firms excel by approaching these activities in a more thoughtful and systematic fashion, in the belief that all decisions start with a market. The following are the most distinctive features of their approach to inquiry (Day and Glazer 1994, p.274):

- *Active scanning.* All firms track key market conditions and activities and try to learn from departures from what is normal and expected. In market-oriented firms, these frontline contacts, who hear complaints or requests for new services and see the consequences of competitive activity are motivated to inform management systematically.
- *Self-critical benchmarking.* Market-oriented firms do regular break-down analyses of competitors' products and occasionally study firms for insights into how better to perform discrete functions and activities. They recognise that they can always learn how to improve their activities and the way individual functions work together.
- *Continuous experimentation and improvement.* Market-oriented firms with their procedures and practices, take actions aimed at improving productivity and customer satisfaction.
- *Informed imitation.* Market-oriented firms study their direct competitors so they can emulate successful moves before the competition gets too far ahead.
- *Guided inquiries.* Market-oriented firms are likely to have something akin to an inquiry centre that the firm uses anticipate market requirements and resolve problems, as well as provide comprehensive information that can be used by all functions.

McGrath (1997) noted that retailers became much more sophisticated to gained access to consumer information through EPoS (electronic point of sales) data and loyalty cards, this view became increasingly outdated. The rapid progress that is being made in the technology and applications of computers for retailers is therefore highly pertinent to increase their consumer knowledge. A major report by McKinsey (1974) analysed 'hard' benefits and 'soft' benefits of using EPoS such as logistical benefits, productivity benefits, buying benefits, customer service and marketing strategy. All the benefits contribute to the better performance of retail organisations, either directly or indirectly (McGoldrick 1974, p. 13).

2.3.2. Information Dissemination

To be most useful, market information must be available to all functions in an organisation or disseminated to relevant departments and individuals in the organisation. Both formal and informal organisational communication systems are important in information dissemination. Formal communication is any type of organised or structured dissemination, for instance, policies, training sessions, research presentations, and cross-functional teams (Narver and Slater 1990). Informal communication occurs during interpersonal interactions, such as casual conversations involving market information, or when firm members educate one another on market issues (Moorman 1995).

Information dissemination refers to the process and extent of market information exchange within a given organisation (Sinkula 1994). The marketing department does not need always to initiate the dissemination of market information. Information may flow in the opposite direction, depending on where it is generated. Effective dissemination of market information is important because it provides a shared basis for concerted actions by different departments (Jaworski and Kohli 1990).

Effective dissemination increases information value when each piece of information can be seen in its broader context by all organisational players who might use or be affected by it and who are able to feedback questions, amplifications, or modifications that provide new insights to the sender (Glazer 1991; Quinn 1992). Effective interfacing is accomplished through greater emphasis on "multifunctional activities ... multifunctional discussions, and information exchange," (Cooper and Kleinschmidt 1991, p. 140).

There are two aspects of the information dissemination process – dissemination frequency and formality. Dissemination frequency is defined as the number of dissemination events between a sender and a receiver during a given period of time. Dissemination formality is defined as the type of channel used for dissemination, either formal or informal channel (cf. Maltz and Kohli 1996, p. 48).

Additionally, Maltz and Kohli (1996) proposed two criteria for categorising a dissemination event as being formal or informal - verifiability and spontaneity. Verifiability refers to the ability of a third person to substantiate that certain information was transmitted by a sender to a receiver. For example, meetings with four or more participants, and communications by written memos are high in verifiability. Alternatively, one-on-one telephone conversations are low in verifiability. Spontaneity refers to whether the dissemination of information was planned ahead of time. In this case, dissemination during an unexpected meeting in the cafeteria is spontaneous, whereas dissemination during a weekly review meeting is non-spontaneous. Dissemination formality refers to "the ratio of formal dissemination events (verifiability and non-spontaneous) to the total number of dissemination events during a given period of time" (Maltz and Kohli 1996, p. 48).

In a detailed empirical study of 788 middle managers, Maltz and Kohli (1996) found that a certain level of frequency (threshold) should be reached for improving the sender-receiver learning, which in turn affects perceived information quality. Also, they found that formality has a positive relation to perceived information quality. Drawing an analogue here, it can be suggested that the dissemination process will affect the level of market orientation through understanding the market information.

2.3.3. Responsiveness

The firm must respond to its market information by developing and implementing a strategy that will meet customer needs and wants (Kohli and Jaworski 1990; Ruekert 1992). Responsiveness is the action taken in response to information that is generated and disseminated. The responsiveness component is composed of two sets of activities – response design (i.e., using market information to develop a plan) and response implementation (i.e., executing such plans). Virtually all departments - not just marketing participate in responding to market trends in a market-oriented company (Jaworski and Kohli 1993).

As was suggested previously, firms have a growing need to be more sensitive to the market information. This is essential for guiding firms' actions. On the other hand, traditional forces, often based on negative experiences in using market information, inhibit either the acquisition of information or its effective use. These forces exist despite burgeoning information and improved technologies for it use. The conflicting conditions have created a classic "we-should-but-don't" paradox: Managers in all functional areas are acutely aware that they should be making more frequent and mush better use of market information, but in fact, are often doing the opposite (Barabba and Zaltman 1991, p. 23).

The effective use of information requires two special competencies. The first is "competent curiosity". It is an inquisitiveness about the happenings in its markets that are of current and future importance, coupled with the ability to satisfy that curiosity with timely, relevant, accurate and cost-effective information. The second competence is "competent wisdom". This concerns the ability to translate information into effective action by doing the right thing and doing it right. Poor information (e.g. collecting the wrong data or collecting the right data the wrong way) cannot be used wisely, nor can good information compensate for poor judgement or deficient wisdom (Barabba and Zaltman 1991, p.19). Hence, the level of responsiveness relates to the previous process (information generation and information dissemination). For instance, the information comes from EPoS can be used by retailers to increase their capabilities to offer such as implementing a range of products which suits each retailer's customers, maximising the availability of products (by minimising 'out-of-stocks') and promoting in ways consumers find attractive (McGrath 1997).

2.4. Summary

This chapter reviewed the relevant literature on market orientation. The literature review started with a discussion of the market orientation definition. Analysis of literature review comes up with various definitions of market orientation. Apart from various definitions, market orientation has been approached in the marketing literature from two perspectives: market orientation as a business philosophy and as a behaviour (Dreher 1994). This study will use the behavioural perspective because the first may show up social biases rather than the measurement of actual behaviours (Jaworsi and Kohli 1996). In the literature review an behavioural perspective, it is found that most of the studies replicate the market orientation conceptualisations of Narver and Slater (1990), and Kohli and Jaworski (1990). In conjunction with these conceptualisations four components of market orientation were explored: customer orientation, competitor orientation, inter-functional coordination, and profit orientation. In addition, market information processing was presented as a characteristic of each component.

In a sense, this chapter forms the foundation for developing the market orientation instrument. The next chapter aims to put the relevant concept, which will be used, in the theoretical model.

THE UNIVERSITY OF STRATHCLYDE IN GLASGOW

Chapter Three

Review of The Theoretical Concepts Relevant to this Topic

THE DEPARTMENT OF MARKETING

Chapter 3

Review of the Theoretical Concepts Related To this Topic

The theoretical model underpinning the current research in market orientation include details in other relevant subject areas within the contextual of the study. Indeed, there are three themes relevant to our study that are extensively treated by the marketing and retailing literature. Firstly, studies of mediating variables carried out in the study of market orientation. For example Pelham (1997) found that firm effectiveness mediated the relationship between market orientation and performance. Further Han *et al.* (1998) revealed that organisational innovation mediated substantially in the market orientation-performance relationship. The supplier partnership is chosen as mediating variable in our study. Relationship marketing literature provides an additional valuable insight into the basis for developing a supplier partnership instrument.

Secondly, the nature and type of performance measurement carried out in the study of market orientation. For example, studies of market orientation literature revealed that subjective performance measurement is used more than objective performance measurement. Thirdly, studies of environmental variables carried out in the study of market orientation. For example, Avlonitis and Gounaris (1999) noted that environmental forces might affect the level of market orientation.

This chapter focuses on presenting the three themes: supplier partnership, performance measurement and environmental variables. For that purpose, this chapter is organised into three sections. Section one concerns with exploring how important the supplier partnership is in retail businesses, the meaning of supplier partnership as a basis for developing a research instrument and supplier partnership in Southeast Asia. Section two outlines the principal measures of performance in retailing and marketing literature. Section three seeks to explain how environmental variables were introduced and developed as antecedence variables in market orientation literature.

3.1. Supplier Partnership

3.1.1. The Importance of Supplier Partnership in Retail Businesses

The major feature of retail channel evolution in recent decades is the growth of more integrated approaches by channel members as part of supply chain management. The more integrated approaches have involved retailers' activities that have traditionally been the province of manufacturers, such as product specification, quality control and operation of physical distributions. A growth in the importance of relational factors over transactional cost and longer-term relationships with fewer partners are consequences (cf. Shaw and Gibbs 1999, p.93). As Carlisle and Parker (1989, p.5) noted, "if customer and supplier firms can recognise their common ground is a shared interest in capturing the consumer sale, which actually nourishes them both, it should be possible for them to work creatively and effectively together to capture that sale for 'their' product."

In the retail context, Raphel (1996) finds that suppliers and retailers have agreed to co-operate with each other to survive in the new business environment. A supplier-retailer partnership guarantees business survival and prosperity as customer needs and wants are better satisfied. As one of his respondents said during interview: "By working together, retailers and wholesalers will not only insure that each will survive but also prosper because they are filling the basic requirement of staying in business: finding out what their customer wants.... and giving it to them. Which they both can do...by partnering!" (p.60). Further, a survey by Clayton Curtin Cottrel Research revealed that more than 85 % of manufacturers and 75 % of retailers agreed to use each other's databases for marketing and promotion (cf. Raphel 1996, p.59).

In addition to this, Buzeel and Ortmeyer (1995, p.88) described the development of partnerships between suppliers and retailers: "Traditionally, the relationship between retailers and suppliers was, at best, arm's length, if not at times downright adversarial..... The supplier's objective was to move the greatest possible volume of goods at the highest price. On the other hand, the retailer's goal was to negotiate the lowest price for those goods....... (Competitive) pressure led to the development of a new paradigm. It focused on a simple idea: make sure the right product at the right price is on the shelf when the customer enters the store, while maintaining the lowest possible inventory at all points in the pipeline running from suppliers to retailer." Because this strategy has to do with managing the pipeline of merchandise flow, it requires cooperation between retailers and their suppliers.

As markets have become more competitive, Teece (1992) notes that firms have started to abandon use of power to coordinate marketing channels (whether retailer or supplier). Instead, they have begun treating their channel collaborates as just that – partners. The motivation behind this is to enhance the value of the channel's market offering to its customers and/or to lower the total of the channel costs (Stern and El-Ansary 1992). In addition, it is now commonly recognised that the potential value of a firm is heavily conditioned by the 'excellence' of every node in the buyer-supplier chain (Pearson and Gritzmacher 1990). Consequently, firms are being forced to develop a much closer relationship with their suppliers (Dyer and Ouchi 1993).

3.1.2. The Supplier Partnership Construct

A partnership is " a balanced sharing of business systems, information, risks and any other elements, to effectively and efficiently meet the demands of the mutually targeted consumers." (Lewis 1996, p. 30). A partnership involves such elements as the use of long-term contracts, a reduced number of supply resources, and a high degree of mutual trust between the two parties. The relationship is long term in nature and involves close co-ordination and mutual commitment (Stuart and Mueller 1994).

A partnership represents a purchasing philosophy that expands the relationships with a supplier beyond that typically found in traditional purchasing methodologies. In more detail, Ellram and Edis (1996), describe the shifts in philosophy and attitudes toward suppliers required to move from a so called "traditional" to a "partnering" perspective as summarised in Table 3.1.

Table 3.1. Paradigm Shifts in Relationships

Traditional	Partnering
Suspicion and mistrust; each party wary of the motives of the other	Mutual trust forms basis of strong working relationship
Each party geared to what is best only for them	Shared goals and objectives ensure common directions
Communicated structured and guarded	Open communication avoids misdirection and bolsters effective working relationships
Single project contracting	Long-term commitment provides opportunity for continuous improvement
Objective limited due to fear or reprisal	Objective critique geared to candid performance testing
Mistakes lead to retribution	Create atmosphere where supplier is willing to come up with ideas and suggested changes
Limited organisational access: structured procedures: self-preservation takes priority over organisation	Organisational access and sharing resources
Involvement limited to project personnel	Total company involvement all levels
Finger-pointing and buck passing	Works as teams to solve problems
Arm's length – at worst, adversarial relationships	Nurturing relationship

Source: Ellram and Edis (1996, p.27).

In accordance with this view, Landeros and Monczka (1989) found five attributes of co-operative buyer-supplier relationships, which were:

1. A supply pool consisting of one or a few preferred suppliers
2. An alliance incorporating a credible commitment between the buying and selling firms
3. Joint problem-solving activities
4. An intensive exchange of information between firms

5. Joint adjustments to marketplace conditions.

Weiz and Jap (1995) suggest an alternative view that relationships or partnerships are learned through past interactions as trading partners act and react to each other. Relational exchange norms are based on the expectation of mutuality interest and are designed to enhance the wellbeing of the relationship as a whole. These norms have been operationalised as a higher order construct consisting of the dimensions flexibility, information exchange, and solidarity (Heide and John 1992). While norms refer to the behavioural standards against which group members evaluate the appropriateness of their conduct, such norms are manifested by the behaviours each side displays in the relationship (Campbell 1997). In this case, the three norms are manifested by three behaviours, namely joint decision-making, open information sharing and relationship-specific investments (Anderson and Weitz 1992; Campbell 1997; Spekman and Salmond 1992).

All three behaviours increase the possibilities of realising the benefits from partnerships. Both joint decision-making and information sharing help to co-ordinate buyers' and suppliers' activities. Frequent information sharing also fosters confidence in the continuity of the relationship and reduces dysfunctional conflict (Anderson and Narus 1990; Dwyer *et al.* 1987). Relationship-specific investments stabilise relationships by altering the firm's own incentive structure (Wiliamson 1985). These investments also stand as a "pledge", or a "credible commitment" which signals a firm's sincerity (cf. Campbell 1997, p.420). In the next subsection, the implementation of supplier partnership in Southeast Asia will be explored.

3.1.3. Supplier Partnership in Southeast Asia

A number of studies have indicated the importance of partnership approaches for doing business in Southeast Asia (e.g., Abramson and Ai 1997; Buttery and Wong 1999; Wong and Tam 2000). Abdullah (1992) found that there is a strong preference for using partnership-based approaches to business over task-based approaches. Southeast Asians seem to have developed, under Chinese and Japanese influence, a preference for guanxi-style relationships as the basis of buyer-seller relationships (Chen 1995) that are similar to a relationship-marketing approach (Abramson and Ai 1997).

The guanxi-style of relationship has led to business success in Chinese societies reflecting the ability to be flexible and adapt through the quick reaction within networks based on trust and promises of reciprocity. This type of relationship has underpinned the growth of importance of networks in Chinese communities and has encouraged the bonding process and refined its structure within networks (Buttery and Wong 1999). Guanxi-style relationships have been defined as a web of personal connections, relationships and obligations that businesspeople can use to obtain resources and advantages (Davies 1995).

Guanxi-style relationships generally involves a hierarchically structured network of relationships embedded with mutual obligations through a self-conscious manipulation of "face", "renqing" (favour), and related symbols. One of the most significant attributes is the Chinese preoccupation with "face." The distinction between "face" (Chinese) and self-esteem (Western) is that self-esteem is the "individual's view of himself", whereas "face" is the "individual's assessment of how others close to him see him" (Limlingan

1987, p.133). In addition, the word "renqing", indicated individual responses of daily life. It means a resource allocated to another person as a gift and connotes a set of social norms to guide an individual to get along well with other people (cf. Wong and Tam 2000, p.58).

The literature related to guanxi-style relationships has primarily focused on certain behavioural constructs including shared goals/information, a collaborative approach to disagreement, and the continual development of relationships within the network such as giving or exchange gifts and/or favours (Abramson and Ai 1997; Chen 1995; Davies *et al.* 1995). On the other hand, partnership behaviours have also emphasised shared information, joint problem solving, and relationship-specific investments (see Campbell 1997), suggesting that there are some similarities between the two concepts. In this study, the three partnership behaviours which were developed by Campbell (1997) will be used as components of supplier partnership construct. The next subsection will elaborate more of each supplier partnership components.

3.1.3. Components of Supplier Partnership

3.1.2.1. Information Sharing

Information sharing refers to the extent to which critical, often proprietary, information is communicated to the firm's partner (Mohr and Spekman 1994). Alternatively, information sharing is defined as "a bilateral expectation that parties will proactively provide information useful to the partner." It represents a guarantee to the supplier in the sense that the buyer can be expected to provide unforeseen information that may affect supplier operations (Heide and John 1992, p.37). Sharing of information can be conducted formally or informally (Anderson and Narus 1984). Information exchange is a crucial component of the interaction process due to the absence of communication being seen as a cause of conflict (Firat *et al.* 1974). Several studies suggest that the sharing of information is an important part of relationship marketing (e.g. Anderson and Weitz 1989; Dwyer *et al.* 1987). An open dialogue is often a necessary means in developing and preserving a shared understanding of the relationship (cf. Selnes 1996, p.310).

In addition to this, successful relationships are theorised to be high on information exchange connected to long-term planning and product, also operation and physical distribution related issues (Frazier *et al.* 1988). This view has been supported in an other study (Selnes 1996). Accordingly, honest and timely communications between buyer and supplier have a strong effect on relationship continuity. Further, Nielson (1997) found that a firm which has established close and extensive working relationships and with its partner will be more willing to share key strategic and operating information. It can be said that sharing proprietary information with key suppliers are the characteristics of information sharing.

3.1.2.2. Joint Decision Making

Joint decision making refers to the partner-firms engaging in combined decision making and problem solving (Nielson 1997). Dwyer *et al.* (1987, p.13) state that "joint decision making" especially related to performance and planning matters, is a key component of relational exchange and may even be essential to partnering success: "As the extent and scope of joint activities increase, the firms effectively become partners in an alliance" (Heide and John 1990, p.25).

In addition, Heidi and John (1990) noted that joint decision making involves inter-penetration of organisational boundaries. Organisational boundaries become penetrated by the integration of activities as the supplier becomes involved in activities that traditionally are considered the buyer's responsibility and vice versa. Joint decision making in the retail supplier relationship can occur over a large set of activities, including joint new product development, assortment planning, order processing, payment system, and joint promotional activities. Over the range and scope of joint activities, the firms effectively become partners in the relationship. Hence, the level of retailer and key suppliers take part in planning and decision making together are the characteristics of joint decision making.

3.1.2.3. Relation-specific Investments

The relationship between two parties develops overtime, and as they gain experience and learn to trust each other, they will gradually increase their commitment through relation-specific investments in services, processes, or people dedicated to the particular relationship (Dwyer *et al.* 1987). Relation-specific investments are non-fungible investments that uniquely support the buyer-supplier relationship (Wiliamson 1985). The non-fungible nature means that they are not easily transferable to another relationship. Therefore, they lose their value in the event that the relationship is terminated. Such investments are a necessary part of achieving strategic outcomes because they promise efficiencies in coordination (Williamson 1983, 1984). They facilitate expectations of continued exchange into the future (Heide and John 1990), and represent credible commitments to the relationships that are useful in minimising opportunistic behaviour and build trustworthiness (Anderson and Weitz 1992; Wiliamson 1985).

As the parties invest in the relationship, they simultaneously increase their dependence on the other party (Emerson 1962). Dependence arises from these investments because they make the focal exchange partner irreplaceable, or replaceable only at a high cost (Heide and John 1988). The interdependence between the two parties tends to reduce the probability that one party will act in a manner that produces a sub-optimal result for the partnership. Through greater interdependence, both parties work to create value of mutual benefit. As the level of partner's relationship specific investments increases, so does the partner's dependence on the relationship and willingness to collaborate (Spekman *et al.* 1996).

However, Spekman *et al.* (1996, p.836) noted that the more success of the partnership, relates to the specific investments, depending on:

(i) both sides belief that their own investments are substantial;

(ii) each recognising the substantial investments of the other;

(iii) both sides belief that they themselves would face difficulties accessing alternative partners; and

(iv) each beliefing that the other would face costly consequences if the established relationship were terminated.

When both partners believe that they have substantial levels of specific investments, mutual recognition of interdependence exists, as should a mutual willingness to collaborate (Heide and John 1990). It can be said, the level of management devotes their effort to improving relationship with key suppliers are the characteristics of relationship specific efforts. In the next section, the measuring retail performance will be explored.

3.2. Measuring Firm Performance in Business Research

Performance measurement historically developed as a means of monitoring and maintaining the process of ensuring that a firm pursues strategies that lead to the achievement of overall goals and objectives. Traditional models of performance measurement focus on the achievement of a limited number of key financial measures (for example ROI, ROA or ROCE). On the other hand, some scholars criticise the traditional performance measurement as failing to measure and monitor multiple dimensions of performance. In addition, firm success depends not only on the achievement of financial measures, but also on how well firms adapts to the environment (cf. Brignall and Ballantine 1996, p.6).

Moreover, researchers frequently encounter difficulty in obtaining accurate measures of financial performance, especially for privately-owned firms (e.g., Dess and Robinson 1984; Edgett and Snow 1996; Venkatraman and Ramanujam 1986). For instance, Dess and Robinson (1984) addressed these two problems appear in measuring objectively financial performance. Firstly, access to financial performance data on privately-owned firms is severely restricted. Such information is not publicly available. Owners are very sensitive about releasing any financial performance-related data and are the sole gatekeepers to such information on individual firms. Secondly, even if access to such information is obtained with a sample of privately-owned firms, there is greater risk of error attributable to varying accounting procedures in these firms (cf. Ailawadi *et al.* 1995, p. 41).

In response to the dissatisfaction with objective financial performance measurement, a number of performance measurement models have been developed. Bourgeois (1980) suggested the use of indirect measures (they are called subjective measures) of financial indicators to measure firm performance, which requires asking the perception of top management team about financial performance compared to their immediate competitors. Accordingly, subjective perceptions of relative position to competitors were strongly correlated with the objective performance index. This result is widely confirmed in other studies (Covin *et al.* 1990; Dess and Robinson 1984). It helps to explain why top management perceptions are consistent with the actual performance. However, there has been some debate as to whether relative performance measures are more reliable than absolute measures. Some studies use both subjective and objective measures, and/or relative and absolute measures in an attempt to overcome single measure biases (cf. Matheson *et al.* 1999, p.143) (Table 3.2.). The next subsections will elaborate more on performance measurements for this study.

Table 3.2. Performance Measurement in Market Orientation Studies

Author	Objective/Direct	Subjective/Indirect
Diamantopoulos and Hart (1993) (manufacturing companies)		Sales growth, profit margin and ROCE relative to the relevant industry averages
Jaworski and Kohli (1993) (across industry)	Dollar share of the served market	Overall performance business and overall performance relative to major competitors
Wong and Sunders (1993) (across industry)		ROI, relative sales growth, and change in market share
Deng and Dart (1994) (across industry)		Overall financial performance, corporate liquidity, sales volume, market share, penetration of the US market, sales in other export markets, new product development, developing new markets, quality improvements, productivity relative to your expectations
Narver and Slater (1994); Slater and Narver (1996) (across industry)		ROA, sales growth, new product success relative to all competitors in the served market
Greenly (1995) Greenley and Foxall (1998) (across industry)		ROI, new product success, and sales growth (market share for Greenley and Foxall) relative to their competitors
Armstrong and Collopy (1996) (across industry)	After-tax-ROI data over nine years	
Pelham (1996) (1997) (2000) (small firms)		Marketing/sales effectiveness (relative product quality, new product success, and customer retention rate), growth/share (sales level, sales growth rate, share of target market) and profitability relative ROE, gross margin, ROI) to informant's satisfaction compare to main competitor
Bhuian (1997) (Bank)	ROA, ROE, and sales per employee	

cont.

Liu and Davies (1997) (retail industry)		Market share, profit growth, and ROA relative to market average
Chang and Chen (1998), Chang *et al.* (1999) (automotive distributors)		Total sales, net profits. ROA, relative sales volume relative market share, and overall performance
Han *et al.* (1998) (bank)	Net income growth and ROA	Relative growth and profitability
Shaw (1998) (across industry)		profitability, sales growth, and market share
Siguauw *et al.* (1998) (distributors and suppliers)		Cash flow, return on shareholder equity, gross profit margin, net profit from operations, profit to sales ratio, ROI, and ability to fund business growth from profits relative to informant's satisfaction
Tse (1998) (hotel)	Total asset, total equity, sales, net income, ROI, ROE and profit margin	
Sargeant and Mohammad (1999) (hotel)	Turn over and profitability	
Vorhies *et al.*(1999) (manufacturing and service firms)		Growth (changes in market share, market share growth, sales growth), Profitability (business unit profitability, ROI, ROS), Customer Satisfaction (customer satisfaction, delivering value to customers), Adaptability (number of successful new products, introduction of new products, time to market for new products) relative to the major competitors

3.2.1. Assessing the Firm Performance

Measuring firm performance has become an important component of empirical research in the field of strategic management, marketing strategy or retail strategy. Researchers frequently consider the performance of firms when investigating the consequences of marketing strategy (e.g., Capon *et al.* 1990; Covin *et al.* 1990; Diamantopoulos and Hart 1993; Han *et al.* 1998; Jaworski and Kohli 1993; Narver and Slater 1990). Two basic issues in measuring firm performance are (1) selection of a conceptual framework which defines firm performance and (2) identification of accurate available measures that tapping firm performance construct (Dess and Robinson 1984).

Regarding the first issue, Venkatraman and Ramanujam (1986) classified performance measurement based on characteristics of data. Accordingly, there are four types of data, namely financial indicators, non-financial indicators, direct/objective measures and indirect/subjective measures. Financial indicators, which have been the dominant model in empirical research (Capon *et al.* 1990), reflect the fulfilment of the economic goals of the firm. Typical of this approach would be to examine such indicators of profitability (reflected by ratios such as return on investment, return on equity, and return on sales), as earning per share and so forth.

Non-financial indicators focus on those key operational success factors that might lead to financial performance. Under this framework, it would be logical to treat such measures as market-share, product/service quality, customer satisfaction, customer loyalty and new product success (Venkatraman and Ramanujam 1986). For instance, customer satisfaction widely believed to be a determinant of profitability (Anderson and

Sullivan 1993; Anderson and Lehman 1994) would be meaningful indicators of performance within this context.

While firm performance can be measured using the financial indicators, non-financial indicators, or both, a further issue in its operationalisation is the type of data. The types of performance data have either been direct/objective (e.g. data collected directly from firm records, publicly available records or from customers) or indirect/subjective (e.g. data collected based on the perception of top management about both the current/past performance relative to the target or industry average) (Dess and Robinson 1984). Using the conceptualisation of firm performance (financial versus non-financial indicators) and types of data (direct/objective and indirect/subjective) as two basic but different concerns in the overall process of measuring firm performance, a six-celled classificatory scheme (shown in Figure 3.1) is developed.

Figure 3.1. A Scheme for Classifying Alternate Approaches for Measuring Firm Performance

		Conceptualisation of Firm Performance		
		Financial Indicators	Non-Financial Indicators	Both Indicators
Types of Data	Direct/ Objective	1	2	3
	Indirect/ Subjective	4	5	6

As Figure 3.1 indicates, six approaches are conceptualised within a particular cell. For example, in Cell 1, the conceptualising scheme for firm performance uses financial performance data obtained from direct/objective measures (e.g. Capon *et al.* 1990; Diamantopoulos and Hart 1993), while Cell 2 focus on eliciting financial data from the perception of top management (e.g. Dess and Robinson 1984; Narver and Slater 1990; Jaworski and Kohli 1993). Cells 3 and 5 focus on non-financial indicators collected from objective measures (e.g. Buzzell and Wirsema 1981; Conant *et al.* 1993) and subjective measures (direct or indirect) (e.g. Golden 1992; Edgett and Snow 1996), respectively. It is readily apparent that these four approaches have a narrow perspective on firm performance (Venkatraman and Ramanujam 1986). Alternatively, combining financial indicators and non-financial indicators (Cell 3 and 6) can broaden it out (e.g. Brignall *et al.* 1991; Fitzgerald *et al.* 1991; Brignall and Ballantine 1996).

A classificatory scheme as presented in Figure 3.1 is useful. It serves as a basis to compare and contrast different measurement approaches. Table 3.2 summarises the key benefits and limitations of the six measurement approaches. In addition, the table contents key methodological issues. This scheme will be used for classification of performance measurements in this study.

Table 3.3. Benefits and Limitations of Alternative Approaches for Measuring Firm Performance.

Cells	Description	Benefits	Limitation	Key Methodological Considerations When Using This Approach
1	Financial Indicators from Objective/ Direct Measures	(a) Provides data on financial aspects, which would not be other-wise available; (b) Can be used especially in single/dominant firm, and in 'within-industry studies.'	(a) Differences in accounting policies may limits its use for comparison purposes; (b) Access to performance data is severely restricted	(a) Examine the feasibility of using stock-market indicators (b) Assess difference in accounting policies when feasible
2	Non-financial Indicators from Objective/ Direct Measures	(a) Provides performance data when financial data either may not be available or may inappropriate	(c) Problems of data availability on various indicators for development of the requisite measures; (d) Relationship to financial performance not known	(c) Attempt to define concepts such as market-share, customer satisfaction, customer loyalty, etc., as consistently as possible across firms
3	Both Indicators from Objective/ Direct Measures	(a) Provides a more comprehensive operationalisation of firm performance; (b) Enables one to examine the relationship between financial and operational aspects of performance	(e) Inability to validate operationalisations across different data sources	(a) Assess differences in accounting policies (b) Address the dimensionality issue both theoretically and empirically
4	Financial Indicators from Subjective/ Indirect Measures	(c) Provides self-reported financial data with less problems of external interpretation and aggregation of data	(a) Data is likely to be biased	(c) Choose target respondents based on specific criteria (position, function, etc.); (d) Use multiple respondents to examine the extent of systematic bias as well as minimise measurement error.
5	Non-financial Indicators from Subjective/ Indirect Measures	(a) Provides some basis to include considerations of performance in the research design; (b) Less likely to be influenced by reasons of confidentiality, sensitivity, etc.	(a) Data is likely to be biased (b) Relationship performance not known	(e) Choose target respondents based on specific criteria (position, function, etc.); (f) Use multiple respondents to examine the extent of systematic bias as well as minimising measurement error.
6	Both Indicators from Subjective/ Indirect Measures	(c) Provides a more comprehensive operationalisation of firm performance; (d) Enables one to examine the relationship between financial and operational aspects of performance	(c) Inability to validate operationalisations across different data sources	(g) Choose target respondents based on specific criteria; (h) Address the dimensionality issue both theoretically and empirically (i) Use multiple respondents to examine systematic bias due to position, level, etc., as well as minimising measurement error

Source: Adapted from Venkatraman and Ramanujam (1986, p.808-811)

3.2.2. Performance Measurement in the Retail Sector

3.2.2.1. Financial Indicators

The type of financial indicators that should be used in measuring retail performance is still in debate, whether it is gross margin, operating margin, pre- or post-tax margin, return on assets or capital employed or return on sales (see cf. Burt and Sparks 1997, p. 136; Ailawadi *et al.* 1995). Some researchers have noted that these indicators may suffer from differences in accounting practice. Unfortunately, they do not provide a solution to the problem, and the debate over the extent to which accounting profits can be used as indicators of financial performance continues (cf. Ailawadi *et al.* 1995, p. 41).

The three most common indices used are sales growth, gross margin and rates of return (Bradley and Taylor 1992). Sales growth has subsequently been used in a number of follow up studies (e.g., Doyle and Hooley 1992; Greenley 1995b; Hooley *et al.* 1992;Narver and Slater 1994). Sales growth will be used in this study as it is gaining wide acceptance in the literature as a suitable business performance measure in conjunction with other measures such as market share and profitability (Matheson *et al.* 1999).

Gross margin is the difference between the net sales revenue and the net direct acquisition cost of the merchandise sold, based on the cost of purchase, adjusted for changes in inventory holdings. It reflects the difference between average buying and average selling prices including any price discounting (O'Riordan 1993, p. 33). Rates of return is measured as an interest return on owners' investment, at the best net interest rate they could earn elsewhere (Ailawadi *et al.* 1995).

In addition, Ingene (1984, p. 24) stated that gross margin has been favoured as a valid measure of retail performance. She argued that " the best measure of retail output from the viewpoint of management is gross margin. It adjusts sales for the cost of merchandise and nothing else." Further, gross margin could be treated as a measure of the efficiency of the retail firms (O'Riordan 1995).

On the other hand, a number of retail scholars argue that margin analysis is not the best measure. Any reported firm margin figure will disguise different margins across product ranges and between retailer and manufacturer brand (cf. Burt and Sparks 1997). For this reason, they use rate of return as a performance measurement. For instance, Lewis and Thomas (1990), examining the relationship between retail strategy and performance in UK grocery stores, used ROS (return on sales) and ROCE (return on capital employee) as a financial measurement. Accordingly, the first indicator is relevant in the retail sector, where trading margin is small, and ROCE is a commonly employed measure of capital efficiency in the retail industry. Moreover, ROCE probably is the best overall measure of retail performance under circumstances where retail firms require high levels of investment resulting from high capital costs in terms of land, building, information technology, etc. (OXIRM 1994; Burt and Sparks 1997).

Despite the relevance to retail performance, a change in the basis of calculation in accountancy practice would have a major impact on financial ratios (e.g. ROI and ROCE) (Burt and Sparks 1997). Thus, there is a greater risk of relying on financial ratios, if the firms that one is trying to compare have different accountancy practices (Varadarajan and

Ramanujam 1990). In addition, access to financial data, especially for privately-owned firms, is severely restricted (Dess and Robinson 1984). Dess and Robinson (1984) used subjective measures to cope with the problem of varying accountancy practices and the absence of objective measures. Accordingly, subjective perceptions of relative improvement were strongly correlated with objective measures of the absolute changes in return on assets and sales over the same period. Hence, the TMT's (top management team) perception of how consistent their firm's performance was with the firm's actually performed *vis-à-vis* return on assets and growth in sales. Based on their findings, some researchers in marketing and retailing use the subjective measures in their research (e.g. Conant *et al.* 1989; Liu and Davies 1997; Narver and Slater 1990; Orvice 1996; van Egeren and O'Connor 1998).

3.2.2.2. Non-Financial Indicators

As was discussed earlier that non-financial indicators focus on those key operational success factors that might lead to financial performance. The non-financial indicators to be used will now be presented in detail. The first indicator is market share. Market share can be operationalised using either an absolute measure such as the ratio of a firm's dollar sales to the combined dollar sales of the industry (Kohli and Jaworski 1990), or as a relative measure using market share compared to competitors and called as relative market share (Buzzell and Wieserma 1981).

Market share is one of the non-financial indicators that have been frequently used in marketing and retailing research (e.g. Buzzell *et al.* 1975; Cronin and Skinner 1984;

Changing cost structures and competitions have implications for the retailers' policies for the supply of goods and availability in products. Out of stock situations, become more serious when the consequence is a short-term loss of sales associated with the under-utilisation of fixed areas of selling space and a longer-term loss of buyer loyalty. This is most serious in the areas of convenience, rather than comparison shopping when consumers tend to be loyal to the same source of supply. Even for comparison goods, such as clothes, out of stock situations become more serious for niche marketers, part of this strategy is to build buyer loyalty for the particular niche offering. Frequent out-of-stock situations may disturb this loyalty. Retailers are extremely conscious of heightened costs of out-of-stock both in real cost terms and as an impact on consumer loyalty. Therefore, a very evident element in competition has become the need always to have the product available to the consumer (Dawson and Shaw 1987)

On the other hand, the problems of over stock frequently face by retailer as opposite from the out-of-stock problems. This situation forces retailers to make a plan carefully their stock policy. One of criteria could be used in evaluation stock performance was the stock turn over. In addition, stock turn over is a critical factor in Indonesian retailers (Munir 1999). High turn over is necessary to improve financial performances. For example, Indonesian retailers pay to their supplier two weeks after receiving the products. The discrepancies between fresh money come from the customers and suppliers payment have been utilised by retailer's fund manager for playing in money market. Therefore, stock-turn over will be used as a measure of non-financial indicator in this study.

As it was mentioned earlier, that measuring firm performance is a multidimensional phenomenon (Steers 1975; Venkatraman and Ramanujam 1986). Firm performance is therefore measured both by means of financial and non-financial indicators. It provides a more comprehensive operationalisation of firm performance and enables one to examine the relationship between financial and operational aspects of performance (Venkatraman and Ramanujam 1986). Therefore, in this study, the author will use both the indirect/subjective and direct/objective, and financial and non-financial indicators. There are gross margin, return on sales (ROS), return on capital employee (ROCE), market share, sales growth, labour productivity, space productivity, and stock turn.

3.3. Environmental Variables

Theoretical approaches to understanding the environment's effect on firms have been recognised in environment theory such as environmental conditions and uncertainty (Downey *et al.* 1975; Duncan 1972; Lawrence and Lorsch 1967; Tosi *et al.* 1973), and the environment as a source of information and stock of resources (Aldrich and Mindlin 1979; Achrol 1992; Dess and Beard 1984; Dwyer and Welsh 1985).

Consistent with this view, Ahcrol (1992) noted that the ability to acquire and maintain resources is required for a firm survival. Accordingly, if the resources needed by the firm are continually available, there will be no problem. Problems arise not merely, because firms are dependent on their environment, but because this environment

Hooley *et al.* 1990; Deng and Dart 1994; Liu and Davies 1997). In the survey of 379 CEOs from a wide cross section of consumer, industrial and service organisation, Doyle and Hooley (1992) found that market share is the most important measure of performance. The positive impact of market share on profitability is well established (Shoeffer *et al.* 1974; Buzzell *et al.* 1975; Buzzell and Wiersma 1981). The leading market share can enhance a market power – their size permits them to bargain more effectively with the supplier (Buzzell *et al.* 1975). Consequently, they get more benefit than other competitors such as: merchandise cost, terms of payment and merchandise support. Further, Dawson and Shaw (1987) explain the reasons why retailers put an increasing market share as a dominant strategy. Firstly, market share affects on share price. Secondly, market share will give retailers a power to influence prices.

The second indicator is productivity. A number of studies have undertaken to investigate retail productivity as a measure of performance (cf. Serpkenci 1984). Productivity is measured as a single input factor to an output measure, other inputs assumed constant (Goodman 1985). There are two types of productivity commonly used in measuring retailers outcome namely labour productivity and space productivity (e.g. Ingene 1982; 1984; Cronin and Skinner 1984; Goodman 1985; OXIRM's 1994). Labour productivity is the ratio of total output to the amount of laboured employed to create that output, usually use net sales per employee to measure it (Ingene 1982; Cronin and Skinner 1984; Magi and Julander 1996). The later type is measured through net sales per square foot of selling space (Cronin and Skinner 1984). Space productivity has been identified as an important determinant of retailer's profitability (Rosenbloom 1981).

can change. New firms enter and exit, and the supply of resources becomes more or less scarce. When environments change, firms face the prospect either of not surviving or of changing their activities in response to these environmental factors (Pfeffer and Salancik 1978, p. 2-3). This development reflects the fact that the need to consider environmental forces is obvious, and easily asserted. In the next subsections, the conceptualisation of environments will be discussed and is followed by elaborating each of environmental variables.

3.3.1. Conceptualisation of Firm Environments

Many scholars in the environment field (e.g., Aldrich 1979; Duncan 1972; Achrol 1992) have attempted to describe or conceptualise firm environments. However, nor a single approach to conceptualising the environment or to measure it has received widespread acceptance (Sharfman and Dean 1991). According to Dess and Rasheed (1991, p.701), there are three interrelated problems: namely, (a) a lack of consensus as to the relevant dimensions of the environment, (b) disagreement concerning how these dimensions should be measured, and (c) uncertainty as to the effects each dimension has on organisational strategies, structures, process, or outcomes.

One of the earliest and most influential attempts to conceptualise firm environments was the work of Emery and Trist (1965). They categorised environment within four types, which differed according to the source and nature of the interdependence between the environment and the firm. The first type is called placid-randomised, referred to a situation in which the resources desired by the firm were randomly distributed throughout the environment. The second type of environment, called placid-clustered, referred to an environment in which the pattern of resources was sequentially predictable. The third type is called disturbed-reactive. In this environment, the distributions and probabilities of resources were created by the actions of the firm themselves. Competitive intensity characterised such environment. The final type of environment was turbulence. It involved the connection of sets of actors to other sets of actors, such that any one actor was connected to the set of actors with which he was immediately interdependent, and the environment itself was interconnected with other sets of interdependent actors (cf. Pfeffer and Salancik 1978, p.63).

Following the work of Emery and Trist (1965), Pfeffer and Slancik (1978, p.68) proposed that there were three dimensions of firm environment: concentration, munificent and interconnectedness. In addition to this, Aldrich (1979, p.63) suggested that there were six useful environmental dimensions: environmental capacity, environmental homogeneity-heterogeneity (diversity), environmental concentration-dispersion, domain consensus-dissensus, environmental stability-instability (dynamism) and environmental turbulence.

Furthermore, Dess and Beard (1984) reduced the six environmental classifications of Aldrich's to three: munificence (capacity), complexity (homogeneity-heterogeneity, concentration-dispersion), and dynamism (stability-instability, turbulence). Following the work of Dess and Beard (1984), Keats and Hitt (1988), and Sharfman and Dean (1991) used similar three sets of variables to conceptualising and measuring organisational environment, which were complexity, instability and resources availability.

Achrol *et al.* (1983) and Achrol (1992) integrated and modified the previous worked into channel context. He proposed core taxonomy of seven dimensions for studying marketing channel environments: environmental capacity, diversity, dynamism, concentration, interconnectedness, interdependence and conflict.

Recent advances in the marketing literature review, Jaworski and Kohli (1993), and replicated by Diamantopoulos and Hart (1993) and Greenley (1995), used market turbulence, technological turbulence, market growth and competitive intensity as environmental variables in order to investigate the relationship between market orientation and performance. In the same research objective, Slater and Narver (1990; 1994) added other environmental variables in their research: buyer power, ease of market entry and firm concentration. Based on the previous discussion, this study will use three environmental variables, as follows:

- Competitive Intensity
- Market Turbulence
- Demand Volatility

The first dimension represents environmental munificence or capacity (van Egeren and O'Connor 1998). In the situation of low environment munificence, market competition tends to high (Dess and Beard 1984; Porter 1980). The second and third dimension represent environmental dynamism, which is the degree of change or market stability (Aldrich 1979; Dess and Beard 1984). The next subsections will elaborate more each of environmental variables.

3.3.2. Competitive Environment

Competitive environment represents the degree of threat to the firm posed by multifacetedness, vigour and intensity of the competition and the downswings and upswings of the firm's principal industry (cf. Miller and Friesen 1983, p.222). Competitive environment intensify challenges to the firm, and often complicate these challenges. Greater analytical effort must therefore be devoted to understanding and mastering threats (Khandwalla 1973). Highly competitive environment leads to scarcer resources, slimmer profit margins, and, in general, less manoeuvrability (Miller and Friesen 1983).

Indonesian consumers, especially in Jakarta, are more demanding and, accordingly, are increasingly selective about their shopping location. This has left the retailers with increased competition. Previously the main goal was to attract the consumer from traditional trade channels. This still remains important but the local retailers are now conscious also of the competition from both their local counterparts and from likely foreign entrants. Each appears to adopt different approach to gain customer attention. Hero, for example, looks to medium-size neighbourhood shops whereas GORO sees the future as being in centralised mega outlets.

Apart from this, Indonesian government has been relaxed its restrictions on foreign investment in the retail and wholesale markets since 1998. It allows foreign investors to own a majority share in a partnership with local companies. The imminent relaxation of rules on foreign trade competition in Indonesia is expected to increase the level of competition. For instance, the presence of French hypermarket chains Carrefour and Continent lead to price competition with existing players. They are more aggressive in below the line activities such as consumer promotion and price discounts (Warta Ekonomi 1999).

In addition to this, the increasingly tough competition has a result of different retail format pursue same target consumers. Currently, there is a tendency among department stores to operate supermarkets in their outlets. Giant department stores Matahari and Ramayana, for example, usually include supermarkets in the outlets, which they open under the 'Super Bazar' strategy. Even Matahari, with Superstore Mega-M concept, combines supermarkets and department stores in a very large scale. In addition, the retail business is enlivened with mini markets, hypermarkets, and central warehouse stores. Minimarkets have continued to appear in residential areas, business centres, and hotels. Hypermarkets, such as Continent and Carrefour, have continued expand their outlets from city centre to outskirts of Jakarta. Meanwhile, central whole stores such as Makro, Goro, Club warehouse, and Indogrosir also sell their products directly to end-users.

3.3.3. Market Turbulence

The concept of turbulence refers to difficult-to-predict discontinuities in an environment (Keats and Hill 1988, p. 579). Having said that, turbulence should be restricted to change that is hard to predict and that gives rise to uncertainty for the firm within this environment (Dess and Beard 1984; Miles *et al.* 1974). Further, Aldrich (1979, p. 69) noted that environmental turbulence "leads to externally induced changes that are obscure to administrators and difficult to plan for." Hence, *environmental turbulence* could be defined as the rate of variability or turnover in elements of environment or the extent to which the environmental changes are difficult to predict (Ahcrol 1992; Klein *et al.* 1990). Difficulty in prediction can stem from changes in either market patterns or technology (Sharfman and Dean 1991).

Additionally, turbulence is the result of interconnectedness among environmental elements (e.g. firm, supplier, and customers). From this perspective, "the changes can come from anywhere without notice and produce consequences unanticipated by those initiating the changes and those experiencing the consequences" (Pfeffer and Salancik 1978, p. 69). Given this definition and Indonesia's uncertain economic and political turmoil, there is no doubt that environmental turbulence is a dominant concern.

Environmental turbulence, in the case of Indonesia, evolves largely from circumstances of economic crisis in 1997 and follows by political instability in 1998. These situations affect economic structure as a whole such as the collapse of banking system, bankruptcy of some big business players, and decreasing significantly consumer purchasing power.

Because of the complexity of this variable, in this study, the author focuses on market turbulence and demand volatility. Market turbulence is measured by degree of change related to the customers' composition and their preferences (Jaworski and Kohli 1990, p. 14). The instability and dynamism of the market, in a sense, represent business opportunities for the market-oriented firms, which hope to have better understanding of the environments in which they operate (Kumar *et al.* 1997).

3.3.4. Demand Volatility

Demand volatility refers to the extent to which demand changes are rapid. High volatility in a retail industry would reflect rapid fluctuations in customer demand and the inability to predict trends and future out-comes in specific markets (Klein *et al.* 1990). A concept central of this perspective is the rate of change and the degree of instability of factors within an environment (Li and Simerly 1998). This perspective maintains that increasing levels of demand volatility will lead to greater environmental uncertainty (Duncan 1972).

Tosi *et al.* (1973) suggested that demand volatility could be used as criterion uncertainty measures. Their reasoning was that uncertainty is partially a function of the ability to predict events in the environment. A high degree of demand volatility may reflect a low ability to predict events. Moreover, demand volatility be considered as indicators of dynamic and unsettled market structures (Downey *et al.* 1975).

When there is a greater demand volatility, top managers face situations that are unclear, and that present few well-developed alternatives and few clear evaluation criteria by which to select alternatives. Combined together, these factors may force top managers to perform limited search in their assessment of the environmental situation, develop solutions by taking concrete actions quickly, and attempt less integration of various emergent responses (Li and Simerly 1998).

3.4. Summary

The purpose of this chapter has been to elaborate variables, which are related to the research problem and to identify components of each variable, which can be used for instrument development. The chapter started with several definitions of supplier partnership. Anderson and Weitz's (1992) definition was adopted. In conjunction with this definition, three elements of supplier partnership were explored: information sharing, joint decision making, and relationship-specific efforts. All three behaviours increase the possibilities of realising the benefits from partnerships.

In the second discursive section, performance measurement was discussed. The study adopted Venkatraman and Ramanujam's (1986)-performance measurement classification. Accordingly, there are four types of data, which are financial indicators, non-financial indicators, direct/objective measures and indirect/subjective measures. In the third section, the role of environmental variables in marketing and management studies has been explored. The literature review suggested to use three environmental variables, which are competitive intensity, market turbulence and demand volatility.

Following the literature review in chapter two and three, the next chapter will propose a theoretical model for this thesis. Guided by this model, the research hypotheses of this study will be proposed along with a thorough discussion of the rationale underlying the hypotheses.

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Chapter Four

Research Hypotheses

THE DEPARTMENT OF MARKETING

Chapter 4

Research Hypotheses

Previous chapters reviewed the literature related to market orientation, and other related concepts used in this study. A conceptual framework was proposed depicting the links among the market orientation, supplier partnership, firm performance, and environmental variables. The framework guides the development of specific hypotheses, which are subsequently tested in this study.

The remaining sections of this chapter discuss the proposed hypotheses in the light of the structure of the conceptual framework. Section 4.1 starts with a model of theoretical relationship. Then, it is followed by developing formal hypotheses. Firstly, section 4.2, starts with analysis of the effect of market orientation on firm performance. Next, the discussion is centred on investigating a supplier partnership as a mediating variable. Two requirements for mediating roles: (1) market orientation has a correlation with supplier partnership; (2) supplier partnership correlates significantly to firm performance. Section 4.4 subsequently discusses the role of environmental variables as antecedence of market orientation and supplier partnership. Finally, Section 4.5 explains the influences of performance measurement on the results of the study, especially in the market orientation study.

4.1. A Model of Theoretical Relationship

Figure 4.1 visually describes the theoretical construct of the proposed study. Briefly, the model comprises of four sets of factors: (1) the market orientation construct, (2) firm performance, (3) supplier partnership construct (mediator variable) and (4) environmental variables (moderator variables). The model will be divided into a three level analysis. At level 1 (see Figure 4.1) the general relationships of four set factors are indicated, market orientation, firm performance, supplier partnership and environmental variables. The underlying rationale comes from the coalignment principle, which advocates the environment $\longrightarrow$ firm behaviour $\longrightarrow$ performance paradigm (Cavusgil and Zou 1994; Li and Clantone 1998). Further, in their market orientation study, Avlonitis and Gounaris (1999) found environmental variables to be a determinant of market orientation. At this level, environmental variables have an impact on market orientation and supplier partnership. Overall market orientation has an impact on firm performance in terms of financial and non-financial performance. Supplier partnership will mediate the effect of market orientation on firm performance. Finally, environmental variables will be as antecedence of market orientation and performance.

At level 2 (see in Figure 4.2) the focus is on the relationship between components of market orientation and firm performance; components of market orientation and supplier partnership. At this level, each component of market orientation has an impact on firm performance. For instance, the level of customer orientation relates positively to firm performance. Or the level of inter-functional coordination relates positively to firm performance. Additionally, each component of market orientation has an impact on supplier partnership. For example, the level of competitor orientation affects positively supplier partnership.

Figure 4.1. Model of Relationships between Market Orientation, Supplier Partnership, Firm Performance and Environmental Variables

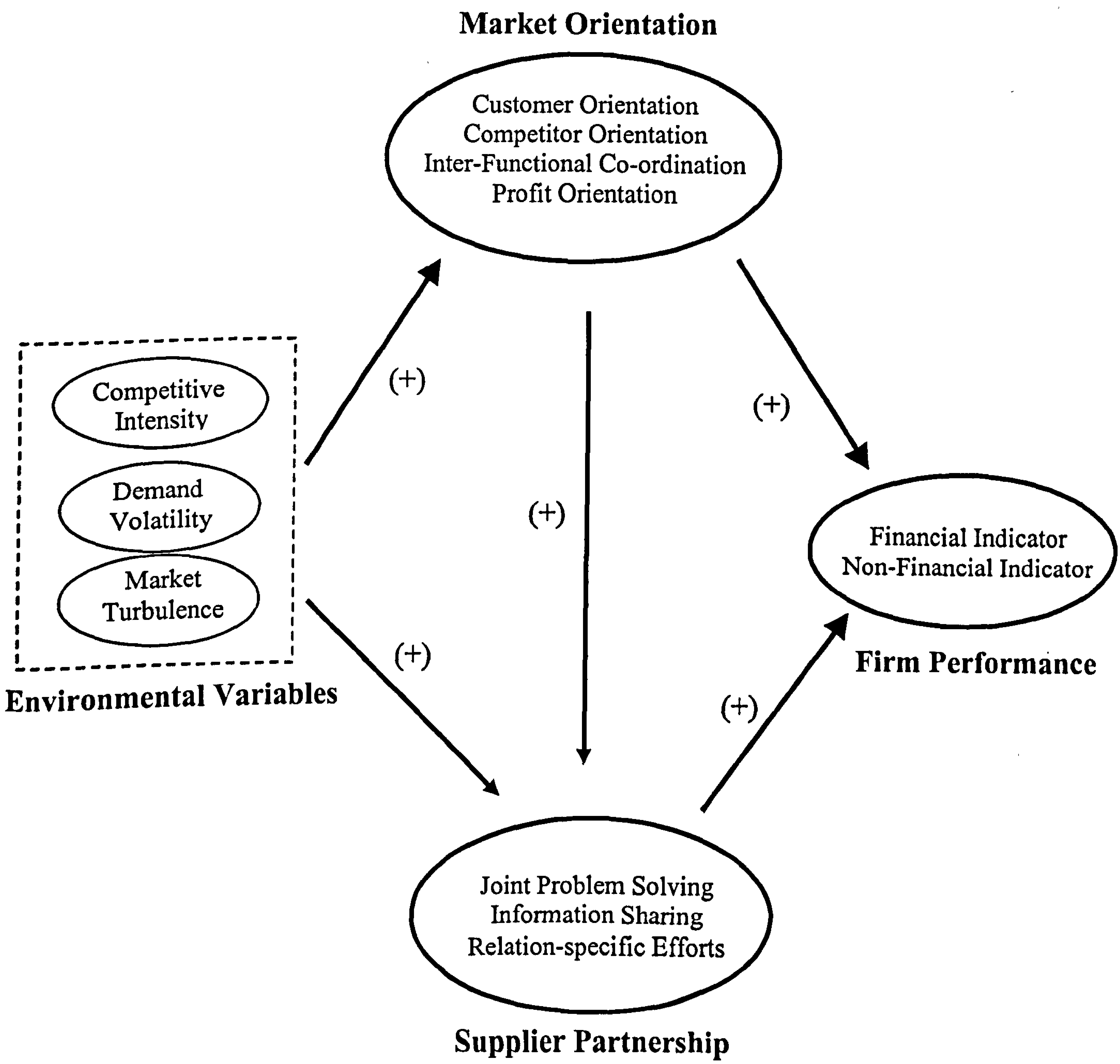
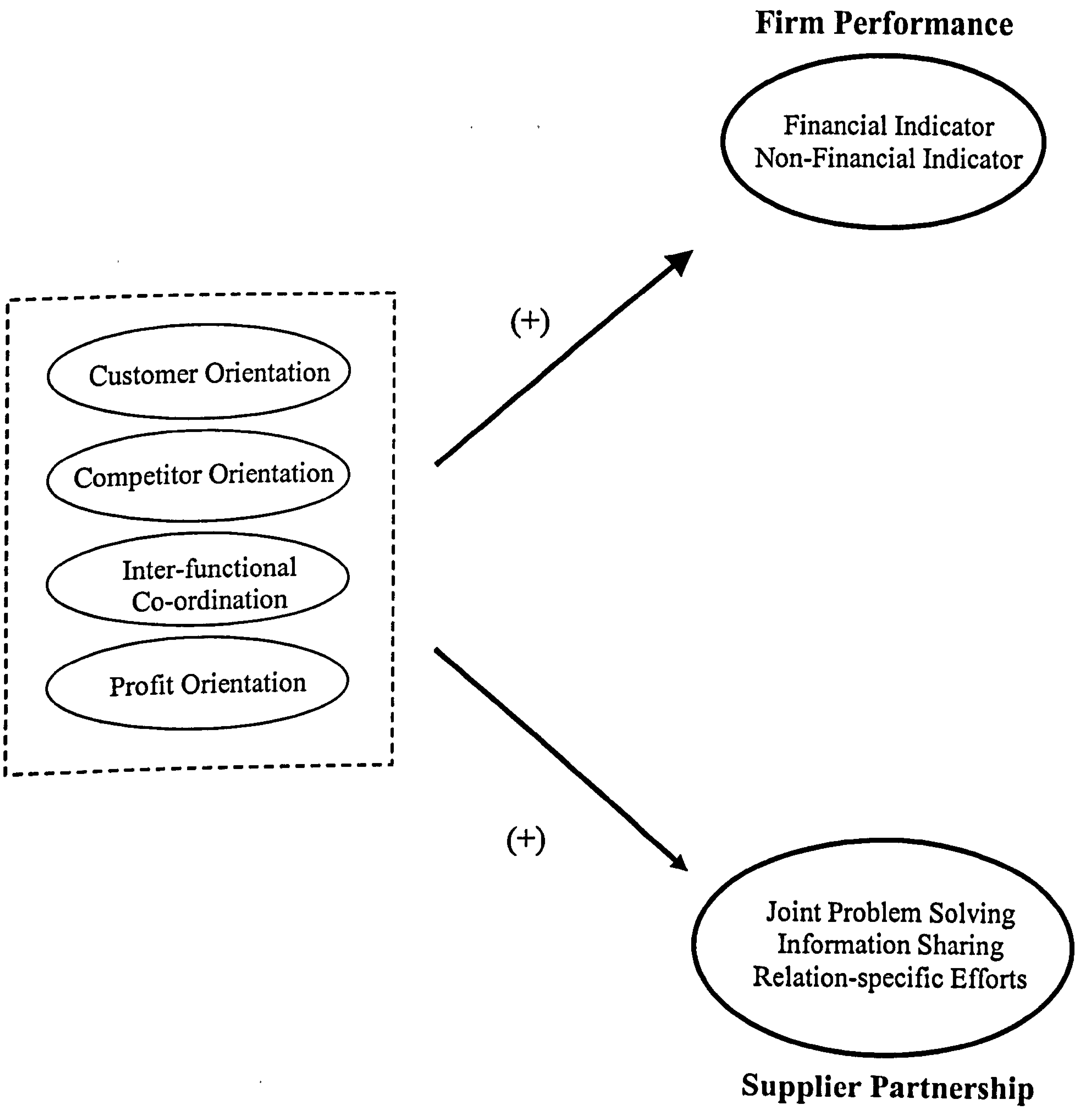


Figure 4.2. Model of Relationships between Components of Market Orientation, Firm Performance, Supplier Partnership



At level 3, the focus is on the relationship between components within each factor. The objective of this analysis is to examine the extent to which each component within the construct tap the same construct. Within the market orientation construct, for example, inter-functional coordination and customer orientation relate positively. In addition, within the firm performance construct, non-financial indicators and financial indicators have a positive relationship. The following subsections will develop some of the relation in the model into formal hypotheses.

4.2. Market Orientation and Performance

The basic question in this study was the extent to which market orientation affects retail performance. Based on a theoretical approach, market orientation affects positively performance positively. The rational behind this approach is that market orientation appears to provide a unifying focus for the efforts and projects of individuals and departments within an organisation in order to create superior value to the customers, thereby leading to superior performance (Kohli and Jaworski 1990; Narver and Slater 1990). Most of the marketing scholars would support that statement (e.g. Day 1993; Deshpande *et al.* 1993; Hunt and Morgan 1995; Langerak *et al.* 1997; Pelham 2000; Shapiro 1988).

A market-oriented firm continuously monitors its customers' changing needs and attempts to satisfy those needs by modifying its total offering, whilst remaining profitable. In the long run, a market-oriented firm may produce higher profits through superior quality, which in turn leads to higher productivity and stronger customer loyalty (Zeithaml *et al.* 1990). Moreover, a market-oriented firm is able to match customers' needs with a firm's capability. Understanding customers' preferences can result in narrowing perceptual gaps between customers and the management, and lead to better firm performance because customers are better served.

Through its customer-value-oriented activities, a market-oriented firm is well positioned to develop products and ancillary services that cost effectively satisfy customer needs (Deshpande *et al.* 1993). Employees throughout the organisation develop a thorough understanding of the customers' current and potential preferences, frequently discuss customers' satisfaction with their products and with competitors' products, and act quickly to take advantage of market opportunities (Slater and Narver 1996). The tracking of customer satisfaction by a market oriented firm and its timely response to the information generated, results in higher customer retention. Moreover, a greater understanding of customers and competitors by a firm results in more effective decision making, leading again to higher firm performance (Pelham and Wilson 1996).

Moreover, a market-oriented firm continuously studies various means of improving and enhancing sustainable superior value for its customers. To accomplish this objective, marketers must have sufficient knowledge of their buyers' preferences as well as buyers' perception of competitors' offers. Retail firms that are more oriented to their markets and more knowledgeable of their customers are more likely to structure their services based on customers' needs and preferences. As a result, they are capable of creating exceptional value for their customers (Day 1994; Day and Wensley 1988). In return, customers would be expected to perceive the retail firm's services as being of premium quality. Some researchers have suggested that quality is a key output of a market-oriented firm (e.g. Chang and Chen 1998; Chang *et al.* 1999;

Day 1994; Jaworski and Kohli 1993). With the right quality, customers respond by continuing patronage and spreading goodwill. Such responses enhance the effectiveness of a firm's operation and lead to customer satisfaction.

Preliminary empirical research has carried out by Narver and Slater (1990) to examine the relationship between market orientation and firm performance. They conducted a study of a single industry, which showed that market orientation was positively related to return on assets (ROA). Other scholars used samples drawn from several industries to generalise findings from previous empirical research. For example, Jaworski and Kohli (1993), using 230 firms in the U.S. found that market orientation positively related to overall firm performance.

In the tradition of replication, a number of studies were undertaken to empirically test the market orientation-performance association in different contexts and controlling variables. The findings confirm the previous research. For example, Fritz (1996) conducted an investigation of 144 firms in Germany revealing that the association between market orientation and sales, profitability, ROA and overall performance was significant. Pitt *et al.* (1996) who used 161 firms in U.K. and 193 firms in Malta in their study, found that the level of market orientation affects positively the subjective financial performance: ROCE and sales growth. More over, the work of Orvis (1996), and Liu and Davies (1997) developed further these idea in the context of the in retail industry with results parallel to those of previous research. These findings help to explain how retailers that have a high level of market orientation attain high levels of performance.

Given this evidence, an examination of the relationship between market orientation and firm performance in the Southeast Asia would appear be justified.

Most of market orientation studies have mainly concentrated on firms from advanced countries (Bhuian 1997); in particular, research on retail industry in the Southeast Asia has been scarce. However, an attempt is made by Hong and Chen (1998) to examine the consequences of market orientation in small Chinese firms, and they found that market orientation is a critical determinant of Chinese firm performance in Taiwan. On the other hand, Siu and Kirby (1995) found that higher performing Chinese firms competed on price, rather than by adding value to customers. There is no consensus on the relationship between market orientation and performance in Chinese firms. More evidence would be desirable, therefore we propose:

Hypothesis 1: *The overall market orientation affects positively on firm performance of Indonesian retailers.*

Although the market orientation construct has been conceptualised as a multidimensional construct (e.g. Jaworski and Kohli 1993; Narver and Slater 1990; Ruekert 1992), the primary emphasis has been on the combined (versus individual) effects of the market orientation components in actual practice. The underlying rationale was that all components contribute equally in forming the construct. Although, Narver and Slater (1990, p. 33-34) noted this contention's limitations, they noted that "future studies should examine the effect of the proportions of the components within a given magnitude of market orientation." In addition, by citing literature that promotes customer orientation as a number-one priority, they further noted the possibility of the customer orientation component playing a relatively larger role in market orientation dynamics. Therefore, this study proposes to examine the market orientation dynamics, following the combined approach as well as the component-level approach, for a more detailed inspection.

Despite this some researchers consider customer orientation as important as other components of market orientation (e.g. Narver and Slater 1990; Orvis 1996), others consider it the most important aspect contributing to firm performance (e.g. Deshpande *et al.* 1993; Peters and Waterman 1982). The rationale behind the high profiling of customer orientation is that customer orientation places the highest priority on continuously finding ways to provide superior customer value, and trying to satisfy them.

Peters and Waterman (1982) noted that being "close to the customer" was a key distinguishing feature of the best of American enterprise. Excellent firms in their study were characterised as being obsessed with quality and service, practising nichemanship (which uses tailored products and services to meet specific customer needs), and actively listening to customers.

In retailing context, focusing on the consumer actually offers retailers two benefits (Johnson and Pinnington 1998): (i) providing the products consumers want/need, in areas of the store where they can find them, displayed in ways facilitate quick choice and (ii) developing the products consumers do not know they want/need, in areas of the store where they will come across them, displayed in ways that encouraging purchasing. Further, Johnson (1987) noted that the experience gained by being close to the consumer helps in determining precisely what retail offering is required. The benefits of this are considerable: (i) it reduces shopping around, (ii) it can help reduce stock level and (iii) it allows greater price-flexibility. These benefits will enhance the capability of retailer to fulfil consumer needs better, faster and at less cost – with the bottom line being increased profits for all (Johnson and Pinnington 1998).

In addition to this, Schupbach (1997) found that continuously monitoring customer activities in order to increases customer satisfaction was the characteristics of successful retail firms. Accordingly, customer information helped retailer to concentrate on the people who were loyal and focus on keeping them that way. This may, retailer cut down on its advertising expenses considerably, and the loyal customers remained informed of specials. The results parallel those of Peter's (1984) study, who claims that superior corporate performance is derived from a commitment to total customer satisfaction, therefore,

Hypothesis 1a: *Customer orientation affects positively on firm performance of Indonesian retailers.*

Savitt (1987) noted that many retailers accepted the general belief that there was a large mass market, and they attempted to reach it by becoming similar in terms of the products offered, competitive techniques (especially price promotion) and location. Instead of retailer having a competitive advantage over competitors for a season or for a year, competitors could reach out into markets and purchase reasonably similar merchandise, rearrange stores, drop prices quickly and even expand the number locations with great ease. This situation leads retailer to focusing on their competitors and using tactics to block competitors from customers and the resources required to compete. These retailers are actively engaging in market-shaping to stay ahead from their competitors (Savitt 1985).

Competitor orientation is also needed to maintain a firm's attractiveness from the perspective of the target customers (Slater and Narver 1994b). Competitors strategies will affect the perceive value of a firm's products or services in the eyes of target customers (Day 1998). In addition to this, several authors in strategic management suggest that firms have to beat the competition for outstanding performance (e.g. Ghemawat 1986; Wee 1993).

They are several reasons why a competitor orientation might influence firm performance. Firstly, firms must not only consider how well its services suit customer needs but how well they perform relative to competitor services (Ohmae 1982), Secondly, competitors may sometimes be a source of good ideas for developing new services (Dawes 2000). Thirdly, understanding competitor strengths or strategies might help a firm to know which part of the markets to enter or avoid (Porter 1979). Fourthly, the actions of competitors may adversely affect the company and a focus on trying to understand their strengths, weaknesses and strategies may allow the company to prepare for competitor activity and so minimise its adverse effects (Dickson 1997, p. 209). All these rationales might be expected to help firm performance, therefore,

Hypothesis 1b: *Competitor orientation affects positively on firm performance of Indonesian retailers*

Inter-functional co-ordination is the third in the series of core market orientations in this study. Gatignon and Xuereb (1997) suggest that inter-functional coordination enhances the communication and exchange between all organisational functions that are concerned with customers and competitors and to give these functions greater proximity to the latest market trends. This is likely to increase both trust and dependence among the separate functions , which in turn, provides an environment that is more responsive to the market needs (cf. Lukas and Ferrel 2000, p. 241).

Further, Slater and Narver (1990) note that inter-functional co-ordination is a basic requirement for the firms to create superior value for the target customers, because any function in a seller firm can potentially contribute to the creation of value for customers (Porter 1985).

In addition to this, Fischer *et al.* (1997), drawing on diverse literature, conceive that inter-functional integration is linked to a variety of positive outcomes, including increased understanding and harmony between functions, stronger market orientation, an increased ability to cope with complex dynamic environments and greater new product success.

Previous studies demonstrated a linkage between integration and performance. This point is consistent with the notion that inter-functional integration is a basic requirement for the firms to create superior value for the target customers (Slater and Narver 1990). Any point in the customer's value chain affords an opportunity for a seller to create value for the customer. Hence, any function in a seller firm can potentially contribute to the creation of value for customers (Porter 1985). From this perspective, integration of all functions that have a contribution to value results in a position advantage in the market (Day 1994). Further, co-ordination across departments and teamwork will enhance the retailer's capability to improve cost efficiency and customer satisfaction. Therefore,

Hypothesis 1c: *Inter-functional coordination affects positively on firm performance of Indonesian retailers.*

Profit orientation represents the final component of market orientation in this study. Deng and Dart (1994) note that most of the successful business operations practice this orientation in their day-to-day operation. For instance, the used of target costing in development of a new product. The profit-oriented firms use this system to control all activities by using a target, or a market-based allowable cost. All members of the organisation work to design and process the product or service at the target cost. Therefore, profit-oriented firms have a cost advantage.

Aufreiter *et al.* (1993) found that successful department stores did reviewing assortment sales trends every week and flags products performing significantly above or below expectations as "action items." The benefits from managing product performance in-season can be substantial. For instance, in clothing business, the retailer discussed above enjoys much higher sales productivity than its nearest competitor ($350 per square foot versus $156). It also experiences lower mark-downs and much wider gross margins (an EBIT of 11.9 percent versus 3.2 percent) (Aufreiter *et al.* 1993). This leads to:

Hypothesis 1d: *Profit orientation affects positively on firm performance of Indonesian retailers.*

Despite the majority of research findings being consistent with the notion that market orientation has a positive correlation with firm performance, research in this area has produced mixed results. For instance, Greenley (1995a) found that the magnitude of market orientation and performance relationships were affected by environmental factors. Further, Sargeant and Mohammad (1999) found that market orientation did not appear to have a direct impact on firm performance in the hotel sector. In addition, Bhuian (1997) indicated that market orientation was not related to any of the direct measure of ROA, ROE, and sales-per-employee in the bank sector.

However, as suggested by Pelham (1997), a possible explanation for the lack of a clear relationship with market orientation is that it is a more complex relationship than tested by the previous studies. Hart and Diamantopoulos (1993) argued that environmental variables could influence the strength of relationship. This argument is widely confirmed in other studies (e.g. Greenly 1995a, Han *et al.* 1998) and helps to explain how firms in sectors experiencing high levels of environmental uncertainty have an advantage in pursuing market orientation compare to those experiencing low environmental uncertainty. In addition, based on analysis of market orientation studies, it seems that performance measurement also affects the magnitude of market orientation and performance association. From these findings, it is clear that there is a strong need to observe other factors, which are related to the context study.

Overall and intuitively, the implementation of a market orientation leads to various managerial actions that are designed to better respond to customer needs. A market-oriented retailer may offer special consumer promotions, better merchandise quality or a money-back guarantee. Because retailers are part of a supply chain, the success implementation of these actions may need some support from suppliers. The next subsections will elaborate more on the relation between market orientation and supplier partnership.

4.3. Market Orientation and Supplier Partnership

The market orientation definition emphasises the ability of the firm to learn about customers and competitors in order to determine more clearly the best responses to retain or attract consumers. In the retailing context, stable relationships with suppliers are important factors for improving a firm's capabilities to attract consumers (Burt 1992; Dawson and Shaw 1987). Both suppliers and retailers clearly have separate knowledge about consumers. Suppliers have specialist knowledge of their product groups across the full range of consumers whilst retailers have a broad understanding of their own customers. When these two elements are combined a more complete picture of the consumer needs should emerge (McGrath 1997, p.7).

Smith *et al.* (1995) found that non-price-oriented retailers considered the relationship between manufacturer and retailer to be more interdependent. They valued the merchandising support and marketing coordination received from manufacturers just as much as, or more than they valued their own merchandising activities. Moreover, they may seek special relationships such as exclusive distribution with and assistance from manufacturers to give them an advantage over their retail competitors.

Dawson and Shaw (1987) note that the degree of stability of the supplier relationship with retailer depends on the different elements in the retailer's purchasing requirement. For instance, the more demanding the quality requirements, the greater the stability of the relationship with suppliers. The more specific the ordering and delivery patterns, the more important the product to the retailer, and the greater the need for joint product development work, the more the stable relationship.

In some cases, changes in retail competition and marketing can reduce the need for, stable relationships. Where private brands (retailer brands) have replaced suppliers' brands, this has increased the ability of retailers to switch suppliers due to the supplier not being identifiable at the consumer level. This has encouraged the entry of new suppliers and has broken down some of the existing relationships with branded suppliers. This process, where switching suppliers for price reasons, has led to a reduced capability of retail firms to offer a range of merchandise. This has adversely affected the images of retailers. As retailers have sought to develop more distinctive images, so greater consistency of merchandise and also relationships with suppliers has been sought (Dawson and Shaw 1987). In this way, the stable relationship will help market-oriented retailers to implement marketing's ideas more effectively. Thus,

Hypothesis 2: *The overall market orientation affects positively on supplier partnership.*

Hypothesis 2a: *Customer orientation affects positively on supplier partnership.*

Hypothesis 2b: *Competitor orientation affects positively on supplier partnership.*

Hypothesis 2c: *Inter-functional coordination affects positively on supplier partnership.*

Hypothesis 2d: *Profit orientation affects positively on supplier partnership.*

4.4. Supplier Partnership and Performance

Writers on supplier partnership posit that a major advantage of retailer-supplier partnerships is supply chain efficiency. The key to increased supply chain efficiency is the data provided by EPOS (electronic point of system) checkout systems. That is the highly detailed, up-to-the-minute accurate information it provides on in-store stock levels (Dawson and Sparks 1986). Moreover, retailer's demand forecasts, which are particularly robust due to their privileged access to EPOS data, are made available to suppliers, possibly via direct electronic data interchange (EDI) computer links. Using these forecasts, suppliers can plan their own operations, minimising stock holding and idle capacity while always being sure to meet retailers' demands.

Dawson and Shaw (1987, p.29) propose four arguments for the importance of having stable relationships with suppliers in the retail businesses.

(i) there are transaction cost savings resulting from stable relationships

(ii) when there is non-price competition at retail level the market mechanism fails to optimise transactional behaviour between retailer and supplier

(iii) horizontal competitive performance can be improved by managing vertical relationship

(iv) the use of non-coercive (negotiated) power is favoured in vertical relationships in order to support coercive (market) power in horizontal competition.

Blois (1979) suggested that stable relationships were favoured because they could allow re-negotiation of contracts during the life of a contract. Further, such relationships rarely take contractual forms but are based on an understanding that continuing business will normally be done between the two partners. If other suppliers, not part of this relationship, offer to supply at lower prices, unless the differential is considered substantial and the retailer is assured the new supplier will replicate all the supply conditions of the existing supplier, which may in itself be a lengthy process, switching is unlikely to occur.

Stuart and Mueller (1994) found that supplier-partnering activity correlated positively with improvements in productivity and quality of the services. Further, Gorves and Valsamakis (1998) noted that supply chain literature strongly emphasised the benefits associated with partnerships. These include: better quality of products and services, increased flexibility and responsiveness to customer requirements, lower inventory levels across the supply chain, and reduction of total costs to the benefit of all members of the supply chain. It is argued that these benefits ultimately lead to better financial performance (Saunders 1994). Thus:

Hypothesis 3: *The overall level of supplier partnership affects positively on firm performance of Indonesian retailers*

4.5. Market Orientation, Supplier Partnership and Environmental Variables

As was discussed previously, a match between environmental conditions and a firm capabilities and resources is critical to performance. In conditions of high uncertainty in the environment, successful performance is likely to depend on a company having the capacity for intelligent adaptation to changing circumstances (Child 1975). In a more recent study, Venkatraman and Prescott (1990) found a positive performance impact for environment-strategy coalignment among firms in the US market. In addition to this, Tan and Litschert (1994) examined the relationships between environment-strategy-performance in the China market. They found that environmental uncertainty was positively related to defensive strategies, and it was also linked to higher performance.

Firms' environments are a major source of contingencies faced by organisations (Tosi and Slocum 1984). Environmental characteristics have major implications for all aspects of management including strategy, structures, process, and outcomes. The marketing strategy literature (Day 1990) and the competitive strategy literature (Porter 1980; 1985) emphasise the potential importance of these variables. Accordingly, these variables will moderate the form or strength of the relationship between firms' strategies and performance (Prescott 1986).

A number of authors argued that the effectiveness of market orientation is contingent on the environmental situation (e.g. Hart and Diamantopoulos 1993; Greenly 1995). Jaworski and Kohli (1993) proposed market turbulence, competitive intensity, and technology intensity as moderating variables in the market orientation and performance relationship but their empirical work provided no evidence of a moderating effect. This proposition was based on the assumption that companies would adjust their level of market orientation as the environment changes. Although the insignificance of environmental variables is widely confirmed in other study (e.g. Slater and Narver 1994), there is still the possibility that environmental variables may significantly affect the level of market orientation in retail firms.

In this study, three environmental factors will be used as moderator variables: ***competitive intensity, demand volatility and market turbulence.*** Competitive intensity might be described as an extreme form of competitive activity or competitive "stress" and "threat" to the viability of the firm (Achrol 1992). According to Khandwalla (1977), in competitive environments, firms require the devotion of greater analytical effort to understand and master threats. The greater the competition in a market, the more aggressive a firm must be in discovering additional customer desires and creating superior value for customers. Thus, the benefits afforded by a market orientation should be greater for firms in a competitive environment than for firms operating in a less competitive environment (Kohli and Jaworski 1990; Porter 1980).

Lusch and Laczniak (1987) noted that there is a tendency for firms to become more sensitive and responsive to the changing needs of customers in their business environments. Covin and Slevin (1989) found that fierce competition motivates firms to search for new products and markets in order to survive, thus, there is a need to adopt a greater market orientation focus. On the other hand, as suggested by Kohli and Jaworski (1990), in markets where demand exceeds supply, firm may survive with a low level of market orientation. Hence

Hypothesis 4: *Competitive intensity affects positively on market orientation.*

As market become more competitive, Teece (1992) suggested that firms have started to abandon use of power to coordinate marketing channels (whether retailer or supplier). The motivation behind this is to enhance the value of the channel's market offering to its customers and/or to lower the total of the channel costs (Stern and El-Ansary 1992). By working together, retailers and suppliers will gain beneficiary because they have an ability to fill the basic requirement of staying in business better than competitors: finding out what their customer wants. Further, retailers with long-term relationships can gain a competitive advantage by receiving merchandise in short supply, information on competitive activity and other allowances from their partner. Consequently, in highly competitive environment, retail firms are being forced to develop a much closer relationship with their supplier. Therefore,

Hypothesis 5: *Competitive intensity affects positively on supplier partnership.*

Demand volatility refers to the extent to which demand changes are rapid. High volatility in a retail industry would reflect rapid fluctuation in customer demand and the inability to predict trends and future outcomes in specific markets (cf. Ganesan 1994, p.6). When the demand for a product varies considerably, market-oriented firms could respond quickly and with minimum delays to adjust their marketing strategies to keep up with changes in the environment. Khatri and D'Netto (1997) postulated that strongly performing firms might perceive less volatility because they might have more information about the environment than poor performer firms and that the greater amount of information enables good performer firms to make better decisions. The amount of information gathered and processed, in turn, is a function of the intelligence systems of the firms. Thus, firms may well have a better understanding of the environments in which they operate. Conversely, firms in stable environments experience less need to change their marketing strategies to remain successful.

Hypothesis 6: *Demand volatility affects positively on market orientation.*

Under conditions of high volatility, writing contracts that cover all unanticipated contingencies is difficult and costly. In such circumstances, suppliers can take advantage of retailers by interpreting unspecified clauses in their contract to their own benefit. To avoid such opportunistic behaviours, retailers are likely to develop good relationship with key suppliers that permit sequential and adaptive decision making (John and Weitz 1988). Thus the following hypothesis is formulated:

Hypothesis 7: *Demand volatility affects positively on supplier partnership.*

Market turbulence is defined as the degree of change related to the customers' composition and their preferences (Jaworski and Kohli 1990). In such condition retail firms may develop externally focused activities in order to identify and fulfil customer needs, and also to monitoring the competition. When a firm caters for a different set of customers with less stable preferences, a market orientation is likely significantly effect performance because market oriented firms have better information on changing customer preferences. This information is in turn used to better serve customers and retain their patronage, resulting in greater success in retaining customers (Kumar *et al.* 1998). Further, the ability to adapt and respond to the evolving needs of customers is critical to business success in a constantly changing business environment (Kwaku 1997). Moreover, it has been found that perceived market turbulence is positively related to a firm's level of market orientation due to the firm's desire to minimise uncertainty and the importance in such markets (Davis *et al.* 1991). Therefore,

Hypothesis 8: *Market turbulence affects positively on market orientation.*

Celly and Frazier (1996) found that market turbulence has a strong positive correlation with partnership behaviours. Through an emphasis on partnership behaviours when uncertainty is high, cause-effect ambiguity may be reduced and the perceived riskiness of efforts lessened. For example, in the absence of partnership behaviour efforts, the suppliers may be unwilling to support sales promotion and below the line activities because they do not know these activities will result in improved their product performance. It can be said, changing business environment will lead to channel collaborations. This in line with Raphael (1996) suggestion market turbulence might stimulate retailer firms to do cooperation with their key suppliers. Hence the following hypothesis is posited:

Hypothesis 9: *Market turbulence affects positively on supplier partnership.*

4.6. Performance Measurement

Throughout the numerous findings in market orientation research, one of the most an interesting finding from previous studies is that the type of performance measurement affects the result. For example, if the studies use indirect measurement of performance (managers' or informants' judgements), most the results show a positive link. On the other hand, if the studies use direct measurement of performance, the results are quite ambiguous (see Table 4.1). Clearly the type of performance measurement may affect the results of the study and this is consistent with the notion that each type of performance provides a unique characteristic (Kaplan and Norton 1992). Therefore,

> Hypothesis 10a: *The correlation values of indirect performance will be significantly higher than direct performance in the market orientation-performance association.*

As can be seen from Table 4.1, most of the study used indirect measurement. This indirect measure of performance was chosen over direct measurement for several reasons. Firstly, firms are often very reluctant to provide 'hard' financial data (cf. Covin 1991, p.448). Secondly, direct financial measurement on the sample firms might not be publicly available (Dess and Robinson 1984). Apart from this, the validity of this performance measurement was supported by the findings of Dess and Robinson (1984). Whose finding is widely confirmed in other studies (e.g. Covin and Slevin 1988). Despite evidence of positive correlation between direct and indirect measures, the relationship between indirect and direct measures in the retailing context remains a gap in our knowledge. Therefore, Hypothesis 10b: *There will be significant positive correlation between indirect and direct measures of performance*

Table 4.1. The Significance of Direct and Indirect Measures in the Market Orientation Studies.

	Performance Measurement/ Association	
	Indirect	**Direct**
Hooley *et al.*(1990)	+/S	
Narver&Slater (1990)	+/S	
Doyle&Hooley 1992	+/S	
Ruekert (1992)		+/S
Deshpande *et al.* (1993)	+/S	
Diamantopoulos and Hart (1993)		+/PS
Jaworski and Kohli (1993)	+/S	+/NS
Slater&Narver (1994)	+/S	
Greenley (1995a:1995b)	+/PS	+/NS
Orvis (1996)*	+/S	
Pitt *et al.* (1996)	+/S	
Avlonitis and Gounaris (1997)	+/S	
Langerak *et al.* (1997)	+/S	
Pelham (1997)	+/S	
Liu and Davies 1997 *	+/S	
Langerak and Commandeur (1998)	+/S	
Verhees (1998)	+/S	

(S) Significant (NS) Non Significant
(PS) Partly Significant (*) Retail Industry

Apart from this, marketing and retailing scholars are interested in non-financial indicators issues. The underlying reason was non-financial indicators are assumed to have a positive impact on profitability (Magi and Julander 1995). For example, Ingene (1982) found both labour and space productivity had a significant impact on profitability. Other indicators such as market share and stock-turnover is widely belief vital to profit performance (Broeren 1981; Buzzell and Wiersma 1981; Duncan *et al.* 1983). Therefore,

Hypothesis 10c: Ther*e will be significant positive correlation between non-financial and financial measures*

4.7. Summary

This chapter elaborates on the research hypotheses based on the theoretical constructs. The hypotheses reflect the underlying theme that market orientation influences a firm's performance in the retailing sector. The supplier partnership variable serves as a mediating variable for the market orientation and performance association. In this case, market orientation should have a significant correlation on supplier partnership, and supplier partnership should have a significant correlation on performance. All relations in the model are influenced by the environmental variables, namely competitive intensity, demand volatility and market turbulence. All the proposed hypotheses are summarised in Table 4.2. The hypotheses are further translated into a path diagram that represents the model of the research hypotheses.

Table 4.2. Proposed Hypotheses

No	Constructs	Hypothesised relationship	Expected Sign
H1	market orientation and performance	correlation	+
H1a	customer orientation and performance	correlation	+
H1b	competitor orientation and performance	correlation	+
H1c	inter-functional coordination and performance	correlation	+
H1d	profit orientation and performance	correlation	+
H2	market orientation and supplier partnership	correlation	+
H2a	customer orientation and supplier partnership	correlation	+
H2b	competitor orientation and supplier partnership	correlation	+
H2c	inter-functional coordination and supplier partnership	correlation	+
H2d	profit orientation and supplier partnership	correlation	+
H3	supplier partnership and performance	correlation	+
H4	competitive intensity and market orientation	correlation	+
H5	competitive intensity and supplier partnership	correlation	+
H6	demand volatility and market orientation	correlation	+
H7	demand volatility and supplier partnership	correlation	+
H8	market turbulence and market orientation	correlation	+
H9	market turbulence and supplier partnership	correlation	+
H10	performance measurement:		
	(a) market orientation and performance measures	magnitude	>
	(a) indirect and direct	correlation	+
	(b) non-financial and financial	correlation	+

THE UNIVERSITY OF STRATHCLYDE IN GLASGOW

THE DEPARTMENT OF MARKETING

Chapter Five

Research Methodology

Chapter 5

Research Methodology

The objective of this chapter is to design the research method for guiding primary data collection. This chapter is organised into six sections. Section one focuses on a review of methods for collecting primary data, which give a foundation for developing a research design. Section two explores the use of a qualitative approach in the quantitative fieldwork. Section three focuses on the research setting. Section four describes the sampling method. Section five describes the data collection procedure, and section six describes the quality of responses.

5.1. Review of Research Method

The purpose of this section is twofold. The first aim is to examine the current literature and provide the most specific description of research methods and analysis that are employed in the field of marketing, especially market orientation studies. The second aim is to discuss the advantages and disadvantages of the three data collection methods: face-to-face interviews, telephone interviews, and postal (mail) questionnaires.

5.1.1. Research Methodology in Market Orientation Studies

All articles related to market orientation studies and published in refereed journals: Journal of Marketing; Journal of Marketing Research; Journal of Marketing Management; Journal of Strategic Marketing; Journal of Focus Management; European Journal of Marketing; Journal of Retailing; Journal of Business Research and The Service Industries Journal - have been studied and analysed for their research methodologies. There were 57 articles in total on market orientation empirical studies in those journals. Fifty of these were **survey study**[1], five were **qualitative study** and two were **experimental study**. Since the majority of the studies used were survey study, the following review will focus on these studies. For the purposes of this review, three coding dimensions were selected for analysis:

1. Data collection procedures: mail, telephone interview, and personal interview
2. Sample characteristics: sample size, type of sample, and occupation of informants.
3. Number of key informants: one key informant, and multiple key informants.

Survey study is defined as methods of gathering information from a number of individuals in order to learn something about a larger population from which the sample of respondents has been drawn (Dillon *et al.* 1993, p. 152).
Qualitative method is defined as method of gathering information involving small numbers of respondents who provide descriptive information about their thoughts and feelings that can not be projected to the whole population (Dillon *et al.* 1993, p. 152).
Experimental study is taken to mean a scientific investigation in which an investigator manipulates and controls one or more independent variables and observes the dependent variable or variables for variation concomitant to manipulation of the independent variables (Churchill 1979, p. 73).

Table 5.1. shows that 91 % of studies used **mail** questionnaires for data collection and the rest (9 %) used **personal interview.** Telephone interview was not used for data collection, but was used for pre-notice and reminding purposes in mail surveys. The proportion of informant's occupations was 46 % higher managerial level (CEO/MD/SM), and 46 % middle managerial level (mgr/prof). Over two-thirds (69 %) of the samples reported in market orientation studies were single key informant and 31 % were multiple key informant. In addition, the sample size of market orientation studies was between 74 to 490 respondents.

Table 5.1. Characteristics of Survey Study in the Market Orientation Research

CHARACTERISTICS	SURVEY STUDY (%)
Data Collection Procedure	
• Mail	91
• Personal Interview	9
Number of Informants	
• Single Informant	69
• Multiple Informants	31
Occupation of Informant	
• CEO/MD/SM	46
• Mgr/Prof	46
• Others	8

5.1.2. Data Collection Procedures

One of the issues in marketing research is the choice of the most appropriate data collection procedures. Generally there are three ways in collecting data: face-to-face (personal) interview, telephone interview, and postal (mail) questionnaires (Sutherland 1991, p. 95). Each of these methods has own advantages and disadvantages.

A face-to-face interview is one in which interviewer and respondent are in direct face-to-face contact. The advantages of face-to-face interview are concerned mainly with the ability to cover complex issues (Jobber 1991, p. 174). Respondents can be encouraged to give much fuller responses, or the interviewer can deploy a wider range of prompts and probe questions and can observe the respondent's behaviour and reactions, and react accordingly. However, this method is usually the most expensive and time-consuming method of collecting data compare to other methods (Sutherland 1991, p. 96-102). Researchers with a limited budget may find difficulty in obtaining the required sample size (Jobber 1991, p. 175). For example, the average sample size of market orientation studies that use personal interview is 51, and the range is 14 to 76. Thus, telephone and mail questionnaires should be considered when large samples are desired.

Telephone interview is characterised by interviewer and respondent communicating by telephone. This method may be the quickest methods of data collection available at present. Since no travelling is involved and the interview process is concentrated and fairly resistant to interruption, so that the number of interviews completed per day is higher than other methods. However, the length of a telephone interview is limited. Business respondents are frequently unwilling to commit much time to such interviews (Sutherland 1991, p.104-109). This approach is the least used of the three methods among doctoral students researching managers (Jobber 1991, p. 177).

Mail questionnaires involves mailing the questionnaires to the designated respondents with an accompanying cover letter. The respondents complete the questionnaires and reply to the researcher. Alternatively, E-mail or Fax can be used to reach business respondents. This incurs lower cost than the postal services, but limits the sample to those who have e-mail addresses and a fax number.

The main advantages of mail surveys are their ability to generate truly representative samples by reaching widely spread samples without cost penalty. Further, questionnaires can cover more sensitive issues which may be answered honestly if a promise of anonymity is given and an absence of interviewer bias. However, there are numerous disadvantage to this method and they can be quite problematic. These include response rates, which are generally low, and difficulty in controlling the person who completes the questionnaires (Cormack and Hill 1991, p. 31). The average response rate in market orientation studies is 34.3 %, and the range is from 14 % to 60 %.

Each of the methods of data collection possesses some advantages and disadvantages. It is difficult to say which method is superior in abstract terms. As such, the best method for any survey has to be a trade off between the survey objectives, the nature of the information required, and the resources available (Jobber 1991, p. 178). To facilitate the process, table 5.2 illustrates the factors affecting choice and the performance of each method. It should be noted that the combination of different approaches could be highly effective at improving the quality of the research.

Table 5.2. A Comparison of Data Collection Methods

FACTOR	METHOD		
	Personal	Telephone	Mail
Questionnaires			
1. Complex issues	Good	Medium	Poor
2. Use of open-ended questions	Good	Medium	Poor
3. Flexibility	Good	Medium	Poor
4. Ability to probe	Good	Medium	Poor
5. Use of visual aids	Good	Poor	Good
Resources			
1. Time	Poor	Medium	Good
2. Cost	High	Medium	Low
Sampling			
1. Widely dispersed population	Poor	Good	Good
2. Response rates	High	Medium	Low
Interview			
1. Control of who completes questionnaires	High	High	Low
2. Interviewer bias	Possible	Possible	Not Possible

Sources: Jobber (1991, p. 178)

The use of a multiple research approach has been advocated in the literature in social science (Jick 1979). This form of research is usually described as one of convergent methodology, or multimethod/multitrait (Campbell and Fiske 1959), and what has been called a "triangulation" method (Webb *et al.* 1966).

Triangulation is broadly defined by Denzin (1970, p.297) as "the combination of methodologies in the study of the same phenomenon." The use of triangulation can be seen from the work of Campbell and Fiske (1959) who developed the idea of "multiple operationalism." Accordingly, more than one methods should be used in the validation process to ensure that the variance reflects that of the trait and not of the method. Thus, the convergence or agreement between different methods results in valid findings and not a methodological artefact (cf. Jick 1979, p.602).

Triangulation is largely a vehicle for cross validation when two or more different methods are found to be congruent and yield comparable data (Jick 1979). For marketing researchers, this would involve the use of multiple methods to examine the same dimension of a research problem. For example, the effectiveness of marketing strategy may be studied by interviewing the marketing manager, asking firm's customers, and evaluating performance records. The focus always remains that of the marketing strategy's effectiveness but the mode of data collection varies. Multiple and independent measures, if they reach the same conclusions, provide a more certain portrayal of the marketing strategy phenomenon. Perhaps the most prevalent attempts a using triangulation have been reflected in efforts to integrate qualitative and quantitative methods (Jick 1979).

A qualitative study may be used to provide insight into a specific research situation prior to proposing hypotheses and drawing-up a questionnaire. It is also possible to graft qualitative interviews onto a quantitative field work procedure (Gordon and Langmaid 1988). The next section will discuss the qualitative research.

5.2. Qualitative Research

Qualitative research has been used increasingly in the last decade. It is claimed that qualitative research provides a more flexible and adaptable approach to understanding phenomena. Generally, qualitative techniques involve small samples of respondents and a heavy dependence on the researcher in the interpretation of results. It answers such question as *"what", "why" or "how"*, but it cannot answer the question how many?" Further, it is mainly concerned with understanding things rather than with measuring them (Gordon and Langmaid 1988).

Qualitative research is usually concerned with exploring informant's views and feelings in some depth, it usually involves a fairly extended interviewing procedure with the same informants. It is best used for problems where the findings will increase understanding, expand knowledge, clarify the real issues and provide input to a future stage of research or development. In addition, qualitative research can be a preliminary test of the hypotheses, eliminating some which are less relevant or disproved as null hypotheses and suggest other alternative hypotheses, which may be of interest to the research problem. Before hypotheses can be tested or existing theory challenged, the variables need to be developed, tested and confirmed (Popper 1959).

Qualitative research tends to spend more time on data gathering from each one sample and therefore small sample sizes are generally used. Often it provides a partial view of a population, rather than a broad and representative one. However, it can achieve a much deeper portrayal of respondents' feelings, attitudes and behaviour. Its methods may seem less structured than quantitative techniques, but this does not mean they are less effective or that less planning is involved (John and Lee-Ross 1998). According to Strauss and Corbin (1990), a variety of skills are needed to perform effective qualitative research. For example, qualitative researchers have to be able to maintain distance between themselves and the phenomena under investigation, and to draw upon practical and theoretical knowledge to interpret what they see.

Qualitative research can be used in various ways, depending upon the preference of the researcher and the nature of the research problem. Some prefer to begin a research programme with a qualitative study. Baker (1990) notes that qualitative research is a prerequisite to most quantitative research. It helps clarify the issues to be addressed, the parameters to be defined and measured and the likely connection between them. Also, Hart (1987) states that a qualitative method is appropriate for preliminary exploration. Alternatively, it is possible to begin a research project with a quantitative survey and to use qualitative studies to better explain the findings of the questionnaire. This may be the case if a tried and tested questionnaire instrument is already existence (John and Lee-Ross 1998).

Gordon and Langmaid (1988) proposed a method of integrating qualitative and quantitative research by grafting qualitative interviews on to a quantitative fieldwork procedure. For qualitative interviews, a small number of in depth interviews may be conducted at the same time or in the same place as the questionnaires are being administered. This approach should provide a greater understanding of the meaning of the numerical data.

Alternatively, qualitative interviewers may re-interview respondents after the questionnaires have been administered to explore further the nature of the responses. This is especially in understanding the meaning of respondent vocabulary. For example, a respondent may answer, in response to a question about price, that it is cheap. The qualitative interviewer will need to establish whether the answer means 'cheap and nasty' or 'good value for money' in order to understand the nature of this type of response.

Further, it could be used to check correspondence between the information provided by interviewees and that obtained from the mailed-questionnaires (John and Lee-Ross 1998). The mailed-questionnaires must already have been subjected to some analysis, enabling an outline picture of the responses to be drawn up. The qualitative findings are then compared with this picture. For example, consider a question from supplier partnership, concerning key informants' perceptions toward firm efforts to build a long term relationship:

	Strongly Disagree				Strongly Agree
We devote considerable time trying to improve the Relationship with key suppliers	1	2	3	4	5

Suppose analysis reveals that 80 % of the survey sample have indicated a 3, 4 or 5 response. As long as the sample of interviewees corresponds to that in the survey, one would expect interviewees' comments to reflect the same picture. They might simply answer 'yes' to a direct question or generalise a little more by saying something like 'most of them, yes'. Both of these responses show that the informants agree that their firm is committed to building long term relationship with their suppliers. If approximately 80 % of interviewees answer in this way, the survey result is confirmed.

The usefulness of a qualitative approach, alongside a quantitative are, does not only give understanding of the meaning of the numerical data and respondent vocabulary, or confirm or refute the survey findings. Usually they give a clearer portrays of the research situation, by providing further information, which the quantitative approach could not have obtained. Some respondents may comment in more depth about the phrase 'we devote considerable time trying to improve the relationship with key suppliers'. For example, they may say that it is important to have a partnership programme and the board of directors are involved in managing the program. Thus, the suppliers could ask them directly if they have problems. Or they may say that their firm supports the suppliers when they have a financial problem. Or it may say that we support them by providing machinery and equipment, and offer their technician for training. All of these findings make valuable contributions to the research. From these notions, it is clear that grafting of qualitative interviews on to a quantitative fieldwork procedure is not only justified, but can be beneficial.

Basically, qualitative researchers rely on three methods for gathering information (John and Lee-Ross 1998, p 124):

- Interviews: verbal responses to questions are collected from individuals or focus groups of respondents.
- Observation: respondents' words direct or recorded without asking them questions.
- Documents: written materials, such as minutes of meetings, letters, memos, communications.

All these basic methods can have many variations. For instance, an interview may be highly structured or unstructured. Focus group interviews may focus on what people think or what people *don't* say in the group context. During a focus group, it might be necessary to observe the way individuals interact or behave. Minutes of meetings and company policies sometimes provide good examples of the statements of individuals or observations of the responses of individuals when they read the documents. Table 5.3. shows the strengths and weaknesses of each data collection methods, based on how it is generally used in qualitative studies.

Table 5.3. The Strengths and Weaknesses of Qualitative Data Collection Methods

Strengths	PI	FGI	OBS	DOC
Data easy to manipulate and categorise for data analysis				x
Face-to-face encounter with informants	x	x	x	
Facilitates co-operation with research subject	x	x	x	
Data are collected in natural settings	x	D	x	x
Collects data on unconscious thoughts and behaviour			x	
Obtains large amounts of expansive and contextual data quickly	x	x	x	
Useful for discovering complex interconnections in social relationship	x	x	x	
Provides background context for more focused studies on activities, behaviours and events	x	x	x	
Weaknesses				
Can lead the researcher to "miss the forest while observing the trees"	x	D		x
Depends on the co-operation of a small group of key informants	x		x	
Highly depend on the ability of the researchers to be resourceful, systematic, and honest, to control bias	x	x	x	
Fraught with ethical dilemmas	x			
Especially dependent on the honesty of those providing the data		D		

Note: x = exists; D = depend on use; PI = personal interview; FGI = focus group interview; OBS = observation; DOC = documentation

Source: Marshall, C. and G.B. Rossman (1995). Designing Qualitative Research. p 100-101.

Although each of these method has strengths and weaknesses, personal interviews were chosen as the qualitative data collection method for this study. According to John and Lee-Ross (1998), personal interview is the most common qualitative technique used for gathering data. Further, from the literature review, most of the market orientation studies that conducted qualitative studies used personal interview.

Hart (1987) categorises personal interviews into three groups: (i) the structured interview, (ii) the unstructured or focused interview; and (iii) the in-depth or clinical interview. The structured interview has closed questions similar to questionnaires, in which the sequence and wording are fixed and the answer recorded in standardised form, but is administered verbally. Most of the unstructured interviews use open-ended questions designed to give an interviewee a flexibility to proceed at his own pace and to encouraged an interviewee to talk freely about each topic. This approach may give the researchers a fuller understanding of the subject, which cannot be obtained by more structured questioning. The in-depth or clinical interview is on in which the interviewee is encouraged to talk about the subject under investigation and the course of the interview is mainly guided by the interviewer. Open format questions are employed to allow interviewees to express their opinions freely. In this approach, the role of the interviewer is usually in clarifying responses and probing with the next questions (cf. Hart 1987, p 31). The decision on the type of personal interview for a research study must be derived from the objective of the study. In this study, the unstructured interview was chosen as the most relevant, because it was to be used for enriching the findings from the quantitative study.

5.3. Research Setting

The hypotheses were developed and tested in the Indonesian retail industry. Indonesia was chosen as the Asian country for the study of market orientation for the following reason: firstly, it is a country where a large population (more than 200 million) and dominated by youngest people (almost 60 % of the population) (RIM 1997)(see Table 5.4.). Secondly, in contrast to a western country, the Indonesian retail sector is highly fragmented, such that that large retail companies account for less than 3 % of

Indonesian retail sales (RIM 1998), and it is deemed desirable to assess the relationships among market orientation, supplier partnership and retail performance. Thirdly, Indonesian retail sales account for 29.3 % of GDP, and per capita retail sales have grown by 64.8 % between 1991 and 1995 (RIM 1997). Finally, marketing has come quite late to Indonesian firms, and very little research has been conducted on any aspects of marketing in the Indonesian market.

Table 5.4. Population by Age 1995

Age (years)	Population ('000)
0 - 10	48 580
11 – 20	45 653
21 – 30	33 362
31 – 40	25 168
41 – 50	17 364
51 – 60	12 877
60 +	12 096

Source: National Bureau Statistics

Apart from the importance of doing marketing research in Indonesia, there are problems with any attempt to study retail in there. There is a huge number of islands (17 000 islands) spread over the region. Fortuitously however, there is a significant concentration of retail activity on Java, especially in Jakarta and the surrounding area, known as Jabotabek area. For example, nationally, there is one supermarket for every 475,000 people; in Jabotabek the ratio is 1:73,000 (RIM August 1997). Further, of the 267 department stores in Indonesia in 1996, 132 of them were situated in Jabotabek area. In 1996 there were 13 shopping centres in Jabotabek and there were over 1.7-

million sq.m of retail space within shopping malls and centres within the city. There are predicted to be over 4.1-million sq.m in Jabotabek by the year 2000 (Properti 1997). This is a further indication of the concentration of wealth and business in and around Jakarta.

This study focused on the Jabotabek area, the capital city of Indonesia. There were four additional reasons for choosing this area: 1) more than 70 % of business activity and financial turnover is situated in Jakarta, 2) most modern retail firms, both foreign and domestic, in Indonesia are located on this area, 3) most of retail chain headquarter in Indonesia are located in this area, and 4) it allows the convenient collecting of data in what would otherwise be a vast geographical area.

5.4. Sampling Process

Sampling is the process of selecting a sample unit from a population so that by studying the sample a researcher is be able to draw general conclusions about the population from which they were chosen (Parasuraman 1991). There are three critical issues concerning sampling: determining the sampling frame, selecting a sample method, and determining the relevant sample size (Churchill 1995).

5.4.1. Sampling Frame

The relevant population must be defined, before a sample can be drawn effectively. In the terminology of marketing research, a population is "an identifiable group of entities that have certain characteristics of interest (e.g., consumers, stores, or firms (Hawes 1982, p. 50). The list of retail firms come from the *National Economic*

Survey that was conducted by the government in 1997 and published by the *Indonesia Central Bureau of Statistics*. In total, the number retail firms in the Jabotabek area is 127 000 firms. From this figure, only 2780 retail firms could be classified as within the target population based on their size. APRINDO (retail association) categorises retail business into two types; *"ritel" and "eceren". Eceren* means very small or small retailers that do not have knowledge about retail management and stock mostly less than 200 items (for food retailers). In this study, we did not choose "*eceran*" as a sampling frame.

Although, the list of retail firms was obtained from the government institution, the list did not include information on the years of establishment, single or multiple suppliers or consumer market or organisational market. This information was required to get a clearer picture of the sampling frame, it would be difficult to fulfil the research objectives. Therefore, the researcher had first to construct a sampling frame. The researcher combine several lists of public sources such as the KOMPASS directory, Yellow Pages, Shopping Malls Directory, and CIC (Syndicated Research Agency). The results after further screening were 318 retail firms established less than 3 years, 502 retail firms having only a single supplier and 140 retail firms dominantly selling their product to an organisational market. These screening techniques reduce the number in the sample to 1820 retail firms. The following subsection explores the sampling methods.

5.4.2. Sampling Methods

The sampling method is the way the sample units are to be chosen (Tull and Hawkins 1993). There are two main methods of sampling. They are known as probability and non-probability. Probability samples are defined as samples of a specified population in which every element has of being known and has an equal probability to be chosen (Aaker *et al.* 1995). Various methods can be used to select a probability sample. The first one is *simple random sampling* in which units are chosen randomly. The second method is *stratified random sampling* in which the population is stratified into sub-groups called strata prior to the sample selection and the units selected randomly from the strata. The third method is *cluster sampling* in which the units are selected in-groups or clusters rather than individually. The fourth method is *systematic sampling* in which the units are chosen systematically from the list of population members.

Unlike in probability sampling, in non-probability sampling each population does not have a known probability of being included in the sample. There are four different types of non-probability sampling methods. The first one is *convenience sampling* in which the only criterion for selecting the sampling unit is the researcher's convenience. The second one is *judgmental sampling* in which the researcher uses his/her judgement to draw a representative sample. The third one is *snowball sampling* in which the groups who were most knowledgeable about the object study are asked to identify one or more potential respondents. The fourth one is *purposive sampling* in which sample units are purposively selected based on the expectation that they can serve the research purpose.

As mentioned earlier, the final sampling list consists of 1820 retail firms. The researcher divides the sample in two parts based on phone area code, either local area or inter-local area. There are 1274 retail firms for the local area and 556 retail firms for inter-local area. Retail firms in the local area code were being contacted to check the addresses, and to ask for a contact person who would be available as a key informant. From the 1274 firms, 382 retail firms could not be contact due to incorrect recording of their phone numbers, closure, having moved and not being retail firms. In addition, 558 firms did not want to participate in this research. They directly rejected us for several reasons such as firm policy, no interest, too busy and even the "owner is still in Singapore." This process left 334 sample units in first area. Thus, the final number on the sampling list was 890 retail firms (334 from the local area and 556 from the inter-local area) and the questionnaires were sent to all sample units on the sampling list.

This demonstrates the main reason why probability sampling is difficult to conduct in business research. This study used non-probability purposive sampling and snowball sampling. The purposive sampling method is appropriate to test hypothesised relationship among firm level variables and to ensure proper coverage of the variables under study (Churchill 1995; Gentry and Hailey 1981). The snowball method gives the highest response rate in Indonesia business studies (Sidik 1996).

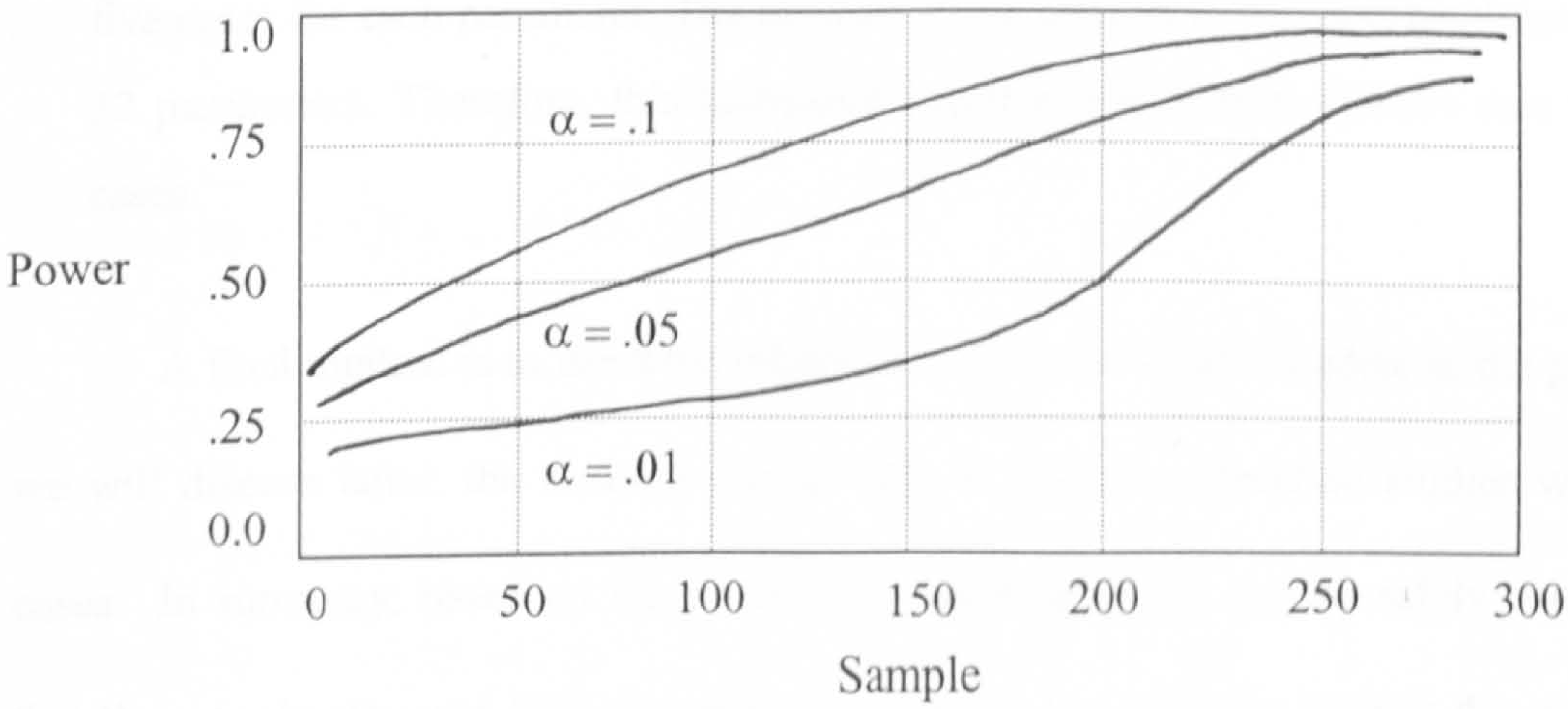
5.4.3. Sample Size

The sample size plays a substantially size in achieving statistical significance, both in small and large sample sizes. For smaller samples, the sophistication of statistical tools may easily result in an 'over-fitting' of the data and as a result, the outcomes may be such an artificially good fit for the sample that they have no generalisability. A similar effect also occurs for large sample sizes. This makes the statistical power over sensitive, which means that almost any effect is significant.

Hence, we should be aware that sample size can affect the statistical test by either making it insensitive (at small sample sizes) or overly sensitive (at very large sample sizes) (Hair *et al.* 1995).

According to Churchill (1995), there are three bases for determining the appropriate sample size. Firstly, sample size can be assessed by considering the trade off between significance level and statistical power. Cohen (in Hair *et al.* 1995, p.11) provided a guide line for acceptable sample size that the size of sample should be designed to achieve alpha levels of at least .05 with power levels of 80 percent. To achieve this level, all three factors must be considered simultaneously (effect of size, alpha and sample size). These interrelationships can be seen in Figure 5.1. With an alpha level of .05, a power of 80 % can be achieved with a sample size of approximately 130 (Hair *et al.* 1995, p.12).

Figure 5.1. Impact of Sample Size on Power for Various Alpha Levels (.01, .05, and .1) with the effect size .035.



Source. Hair et al. 1991, p. 12

Secondly, the sample size for a study is determined by the analytical techniques to be used (Churchill 1995), especially in multivariate data analysis. In general, Nunnally (1978) suggests that the minimum sample size should be five per subjects. The minimum sample size required by statistical technique is as follows:

- For reliability analysis, Peter (1979) recommends a minimum of ten subjects per variable. Since there were at most 9 items with a variable in the reliability analysis in this study, the minimum required sample size for this technique is 90 cases.
- Factor analysis requires a minimum sample size of five cases per item (Hair *et al.* 1995). With the maximum of 22 items in a construct, the minimum sample size requirement for factor analysis is 110 cases.
- Structural equation modelling (SEM), A sample size ranging between 100 to 200 is often recommended (Comrey 1978; Gorsuch 1983; Hair *et al.* 1995; Loo 1983). The recommendation is based on the argument that a correlation coefficient becomes an adequate estimator of the population correlation coefficient when sample sizes reach this level (Guadagnoli and Velicer 1988). To be more precise, the appropriateness of sample size should be linked to the number of parameters estimated in the model (Tanaka 1987). According to Hair *et al.* (1995), a minimum recommended level is five cases for each parameter. The number of parameters in the estimated model are 32 parameters. Therefore, this technique requires a minimum sample size of 160 cases.

A final method is to use what others have used for similar studies in the past. As we will discuss latter, the average sample size in market orientation studies was 161 cases. In summary, based on these various considerations, it can be safely concluded that the sample size was 890. According to Jobber and O'Reilly (1998), the expected response rate for industrial marketing research was 20 %. Thus the expected sample of 178 is an appropriate sample size for this study.

5.5. Data Collection

As was discussed previously, most of the researchers in market orientation studies (91%) use mailed questionnaires. The advantages of this approach (see Table 5.6) make it a very attractive data collection method, favoured by academics and practitioners (Kanuk and Berenson 1975). Apart from this favoured approach of mailed questionnaires, personal interviews have been used in this study. The reasons for choosing personal interviews were as follows:

- Clarification of the target respondents/firms for inclusion in the quantitative survey
- improving the research design
- generating deeper understanding of the subject matter validating the findings from mailed questionnaires

The mailed questionnaires and personal interviews were carried out simultaneously. The data collection processes started in February 1999 and finished in June 1999. All the data for the research were collected in Indonesia, especially in the Jabotabek area.

5.5.1. Mailed Questionnaires

As previous described, a total of 890 questionnaires were sent out by registered mail. This study used two approaches: mail survey without follow-up, and mail survey with follow-up. The reason of using different approaches was to observe any differential effect on response rate. Apart from this, the first approach has been used since in the area beyond the local area dialling codes. In total 556 questionnaires were sent using the first approach and 334 questionnaires using second approach. In the first approach, only 36 respondent returned the questionnaires. This low response rate was attributed to such factors as, the store being closed (26 firms), having moved (36 firms), using a wrong address (48 firms) and not being a retail firms (37 firms). The first three figures come from the returned envelopes and the final figures come from random checking. In this case, it is difficult to get the actual response rates due to the real number of non retail firms being unknown.

With the second approach, 124 respondent returned questionnaires yielding a response rate of 36.5%. To get this response rate, it needed several follow-ups by phoning them. After the first follow up, we received 40 responses; the second follow up yielded 30 responses; the third follow up 28 responses; and after the fourth follow up we received a further 24 responses.

As already explained, the snowballing method has been used in this study. In the snowballing method initial respondents are selected with the desired characteristics. These respondents are then requested, by phone or personal contact, to recommend participants in the next round of target respondents having the same characteristics as required by the sampling frame (Churchill 1995). According to Sidik (1996), this method could yield a 62 % response rate in Industrial research in Indonesia.

We developed initial lists of firms that satisfied the sampling criteria for Jakarta and surrounding area. A total of 25 questionnaires were sent out using this method and there were 12 responses (40% response rate). The number of respondents involved in this method was limited due to the researcher relied on list of Aprindo (retail association) member whose operations are based outside the Jabotabek area.

5.5.2. Data Screening

A total of 172 responses were received. Seven of these cases were not classified as 'key informants' due to their positions being too junior or not being involved in marketing or purchasing activities. Six of these cases had significant missing data. Because the number of cases with missing data was small compared to the total cases, no imputation was conducted, and these six cases were excluded from the data set (Rencher 1995). The final data set comprised of 159 usable responses: 26 from the mail survey without inducement, 121 from the mail survey with inducement, and 12 from the snowballing approach. The characteristics of the final responses is shown in table 5.5.

Table 5.5. Sample Characteristics (n=159)

		Frequency	*Percent*
Retailer's type	food stores	30	18.9
	mix store and dept, store	23	14.5
	clothing and sport store	34	21.4
	furniture, electronic stores	27	17.0
	chemist and optic stores	23	14.5
	book stores	12	7.5
	others	10	6.2
Annual sales	less than Rp. 10 billion	55	34.6
	Rp. 10 to Rp. 25 billion	39	24.5
	Rp. 25 to Rp. 100 billion	30	18.9
	Rp. 100 to Rp. 500 billion	22	13.8
	more than Rp. 500 billion	5	3.1
	no response	8	5.0

cont.

Number of employees	less than 25	58	36.5
	25 to 100	37	23.3
	100 to 500	29	18.2
	500 to 5000	24	15.1
	more than 5000	6	3.8
	no response	5	3.1
Years of supplier relation	less than 3 years	28	17.6
	3 to 5 years	14	8.8
	5 to 10 years	75	47.2
	10 to 20 years	22	13.8
	more than 20 years	2	1.3
	no response	18	11.3
Title of key informant	Owner	30	18.9
	General Manager/Director	49	31.4
	Manager (all function)	77	48.4
	no response	3	1.9
Retail size	less than 400 sq. m	56	35.2
	400 to 5000 sq. m	59	37.1
	more than 5000 sq. m	31	19.5
	no response	13	8.2

5.5.3. Personal Interviews

Arranging interviews with individual informants has numerous practical implications. Contact must first be made with individual informants to explain the nature of the research, to propose interview dates, and to ensure confidentiality and to give assurance that no financial figures would be requested during the interview. Once a potential informant agreed, the researcher sent him/her a formal requesting letter for interview along with a list of questions or areas to be covered during the interview.

The interviews were conducted with twenty retail firm's senior managers. Based on their title, there were five directors, who were also owners; four operations director;

one commercial director; two general managers of business development; two general managers of store operations; one general manager of merchandising; two senior marketing managers; and three senior merchandisers. Seven out of the twenty retail firms were food chain stores of which four were a franchisee of foreign retailers. The other seven were clothing chain stores, two were book chain stores, one was handcraft store, one was a furniture store, one was home improvement store, and one was direct sales retailer.

Unstructured or in-depth interviewing personal interviews were used in this study. The researcher used a list of questions (see table 5.6) to guide the interview relevant to the research objectives, but also such as to permit a free discussion format for the gathering of striking comments that would shed light on the way the interviewees viewed the research area. As shown in table 5.6, the checklist consists of 17 questions. In general, those 17 questions are aimed at collecting four types of information: key success factor, market orientation, supplier partnership, and firm performance.

The interviews with the twenty retail firm's senior managers were conducted during the period of February 1999 to May 1999. The interview began with the questions from the checklist. Although in the requesting letter, "to study business practices" was mentioned as the objective of the research, there was no definition either in a sense of description or elaboration given to the informant during or after interview. Eighteen interviews were taped and only two informants refused to be documented in that way. All interviews were conducted in Bahasa Indonesia. The twenty interview scripts are presented in Appendix C1.

Table 5.6. Checklist of Question for Personal Interview

Question for Interview

Idea about key success factor in retail business

1. What factors should be considered in managing a retail business?
2. What factors do you consider contribute significantly to your success?

Market Information

3. The extent to which market information is important in this business?
4. Which type of information should be monitored frequently?
5. In which way do management get the market information from the field?

Customer Orientation

6. The extent to which management cares to their customers?
7. The extent to which management are committed to knowing more about their customers?
8. The extent to which management responds to customer information?

Competitor Orientation

9. The extent to which management are committed to knowing more about their competitors?
10. The extent to which management responds to competitors activities?

Inter-functional Co-ordination

11. The extent to which management sees that inter-function co-ordination is important in this business?

Relationships to Suppliers

12. The extent to which management sees the importance of long-term relationships?
13. What are the advantageous of having close relation with suppliers?
14. The extent to which the firm supports their suppliers?
15. The extent to which the firm shares information with their suppliers?
16. The extent to which the firm invites suppliers to get involved in the firm's programme or solving the problems

Retail Performance

17. What types of performance measurement have been used?

5.6. Response Quality

The objective of this section is to assess the quality of sample responses. There are two critical issues concerning response quality: non-response bias and key informant quality.

5.6.1 Non-Response Bias

A Typical method for assessing non-response bias would be to test the difference between the characteristics of respondents to the characteristics of the population from which the sample was extracted (Bartz and Baetz 1998). A one-page questionnaire was faxed to 35 retail managers who had agreed to take part in the survey but had not responded to either the original questionnaire or the follow-up mailing. The questionnaire was brief and asked three demographic questions and two market orientation questions. A total of 20 questionnaires were returned by fax. In our comparison of these two groups, there were no significant differences between respondent and non-respondent on criteria such as: number of stores, number of employees, retail size, reviewing product development efforts and analysis of the competitors' strengths and weaknesses (see Table 5.7). Based on these results, non-response bias did not appear to present a problem in the current study with respect to testing our hypotheses.

Table 5.7. Mean Differences between Respondents and Non-respondents

Items	t value	Significant α
Number of stores	1.25	.219
Retail Size	1.04	.384
Number of employees	1.33	.190
Reviewing product development efforts	.63	.531
Analyse the competitors' strength and weaknesses	.40	.693

all α values more than .05

5.6.2. The Key Informant

The firm is the unit of analysis of this study. However, the respondents were the executives of the participating firms who served as key informants. The key informant's method has been extensively used to examine organisational characteristics in marketing when the organisation is the unit of analysis (Phillips 1981). The basic rationale behind using the key informant technique are that it reduces the costs, reduces the time taken to collect data, and increases the effectiveness of sampling effort by getting as many firms represented as possible rather than multiple people from a single firm (Mitchell 1994).

The key informant provides "reports about patterns of behaviour, after summarising either observed (actual) or expected (predicted) organisational relations" (Seidler 1974, p. 817). According to Campbell (1955), key informant should (1) have an access to the desired information, (2) have knowledge about the issues being researched and (3) represent others within the organisation. Obviously, selecting qualified informants is a critical aspect of the study.

The first and most central question in selecting a qualified informant is what specific issues are to be investigated. In many strategy related studies, CEOs and senior executives are considered to be the persons who have most knowledge of their firms' overall strategies (Zahra and Covin 1993, p. 460). The CEOs of the participating firms were the first choice for key informants. If this was not feasible, the next highest-ranking person or manager who was well involved in strategic decision making in the firm was requested to be the key informant (Venkatraman 1989).

The qualification of the key informant can be assessed in terms of (1) the formal role in the company, (2) the knowledgeability of the phenomena of interest and (3) the participation (or involvement) in the company's decision making with respect to the surveyed issues (Ganesan 1994; Kumar et al 1993). These three established criteria have been asked and discussed with retail practitioners during pre-test stage in the questionnaire development. Accordingly, middle level management in main activities such as operations, purchasing, merchandising, and marketing involved in the surveyed issues. Seven cases were dropped based on this criterion.

In addition, the F-test was conducted to assess the validity of using single key informant's in this study. The outcomes of the F-test (see Table 5.8) showed that there were no significant differences between groups both in job titles and job position. Therefore, the results indicated that single key informant is sufficient to assess the quality of responses.

Table 5.8. Key Informant Bias

Items	Job Titles		Job Positions	
	F-values	Sig. α*	F-values	Sig. α*
Overall performance	.439	.510	.281	.755
Sales Growth	.262	.611	.593	.554
Market share	1.182	.282	.779	.461
Gross Margin	.282	.598	.133	.875
Stock-age	.041	.839	4.101	.018
Productivity selling space	.941	.336	.380	.685

* all α values more than .05

5.7. Summary

This chapter illustrated the methodological issues concerning research design, data collection, and sample characteristics. The study employs two types of approach, namely personal interview and mailed questionnaire. Both approaches were conducted from February to June 1999. The sample characteristics encompassed response rate, sample profile, test for non-response bias, and the justification for using key informants. The following chapter will discuss the analysis of the hypothesis tested using structural equation modeling.

THE UNIVERSITY OF STRATHCLYDE IN GLASGOW

THE DEPARTMENT OF MARKETING

Chapter Six

Instrument Development

Chapter 6

Instrument Development

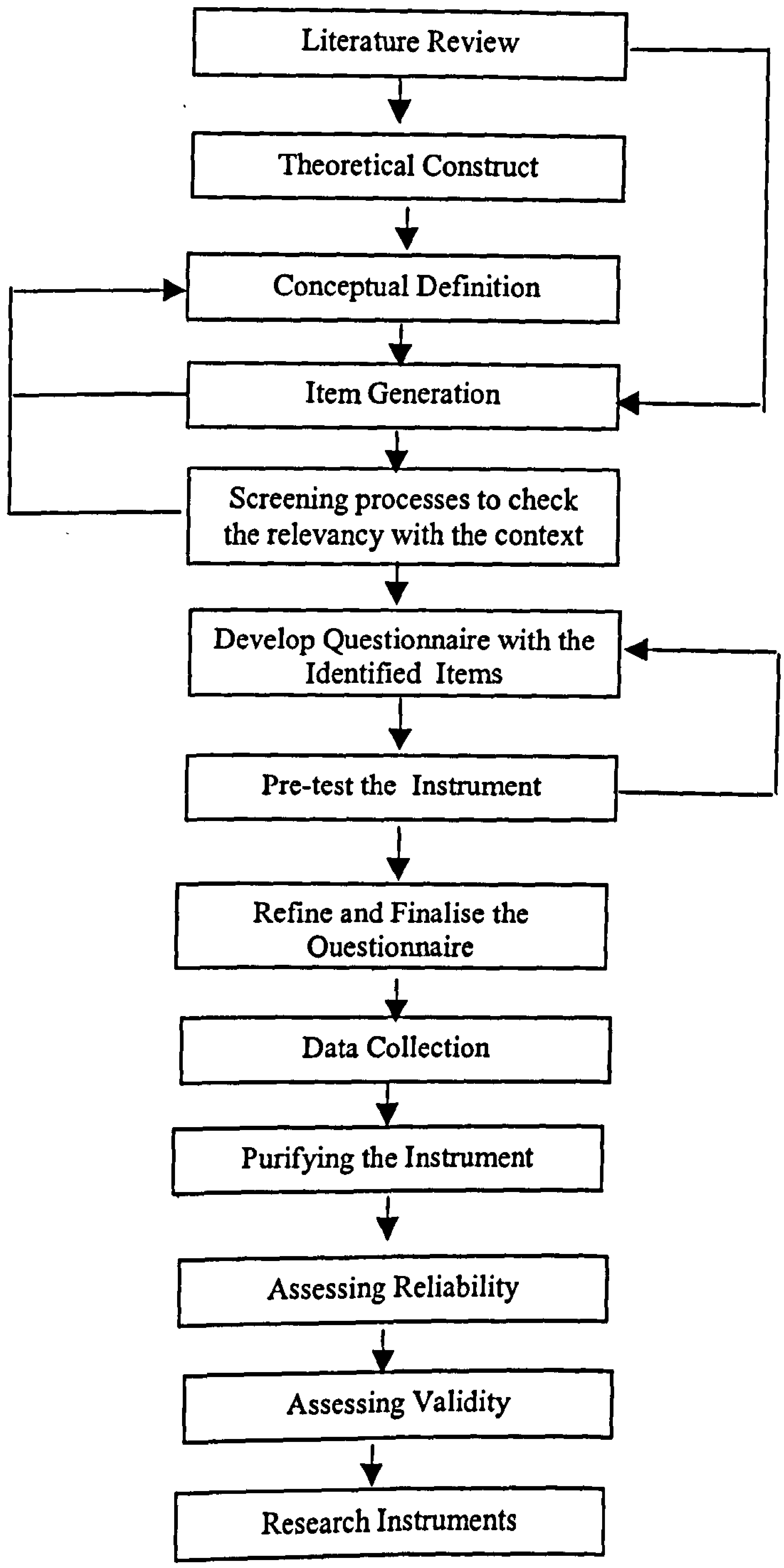
The preceding two chapters presented market orientation, supplier partnership, and environmental variables and retail performance literature in order to provide a well-constructed background for the study. This chapter focuses on developing a research instrument and assessing the quality of the instrument. For that purpose, this chapter is organised into four sections. Section 6.1 presents the development of items for the measurement of all the constructs in the research. Section 6.2 is concerned with designing the research instrument, namely the questionnaire. Section 6.3 briefly describes the instrument purification. Section 6.4 describes the assessment of reliability and validity of the purified measures.

6.1. Developing Research Instruments

The purpose of measurement is to provide an empirical estimate of each theoretical construct of interest. Measurement is defined as "rules for assigning numbers to objects to represent quantities of attributes" (Nunnally 1978, p.3). The definition involves three implications. Firstly, what is measured not the object itself but some attributes of it. Secondly, the numbers are used to represent quantities. Quantification is determining how much an attribute is present in an object; numbers are used to communicate the amount. Thirdly, the use of rules relates to the matter of standardisation. A measurement is less standardised if the rules are "unclear and impractical in application or require different kinds and degrees of skill by persons who use the measurement procedure" (Nunnally 1978, p.3-4).

Given the above implications, the next question is to what extent a measurement provides an accurate representation of what one is trying to measure. With regard to the previous question, there are two basic properties of empirical measurement: reliability and validity. Reliability concerns the extent to which any measuring procedure yields the same results on repeated trials. Validity refers to the extent to which any measuring procedure measures what it is intended to measure (Carmines and Zeller 1979, p.11). The process of development of an instrument in this study can be seen in Figure 6.1.

Figure 6.1. Instrument Development



Source: Modified from Deng and Dart (1994)

6.1.1. Conceptual Definitions

The first step in the procedure for examining the theoretical model is to develop definitions. These definitions are needed to conceptualise the construct variables within a set of empirical measures suitable for testing. This subsection presents concise definitions of all variables within the theoretical model (Table 6.1).

Table 6.1. Definition of Variables

VARIABLES	DEFINITION
Customer Orientation	The extent to which management knows the customer preferences, monitors the customers continuously, and respond to them
Competitor Orientation	The extent to which management knows the competitor strengths and weaknesses, analyse the competitor behaviour, and respond to the competitor activities
Inter-functional Coordination	The degree to which different functions are well coordinated, and information are disseminate across departments
Profit Orientation	The extent to which management knows and monitors the profitability of each individual product categories and suppliers' product.
Joint Decision Making	The extent to which the retailer and key suppliers take part in planning and decision making together
Information Sharing	The extent to which management shares proprietary information with key suppliers
Relationship-Specific Investment	The extent to which management devotes their effort to improving relationship with key suppliers
Competitive Intensity	The extent to which management perceives that the level of competition in the retail industry is high.

cont.

Demand Volatility	The extent to which management perceives that the demand is difficult to predict.
Market Turbulence	The extent to which management perceives that the preferences of customers tend to change over time.
Retail Performance	The extent to which management perceives that the firm's current performance is better than their largest competitor

6.1.2. Generation of Scale Items

A generation of scale items should capture the conceptual definition. On the basis of extensive review of the existing literature on marketing and retailing, a pool of items was generated for measuring market orientation, retailer-supplier relationships, environmental variables and retail performance. These items reflect the conceptual definition that was given in the previous subsection.

Preliminary screening processes was conducted to confirm that the items met the needs of the research. Further, it was necessary to ensure that all elements in the survey fitted the research setting. The first phase was to request feedback from supervisors an evaluation of the items. Items chosen by supervisors were selected. Secondly, colleagues from Prasetiya Mulya marketing department were asked to critically evaluate the items with regard to the extent that the items could be adopted in the Indonesian retail market. In this phase, participants were asked to identify items that were confusing, difficult to understand or irrelevant in the Indonesian situation. Items identified as being problematic were revised and eliminated (Maltz and Kohli

1996). Six items were dropped in this process. Three items come from the market orientation construct. They are COMP3, COOR4 and COOR6 (see Appendix A-1).

Participants gave an argument for dropping one of the items (COMP3[1]): "Indonesian retail market starts to shift to modern retail format. It is not necessary to compete in particular segment. The important is to attract shoppers from traditional market." This finding suggests that Indonesian shoppers are being in the early growth stage for modern retail format. Retailers have an opportunity to create a new segment for their advantage based on their competitive strength.

The remaining three items come from the firm performances construct. These are ROCE, ROS and labour productivity. One of the reasons was that not all retail firms familiar with or have an understanding of both financial ratios. Also, based on preliminary observation, only a few retail firms are concerned about labour productivity. Thirdly, a panel of six knowledgeable experts evaluated the translation of selected items from the English language into ***Bahasa Indonesia*** (the Indonesian language). They were asked to edit the translations to ensure their functional equivalence and linguistic equivalence.

Following these preliminary purification procedures, 22 measurement items remained for the market orientation construct; 16 items remained for the supplier partnership construct; 10 items remained for the performance construct; 5 items remained for competitive intensity; 4 items are remained market turbulence; and 4 items remained for demand volatility. These item measurements are presented in Appendix A1. The items were incorporated into the questionnaire.

[1] Focus on market that having competitive strength (Narver and Slater 1990)

6.2. Questionnaire Development

A questionnaire is a set of questions designed to generate the data necessary for accomplishing the research objectives (Parasuraman 1991). Three conditions have been noted as necessary for ensuring the accuracy of data gathered through questionnaires: (i) respondents must be able to understand the questions, (ii) they must be able to provide information requested, and (iii) they must be willing to provide the information (Chisnall 1992).

Apart from the accuracy of data gathered, respondents in surveys have no compulsion to answer the questions. They must be persuaded to participate in the interviews, and their interest must be maintained throughout. If questions are sensitive (e.g. financial figures), respondents may terminate the interview or falsify their answers. Obviously, questionnaire construction is of critical importance especially when the mailed survey approach is used, since the researcher has limited opportunity to explain it to the respondent (Fahy 1998).

Developing successful questionnaires needs considerably experience and time. However, as a general rule, there are a number rules and routines which help less experience researchers. Parasuraman (1991, p.367) describes drawing up questionnaires:

> The logical starting point for constructing questionnaires is to translate the data requirements (items) of a project into a set of rough questions. Next, certain critical evaluation of the rough draft has to be made: Does each question have the most appropriate *form* (e.g. *structured* versus *unstructured*)? Is each question *relevant* and *properly worded* to obtain a meaningful, valid response? Is the *sequencing* of the questions likely to introduce any bias? Are

the *lay-out* and *appearance* of the questionnaire conducive to accurate and easy data collection?

Each of these evaluations will probably suggest some changes in the rough draft. The process of questionnaire design is iterative. Numerous loops may be required before a suitable draft of the questionnaire is available for pre-testing. For example, a change in question form may also need changes in the sequencing and the wording of the questions. Further, a number of major changes resulting from pre-testing, may also have to incorporated before the draft questionnaire is finalised (Parasuraman 1991). The next three subsections will discuss the pre-test, questionnaire structure and scale format questions.

6.2.1. Pre-test

To improve readability and to minimise ambiguity in vocabulary and sentence structures, the questionnaire was subjected to several rounds of pre-tests. Each pre-test was followed by a revision that was thoroughly conducted to avoid changes of meaning in the revised items. There were several indicators that were suggested to the panel for evaluating the questionnaire (Appendix A2):

- the design of questionnaires with respect to time, layout, sequence and size of words
- the ambiguous questions
- the use of ambiguous words, unfamiliar terminology, inappropriate or difficult to understand words
- the instructions given

A panel of ten faculty members from the graduate school of management in Jakarta were requested to do a first round pre-test. The revised version was pre-tested with twenty MBA students from executive programs. The twice-revised questionnaire was then pre-tested with twelve practitioners who came from eight suppliers (distributors and manufacturers) and four retailers (including an executive director of the retail association). The final version of the questionnaire was developed into an 8-page booklet (Appendix A4).

6.2.2. The Questionnaire Structure

The structured questionnaire was basically designed for a survey instrument. However, it also contained several open-ended questions with respect to company and respondent information, years of relation with suppliers and number of suppliers, and reasons for the importance of having close relationships with suppliers and serving the customers.

In terms of organisation, the questionnaire consisted of seven categories of questions. The question sequence was based on: (i) the guidelines suggested by Sudman and Bradburn (1982) and (ii) the findings of the pre-test. They were:

1. Section A – The profile of key informant and firm characteristics
2. Section B – The environmental variables
3. Section C – The supplier partnerships
4. Section D – The customer orientation
5. Section E – The business practices
6. Section F – The retail performance
7. Section G – The suppliers

Results in Section A will yield profiles of key informant and firm characteristics. The profile of key informants was used for screening the respondents. Even from preliminary contact we suggested that the most appropriate person to answer the questions would be a senior manager. However, some retail firms allowed junior managers or even general staff to answer the questionnaires.

The author, in designing the questions in section B, which are environmental variables, tended to rely on the work of Jaworski and Kohli (1993) and the work of Ganeson (1994). The first scholars use these items as moderator variable for the relationship between market orientation and performance. The second scholar develops these items for the identification of environmental variables that significantly influence dyadic relationships in the channel of distribution.

Questions in section C were designed to investigate the extent to which the retailer was committed to developing relations with the key suppliers. Most of the scale comes from the work of Campbell (1997). He investigated whether buyer-seller partnerships are flip sides of the same coin. He used three partnership behaviours to measure the "closeness or distance of the relationship." They are joint problem solving, relationship-specific efforts and open information sharing. Accordingly, an accumulation of these behaviours increases the likelihood that buyers and suppliers co-operate in their relationships.

Questions in sections D and E were heavily guided by the literature review in chapter II. These sections were designed to investigate the market orientation level of the retail firms. The scale comes from the work of Slater and Narver (1990); Jaworski and Kohli (1993); and Deng and Dart (1994). The questions spread into two sections because the findings in the pre-test suggested giving a maximum of one page per section It reduced the complexity of the questionnaire.

The section F measured the retail performance. In this section, the author used two approaches, namely direct measurement and indirect measurement. As the author mentioned earlier, the result of market orientation-performance association research could be influenced by the type of performance measurement. Questions on indirect measurement were based on key informant perception of their firm's performance relative to their largest competitor.

Section G consists of question related to their suppliers. It was used to gain additional data for analysis. For example, the years of relationship with suppliers may influence their perceptions' towards partnership behaviour.

6.2.3. The Questionnaire Scaling

Stevens (1946) was the first author who addressed the hierarchy of scaling which moves from nominal data, through ordinal, interval, and on to ratio scaled data. Within each of these classification, Stevens suggested examples of the "permissible statistics" that were appropriate (see table 6.2). Stevens suggested that as one moves from nominal to ratio scaled data, all the statistical techniques previously listed are permissible, but not vice versa. Thus, calculating the variance would be appropriate for ratio as well as interval, but would not permitted for ordinal or nominal.

Table 6.2. Steven's Hierarchy of Scales

SCALE	STATISTICS 'PERMITTED'	EXAMPLE
Nominal	Mode, Chi Square	Job Title, Marital Status, Retailer Type
Ordinal	Median, Percentiles	Guttmann and Likert Scales; Job Position
Interval	Mean, Variance, Factor Analysis, Regression	Celsius temperatures
Ratio	Coefficient of Variation	Sales Turnover, Stockturn

Source: Modified from Traylor (1983)

Generally researchers commonly treat ordinal scale as interval level data. This justification allows them to use a variety of statistical analyses (Traylor 1983). There were two methods employed in ordinal scales. The first so called is a strict ordinal scale (by having the subject ranks), for example measuring the product usage: light, medium and heavy. The second is known as ordered metric scale (by asking the respondent to assign a number), for example assigning the numbers between 1 and 5 to indicate the degree to which they are in agreement with some statements. This method is often assumed to be 'interval,' since ordered metric scales may bear characteristics of interval ones. For instance, a subject may consider the intervals to be equal so the perceived distance between 1 and 2 is the same as the perceived distance between 4 and 5. Thus, the scale is interval within subjects. The Traylor (1983) and Schertzer and Kernan (1985) studies have tested this argument. They suggested that ordinal data, in many circumstances, may be treated as interval data without a great loss in accuracy.

Most of the questions in this questionnaire employed the ordinal scale. For instance, in section D, the subjective perceptions of the extent to which the retail firms performed market orientation are rated from strongly disagree, disagree, neither disagree or agree, to strongly agree. However, several profiles of key informant and retail performance questions used the nominal scales and the ratio scales.

6.2.4. The Questionnaire Administration

The whole mail packet consisting of the questionnaire, cover letter, reference letter from the dean, and self addressed freepost return envelope, was sent to the senior managers in each of the selected retail firms. The questionnaire is printed double-sided on A4 paper as a booklet. There are no questions on the front or back pages. The questionnaire booklet is reproduced on white paper. However, a light yellow paper is used for the front and back pages. The front cover contains a study title, name and address of the researchers, and two university logos as research sponsors (see Appendix A4). These procedures follow the TDM (total design method), which is recommended for improving the response rate (Fahy 1998). For example, the double-sided printing is intended to make the questionnaire appear shorter and less time-consuming to complete (Jobber 1979).

The name of the sponsor is important in mail surveys. Faria and Dikinson (1992) found that university sponsorship increased response rate nearly 80 % over that of commercial sponsorship. It can be argued that university sponsored research is perceived to be less threatening by the business community who may fear disclosure of proprietary information to competitors by responding to a commercially sponsored survey (Jobber and O'Reilly 1998).

A cover letter for this study followed the format suggested in the TDM. It was limited to one page, emphasised the usefulness of the study, noted the importance of the target date for the successful completion of the study, emphasised confidentiality, and informed the respondent of a promised incentive (in the form of an offer of a summary and an invitation in the presentation of the results). The researcher before mailing (see Appendix A3) signed the letter.

6.3. Purifying the Instruments

Having generated data using the items developed in the previous subsection, the next task was to purify the data in order to determine whether any item needed to be eliminated from the instrument. When generating an instrument, one is trying to select a set of items, which most accurately belong to the specified domain. However, it is important to identify poor items (items which correlate negatively or do not correlate strongly with other items) and eliminate them from the instrument (e.g. Churchill 1979; Cadogan *et al.* 1998). The purifying of instruments relies on the confirmatory factor analysis (Kohli and Jaworski 1993).

The purpose of factor analysis is to define the underlying structure in a data matrix through analysing the structure of the inter-relationship among a large number of items by defining sets of common underlying dimensions, known as factors (Hair *et al.* 1995). There are two approaches to the factor analysis technique, namely exploratory and confirmatory. In exploratory, the researcher may not have any idea as to how many underlying dimensions there are for the given data. Thus, the focus of investigation is directed towards uncovering the minimal number of factors that underlie the observed variables. Alternatively, the researcher may predict or hypothesise that there are several underlying dimensions and that certain variables belong to one dimension while others belong to another dimension. If factor analysis is used to confirm the hypotheses, then it is called confirmatory factor analysis (Kim and Mueller 1994).

In the confirmatory factor model, the researcher initially establishes substantial constraints to determine, (1) which pairs of common factors are correlated, (2) which observed variables are affected by which common factors, (3) which observed variables are affected by a unique factor, and (4) which pairs of unique factors are correlated (Long 1994, p.252).

6.3.1. Market Orientation

The correlation matrix of the 22 items capturing the components of customer orientation, competitor orientation, inter-functional coordination and profit orientation was used as input in all models. This study followed the Jaworski and Kohli's (1993) procedure to purify the instrument. Three bases of CFA models were estimated and compared with one another, as follows:

1. **Model 1.** Though market orientation is conceptualised as consisting of four distinct components, the covariance among the 22 items can be accounted for by a single factor (i.e. a general market orientation factor) (Appendix B1).
2. **Model 2.** Each of the 22 items is reflective of two factors: a general market orientation and components of market orientation. General market orientation is restricted to be orthogonal to the four other components (Appendix B2).
3. **Model 3.** Covariation among the items can be accounted for by a restricted four first-order factors, with each factor representing a distinct component of market orientation and each item being represented only of a single component. The four factors may be correlated or uncorrelated.

Summary statistics for the three models are shown in table 6.3. The table is divided into three broad types of overall goodness-of-fit measures. Firstly, absolute fit measures assess the degree to which the model fits the sample data. Model fit criteria commonly used are chi-square (χ^2), goodness-of-fit index (GFI), and root-mean square residual (RMSEA) (Schumaker and Lomax 1996).

Secondly, incremental fit measures assess the incremental fit of the proposed model compared to a null model. In this case, the null model is hypothesised as a single-factor model with no measurement error (Hair *et al.* 1995). Two of the best incremental indices are the TLI (Tucker-Lewis Index) and CFI (Comparative Fit Index) because they are not affected by sample size (cf. Schumaker and Lomax 1996, p.127).

Thirdly, parsimonious fit measures refer to the number of estimated coefficients (or conversely, the degrees of freedom) needed to achieve a specific level of it. Two measures appropriate for direct model evaluation are the AGFI (adjusted goodness-of-fit) and the normed chi-square (NC) (Hair *et al.* 1995). Taken together, although the overall goodness-of-fit indices for the models considered confirm that MOD3 provides the best fit, at best this model still only provides moderate levels of fit (all the fit measures were below the recommended level (.90)).

Table 6.3. Comparison of Results Obtained for Market Orientation Construct

	MOD1 one general factor	**MOD2** second order factor analysis	**MOD3** four correlated factors
Absolute fit measures			
χ^2	487.36	424.189	349.72
GFI	.791	.811	.842
RMSEA	.092	.082	.075
Incremental fit measures			
CFI	.777	.824	.868
TLI	.754	.802	.835
Parsimonious fit measures			
AGFI	.747	.767	.784
NC (χ^2/df)	2.322	2.069	1.890

It is important to emphasise that the χ^2, GFI, RMSEA, TLI, CFI, AGFI and NC are measures of overall fit; they do not pinpoint areas of misfit in a particular model. To determine this information, it is necessary to test indices that relate to specific parameters in the model. Two indices commonly used to assist the researcher in isolating parameters that may be contributing to the overall misfit are ***t-values*** and ***modification indices*** (Byrne 1989). The t-values were used to test the significance of loading factors. The modification indices represent the expected drop in χ^2 if a particular parameter was freely estimated.

All parameters may therefore be considered statistically significant and thus important to the hypothesised model (values > 1.96 are generally considered to be statistically significant). The only exception was item COMP5 that has a t-value of only 1.445. Thus, we have further evidence to suggest that certain parameters in the model are misspecified.

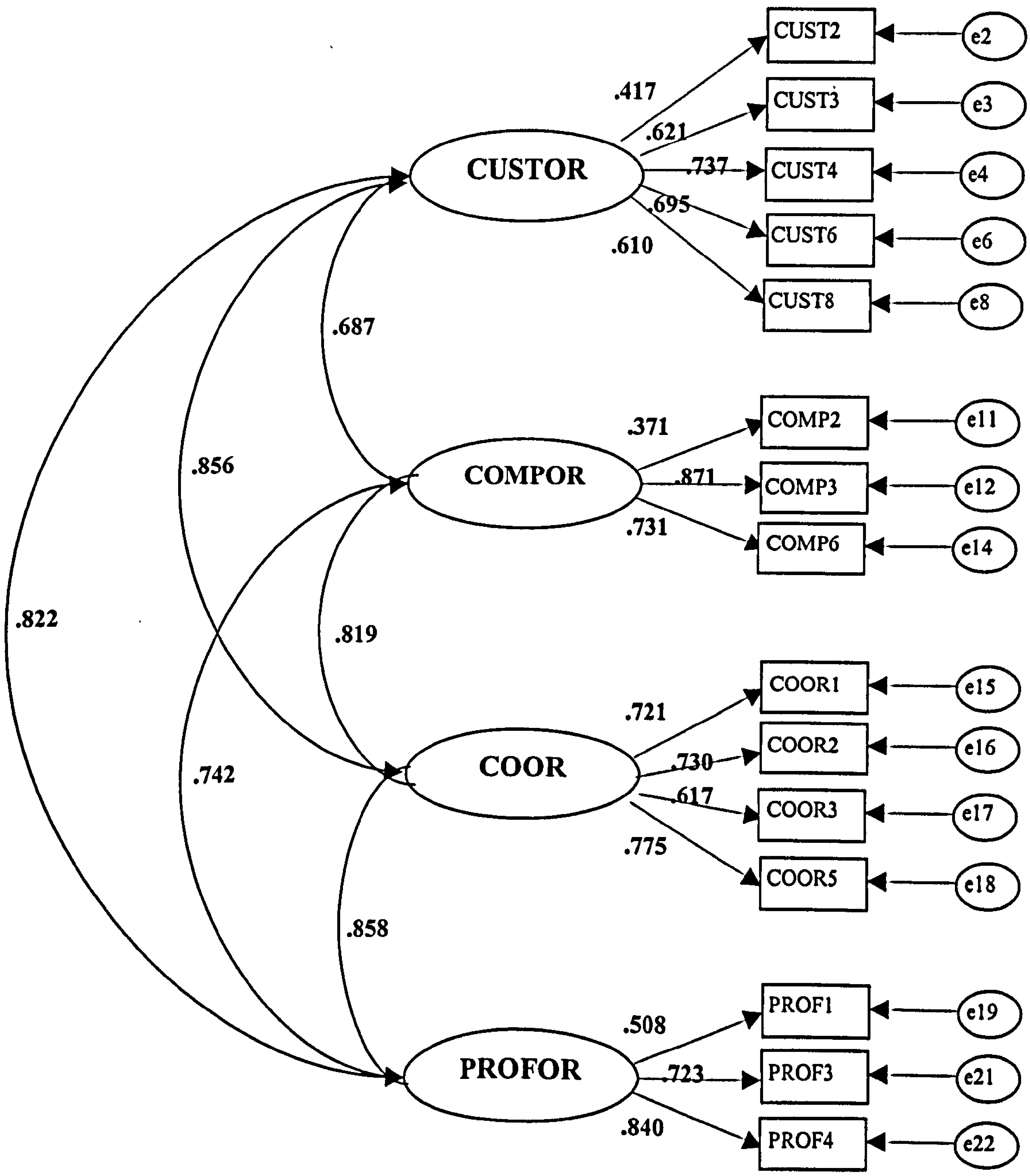
Kline (1998) suggests deleting the items that fail to have substantial loadings on the factors to which they are originally assigned (e.g. standardised loading < .20). This resulted in the elimination of item CUST1, CUST5, CUST7, CUST9, and COMP1. A second aspect was the needs to cross load items on more than one factor, as indicated by large modification indices. The pattern just described suggests that an item may measure more than one construct. These items are considered as being removed from the model. This criterion results in the elimination of item PROF2. This process reduces the number of market orientation items from 22 items to 15 items. Refitting model MOD3 resulted in considerable improvement in fit ($\chi^2(74)$ = 121.621 (.000); GFI=.914; AGFI=.861). however the model is marginally acceptable from a statistical perspective (the chi-square is significant and RMSEA above the recommended level (.05)).

Table 6.4. Steps in Fitting Baseline Model for Market Orientation Construct

No	Competing Models	χ^2	p (df)	GFI	RM SEA	CFI	TLI	AGFI	CN
3	Baseline Model	349.72	.000 (188)	.842	.075	.868	.835	.784	1.890
3A	Remove Items *: CUST1, CUST5, CUST7, CUST9, COMP1,COMP5, and PROF2	121.62	.000 (74)	.914	.064	.950	.929	.861	1.649

* Due to having low loading factors (cust1, cust5, cust7, cust9 and comp4), and cross loading factors (prof2)

Figure 6.2. Market Orientation Construct



The results of this analysis suggest that market orientation in the Indonesian retail business context consists of four dimensions which may be measured by 15 questionnaire items using a five-point Likert scale (see table 6.13). Customer orientation is measured by responses to five statements. Competitor orientation is measured by responses to three statements. Inter-functional coordination is measured by responses to four statements. Finally, profit orientation is measured by responses to three statements.

6.3.2. Supplier Partnership

The previous procedure was followed for supplier partnership. The correlation matrix of the 16 items capturing the components of information sharing, relation-specific efforts, and joint decision making were used as input in all models. Three bases of CFA models were estimated and compared with one another. Summary statistics for the three models are shown in Table 6.5. The resulting statistics indicate that none of the specified models provided a good fit to the data. The solution of MOD3 is used as the basis for evaluating and eliminating the items.

Table 6.5. Comparison of Results Obtained for Supplier Partnership Construct

	MOD1 one general factor	**MOD2** second order factor analysis	**MOD3** three correlated factors
Absolute fit measures			
χ^2	506.532	361.8	241.40
GFI	.689	.780	.838
RMSEA	.157	.128	.103
Incremental fit measures			
CFI	.638	.765	.864
TLI	.582	.721	.818
Parsimonious fit measures			
AGFI	.593	.704	.755
NC (χ^2/df)	4.870	3.582	2.682

Initially, the model was respecified by eliminating one item (IS5) due to it having high cross loading factors. The refitted model reduces significantly the chi-square (>50) and improves others criteria of fit (see table 6.6). However the model is marginally acceptable from a statistical perspective.

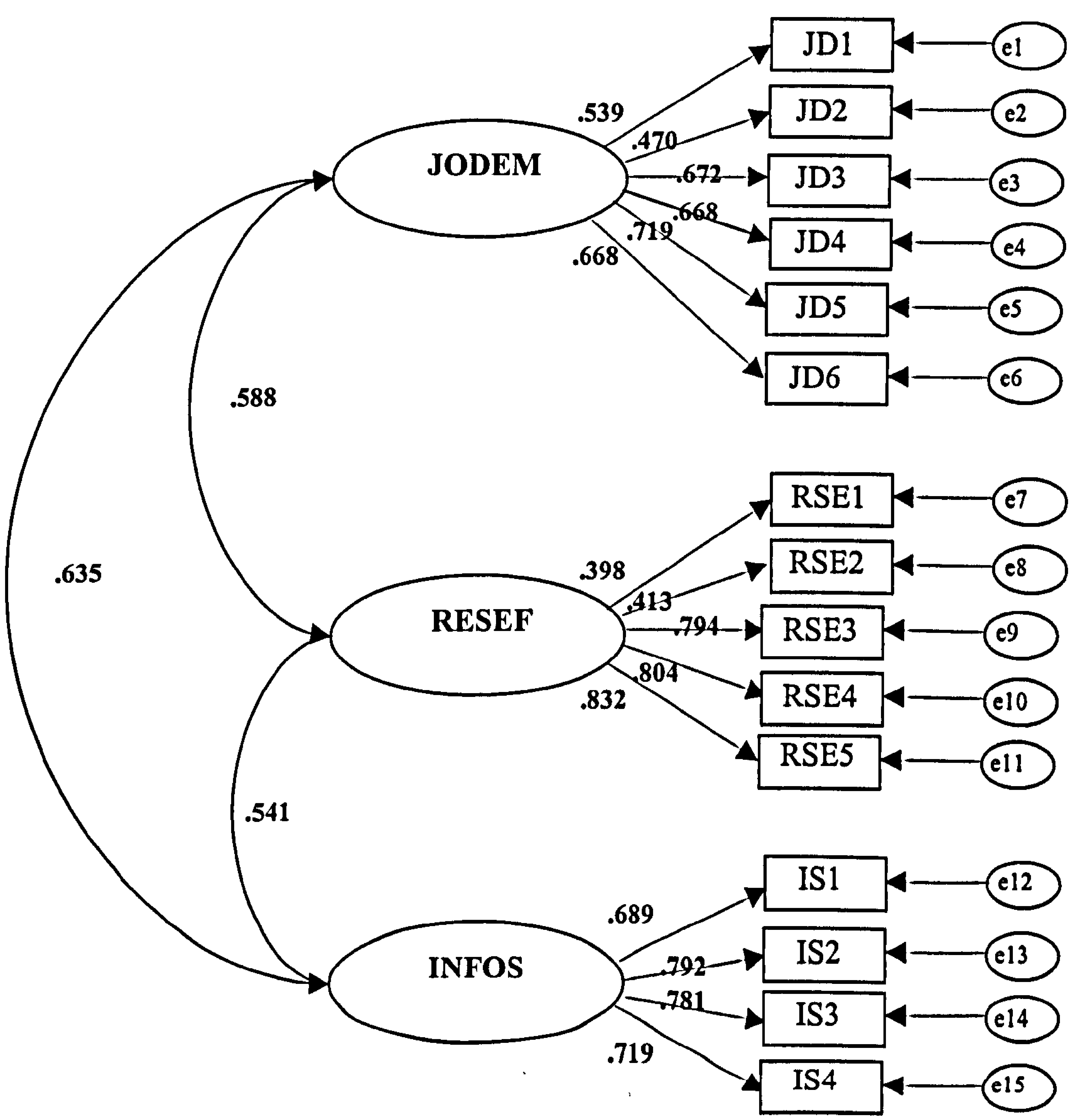
Table 6.6. Steps in Fitting Baseline Model for Supplier Partnership Construct

No	**Competing Models**	χ^2	**p (df)**	**GFI**	**RMSEA**	**CFI**	**TLI**	**AGFI**	**CN**
3	Baseline Model	241.40	.000 (90)	.838	.103	.864	.818	.784	2.682
3A	Remove Items *: IS5	191.62	.000 (77)	.866	.097	.889	.848	.791	2.484

* Due to having cross loading factors

The results of this analysis suggest that supplier partnership in the Indonesian retail business context consists of three dimensions which may be measured by 15 questionnaire items using a five-point Likert scale (see table 6.13). Joint decision making is measured by responses to six statements. Relationship-specific efforts are measured by responses to four statements. Finally, information sharing is measured by responses to five statements.

Figure 6.3. Supplier Partnership Construct



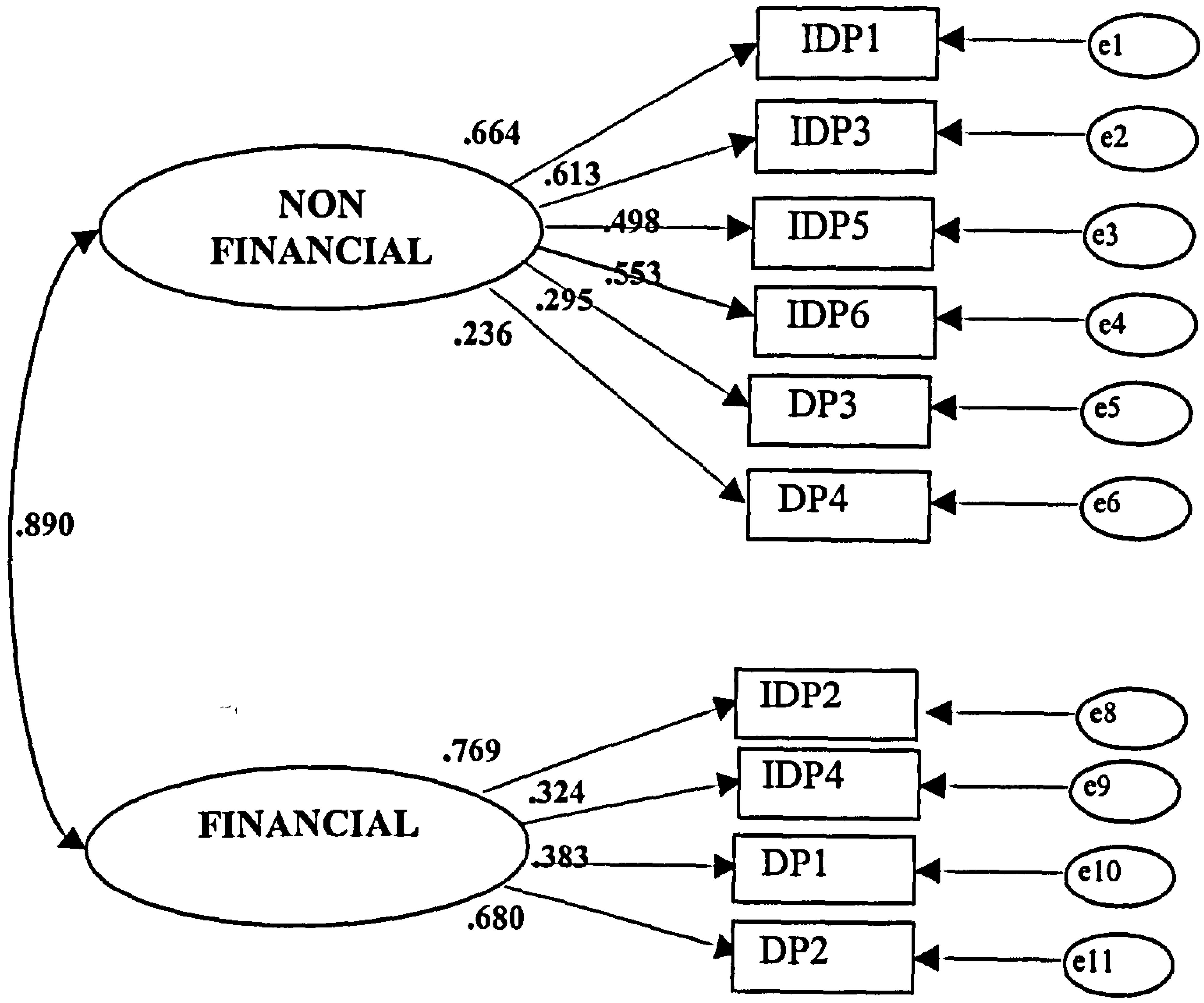
6.3.3. Performance

The analyses carried out in similar manner to those previously. The MOD3 model has been used for the respecification process because it provides the best-fit measures compare to other models (table 6.7).

Table 6.7. Comparison of Results Obtained for Performance Construct

	MOD1 one general factor	**MOD2** second order factor analysis	**MOD3** two correlated factors
Absolute fit measures			
χ^2	73.80	70.848	68.717
GFI	.917	.919	.921
RMSEA	.084	.083	.083
Incremental fit measures			
CFI	.866	.873	.876
TLI	.827	.831	.832
Parsimonious fit measures			
AGFI	.869	.869	.869
NC (χ^2/df)	2.109	2.084	2.082

Figure 6.4. Performance Construct



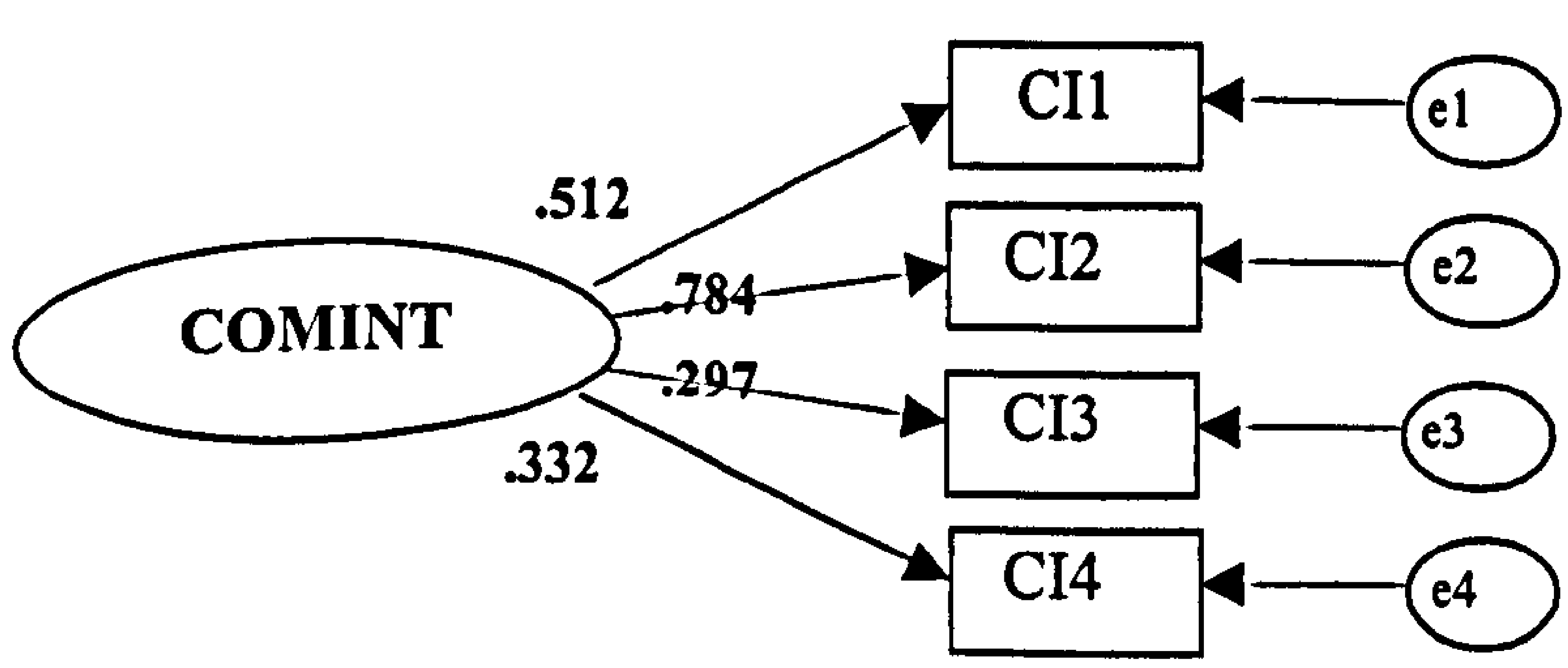
6.3.4. Environmental Variables

The three constructs of environmental variables were analysed separately by using single factor analysis. The initial single factor solution for competitive intensity provided an adequate fit for the data (χ^2 (3)=18.37 (p=.00); GFI=.943; AGFI=.809). The same procedures were followed for demand volatility and market turbulence. The initial CFA solution resulted in a good fit to the data (χ^2(2)=2.521 (p=.283); GFI=.992; AGFI=.960).

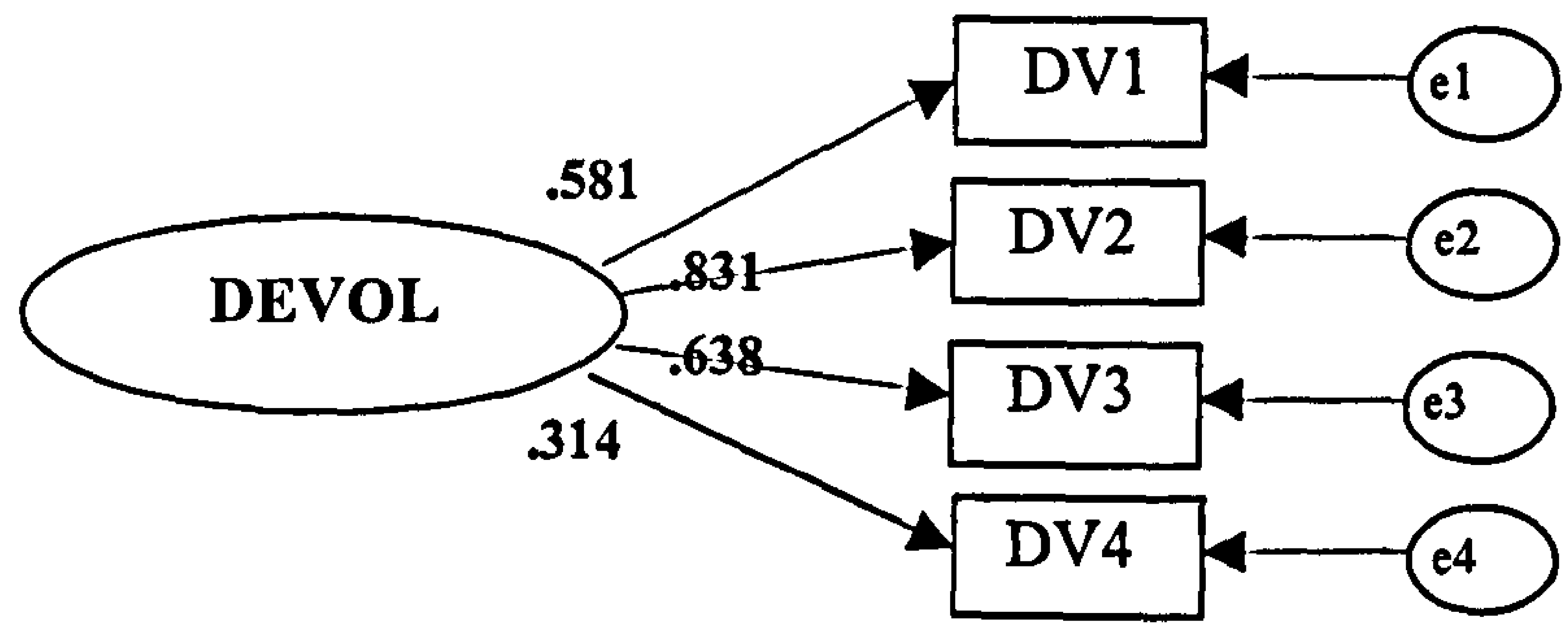
Unfortunately, a confirmatory factor analysis could not analyse market turbulence further due to the problem of identification. Schumaker and Lomax ((1996) suggested using an additional constraints to solve this problem. Either one indicator for each latent variable must have a factor loading fixed to 1, or the variance of each latent variable must be fixed to 1. The identification problem still existed after following the first suggestion. The second suggestion led to negative variances of error or the solution is not admisable. AMOS Users' Guide suggests fixing a value of the variance error. This procedure resulted in an adequate fit for the data ($\chi^2(3)$=5.582 (p=.134); GFI=.982; AGFI=.941). However, the model was respecified by eliminating one item (MT4 item) due to its being statistically insignificant and its negative loading factor. Refitting model resulted in considerable improvement in fit ($\chi^2(1)$ = .440 (.507); GFI=.998; AGFI=.989).

Figure 6.5. Competitive Intensity, Demand Volatility and Market Turbulence Construct

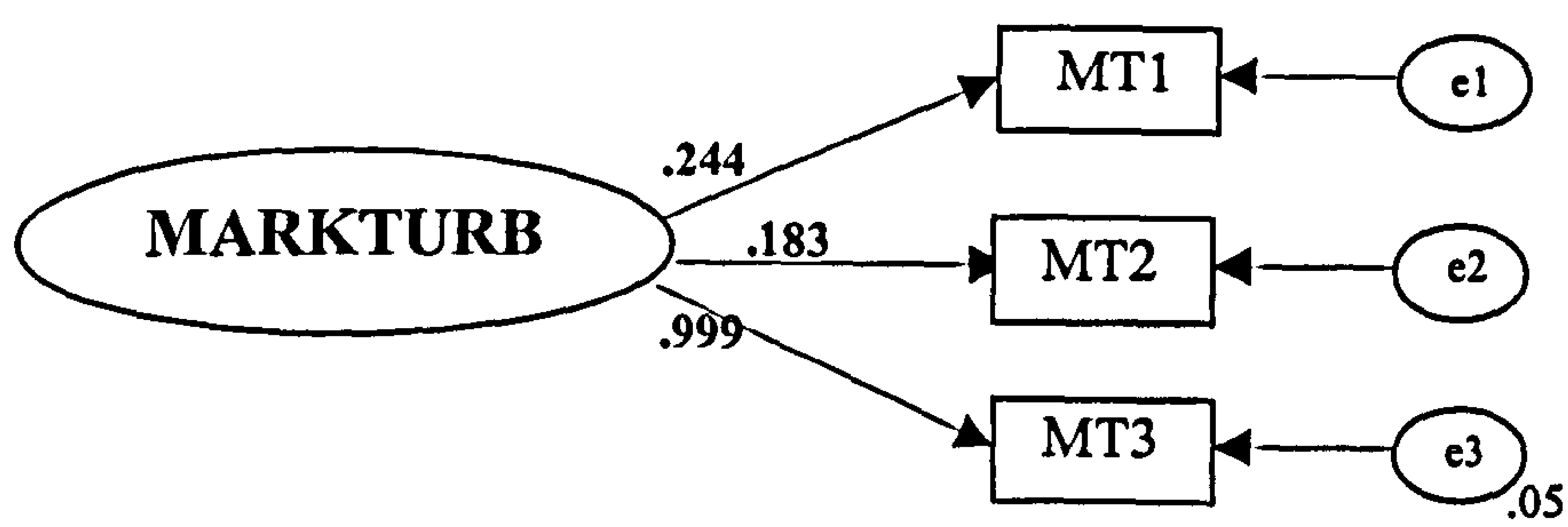
A. Competitive Intensity Construct



B. Demand Volatility Construct



C. Market Turbulence Construct



6.3.5. Summary of the Eliminated Items

The confirmatory factor analysis leads to an elimination of 10 measurement indicators. As illustrated in Table 6.8, seven eliminated indicators belong to the construct of market orientation; each single indicator was deleted from supplier partnership construct.

Table 6.8. Items Deleted After Confirmatory Factor Analysis

Sub-construct	Instrument Item
Market Orientation	• Firm seeks to understand the needs of customers (CUST1) • Firm is committed to providing service even after the sale is completed (CUST5) • We pay attention to changes in our customers' preferences (CUST7) • We pay attention to customer complaints (CUST9) • Our firm actively analyse the competitors' strengths and weaknesses (COMP1) • We are quick to respond to significant changes in our competitors' pricing strategy (COMP5) • We know the margin of each supplier (PROF2)
Supplier Partnership	• We made a substantial number of adaptations in our delivery system to increase efficiency dealing with key suppliers (IS5)
Competitive Intensity	• Our competitors are relatively weak (CI5)
Market Turbulence	• Our customers are price sensitive (MT4)

6.4. Assessing Reliability and Validity

To determine the adequacy of a measurement, evidence of its reliability and validity must be offered. A number of tests were undertaken to assess the reliability and validity of the measurements developed here. First, the reliability of measurements was examined. Next, the construct validity was examined by assessing convergent, discriminant and criterion-related validity.

6.4.1. Assessing Reliability

Reliability is concerned with the repeatability and consistency of measurements, which describes "the degree to which measures are free from error and therefore yield consistent results" (Peter 1979, p. 6). Generally, the reliability of empirical measurements may be obtained by one of three method: (1) the retest method, (2) the internal consistency method, and (3) the alternative form method. According to Peter (1979), the method that most marketing research studies employed was the internal consistency, which was developed by Cronbach in 1951. The internal consistency refers to the degree to which items in the set are homogenous. The recommended measure of the internal consistency is provided by the coefficient alpha (Churchill 1979). Coefficient alpha is "the estimated correlation of the k-item test with errorless true scores" (Nunnally 1978, p.191-6).

One issue concerning the use of cronbach's alpha is to decide what value can be employed to demonstrate satisfactory levels of reliability. Though no common rules have been offered for the minimum level of alpha, Nunnaly (1978, p. 226) suggests the following guidelines. For early stages of research, alpha value between .50 to .60 is acceptable. Also that an alpha value beyond .80 is unnecessary for basic research. However, for applied research, a minimum alpha of .90 to .95 should be considered as required standard. The Cronbach's alphas of the multi-item scales in this study range from a minimum of .3158 (market turbulence) to a maximum of. 8355 (information sharing). Table 6.9 provides the outcomes of the reliability analysis for the four constructs under study.

Table 6.9. Reliability of the Construct

Constructs	No. Items	Cronbach's Alpha
Customer orientation	5	.7524
Competitor Orientation	3	.7230
Co-ordination	4	.8026
Profit Orientation	3	.7467
Relation-specific efforts	5	.7888
Information sharing	4	.8355
Joint decision making	4	.8037
Competitive intensity	4	.5465
Demand volatility	4	.6770
Market Turbulence	3	.3158
Financial Performance	4	.5237
Non-Financial Performance	5*	.6100

* POBJ3 was deleted to increase alpha value

The reliability value of market turbulence variable is too low which means the items perform poorly in tapping the construct (Churchill 1979). Therefore, this study chose one particular item (MT3[2]) to represent the construct. The arguments for choosing this item were: (1) its closeness to the market turbulence definition compared to other items, (2) its representation of major characteristics of the Indonesian market which is dominated by the youth generation in that they tend to look for new products/services and (3) based on practical reason which was this item provided better solution compared to other items when a factor loading of each item was being fixed to 1.

[2] Our customers tend to look for new products/services all the time

6.4.2. Assessing Construct Validity

Construct validity is defined as "the degree to which a measure assesses the construct it is purported to assess" (Peter 1981, p.134). The construct validity of measurements in this study was examined by assessing convergent, discriminant and criterion-related validity. Convergent validity is the extent to which different methods used to measure the same construct correlate with one another (Peter 1981). A useful technique of assessing the convergent validity is the multitrait-multimethod matrix (MTMM) (Churchill 1979). This technique requires that at least two constructs are measured and that each is measured using two methods (Campbell and Fiske (1959).

Assessing convergent validity using MTMM analysis involves several practical problems, especially in selecting "maximally different methods" (Peter 1981). Kalleberg and Kluegel (1975, p.3) state that "it is not clear how one would choose independent methods given the rudimentary state of knowledge about the sources of method variance in our measures". Further, Bagozzi and Yi (1991) found that the effects of methods differed widely for the data sets examined and that all methods in each data set were significantly correlated. Accordingly, inspecting of factor variance can assess convergent validity. In other words, if all factor loadings for specified factors are statistically significant, it indicates that convergent validity has been achieved. As shown in Table 6.10, all items load positively on their specified constructs and the t-values associated with each of the loadings exceeds 1.96, the critical value at the .05 significance level. The fact that all indicators are significantly related to their corresponding constructs, indicating that the scales for respective construct possesses convergent validity (Bagozzi and Yi 1988).

Table 6.10. Factor Loadings and t-values for Each Indicator

		Factor Loading	t-values
Customer Orientation	Cust2	.403	4.228
	Cust3	.588	6.630
	Cust4	.746	8.177
	Cust6	.699	nt
	Cust8	.607	6.842
Co-ordination	Coor1	.721	nt
	Coor2	.725	8.559
	Coor3	.618	7.311
	Coor5	.778	9.165
Competitor Orientation	Comp2	.366	nt
	Comp3	.888	4.386
	Comp6	.724	4.278
Profit Orientation	Prof1	.500	nt
	Prof3	.731	5.866
	Prof4	.847	6.203
Joint Decision Making	JD1	.756	5.056
	JD2	.720	4.979
	JD3	.505	4.257
	JD4	.454	nt
	JD5	.498	5.675
	JD6	.521	4.655
Information Sharing	IS1	.753	7.619
	IS2	.756	8.738
	IS3	.766	8.822
	IS4	.769	nt

cont.

Relation-specific Efforts	RSE1	.397	4.804
	RSE2	.404	4.885
	RSE3	.820	nt
	RSE4	.829	10.373
	RSE5	.821	9.774
Non-Financial Performance	IDP1	.681	nt
	IDP3	.626	6.242
	IDP5	.475	4.986
	IDP6	.549	5.667
	DP3	.293	3.189
	DP4	.235	2.495
Financial Performance	IDP2	.823	nt
	IDP4	.309	3.510
	DP1	.450	4.304
	DP2	.669	7.048
Competitive Intensity	CI1	.512	nt
	CI2	.784	2.725
	CI3	.297	3.166
	CI4	.332	nt
Demand Volatility	DV1	.581	nt
	DV2	.831	5.485
	DV3	.638	5.690
	DV4	.314	3.287

nt = not tested

Deng and Dart (1994) suggest another technique for examining the convergent validity through correlating components within the construct, and calculating alpha values. A significant correlation among the four components of market orientation indicate that they converge on a common underlying construct, thereby providing evidence of convergent validity. Also, three components of supplier partnership, as well as two components of performance measurement have significant correlations (Appendix B-7 and B-8). In addition, the Cronbach's alpha of the three instruments is well within acceptable range. The alpha score of market orientation (combining four component scales) is .9032, supplier partnership is .8916 and performance measurement is .7311

Table 6.11. Correlation Table of Summated Scales

Composite scales	CU	COM	COR	PO	RSE	IS
Customer orientation	**.75***					
Competitor Orientation	.48	**.72**				
Co-ordination	.68	.61	**.80**			
Profit Orientation	.59	.57	.69	**.75**		
Supplier Partnership	.33	.25	.22	.19	**.89**	
Performance	.27	.23	.06	.23	.23	**.73**

* alpha's value.

Discriminant validity is the extent to which a measure has low correlation with another measure that is not measuring the same variable or concept (Heeler and Ray 1972). Boyle *et al.* (1992) note that the inter-scale correlations can be used to assess discriminant validity. Table 6.11 shows the correlation matrix. The diagonals are the internal consistency coefficients as measured by Cronbach's alpha. This table reveals that for a given summated scale representing a dimension of a construct, the internal consistency is always larger than the correlations between the scale and other scales. Given the evidence of the discriminant validity, the reader must be cautious in interpreting the results of this study. The criteria used in this study does not capture the criteria of discriminant validity of the traditional MTMM matrix because it relies on mono method.

The criterion-related validity, sometimes known as predictive validity or concurrent validity, evaluates the degree to which a construct's measure performs as predicted in marketing theory. Simply stated, criterion-related validity concerns the correlation between a measure and some criterion variable of interest. If the correlation is high, the measure is considered as being valid for that criterion. While the logic underlying criterion-related validity is straightforward, this type of validity has severe limitations due to the absence of any relevant criterion variables (Zeller and Carmines 1980, p.80). For example, what would be an appropriate criterion variable for measure of a firm environment?

The growing body of empirical evidence provides support that market orientation or supplier partnership has a positive correlation with performance. Therefore, criterion-related validity was assessed by examining the correlation coefficients between the scores for market orientation or supplier partnership with retail performance. However, Steenkamp and van Trijp (1991) have argued that neither correlation nor regression analysis is capable of assessing criterion-related validity. Both methods are subject to the biasing effect of measurement errors on the estimates of the relationships among constructs, and they were unable to conduct a formal test of the criterion-related validity. Anderson and Gerbing (1988), alternatively, suggest using the two-step approach to structural equation modeling. This approach separates the evaluation of the measurement model from the test of the structural model. Given acceptable convergent and discriminant validity, an assessment of criterion-related validity for the constructs was conducted through the subsequent structural equation modeling analysis, which will be described in Chapter 7.

6.5. Summary

Overall, this chapter detailed the instrument development. The multi-item constructs were used as instruments for testing the propositions. The instruments were purified by using a confirmatory factor analysis technique. Fifteen items were deleted from the original instrument because they did not correspond to the underlying construct or had low loading factors. Further, the assessment of reliability and validity has been provided to examine the quality of the instrument. The reliabilities of the instruments were in an acceptable range. Also, the evidence for convergent validity and discriminant validity is provided. Table 6.12 provides a summary of the final scales. The following chapter presents the results of hypothesis testing.

Table 6.12. Summary of the Final Scales

Construct	Item Measurement
Customer Orientation	• Our firm has a detailed customer data base (CUST2) • We attempt to gain customer satisfaction information quarterly (CUST3) • Top managers meet quarterly to discuss customer needs and preferences (CUST4) • We review quarterly the likely effect of changes in our business environment on customers (CUST6) • We review product development efforts quarterly to ensure that they are in line with what customers wants (CUST8)
Competitor Orientation	• If a major competitor does an intensive campaign targeted at our customers, we response immediately (COMP2) • Top managers meet quarterly to discuss competitors' strategies and actions (COMP3) • Our firm monitors competitors activities quarterly (COMP6)
Co-ordination	• Marketing people spend time discussing customers' future needs with other departments (COOR1) • Data on customer satisfaction are disseminated across departments on a regular basis (COOR2) • Activities in different departments are well co-ordinated (COOR3) • We have interdepartmental meetings to discuss market trends and developments quarterly (COOR5)
Profit Orientation	• We know the profit for each category of product (PROF1) • Top managers discuss sales projections for each category of product quarterly (PROF3) • Our firm reviews individual product categories quarterly to ensure that they still contribute to our profitability (PROF4)
Joint Decision Making	We make joint decisions with key suppliers about: • Delivery scheduling (JD1) • Order entry procedures (JD2) • Sales promotions (JD3) • New product launch (JD4) • Pricing (JD5) • Stock levels (JD6)

cont.

Information Sharing	We disclose fullest possible information to key suppliers about: • Sales data for each category of product (IS1) • Lay-out plan (IS2) • Budget (quarterly: sales, promotion etc (IS3) • New service development (IS4)

Relation-specific efforts	• We devote considerable time to improving this relationship with key suppliers (RSE1)
	• We devote considerable time trying to improve key suppliers' product performance (RSE2)
	• We have made a substantial number of adaptations in order to deal more efficiently with key suppliers:
	  • Inventory management (RSE3)
	  • Ordering system (RSE4)
	  • Delivery system (RSE5)

Non-Financial Performance	• Perceived Overall Performance (IDP1) • Perceived Market Share (IDP3) • Perceived Space Productivity (IDP5) • Perceived Stock-age (IDP6) • Stock-age (DP4)
Financial Performance	• Perceived Sales Growth (IDP2) • Perceived Gross Margin (IDP4) • Sales Volume (DP1) • Sales Growth (DP2)
Competitive Intensity	• Competition in our business is very intense (CI1) • There are many "promotion wars" in our business (CI2) • Anything that one competitor can offer, others can match readily (CI3) • Price competition is a hallmark or our business (CI4)
Demand Volatility	• Sales forecasts are inaccurate (DV1) • Sales trends are difficult to monitor (DV2) • Market shares are volatile (DV3) • Market demands are unpredictable (DV4)
Market Turbulence	• Our customers tend to look for new products/services all the time (MT3)

THE UNIVERSITY OF STRATHCLYDE IN GLASGOW

THE DEPARTMENT OF MARKETING

Chapter Seven

Hypotheses Testing

Chapter 7

Hypothesis Testing

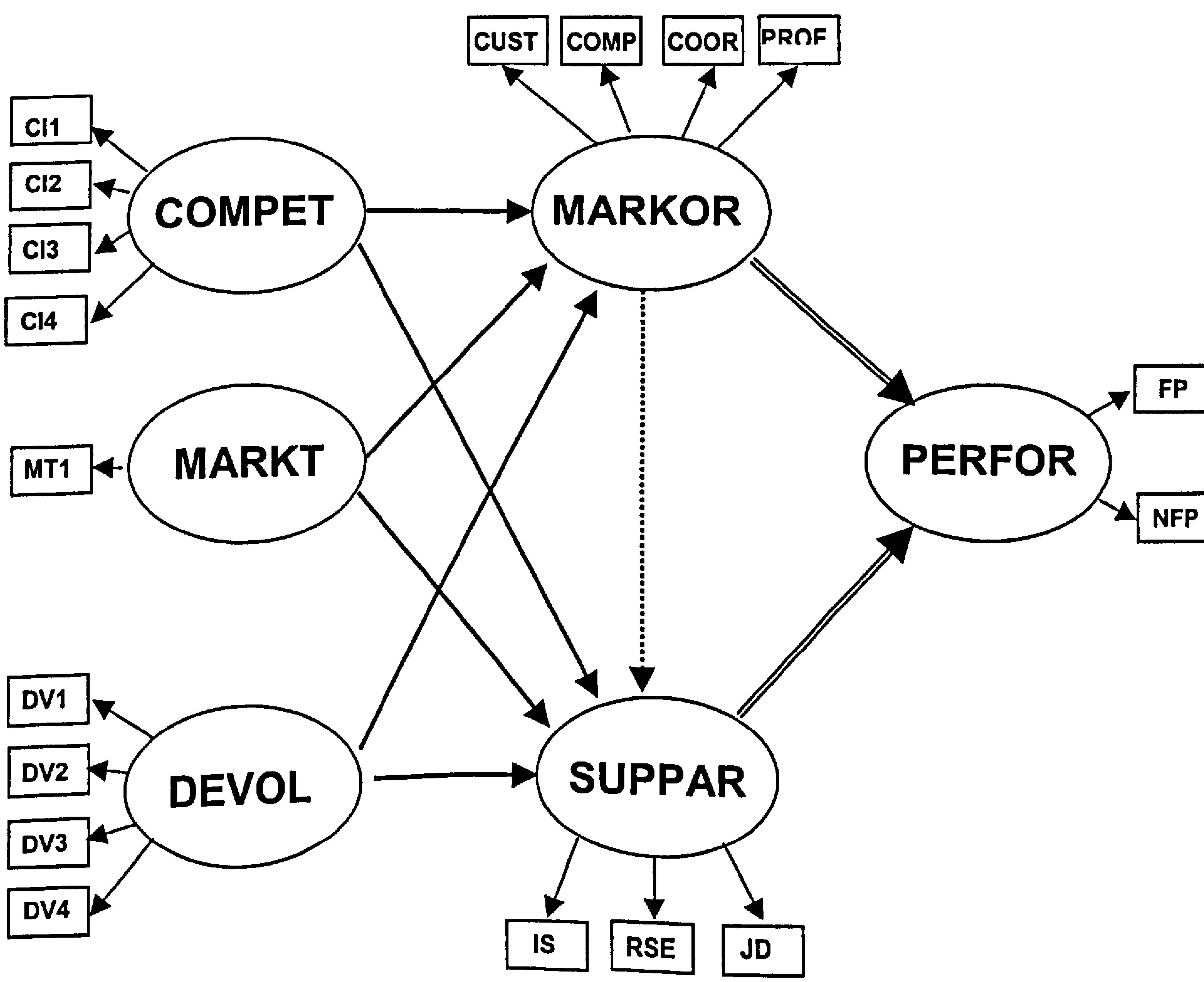
In the previous chapters the instrument development and research methodology were presented. This chapter focuses on the analysis of the data set for hypotheses testing. For that purpose, this chapter is organised into four sections. Section one presents a general LISREL model for assessing the hypothesised relationships among the constructs. Section two deals with data screening processes to check normality of the data. Section three presents the result of structural equation analysis.

7.1. General LISREL Model

The study used the general LISREL model to examine the hypothesised relationships among the constructs. A software package AMOS was applied to execute the modeling for it is perhaps the most "user friendly" software for this statistical technique (Hox 1995; Kline 1998; Ridgon 1994).

The construct validation, as described in Chapter 6, produced eleven finalised multi-item scales (see Table 6.12). These eleven validated multi-item constructs, along with the one single-indicator construct, were incorporated into an operational model, shown in Figure 7.1, for the subsequent hypothesis testing. All the eleven multi-item constructs were represented by their corresponding summated scores, which were calculated using equally weighted scales developed from the construct validation. The summated scores were used to reduce the model complexity and achieve an acceptable variable-to-sample-size ratio in the model estimation (e.g. Cavusgil and Zou 1994; Li and Calantone 1998).

Figure 7.1. Model of Relationships between Market Orientation, Supplier Partnerships, Firm Performance and Environmental Variables



7.2. Data Screening

The data were screened to meet the requirements for the use of structural equation modeling. The data screening was performed by the AMOS programme. Table 7.1 shows the descriptive statistics of the eleven constructs. The magnitude of skewness and kurtosis are less than 2.0. It means all constructs are well within a reasonable range of normality (Byrne 1998).

Table 7.1. Descriptive Statistics of the Constructs

Constructs	Mean	Standard Deviation	Skewness	Kurtosis
Customer Orientation	3.772	.699	-.239	-.194
Competitor Orientation	3.861	.741	.020	-.491
Inter-functional Coordination	3.730	.759	.024	-.134
Profit Orientation	3.951	.701	-.017	-.012
Information Sharing	3.258	.909	.170	-.611
Relation-Specific Efforts	3.825	.665	-.424	.573
Joint Decision Making	3.815	.678	-.017	-.075
Non-Financial Performance	3.351	.491	.218	-.089
Financial Performance	3.440	.822	.731	-.780
Competitive Intensity	4.042	.529	.128	-.429
Demand Volatility	2.757	.674	.763	-.134

7.3. Model Estimation and Comparison

The structural equation modeling was conducted using the maximum likelihood estimation method in AMOS 3.61. The 'best' model was determined through a combined use of model comparison and model development. In this case, the operational model was first subjected to a rigorous test that compared the model with a set of an alternative model.

In model comparison, the operational model was compared with two competing models by way of a nested model analysis (cf. Anderson and Gerbing 1988). The better-fitting model was determined according to evaluation of the goodness-of-fit statistics between the focal model and the other two models (Bentler and Bonnet 1980).

The first competing model, as illustrated in Figure 7.2, tested the hypotheses predicting that all-endogenous variables have an effect directly on performance. Thus, there is no mediating effect in this model. The second competing model (see Figure 7.3) tested that the environmental variables directly influence the firm performance. This competing model argued that the influences of the environmental variables are partly mediated by the strategic behaviours of market orientation and supplier partnership.

Figure 7.2. The Competing Model 1

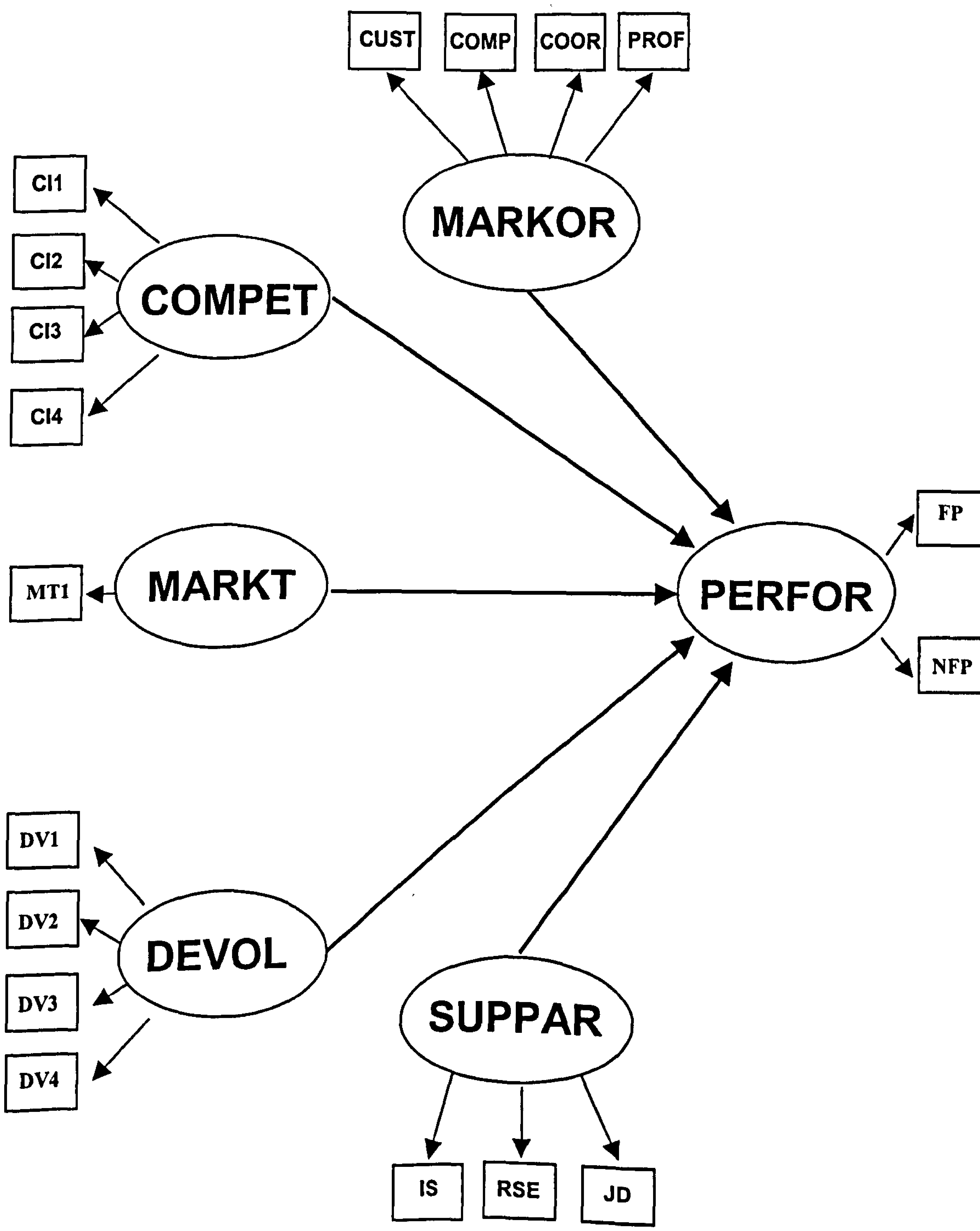
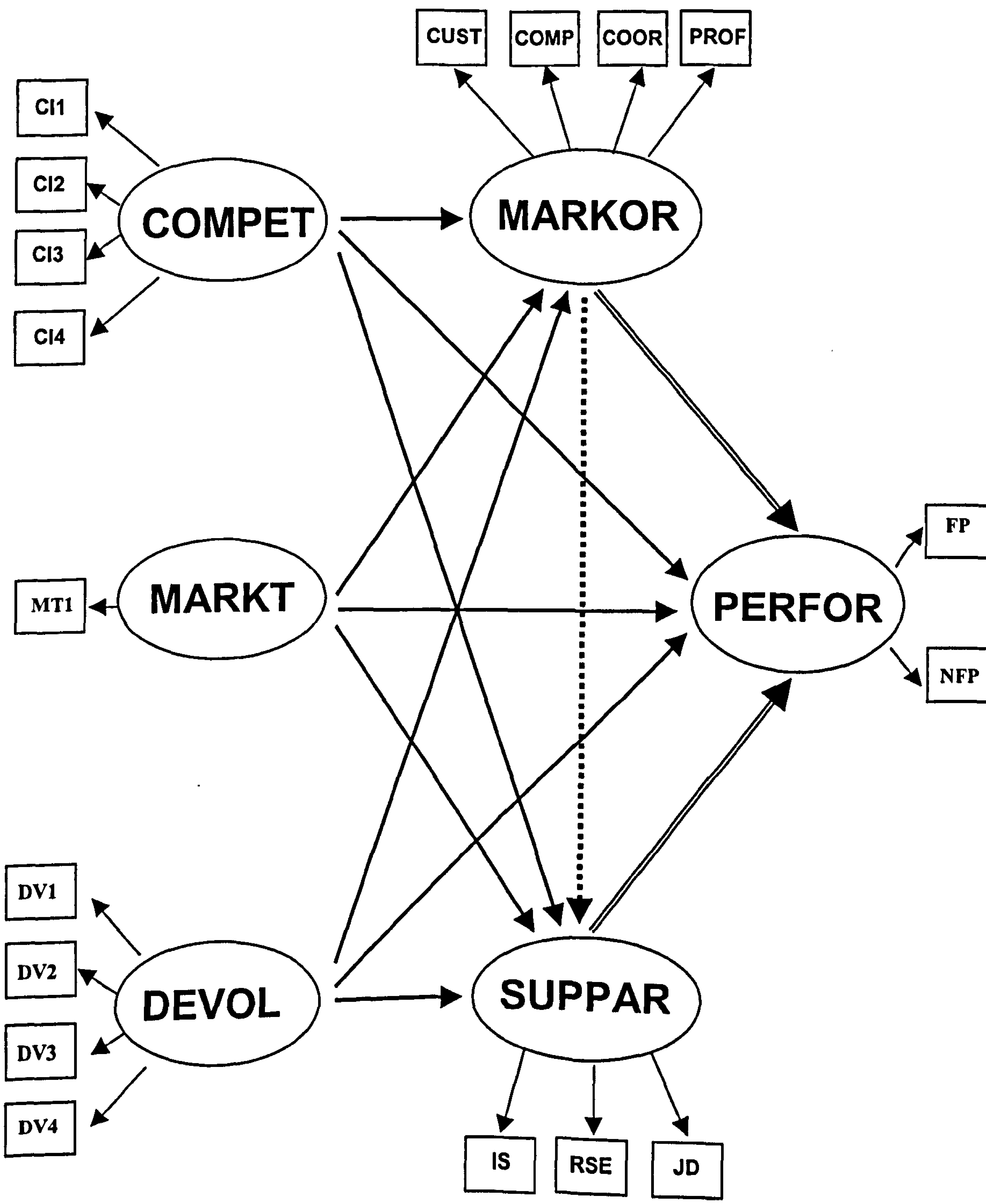


Figure 7.3. The Competing Model 2



A series of pairwise analyses between the operational model and the competing model was conducted to determine which model better accounts for the observed data. The models were compared on the basis of $\Delta\chi^2$ statistics (Hoyle 1995). Table 7.2 demonstrates the results of model comparisons.

Table 7.2. Model Comparisons

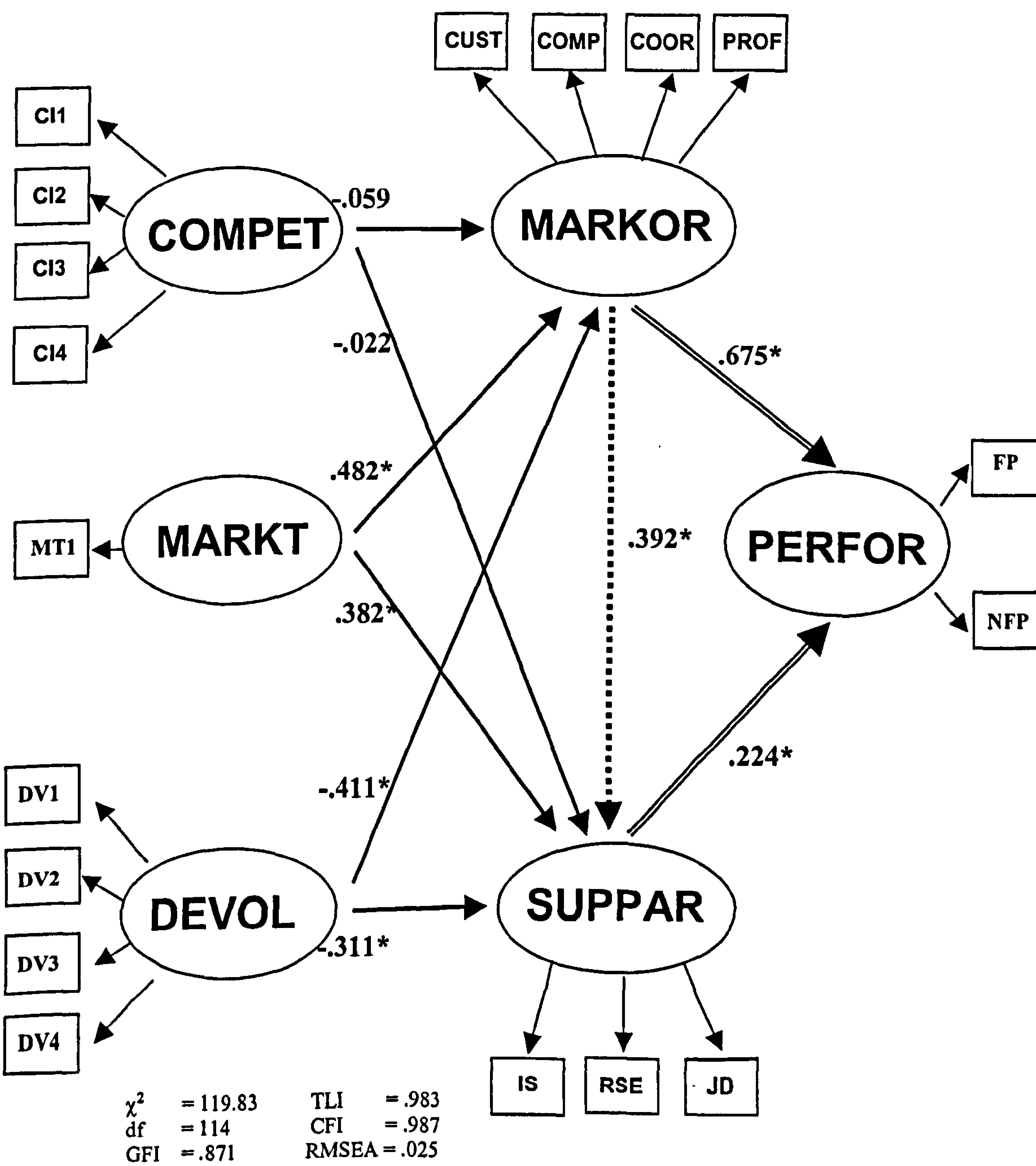
Model	χ^2	df	$\Delta\chi^2$	Δdf	p	GFI	TLI	CFI	RMSEA
Operational	119.83	114			.336	.871	.983	.987	.025
Competing Model 1	253.96	131	133.86	27	.000	.763	.688	.733	.106
Competing Model 2	191.710	121	71.88	7	.000	.810	.806	.846	.083

Although the operational model has only moderate fit to the sample data, the comparisons between it and the competing models demonstrate the relative advantages of the operational model over the other models. Model comparisons were conducted using the chi-square difference between pairwise models as an evaluation criterion. The chi-square difference itself is also a chi-square statistic (Bentler 1980). The chi-square difference statistics between the operational model and the competing models are all significant at either .05 or .01 levels. The results suggest that the operational model is superior to the competing models in terms of overall model fit.

7.4. Structural Model Results

The research hypotheses were examined by testing the structural coefficient estimates. Figure 7.4 shows the estimated coefficient of the relationships constructs.

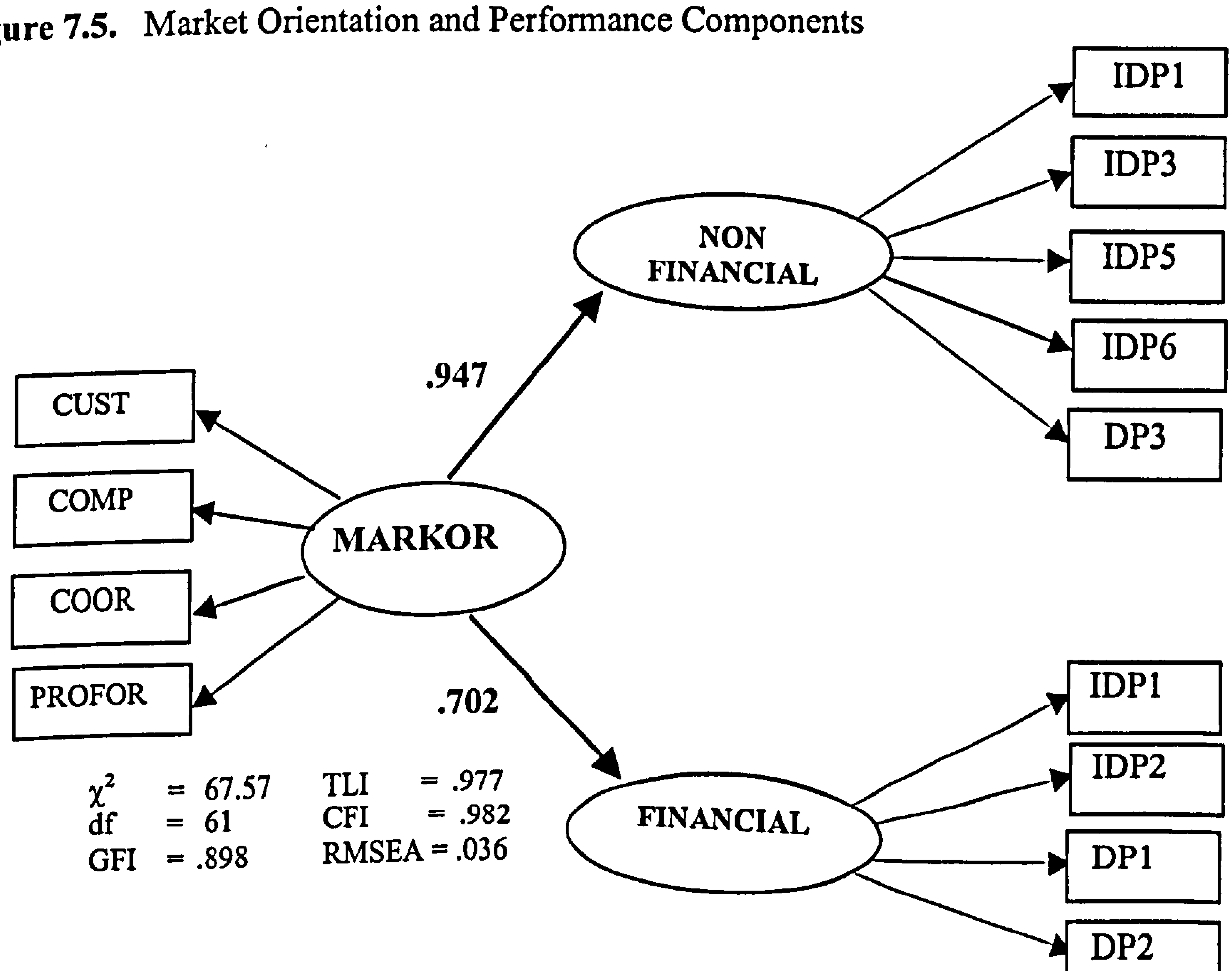
Figure 7.4. Relationship between Market Orientation, Supplier Partnership, Firm Performance and Environmental Variables



7.4.1. Market Orientation and Firm Performance

Hypothesis 1 posits that a positive relationship exists between market orientation and performance. The result of a LISREL analysis reveals that market orientation has a significant effect on performance ($b_1 = .675$; $p < .01$). A subsequent LISREL analysis shows that market orientation has a significant association with both financial performance ($b_{11} = .702$, $p < .01$), and non-financial performance ($b_{12} = .947$, $p < .01$). Therefore, we can conclude that there is a positive relationship between market orientation and performance across performance measurement. This finding lends substantial support to the previous findings (e.g. Jaworski and Kohi 1993; Slater and Narver, 1994; Pelham 2000), confirming that market orientation has a significantly positive effect on performance.

Figure 7.5. Market Orientation and Performance Components

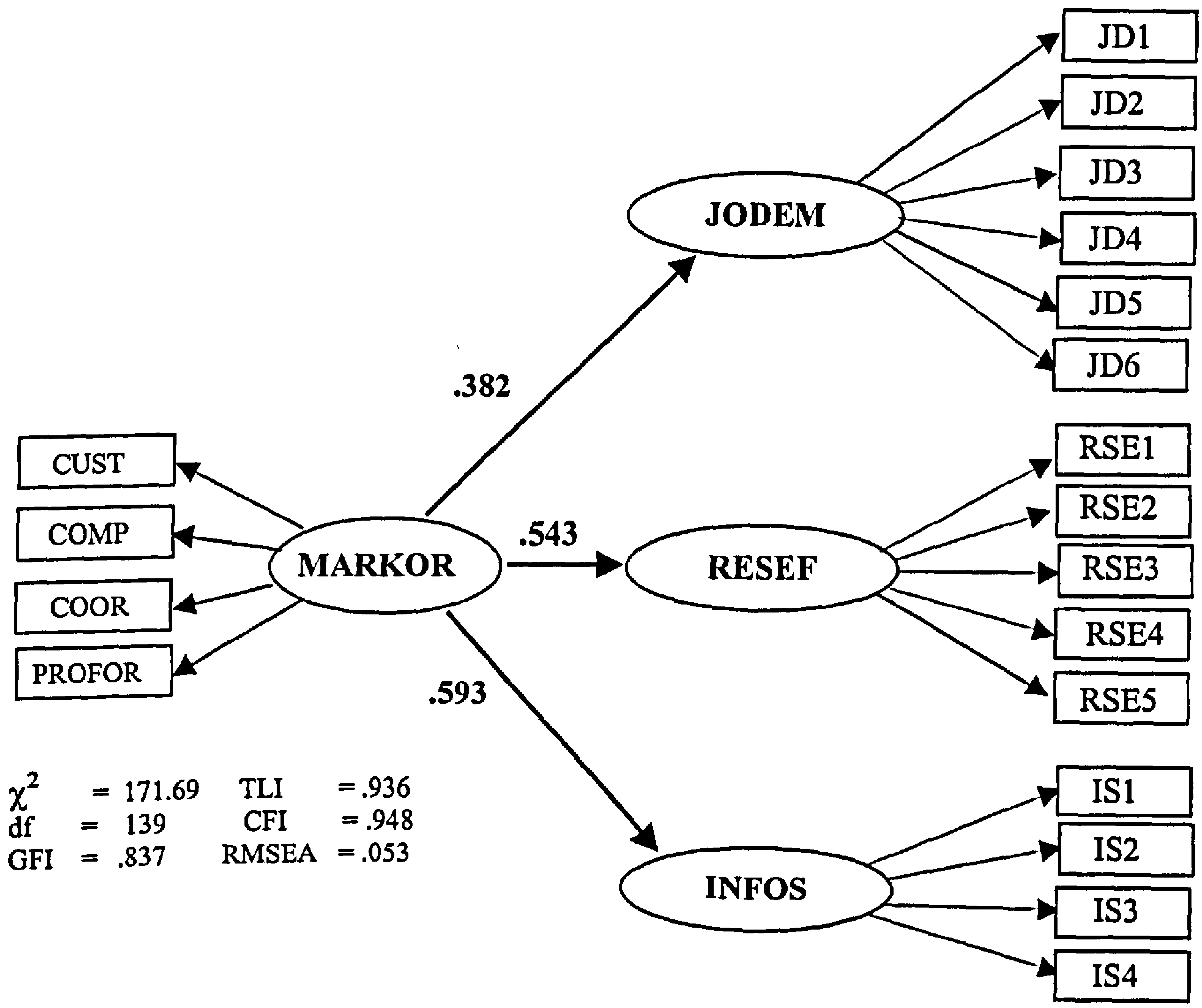


The results show the importance of being market oriented in Indonesian retail firms. Hence, the ability of retail business to cultivate an appropriate behaviour required to develop better customers' value relative to its competitors is vital for achieving and maintaining superior performance. Further, this findings give retail managers a much stronger basis than intuition and anecdotes for recommending the wisdom of adopting and implementing a market orientation.

7.4.2. Market Orientation and Supplier Partnership

Hypothesis 2 posits to a positive relationship between market orientation and supplier partnership. The result of a LISREL analysis shows that market orientation has a significant effect on supplier partnership (b_1 = .392; $p < .01$). A subsequent LISREL analysis shows that market orientation has a significant association with all the supplier partnership components: joint decision making (b_{11} = . 382, $p < .05$), relationship specific-efforts (b_{12} = .543, $p < .05$), and information sharing (b_{13} = .593, $p < .05$). Therefore, we can confidently conclude that there is a positive relationship between market orientation and supplier partnership across supplier partnership components. In other words, the market-oriented retailers are more likely to have close relationships with suppliers. According to Stern and El-Ansary (1992), the motivation behind this is to enhance the value of the retailer's market offering to its customers and/or to lower the retailer's total cost.

Figure 7.6. Market Orientation and Supplier Partnership Components

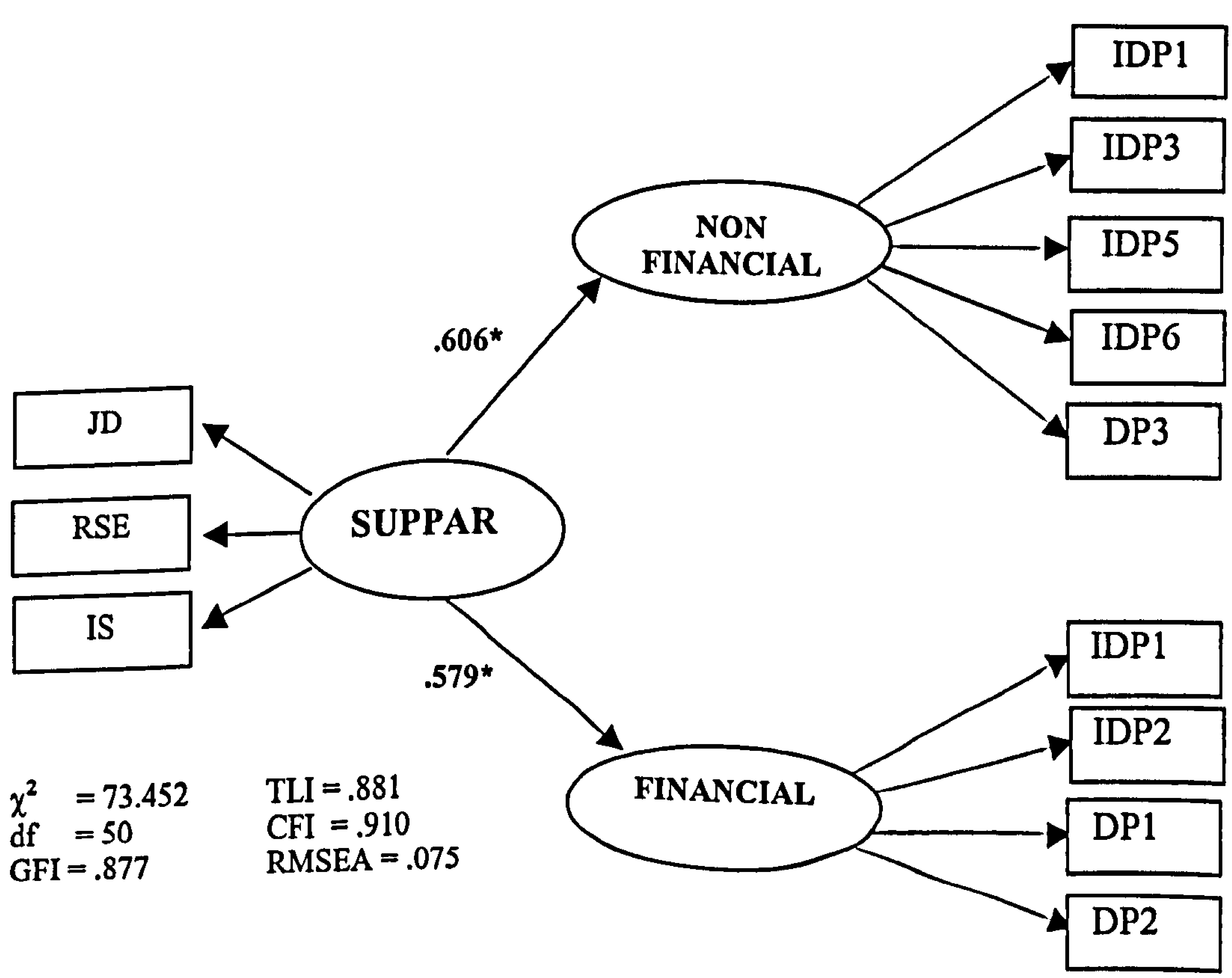


Baker *et al.* (1999) found that suppliers are more committed to and satisfied with the market-oriented retailers, because they perceive market-oriented firms to be more expert in the performance of its functions (satisfying end users) and concerned to act in the interests of the supplier. In this case, market-oriented retailers might get a substantial benefit from their suppliers through improving their channel relationships. By doing so, a market-oriented retailer might get special concessions from a supplier.

7.4.3. Supplier Partnership and Firm Performance

The result of structural equation modeling (Figure 7.4.) reveals that the supplier partnership affects positively firm performance (b_1 = .224; p > .05). A subsequent LISREL analysis shows that supplier partnership has a significant association with financial performance (b_{11} = .579, p < .05), and insignificant association with non-financial performance (b_{12} = .606, p > .05). Therefore, we can confidently conclude that there is a positive relationship between supplier partnership and performance across performance measurement. The results underscore the importance of supplier partnership efforts. These efforts enable retail firms to enhance their performances.

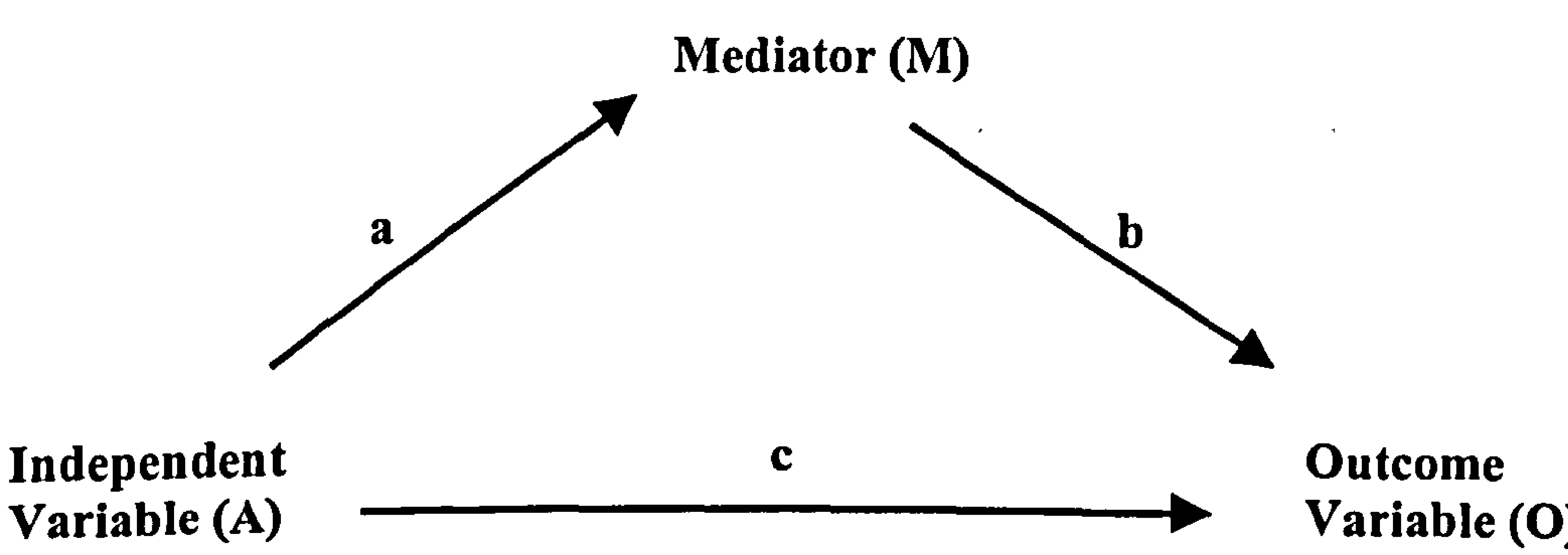
Figure 7.7. Supplier Partnership and Performance Components



7.4.4. Supplier Partnership as Mediator Variable for Market Orientation and Firm Performance

The basic causal chain involved in mediation is diagrammed in Figure 7.8. The model assumes a three-variable system that with two causal paths feeding into the outcome variables: the direct impact of the independent variable (Path c) and the impact of the mediator (Path b). There is also a path from the independent variable to the mediator (Path a).

Figure 7.8. Mediation Model



A variable function as a mediator when it meets the following conditions:

(1) A is significantly related to **O**,

(2) A is significantly related to **M**, and

(3) **M** is significantly related to **O** in an equation that contains both **A** and **M.**

If the A → **O** relationship in (3) is smaller or larger than the bivariate relationship obtained in (1) above, but still significant, then it is partial concluded. If the A → **O** relationship in (1) is non-significant, then there is strong evidence for a single, dominant mediator (Baron and Kenny 1986). From this conditions, it can be said supplier partnership partly mediates the effect of market orientation on firm performance. In other word, the total effect of market orientation toward firm performance is bigger in the situation of having high level of supplier partnership.

7.4.5. Environmental Variables, Market Orientation and Supplier Partnership.

The result fails to support the notion that competitive intensity affects positively to both market orientation and supplier partnership (Table 7.3). Market oriented firms have been found to feel more confident and to have a greater sense of control over the environment (Milliken and Lant 1991). They may have perceive even in a highly competitive environment as a certain and ignore sudden but subtle changes in the external environment. Consequently, they would not be adapting to the competitive environment as well as they could. In fact, they would tend to underestimate the level of risk in the competitive environment and, thus, may be in store for big surprises (Khatri and D'Netto 1997).

Table 7.3. The effect of Environmental Variables on Market Orientation and Supplier Partnership

Environmental Variables	Market Orientation	Supplier Partnership
Competitive Intensity	-.059	-.022
Demand Volatility	-.411*	-.311*
Market Turbulence	.482*	.382*

* p < .05

This finding suggests that retailers in high-demand volatility situations tend to be less inclined to pursue market orientation ($b = -.411$, $p < .05$),. This is neither consistent with those identified by Slater and Narver (1994) nor Greenly (1995b) whom suggested that market orientation may be relevant in highly competitive market situations. Retail firms may be prudent to adopt incremental responses at very high levels of demand volatility because the costs involved in changing marketing operations can become disproportionately high, leading to a reduction in profits (cf. Appiah-Adu 1997, p.10). Further, this finding supports the argument that the Asian managers are more risk averse than the Westerners (Siu 2000).

The result shows that demand volatility affects negatively supplier partnership ($b = -.311$, $p < .05$). This suggests retail firms in facing volatile environment avoid making some further commitments toward their suppliers, because future states of such environments are difficult to predict. Bourgeois (1985) warned that firms in volatile environments would not necessarily seek reduced uncertainty because attempts to avoid risk through reducing uncertainty may result in missed opportunity.

The results indicate a positive association between levels of change of consumer preferences (item on the market turbulence scale) and market orientation ($b = .482$, $p < .05$). It can be said, a management perception of an increasingly changing of consumer preferences could directly influence retail managers to increase emphasis on externally oriented activities designed to understand and satisfy customers and designed to monitor competition.

As proposed in *Hypothesis 9,* market turbulence has a strong positive relationship with supplier partnership ($b = .382$, $p < .05$). Through an emphasis on suppliers partnership when market turbulence is high, retailers might gain substantial supports to maintain the capability to serve customers.

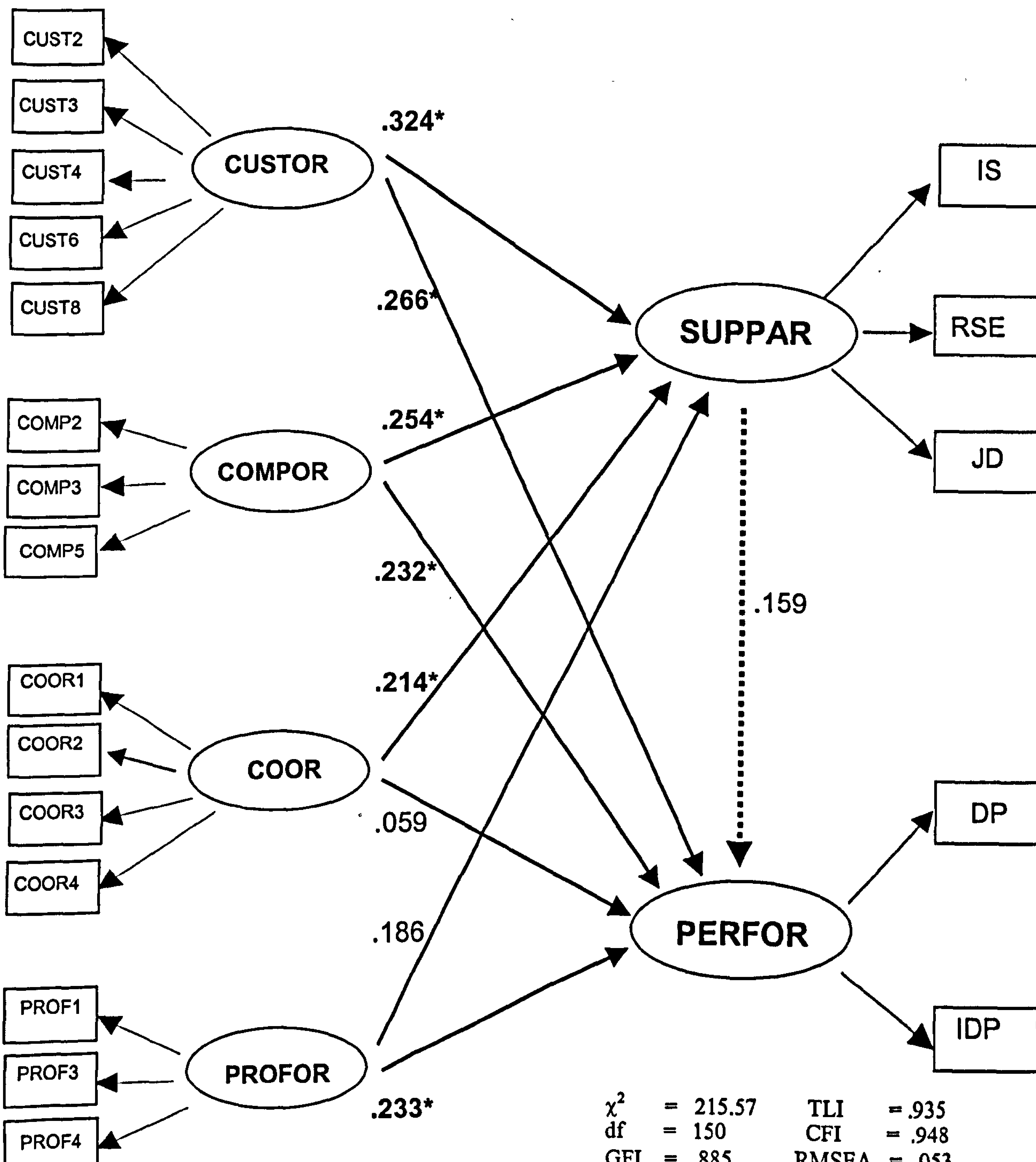
7.4.6. Market Orientation Components and Firm Performance

Hypothesis 1a through hypothesis 1d suggests that there is a positive relationship between the components of market orientation and performance. The results of a LISREL analysis shows that customer orientation (hypothesis 1a), competitor orientation (hypothesis 1b) and profit orientation (hypothesis 1d) have a significant effect on performance (b_{1a}= .266, $p<.05$; b_{1b} = .232, $p < .05$; b_{1d} = .233, $p < .05$). However, the inter-functional co-ordination fail to reach significance effect on performance (Figure 7.9). Therefore, this finding suggests that the components of market orientation contribute unequally in constituting the construct.

This study indicates how important customer orientation, competitor orientation and profit orientation is for determining firm performance in the Indonesian retail industry. This in line with the notion that superior performance accrues to firms that are skilled at learning about customers and their changing needs and organise themselves around the customer value delivery processes (Slater 1997). Further, Despande and Farley (1990) found that the great successes of Japanese firms are derived from a commitment to total customer satisfaction through continuously finding new ways of satisfying their customers. Hence, it appears that retailers, which employ significant resources in order to understand/satisfy customers do achieve more success relative to their less customer-oriented retailers.

The second driver of firm performance is a competitor orientation. A competitor orientation could be linked to firm performance in several ways: as a defensive mechanism and as a vehicle to engender growth. Further, firms may seek to preserve favourable profit levels by closely monitoring the actions of current and

Figure 7.9. The Relationships between Market Orientation Components, Supplier Partnership and Firm Performance



potential competitors. Such monitoring can help firm to learn activities in which their competitors do that works well, or conversely avoid doing the things that have not worked well for competitors (Dawes 2000, p. 85).

The third is profit orientation. This result is inline with the work of Gray *et al.* (1988), they suggested that profit orientation has a significantly effect on firm performance. Further, Speed and Gareth (1995) noted that profit orientation might support market-oriented retailers to enhance their profitability and avoids misallocation of resources. Retail firm deal with a huge number of product items. It is necessary to understand the cost of each product item or group to support marketing activities especially below the line activities. For example, failing to identify the return of price promotion activities in terms of profits may lead to losses.

Contradictory to the expectations, inter-functional co-ordination is not significantly effect on firm performance. One possible explanation was the extent to which different functions within retail firms do co-ordination meetings but not the magnitude or importance of the meeting itself. A retail firm might be very good in conducted co-ordination meetings, but that co-ordination itself might be limited in terms of scope or goals to be achieved. Therefore such co-ordination might not make a significant effect to firm performance.

7.4.7. Market Orientation Components and Supplier Partnership

Hypotheses 2a through 2d suggest that there is a positive relationship between components of market orientation and supplier partnership. The findings of a LISREL analysis shows that customer orientation (hypothesis 2a), competitor orientation (hypothesis 2b), and inter-functional co-ordination (hypothesis 2c) have a significant effect on supplier partnership (b_{2a}= .324, p<.05; b_{2b} = .254, p < .05; b_{2c} = .214, p < .05). On the other hand, profit orientation (hypothesis 2d) failed to reach significance effect on supplier partnership (Figure 7.9). Thus, this study exhibits the importance of customer orientation, competitor orientation, and inter-functional co-ordination as determinants of the level of supplier partnership.

This study finds that supplier partnership vary with customer orientation, competitor orientation, inter-functional co-ordination and profit orientation. This underscores the importance of a component-wise approach to answering the question as to whether market orientation "significantly" or "insignificantly" correlates with supplier partnership.

7.4.8. Performance Measures

Hypothesis 10a pertained to the effect of performance measurement on the magnitude of market orientation and performance association. Table 7.4 shows that the correlation values of indirect measures were higher than the correlation values of direct measures thus supporting the hypothesis 7c. This finding has confirmed that the magnitude of the effect of market orientation on firm performance is influenced by the type of performance measurement.

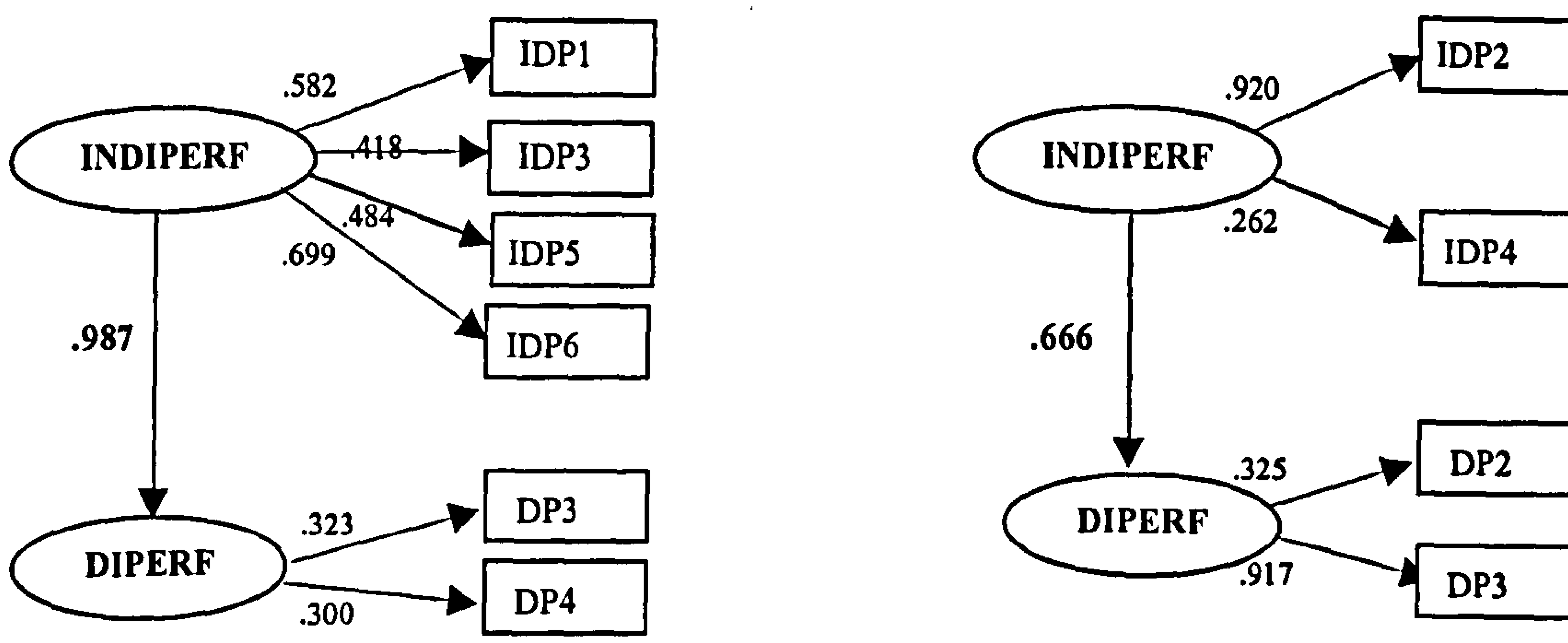
Table 7.4. The Differences Between Indirect and Direct Measures in the Market Orientation-Performance Association

	Non-Financial Performance			Financial Performance		
Construct	Indirect Measures	Direct Measures	Signif. Test	Indirect Measures	Direct Measures	Signif. Test
Market Orientation	.658*	.163	S	715*	.608*	S
Customer Orientation	.392*	-.466	S	.183	.027	NS
Competitor Orientation	.198	-.166	NS	.170	.165	NS
Inter-functional Co-ordination	.274*	-.582	S	.255*	-.346	S
Profit Orientation	.154	-.149	NS	.227*	.031	NS

* Estimate is significantly different from zero (C.R. > ±2.0, p < .05)

As predicted by Hypothesis 10b, indirect measures has positive correlation with direct measures for both non-financial performance and financial performance (b_{fp}=*.666* , *p<.05:* b_{nfp}=*.987* , *p<.05*) (Figure 7.10). The result of this study confirms the previous studies (e.g. Covin *et al.* 1990; Dess and Robinson 1984). This finding supports the underlying assumption in much empirical marketing research that there is a positive relationship between indirect measures and direct measures.

Figure 7.10. Indirect and Direct Measures



χ^2	=4.325	TLI	= 1.00
p	=.004	CFI	= 1.00
GFI	=.991	RMSEA	= .000
AGFI	=.903	NC	= .865

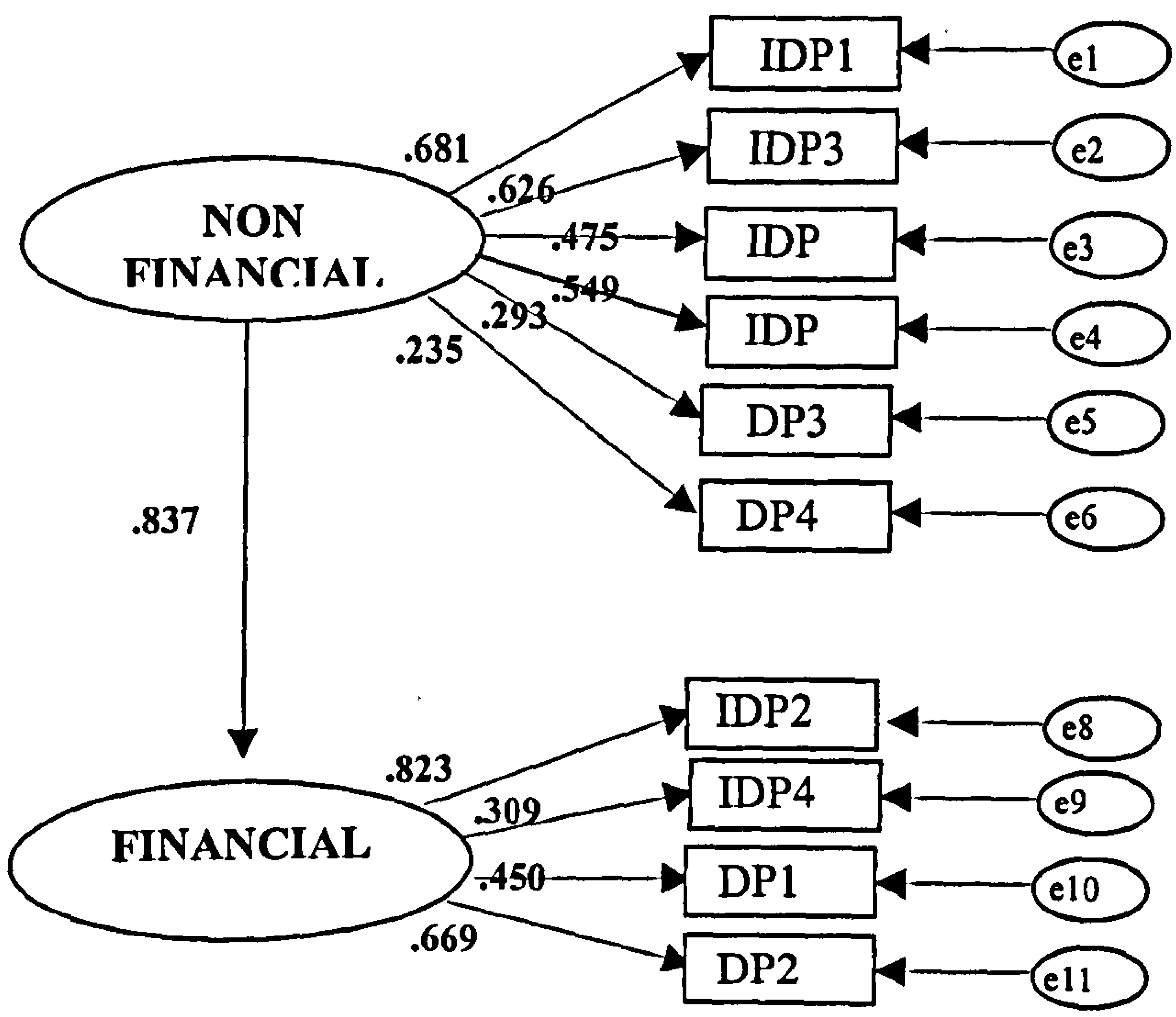
Non-Financial Indicators

χ^2	= 2.089	TLI	= .919
p	=.148	CFI	= .986
GFI	=.993	RMSEA	= .083
AGFI	=.935	NC	= 2.089

Financial Indicators

This study has confirmed the hypothesis 10c that there is a positive relationship between non-financial and financial performance (Figure 7.11). This finding lends substantial support to the previous findings (Anderson and Sullivan 1993; Buzzell and Wiersma 1981; Shoeffer *et al.* 1974), confirming that non-financial performance has a significantly positive effect on financial performance. Further, this supports the notion that non-financial performance are leading indicators of long-run share holder value (Srivastava *et al.* 1998).

Figure 7.11. Non-financial and Financial Performance.



χ^2	= 37.909	TLI	= .959
p(df)	= .15(30)	CFI	= .972
GFI	= .956	RMSEA	= .041
AGFI	= .920	CN	= 1.266

7.5. Summary

Overall, this chapter detailed the hypotheses testing. There were 8 general hypotheses have been tested in this study. The summary of hypotheses testing can be seen in the Table 7.5.

Table 7.5. Summary of Hypotheses Testing.

Hypothesis	Hypothesised relationship	Expected sign	Conclusions
H1	correlation	+	Supported
H1a	correlation	+	Supported
H1b	correlation	+	Supported
H1c	correlation	+	Not Supported
H1d	correlation	+	Supported
H2	correlation	+	Supported
H2a	correlation	+	Supported
H2b	correlation	+	Supported
H2c	correlation	+	Supported
H2d	correlation	+	Not Supported
H3	correlation	+	Supported
H4	correlation	+	Not Supported
H5	correlation	+	Not Supported
H6	correlation	+	Supported*
H7	correlation	+	Supported*
H8	correlation	+	Supported
H9	correlation	+	Supported
H10a	correlations	>	Supported
H10b	correlations	+	Supported
H10c	magnitude	+	Supported

* inverse to the expected sign

THE UNIVERSITY OF STRATHCLYDE IN GLASGOW

Chapter Eight

Discussion

THE DEPARTMENT OF MARKETING

Chapter 8

Discussion

Marketing scholars have investigated various aspects of market orientation (e.g. Baker *et al.* 1999; Harris 2000; Pelham 2000). However, little work has been done in the context of retail industry particularly, as related to supplier partnership. This study attempts to fill part of this gap, especially for the Indonesian retail market. This study focused on the relationships among four constructs: market orientation, supplier partnership, environmental variables, and firm performance.

In particular, this study investigates and examines: (a) the extent to which market orientation and its components are related to firm performance, (b) whether and the extent to which supplier partnership and its components are related to firm performance, (c) whether and the extent to which the environmental variables affect market orientation and supplier partnership and (d) whether and the extent to which indirect measures correlate with direct measures, or whether indirect measures have higher correlation value with market orientation than do direct measures, similarly whether non-financial performance correlates with financial performance.

The objective of this chapter is to explain the rationale underlying both confirmed and contradictory relationships arising from the previous chapter. The findings from personal interviews have been incorporated to enrich the explanations. This chapter is organised into six sections. Section one discusses the findings of this study as they relate to the extent to which Indonesian retail firms implement market orientation concept, and how firm performance relates to the level of market orientation. Sections two and three discuss the expose relationships between market orientation supplier partnership, and supplier partnership with performance. Sections four and five discuss the relationships between environmental variables and market orientation and supplier partnership. Finally, section six discusses the findings related to performance measurements.

8.1. Market Orientation and Firm Performance

The findings of the study suggest that in general Indonesian retail firms implement market orientation. The average measured value of market orientation was 3.81 (from maximum 5). It means that Indonesian retailers see the importance of implementing the market orientation concept within their organisations. This finding was frequently mentioned during the interview with senior managers or owners from different retail firms. For instance, the owner of the biggest department store claimed: "I always learn, research, and make a note all experiences in managing the store to enrich my existing knowledge .... I frequently urge my employees to learn and have a knowledge about the market and managing the store.........In every interaction with employees, I strongly note that customers will help us grow."

It is interesting to note that most traditional retailers depend on the expertise of the owner, as it relates to market knowledge and experience in managing stores. Some retail practitioners believe that the owner factor contributes significantly to the success of retail firms, as one-informant claimed: "Critical factor in this business is the owner who should have experience in retail business, otherwise it will be difficult to run the business successfully. For example, the failure of 'X' department store was due to the owner not being a retail person .... The owner of this firm, on the other hand, has strong market knowledge, and his judgements are usually correct. He loves to go to into the field to observe his employees, customers and competitors. He has been involved in this business since he was a ten years old."

The results of the study provide support for the existence of a link between market orientation and firm performance in the Indonesian retail industry. In other words, firms with high-levels of market orientation tend to have better performance than their competitors. This finding is consistent with the expectation and supports the notion that market orientation is an important determinant of performance. This is in line with the similar research (e.g. Avlonitis and Gounaris 1999; Chang and Chen 1998; van Engeren and O'Connor 1998). As such, it appears that retail firms should strive to improve the market orientation of their businesses in their efforts to attain higher business performance.

In line with the quantitative findings, during the interviews, senior managers noted that market orientation increases the capability of firms to offer high value merchandise or to increase store patronage and sales, as one informant explained "Innovation and being close to the market are the key success factors in this business .... We believe that if our products are suitable for the customers' needs and preferences, and our staffs treat them carefully, then customers will be loyal to us." Further, another informant noted "Our philosophy is value for money .... By being close to the market, we can deliver a message to customers effectively, so they can afford to buy product which is similar to that used by a middle class customers, and as a result they buy more of our product"

Another argument to explain the significant correlation is, that of helping a firm to make and implement better strategic decisions, such as: product assortment, retail price, promotion activities, and customer service. A similar explanation suggested by Robinson and Pearce (1984) that a strong market orientation culture may influence performance by providing a needed input into the preparation of a firm's planning, and focus for the plan's implementation.

At the component level of analysis, we find the customer orientation, competitor orientation and profit orientation components are factors in determining firm performances. An important of customer orientation is in line with that of Peters (1984) who claimed that being close to the customer and committed to total customer satisfaction is a determinant factor in achieving superior firm performance. Further, during the interviews, the majority of informants acknowledged the importance of customer orientation in the retail business. Accordingly, a firm is seen as being close to the customer, when it is flexible in implementing customer service programmes, tailoring promotional programmes to specific type of customers, fulfilling customer needs, and developing services more accurately.

The importance of customer orientation was frequently mentioned during the interviews, as one owner from book store chain explained: "We analysed the characteristics of consumers who came to the mall. We used this information to improve our strategy. For example, we provided a fancy item such as toys, electronic games and kids accessories, in Taman Anggrek Mall. This decision was based on the majority of consumers come to this area: children and teenagers. On the other hand, our main competitor in this area, Gunung Agung, did differently. They provide dominantly stationary and office equipment items. As a result, our store performance was better than Gunung Agung." Further, one senior merchandiser from health and beauty chain store claimed: "Management believed that customer service is our weapon to win the competition. Our major customers come from middle class buyers.

They judge the store based on level of customer service, such as (i) the way they are being treated by store operators, (ii) how they can get their merchandise within the store, (iii) the extent to which they satisfy with our store operators. Once they are not satisfied with our service, they probably go to another store."

A competitor orientation is a second driver of firm performance. Firms that keenly monitor their current and future competitors are better able to anticipate competitive initiatives, and are also possibly better equipped to identify points of weakness or superiority over competition (Day and Wensley 1988). This suggestion is in line with the interview finding, as one senior manager illustrated: "We opened the store near to our main competitors. One of the reasons was, in most cases, customers were doing shopping around before they decided to buy. While they were shopping around, sometimes they made comments about our competitors such as price, assortment and customer services. This information is helped us to make better strategies or decisions."

In addition, one chain supermarket director claimed: "Most of our outlet stores are near to main competitors. The goal of this strategy was to set up in the customers' mind that our price is the cheapest." Both illustrations suggest that a competitor orientation may help retail firms to make better-informed decisions, which may allow it to avoid confrontations that might harm it, or take initiatives that will benefit it. Therefore, competitor orientation activities can help retail firms in maintaining or building profitable market positions.

Interesting to note, the result suggests that a profit orientation correlates positively with firm performance. An importance of profit orientation is in line with the works of Speed and Smith (1995) who found that successful firms tend to have greater control over their costs and so are not destroying margins to satisfy every whim of their customers and beat competition. Further, during the interview, one director of chain convenience store mentioned the importance of profit orientation in the Indonesian retail businesses: "Profit orientation is necessary in this business. We monitor amount of transaction for each customer every day and each product item. These information were used to analyse type of customer of each area and turnover of each product item. Further, based on these information we categorised all the product items from the most fast moving items to slow moving items for each area. These information are helped us to manage portfolio of our products and outlets. Further, it helps us to implement pricing strategy flexible. Apart from this, sometimes management used these information to renegotiate with suppliers to ask further concessions. "

Inter-functional co-ordination has the lack of association with firm performance. This is contrary with the Gray *et al.* (1998) who found that inter-functional co-ordination was the variable with the strongest correlation with firm performance. A potential methodological explanation is that the term of co-ordination used in this study was the extent to which different functions have a meeting or discussion. The differences between this study and Gray *et al.* (1998) was that they used not only interaction between different functions but their involved in formulating and implementing strategies and/or their activities are integrated to achieve firm's objectives. This might account for the difference in results.

Another explanation for the results found in this study may be that inter-functional co-ordination taps the extent to which the firm do an interaction between different functions but not the importance of this activity itself. A retail firm might frequently conduct a meeting as one informant illustrated: "We do weekly meeting: Friday for co-ordination meetings and Monday for sales meetings. Also, we have an informal meeting and called as afternoon tea meeting started just after office hour." However, those meetings then might be limited in terms of scope and objective. Therefore, such meetings might not make a significant different to firm performance. Indeed, that does not explain the contraries to the previous study (e.g. Gray *et al.* 1998), more development is needed to better understand this issue.

8.2. Market Orientation and Supplier Partnership

The empirical results show that market orientation increases with the degree of supplier partnership. This confirms the hypothesis that in order to implement a marketing strategy more effectively, market oriented firms tend to treat suppliers as their partners. In addition, this study reveals that market orientation has a positive effect across the components of supplier partnership, namely information sharing, relation-specific efforts, and join decision-making. This finding is typified by the comments of an informant: "We follow a marketing concept not a selling concept .... The marketing concept focuses on selling products that fulfil customer needs. Because of this, we spent our effort in making a programme attractive to customers, and obviously we need our supplier to support the programme. For example, every year we invite suppliers to discuss promotion programmes for the whole year. We keep in contact them every month to update them on the progress of the programme. They highly appreciate what we have done, as a result, we get significant concession from them. "

In addition to this, market oriented retailers are likely to be more committed to their key supplier. One informant claimed: "Suppliers are important to us, as part of a solid chain: customer, retailer and supplier. Therefore, we prefer to have long-term relationships with them. For example, our relationship with key suppliers is more than 10 years old."

Moreover, market-oriented retailers claim they spend quiet significantly more effort to manage this relationship. One informant illustrated their efforts: " We have a suppliers club as a medium for communication between suppliers and ourselves. We put our effort into this club, because they are simply our live bloods. The board of directors is involved in managing the club and actively attends the monthly meetings. In special cases, a supplier could speak directly to directors if they had problems. The problems are then solved immediately and this gets commitment from the top management teams."

Apart from the retailers' perspective, Baker *et al.* (1999) noted that suppliers place a high value on the relationship with market-oriented retailers and will work to preserve that relationship. Accordingly, there are two main reasons behind this notion: (i) suppliers partnering with highly market-oriented retailers may be able to create greater value for end users, and thereby gain a comparative advantage through the greater team of market-oriented providers; (ii) suppliers may be able to improve their own levels of performance through trickle-up effect; when retailers' sales improve, suppliers' sales improve (Baker *et al.* 1999).

At the component level of analysis, we find the customer orientation, competitor orientation and inter-functional coordination components are factors in determining the level of supplier partnership. Wong (2000) suggested that suppliers could help improve end users' satisfaction. The idea of adding value to a supplier's products and services, such as higher product quality, lower costs, better inventory management, and improved logistics, is keenly linked to the ability of retail firms to serve customers better (Genna 1997). This notion highlights the importance of having good relation with suppliers for customer-oriented firms.

Campbell (1998) suggested that internal departmental relationships influence buyers' expectations about external supply partnerships. When inter-departmental relationships were co-operative, buyers were more willing to engage in partnerships. In contrast, when inter-departmental relationships were competitive, buyers tended to consider supply partnerships only as a way to provide one-sided benefits to their own firm. This helps to explain the positive correlation between inter-functional co-ordination and supplier partnership.

The third driver of supplier partnership was competitor orientation. A competitor orientation needs to monitor competitor activities. Such activities might get some supports from suppliers because of they have a good knowledge about competitors. In a situation void of information, retail businesses tend to utilise their network to get competitor information (Sui 2000). This notion was revealed during personal interview: "Suppliers frequently gave competitor information such as promotion plan, sales turn over and stock levels, if we have a good relation with supplier" (see Appendix C-1)

8.3. Supplier Partnership and Firm Performance

The results of the study provide support for the existence of a link between supplier partnership and firm performance in Indonesian retail industry. In other words, firms with high level supplier partnership tend to have better performance than their competitors. This finding is consistent with the expectation and supports the notion that supplier partnership is an important determinant of its performance. One informant claims: "Suppliers support us in doing intensive joint promotions, give us a special rate, back-up operation in delivery and order processing, and maintain availability of product. It follows that, the benefits coming from suppliers will contribute positively to firm performances. All these benefits can be used for increasing our competitiveness." As such, it appears that retail firms should strive to improve the relation with suppliers in their efforts to attain higher business performance.

There are three major benefits that market-oriented retailers can get from their suppliers. Firstly, market-oriented retailers with a high level of supplier partnership are most likely to be able to make better plans and decisions. An informant illustrated his experience: "Suppliers ask us to stock more items, because, in the following months, they can not supply product due to strategic change in their distributor, or they have cut production to 40 % to anticipate a worst situation in the coming general election. In another case, suppliers might give us information that they have a problem with a bottling company. This problem will affect their service level (stock and delivery). All information from suppliers helps us to make better plans and decisions."

Secondly, close relations with suppliers will increase the capability of market-oriented retailers to implement marketing programmes effectively. An informant illustrated his notion: "We have a scheduled promotion for each category of product, and one month before implementation we invite key suppliers to join in the programme. If they are interest, we ask them to provide the promotion expenses. Due to us having a good programme, they show their willingness to contribute in the programme, and as a result, we get two main benefits: reducing stock-out problems, and increasing customer patronage."

Thirdly, market-oriented retailers get support from suppliers to increase operational efficiency such as faster order processing, delivery, and availability of a product. An informant gave an illustration: "Suppliers are frequently involved in assisting solving our problems. For example, during the riot situation, it was difficult to deliver product in daytime. When we discussed this problem with our suppliers to find a solution, we came to the conclusion that the product should be delivered to the outlets between 2 and 4 am in the morning."

8.4. Market Orientation and Environmental Variables

The effect of competitive intensity on the market orientation is not significant. One possible explanation is the perception that the highly competitive environment may lead to a reduction in the levels of expertise market-oriented firms have to properly conduct their retail business. Li and Simerly (1998) asserted that the competitive environment may force top managers to perform only limited searches in their assessment of the business environment, develop solutions by taking concrete actions too quickly, and attempt less integration of the various emergent responses. In line with this finding, one informant (director of the biggest supermarket) illustrated his reactions: "Two big foreign retailers had opened their outlets in central Jakarta. They offered guarantees of the cheapest prices. Also, they advertised their price promotion intensively in the National newspaper. As a result, customers who usually buy in our store switched to their store.........This situation forced us to use a price and promotion strategy which had not been used previously."

Another possible argument which might explain the contrary findings comes from a Henderson and Mitchell (1997) suggestion. Accordingly, firms can shape their strategies in response to the demands of competitive environments and, in the process, develop capabilities that suit the competitive environment. At the same time, the process of adaptation may create constraints that make it difficult to react quickly and effectively to changes in the competitive environment. Firms may prosper when environmental changes are consistent with their existing capabilities, but will suffer if changes are inconsistent with their capabilities.

Contrary to the hypotheses, demand volatility was negatively effect market orientation. Mintzberg (1973) suggests that executives in firms facing volatile environments do not engage in the strategic formulation process with much vigour, because future states in such environments are difficult to predict. This suggestion was revealed during interview, as one informant claimed: "Currently, business environment is unpredictable due to the economic turn moil and political situation. Demand for seasonal products is difficult to predict. This situation leads us to reduce significantly range of items for each category of product, and to focus more on daily products." This finding supports the notion that the Chinese managers tend to be risk averse (Yau 1988). The Chinese believe that interrelations with things and others are continues. They have a strong preference for past-time orientation as they place primary emphasis on the maintenance, or the restoration, of past traditions (cf. Siu 2000, p. 29).

The result demonstrates a clearly crucial link between changes in market-place consumer preferences and market orientation. In environments marked by stable preferences, there is little need for a firm to adjust its marketing mix. In contrast, in an environment marked by rapidly changing sets of consumers and customer preferences, there is greater likelihood that the firm's offerings will be mismatch with consumer needs. In such conditions, management must undertake market oriented activity whilst maintaining the flexibility to shift resources and adapt to potentially viable market trends. A focus must be places on monitoring and responding market needs. A failure to adapt can render an organisation competitively unstable (Pulendran *et al.* 2000). Further, Davis *et al.* (1991) noted that market orientation activities helped firms to reduce uncertainty and increase the effectiveness of market segmentation efforts.

8.5. Supplier Partnership and Environmental Variables

Contrary to the expectation, competitive intensity was not significantly effect supplier partnership. One possible explanation is, in the highly competitive market, retail firms tend to use price and promotion strategies as competitive weapons. The success of this strategy depends on the extent to which they can negotiate with their key suppliers to gain some concessions. In this situation, price will be the dominant element in purchasing. This has encouraged the entry of new suppliers and might break down some existing suppliers. However there are some signs of reversal of this process where switching between suppliers for price reasons has led to variability in offerings to consumers. This has adversely affected the images of the retailer. As retailers have sought to develop more distinctive images, so greater consistency of products and also therefore of relationships with suppliers has been sought. It can be said the effect of competitive intensity on supplier partnership depends on marketing strategy. This might contribute to the insignificance of the result.

The effect of demand volatility in increasing the level of supplier partnership is contrary to the hypothesis. A possible explanation is that the threat posed to firms in a very volatile demand environment may force retail firms to avoid any long term commitments in order to reduce the risk, especially of holding items which are possibly more difficult to sell. Volatility reduces the predictability of outcomes for channel partners. Not only does this escalate information needs and confound managerial decision-making (Scott 1987), volatility can interfere with partnerships. Specifically, a volatile demand condition confounds a partner's efforts to gauge the other's performance (Oh *et al.*, 1992).

Furthermore, volatility makes it difficult to project a partnership into the future. Uncertainty and differing perceptions of future outcomes make it more difficult for the parties to foresee the other mediating important resources. This impairs their 'tolerance' for inevitable inequities in discrete transaction episode (Walster *et al.* 1978). One informant illustrated the situation in the retail business: "Recently, some distributors and suppliers cannot supply some products because their warehouses or production facilities have been badly damaged by the riots .... This situation is difficult for us and our suppliers to make commitments for the long term. Apart from this, some customers are now more rationale in choosing their products. They tend to find substitute items which are cheaper than they bought previously." This illustration may help to explain the reasons for using short-term transaction instead of long-term, to reduce risk.

To further substantiate this view, Daft and Weick (1984) suggest that organisations tend to accept the environment as given and respond actively only when a crisis occurs. In this case, when operating in a volatile environment, it is often a more effective strategy to have the resources necessary to function reactively rather than to make long-term commitment. Such commitments might bind retailers to a specific course of action and subsequent investments. Therefore, long-term commitment to suppliers may inhibit retailers' flexibility in managing their merchandise, and ability to respond to changes in environmental demands (Jap 1999).

The results indicate a positive association between levels of change of consumer preferences (item on the market turbulence scale) and supplier partnership. Through an emphasis on partnership behaviours when consumer preferences changing frequently, retailers can gain substantial support from suppliers for developing service or product offerings better over competing alternatives. For example, in the absence of partnership behaviour efforts, the suppliers may be unwilling to support sales promotion and below the line activities because they do not know these activities will result in improved their product performance. It is therefore reasonable to expect firms to respond to high consumer preferences changing by developing a high degree supplier partnership.

8.5. Performance Measurements

The relationship between indirect measures and direct measures was statistically significant. This finding lends additional support to the previous studies (e.g Dess and Robinson 1984; Dess 1987).

In addition to this, the findings suggest that non-financial performance correlates positively with financial performance. These results parallel with the previous studies (e.g. Anderson *et al.* 1997; Han *et al.* 1998) that non-financial measures had a positive relationship with financial measures. The presumption behind many of these operational indicators is that they are leading indicators of long-run shareholder value (e.g. Srivastava *et al.* 1998). As such, it appears that management should strive to improve operational performance in their efforts to attain higher financial performance.

It is interesting to note that the findings suggest that this type of performance measurement approach would affect the magnitude of the market orientation and performance association. The indirect measures tend to have a high correlation value relative to the direct measures. In other words, the interpretation or perception of performance will affect the results of the study. If a senior manager feels that his/her company has a deep knowledge about the market, and importantly serves customers better than competitors, regardless of the actual performance, he/she will perceive that the company has a better performance than competitors. This finding brings to the marketing or strategic research the implication that the use of a single approach to measuring firm performance could mislead the results of the research.

8.6. Summary

This chapter thoroughly discussed the empirical results of the research detailed in Chapter 7. It recapitulated the underlying rationale for the supported hypothesized relationships. In addition, the chapter seeks out possible alternative explanations for the unsupported relationships. Based on the discussion, Chapter 9 will further explore the implications of this research for theory and practice. Future research directions will accordingly be suggested.

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Chapter Nine

Conclusion

Chapter 9

Conclusion

To conclude this research, the remaining sections of this chapter are organised as follows. First, a summary of the research findings is provided in section 9.1. Next, in section 9.2 the implications of the research for theory are discussed. Section 9.3, on the other hand, discusses the managerial implications of the research. Section 9.4 addresses the limitations of the current research. Finally, section 9.5 suggests several directions for future research.

9.1. Summary of Key Findings

As indicated in Chapter one, the study specifically aimed to achieve five objectives. In this section, each objective is compared with the study findings without giving detailed explanation to avoid redundancy.

The first objective of the study was to re-examine the market orientation construct within the Indonesian retailing business context. To achieve is objective, the Narver and Slater (1990), Jaworski and Kohli (1993) and Deng and Dart (1994) instruments were employed after initial adaptation for the Indonesian retail setting. This initial instrument has been purified by using confirmatory factor analysis, and validated by assessing their reliability and validity values. Results of this analysis suggest that market orientation in the Indonesian retail business context comprised four dimensions which might be measured by 15 questionnaire items using a five-point Likert scale.

In order to accomplish the second, third, fourth and fifth objectives, the general LISREL model was used to examine the hypothesised relationships among the constructs. It is shown that market orientation has a positive effect not only on supplier partnership and firm performance in general terms, but across components of supplier partnership and performance measurement. At the component level, customer orientation and competitor orientation have a positive effect on firm performance. Profit orientation correlates only positively on firm performance and inter-functional co-ordination correlates on supplier partnership. This study can be considered an additional attempt to enrich market orientation literature by linking market orientation and the consequences at the component level.

The result is consistent with the expectation and supports the notion that supplier partnership is an important determinant of its performance. This is in line with the academic findings (e.g., Abramson and Ai 1998; Groves and Vassilios 1998; Jap 1999). In addition, supplier partnership partly mediates the effect of market orientation on firm performance. It can be said that the total effect of market orientation toward firm performance is stronger in the high level of supplier partnership.

Contrary to the hypothesis, competitive intensity has no significant effect on the market orientation and supplier partnership. In addition to this, demand volatility has a negative effect on the market orientation and supplier partnership. As was expected, the effect of market turbulence on the market orientation and supplier partnership is positively significant. The empirical results indicate the effect of environmental variables on the strategic behaviour (market orientation and supplier partnership) is inconclusive.

The findings suggest that non-financial performance have a positive effect on the financial performance. Further, there is a positive relationship between indirect measures and direct measures. It is interesting to note that the findings also suggest that the perception of performance affects the results of the study. The indirect measures tend to have a high correlation value relative to the direct measures. This finding might contribute to the marketing or strategic research the importance of using multiple approach to measuring firm performance. A single approach to measuring firm performance could mislead the results of the study.

9.2. Theoretical Implications

The research is intended to replicate the study of market orientation in the Indonesian retail businesses. It advances our understanding of market orientation by proposing and testing a comprehensive model that integrates market oriented behaviour, supplier partnership, environmental variables and firm performance. The model emphasises a holistic view of the consequences of market orientation in Indonesian retail businesses. It implies that market orientation affects firm orientation toward their suppliers and as a result increases firm performance.

The primary focus of past market orientation research has been on the combined effects of the market orientation components (Han *et al.*). Treating the concept of market orientation as an aggregate construct of equal importance for each behavioural orientation can be misleading. This study finds that firm performance and supplier partnership vary with customer orientation, competitor orientation, inter-functional coordination and profit orientation. This underscores the importance of a component-wise approach to answering the question as to whether market orientation "significant" or "insignificant" correlates with firm performance or supplier partnership.

The Narver and Salter (1990) and Kohli and Jaworski (1990) and Deng and Dart (1994) instruments were initially adapted for retail setting. However, the findings highlighted an additional issue, not covered in these instruments, were of importance when measuring market-oriented activities. For example, the integration of different function activities needed to be taken into account when operationalising the inter-functional co-ordination. Asian managers tend to be action-driven decision-making. The process of deciding on important issues and implementing the results almost immediately. Long debates and committee meetings rarely occur (Haley and Tan 1999). In this case, integration activities are necessary to speed-up implementation of any decisions by top management teams. Therefore, altering the context in which a construct is measured requires a clear picture of the context.

This study gives an additional point of view to the supplier partnership literature. The evidence from this study demonstrates that market orientation increases the degree of supplier partnership. As noted from the interview findings, market-oriented retailers need some support from suppliers to implement marketing strategies effectively. As Smith *et al.* (1995) suggested, retailers not only engage in activities that support their own strategy, they also choose suppliers who support their strategy. According to Baker *et al.* (1999), suppliers have a similar point of view. A supplier that perceives a retailer as being market oriented is likely to preserve the relationship with the retailer. Therefore, it can be suggested that suppliers and market-oriented retailers tend to view one another as partners.

9.3. Managerial Implications

The research findings offer several important managerial implications. **Firstly,** the present study clearly supports a positive effect of market orientation on firm performance. Consequently, retail firms are encouraged to continue their efforts in becoming ever more market-oriented enterprises. Retail managers should compare their firm's level of market orientation with the average level found in this study. If their self assessment is low, the market orientation items provide some suggested areas on which to focus attention. However, retail managers must recognise the difficulty of this task-corporate culture is very resistant to change (Harris and Piercy 1999). Despite this difficulty, the task should not be shirked.

The modification of employee behaviour is one of the more important duties of a manager. It might be possible to offer a market oriented reward system which is based the argument that a strong market orientation is not possible without motivated and committed employees. The success of market-oriented culture changed programme is contingent on the employees who have to implement it (Harris and Obognna 2000). Although the focus of Kelly's (1992) study was customer orientation, rather than market orientation, his results indicated that the extent to which market orientation is displayed by service employees impacts the level of satisfaction experienced by customers and the quality and duration of the relationship between the organisation and its customers.

Instituting an appropriate reward system is only one ingredient in modification of employee behaviour. Without senior managers commitment, evidenced by time spent addressing and fostering market-oriented activity through emphasising employees the important of market focus, providing the necessary training and resources, employee motivation and support and encourage to share of market based ideas, a market oriented reward system will be treated as just another management gimmick. Senior managers is also most likely to foster market oriented culture with senior managers consistently communicate market oriented values, tolerance for risk and appreciation for innovation (cf. Pelham 1997, p. 69).

As various retail firms learned to become market-oriented, numerous actions have been taken to better respond to changing customer needs and the overall market conditions. For instance, more retailers now offer entertainment activities such as games, attractions, and cooking demonstration. Or, in order to boost consumer confidence in scanner checkouts, a few retailers promise to make no charge if the price was wrong. These market-oriented efforts should lead to a significant positive image and that, in turn, can produce a positive financial impact.

Secondly, a market-oriented behaviour should be designed with the supplier partnership strategy in mind, and vice versa. Being market oriented does not appear to be sufficient to be used as a strategic beacon towards achieving competitive advantage. Accordingly, Chang and Chen (1998) note service quality; Han *et al.* (1998) suggest innovation, and Slater and Narver (1995) advocate "organisation learning," to supplement market-oriented planning. In a similar spirit, formulating supplier partnership strategies to complement a firm's market orientation strategy should provide a more coherent and comprehensive road map for organisations to follow.

Thirdly, by increasing market orientation activities, retailers can improve their relationships with suppliers. Baker *et al.* (1999) found that there is a positive correlation between a supplier's perception of a market-oriented retailer and a supplier's perception that the same retailer is highly credible and benevolent. Therefore, the supplier tends to place a higher value on relationships with market-oriented retailers. As a result, market-oriented retailers may be able to wield power in the relationship and obtain special concessions.

9.4. Limitations of the Current Research

This research inevitably has several inherent limitations. The first limitation of the research concerns the use of single key informant per unit analysis. The second limitation involves research design issues. The third research limitation is concerned with measurement issues which limit instrument quality. The elimination of the key construct of market turbulence, leads to the last limitation.

In the interests of obtaining a high response rate and remaining within budgetary constraints, the use of a single informant within an organisation was necessary in this study. The use of information from only a single source to generalise about an organisation's condition may be misleading. Such information is selective, if not biased, owing to the informant's position or other characteristics or his/her way of using and weighting the information when making judgements (Philips 1981). Achrol (1991) suggests using multiple informants because multiple informants eliminate errors resulting from a single informant's selective perception, thereby increasing reliability. However, multi-respondent studies are relatively few in number due to the required co-operation and co-ordination within subject firms and consequently are much more difficult to execute (Slater 1995).

The use of non-random samples can always be questioned for its generalisability. Although it is acceptable and appropriate to use this approach, the generalisability of findings should be limited to the related "abstract population" (Huck and Cormier 1996), *i.e.,* retail business which is located in Jabotabek area and own multiple suppliers. In addition, the response rate, despite there is no significance difference with non respondent, 36.5 % is good for postal survey but the problem of non response can still be a problem.

Despite the results of this study being significant to market orientation research, the reader must be cautious in interpreting the results of this study. The cross sectional design does not capture the dynamic of change in a firm's orientation. As Kohli and Jaworski (1990, p. 16) note, "change in orientation takes place slowly." In addition, Ruekert (1992) notes that a cross-sectional approach is restricted to those of association, not causation. Probable causal implications could be strengthened by developing and utilising a time series database in subsequent studies.

It should be noted that the results reported in this study could be attributable to common method variance between level of supplier partnership and retail performance. Consequently, the hypotheses put forth in this study should be re-tested by collecting data from matched supplier-retailer dyads; the retailers could provide a market orientation measure, and the suppliers could provide measures of the supplier partnership constructs. This methodology would provide a more robust test of the hypotheses since the measures would be independent of one another (Baker *et al.* 1999).

The insignificance of the relationship found in this study between inter-functional co-ordination and retail performance leads us to suspect that the term of inter-functional co-ordination used is limited in terms of scope and objective. This study focuses on the extent to which different functions have a meeting or discussion. On the other hand, other studies, for example Gray *et al.* (1998) study, incorporated the integration of activities between different functions such as formulating and implementing strategies. This might contribute for the difference in results.

The process of item omission, respecification and restimation in order to achieve an acceptable model fit can fall into the category of post hoc analysis. It can be said that the analyses are exploratory rather than confirmatory in character (Byrne 1989).

9.5. Directions for Further Research

Market orientation measure consists of four separate reliable measures, one each for customer orientation, competitor orientation, inter-functional coordination and profit orientation, the effect of environmental variables on each of these individual components is worth to be examined. It seems reasonable to propose that retail firms in high competitive environments would shift attention from customer orientation to competitor orientation. Likewise, retail firms in high market turbulence would likely show emphasis on customer orientation than a competitor orientation. In other words, event though the overall degree of market orientation might not change, the balance among the behavioural components certainly might. Similarly, it might be interesting to test the effect of environmental variables on supplier partnership in the component level.

Dreher (1994), and Kohli and Jaworski (1996) argue that there are two approaches in market orientation studies which are behavioural approach and cultural approach. This study only examined the behavioural approach. A logical next step would be to examine empirically the extent to which cultural and behavioural approaches have a positive correlation.

It seems desirable to assess the role of additional factors in mediating market orientation and firm performance. For example, does the level of customer service affect firm performance, and also to what extent is customer service being influenced by market orientation. This variable is frequently mentioned during interview as a determinant factor of firm performance. In addition, Zemke (1997) finds companies that focus on customer service retain customers 50 % longer, increase profits by 7 % to 17 % and decrease marketing costs by 20 % to 40 %.

In addition, it is important to study how personal and business relationships may balanced in Indonesian retail businesses in order to maximise retail performance. Indonesian businesses seem to prefer 'guanxy-style' relationships as the basis of supplier partnership (Beckman 1998). This relationship are largely formed and created from interpersonal relationships and social orientations (Yau 1988). Further, the importance of personal relationship appeared several times during personal interviews. An emphasis solely on business relationships can often be perceived as an intention to maintain a "distant" personal relationship or as a "distrustful" gesture. On the other hand, a personal relationship often requires the two parties to be "flexible" so that getting things done becomes possible, more quickly or more favourably to for both the parties (Liu and Wang 1999).

Furthermore, there is a need to adapt and refine thoroughly the measures of market turbulence variable in a specific context in order to avoid a poor quality instrument. According to Cadogan *et al.* (1999), changes in context cannot always be accommodated by simply changing the wording or translation of an existing instrument; a clear picture of the context and manifestation of the construct being studied in that context is required to determine whether current operationalisations are sufficiently comprehensive.

This study employs manager's reports for assessing market orientation, supplier partnership and firm performance. In an interesting study, Deshpande *et al.* (19913) obtained reports from both managers and customers. It is very useful for measuring the general and components of market orientation from the customers' point of view because customers are arguably the true judge of a firm's responsiveness. Further, future studies should assess the reliability of internal judgements of the firm's level of supplier partnership by comparison with the judgements of key suppliers.

In addition to this, several retail authors have suggested using customer perception or behaviour as a basis for measuring performance output in retailing. Parameters chosen include perception of service quality, customer satisfaction and customer loyalty (Spreng and Mace 1996; Magi and Julander 1996). According to Ark (1999), these outcomes can be thought of as the marketing assets that are leveraged to produce superior financial performance. Measuring customer perceptions should therefore be a very useful measure of firm performance.

The research reported here used a cross sectional approach. A critical issue for future research is the time period covered in terms of implementation of different practices of supplier partnership and in terms of data obtained for the performance analysis. The achievement of a high level of cooperation between retailers and key suppliers is not an easy task and has overcome organisational barriers and difficulties at the operational level. Therefore, the knowledge of the time period for which retailers under the partnership model operate or try to develop closer working relationships with key suppliers will be of great value. Performance comparison over a greater time period will potentially reveal trends of improvement or deterioration in performance caused by different implementation of supplier partnership practices.

The context of the study (Indonesian Retail Industry) is also a concern since it puts constraints on the generalisability of the results to other industries and other ASEAN countries. Certainly, future research that replicates in other national cultures and industries, would offer an important contribution to existing knowledge and help to increase our understanding of the market orientation and supplier partnership development.

Future studies should also go beyond Avlonitis and Gounaries's (1999) investigation of the potential antecedence influence of the market environment toward market orientation. They should examine the potential moderator effects of environmental variables. Such studies should be based on samples that are large enough to provide sufficient number of firms at the extremes of the moderating variable.

Finally, another area for future research, which also is relevant to the aforementioned direction, is the need to examine the effect of a different size of retailer to market orientation. Liu (1995) found that retail size affect positively to market orientation. Accordingly, large firms have better technological, human and financial resources to pursue a market orientation. Further, from the preliminary observation, large retailers tends to use more modern system than medium or small retailers.

9.6. Summary

In this chapter, the research findings and objectives were compared, theoretical and managerial implications of the findings were discussed, limitations of the study caused by the research design and instrument development were described, and future research directions were proposed.

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THE UNIVERSITY OF STRATHCLYDE IN GLASGOW

THE DEPARTMENT OF MARKETING

Appendix A

Questionnaire and Associate Documents

Appendix A-1. A pool of scale items for measuring the market orientation, supplier partnership, environment factors and retail performance.

Construct	Items
	Market Orientation
Customer Orientation	• Slow to detect changes in our customers' product preferences ® (KJK) (Cust1) • Top managers discuss customer needs and preferences (NS) (Cust2) • Committed providing service to customer even the sale is complete (NS) (Cust3) • Firm has a detail customer database (Cust4) • Attempt to gain customer satisfaction data (NS) (Cust5) • Periodically review the likely effect of changes in our business environment (e.g., regulation) on customers (KJK) (Cust6) • Periodically review product development efforts to ensure that they are in line with what customer want (KJK) (Cust7) • Sometimes we intend to ignore changes in our customers' product or service needs ® (KJK) (Cust8) • Sometimes we tend to ignore customer complaints ® (KJK) (Cust9)
Competitor Orientation	• Respond rapidly to competitors' action regarding to intensive campaign towards customers (KJK) (Comp1) • Respond rapidly to competitors' action regarding their pricing strategy (KJK) (Comp2) • Focus on market that having competitive strength (NS) (Comp3) • Top managers discuss competitors' strategies and behaviour (NS) (Comp4) • Understand the competitor strength and weaknesses (NS) (Comp5) • Regularly monitor competitor activities (Comp6)
Inter-functional Co-ordination	• Activities of different departments are well co-ordinated (KJK) (Coor1) • Marketing people spend time discussing customers' future needs with other departments (KJK) (Coor2) • Data on customer satisfaction are disseminated across departments on a regular basis (KJK) (Coor3) • We freely communicate information about our successful and unsuccessful customer experiences across all business functions (NS) (Coor4) • We have interdepartmental meetings at least once a quarter to discuss market trends and developments (KJK) (Coor5) • Several departments get together periodically to plan a response to changes taking place in our business environment (KJK) (Coor6)
Profit Orientation	▪ Capability to determine the profitability of individual product categories (DD) (Prof1) ▪ Capability to determine the profitability of each supplier's (DD) (Prof2) ▪ Quarterly discuss the sales potential of each supplier's product for the next three years (Prof3) ▪ Quarterly reviews individual product categories to ensure that they still contribute to profitability (Prof4)

cont.

Supplier Partnership

Joint Decision Making	Joint decisions with key suppliers about: (AC) • delivery scheduling (JD1) • order entry procedures (JD2) • sales promotion (JD3) • launching new product or service (JD4) • price (JD5) • stock (JD6)

Relationship-Specific Investment	• Devote considerable time to improve the relationship (AC) (RSE1)
	• Devote considerable time to improve suppliers' product performance (AC) (RSE2)
	• Make a substantial number of adaptations in order to deal more efficiently with key suppliers: (AC)
	  • inventory system (RSE3)
	  • order processing (RSE4)
	  • delivery system (RSE5)

Information Sharing	• Numbers and types of information proprietary that management share to ***key suppliers*** about: (AC)
	  • sales data for each category product (IS1)
	  • lay-out plan (IS2)
	  • budget (every semester): sales, promotion, etc. (IS3)
	  • new service development (IS4)
	  • and long-range supply requirement (IS5)

Environmental Factors

Competitive Intensity	▪ Competition in our business is very intense (KJK) (CI1) ▪ There are may "promotion wars" in our business (KJK) (CI2) ▪ Anything that one competitor can offer, others can match readily (KJK) (CI3) ▪ Price competition is a hallmark of our business (KJK) (CI4) ▪ Our competitors are relatively weak (KJK) (CI5)
Demand Volatility	▪ Market demands are unpredictable (G) (DV1) ▪ Sales forecasts are inaccurate (G) (DV2) ▪ Market shares are volatile (G) (DV3) ▪ Sales trend are difficult to monitor (G) (DV4)
Market Turbulence	▪ Customers' preference changes quite a bit over time (KJK) (MT1) ▪ Our customers are very price sensitive (KJK) (MT2) ▪ In certain occasions, price is relative unimportant for customers (KJK) (MT3) ▪ Our customers tend to look for new product/services all the time (KJK) (MT4)

cont.

Retailer Performance	
Overall performance	• Relative to the largest competitor (NFP1)
Profit Margin	• Relative to the largest competitor (FP1)
Sales Growth	• Relative to the largest competitor (FP2)
Market Share	• Relative to the largest competitor (NFP2)
Space Productivity	• Net sales per square foot selling space relative to the largest competitor (NFP3)
Stock-age	• Relative to the largest competitor (NFP4)

(NS) Narver – Slater's Scale
(KJK) Kumar-Jaworski – Kohli's Scale
(DD) Deng – Dart's Scale
(G) Ganeson's Scale
(AC) Campbell's Scale

Appendix A-2. Evaluation Sheet

Please complete this form **after reading the questionnaire.** Your comments will be helpful in designing better questionnaires.

1. With respect to time, layout, sequence, and word length, how do you rate the design of the questionnaire? (Please circle most appropriate response)

   Very Good Good Fair Poor Very Poor

   Comment:

2. Would you please identify which questions are:
   - ambiguous:
   - containing unfamiliar terms:
   - inappropriate questions:
   - difficult to understand:

3. Overall comment with respect to your answer in Q2:

4. Any other comments about the questionnaire not covered by Q1 and Q2:

Thanks for your help

Appendix A-3

March 1999

<<Name>>
<<Name of Company>>
<<Address Line>>
<<Address Line>>

Dear Sir/Madame

In recent years, retail practitioners have been dealing with rapid changes in the business environment. Most retail firms are struggling to find a better way to improve their performance. However, some of them succeed in adapting their strategies and their performances are far above the industry average. This situation motivates us to investigate further.

I am a lecturer in Prasetiya Mulya Graduate School of management. Currently, I am also a PhD student at the University of Strathclyde, Scotland, UK. I am investigating Business Practices which can determine firm performances. The findings of the study should provide retail firms with insight a useful tool for improving firm performances.

Based on preliminary observation through out 1000 Indonesian retailers registered in the Central Bureau of Statistics (BPS), we have chosen your firm to give an input into this study by completing a questionnaire, which we enclose. It will be a great honour if you could assist us by answering the questions as fully as possible. Please be assured that the information you provide will be treated confidentially and will be used only for academic purposes. Your organisation will not be identified in the report of this project.

To make this study accurate and meaningful, I would as you please to ensure that the questionnaire is completed fully. I hope you will feel able to do so at your earliest convenience. If you feel that another executive in your firm would be more qualified to describe your firm's Business Practices, please forward these materials to him/her and encouraged his/her co-operation in this project.

In return for your participation, I extend an invitation to you to visit Prasetiya Mulya to discuss the findings in this study. The audiences will unfortunately be limited to respondents who return a completed questionnaire. Further, I will provide a free copy of the report of this study.

Thank you in advance for your kind co-operation. If you need any further information, I hope you will contact us.

Yours sincerely,

<u>**Agus W. Soehadi**</u>
Research Faculty and Doctoral Student

Appendix A-4

Study

Retail Business Policy In Indonesia

Researchers

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Prasetiya Mulya Logo & Address

Strathclyde Logo

Section A

1. What position do you hold in the company ?

   Position/Job Title

   ....

2. How long have you been working in the present post ?

   ...... years

3. Through out your career, which following function have you been in?

- Merchandising
  [ ] No, [ ] Yes, how many years have you been involved ? ...... years
- Purchasing
  [ ] No, [ ] Yes, how many years have you been involved ? ...... years
- Logistics
  [ ] No, [ ] Yes, how many years have you been involved ? ...... years
- Operation
  [ ] No, [ ] Yes, how many years have you been involved ? ...... years
- Others: ....
  [ ] No, [ ] Yes, how many years have you been involved ? ...... years

4. Type of retail:

[ ] Supermarket
[ ] Department Store
[ ] Minimarket
[ ] Clothing and Textile Store
[ ] Super Store
[ ] Electronic Store
[ ] Furniture Store
[ ] Others: ....

5. How many stores are operated by your firm ? .... stores

Section B

For each of the statements below, please *circle* the number that **best describes** the characteristic of business environment as they exist in the retailing industry

(1 = not at all; 2 = a little; 3 = a fair amount; 4 = much; 5 = very much)

Statement	**Not at all**				**Very much**
1. Competition in our business is very intense (CI1)	1	2	3	4	5
2. There are many "promotion wars" in our business (CI2)	1	2	3	4	5
3. Sales forecasts are inaccurate (DV1)	1	2	3	4	5
4. Anything that one competitor can offer, others can match readily (CI3)	1	2	3	4	5
5. Sales trends are difficult to monitor (DV2)	1	2	3	4	5
6. Price competition is a hallmark of our business (CI4)	1	2	3	4	5
7. Our competitors are relatively weak (CI5)	1	2	3	4	5
8. Market shares are volatile (DV3)	1	2	3	4	5
9 On certain occasions, price is relative unimportant for our customers (MT1)	1	2	3	4	5
10. In our kind of business, customers' preference change quite a bit over time (MT2)	1	2	3	4	5
11. Our customers are price sensitive (MT3)	1	2	3	4	5
12. Our customers tend to look for new products/services all the time (MT4)	1	2	3	4	5
13. Market demands are unpredictable (DV4)	1	2	3	4	5

Section C

Please indicate the extent to which you *disagree or agree* with the following statements regarding your relations with *key suppliers*

(1 = Strongly disagree; 2 = Disagree; 3 = Neither agree nor disagree; 4 = Agree 5 = Strongly agree)

Statement	Strongly Disagree				Strongly Agree
1. We devote considerable time trying to improve this relationship with *key suppliers* (RSE1)	1	2	3	4	5
2. We make joint decisions with *key suppliers* about:					
(i) delivery scheduling (JD1)	1	2	3	4	5
(ii) order entry procedures (JD2)	1	2	3	4	5
(iii) sales promotion (JD3)	1	2	3	4	5
(iv) new product launch (JD4)	1	2	3	4	5
(v) price (JD5)	1	2	3	4	5
(vi) stock (JD6)	1	2	3	4	5
3. We devote considerable time trying to improve *key suppliers'* product performance (RSE2)	1	2	3	4	5
4. We have made a substantial number of adaptations in order to deal more efficiently with *key suppliers*					
(i) inventory management (RSE3)	1	2	3	4	5
(ii) order system (RSE4)	1	2	3	4	5
(iii) delivery system (RSE5)	1	2	3	4	5
5. We disclose full information to *key suppliers* about:					
(i) sales data for each category product (IS1)	1	2	3	4	5
(ii) lay-out plan (IS2)	1	2	3	4	5
(iii) budget (quarterly): sales, promotion etc (IS3)	1	2	3	4	5
(iv) new service development (IS4)	1	2	3	4	5
(v) long range supply requirement (IS5)	1	2	3	4	5

Section D

Please indicate the extent to which you *disagree or agree* with the following statements regarding *customer orientation practices*

Statement	Strongly Disagree				Strongly Agree
1. Our firm seeks to understand the needs of our customers (CuO1)	1	2	3	4	5
2. Our firm has a detailed customer database (CuO2)	1	2	3	4	5
3. Our firm at least once a quarter attempts to gain customer satisfaction information (CuO3)	1	2	3	4	5
4. Our top managers meet at least once a quarter to discuss customer needs and preferences (CuO4)	1	2	3	4	5
5. Our firm is committed to providing service to our customers even after the sale is completed (CuO5)	1	2	3	4	5
6. Our firm at least once a quarter reviews the likely effect of changes in our business environment (e.g., monetary crisis) on customers (CuO6)	1	2	3	4	5
7. We pay attention to changes in our customers' preferences (CuO7)	1	2	3	4	5
8. Marketing people spend time discussing customers' future needs with other departments (COOR1)	1	2	3	4	5
9. Our firm at least once a quarter reviews product development efforts to ensure that they are in line with what customer wants (CuO8)	1	2	3	4	5
10. We pay attention to customer complaints (CuO9)	1	2	3	4	5
11. Data on customer satisfaction are disseminated across departments on a regular basis (COOR2)	1	2	3	4	5

Section E

Please indicate the extent to which you *disagree or agree* with the following statements regarding *business practices*

Statement	Strongly Disagree				Strongly Agree
1. Our firm actively analyses the competitors' strengths and weaknesses (COMP1)	1	2	3	4	5
2. If a major competitor were to launch an intensive campaign targeted at our customers, we would implement a response immediately (COMP2)	1	2	3	4	5
3. Our top managers meet at least once a quarter to discuss competitors' strategies and actions (COMP3)	1	2	3	4	5
4. We are quick to respond to significant changes in our competitors' pricing strategy (COMP4)	1	2	3	4	5
5. Activities of different departments are well co-ordinated (COOR3)	1	2	3	4	5
6. Our firm at least once a quarter monitors the activities of our competitors (COMP5)	1	2	3	4	5
7. We know the profit for each category of product (PROF1)	1	2	3	4	5
8. We have interdepartmental meetings at least once a quarter to discuss market trends and developments (COOR4)	1	2	3	4	5
9. We know the profit of each supplier (PROF2)	1	2	3	4	5
10. Our top managers meet at least once a quarter to discuss sales projection for each category product at least one year ahead (PROF3)	1	2	3	4	5
11. Our firm at least once a quarter reviews individual product categories to ensure that they still contribute to our profitability (PROF4)	1	2	3	4	5

Section F

1. Compared with the ***largest competitor***, would you say ***the performance of your firm*** over the past three years has been worse/better.
Circle one choice for each statement.

(1 = Much worse; 2 = Slightly worse; 3 = Similar; 4 = Slightly better 5 = Much better)

Statement	**Much Worse**				**Much Better**
Overall Performance (PSUBJ1)	1	2	3	4	5
Sales Growth (PSUBJ2)	1	2	3	4	5
Market Share (PSUBJ3)	1	2	3	4	5
Gross Margin (PSUBJ4)	1	2	3	4	5
Space Productivity (PSUBJ5)	1	2	3	4	5
Stockage (PSUBJ6)	1	2	3	4	5

2. Please **tick** one of the **following categories** which best describes:

a) Your firm's sales volume for the last three years (Rp. billion) (POBJ1)

[ ] Less than 10
[ ] 10 - 24.9
[ ] 25 - 49.9
[ ] 50 - 99.9
[ ] 100 - 199.9
[ ] 200 - 499.9
[ ] 500 - 999.9
[ ] 1,000 or more

b) Your firm's average sales growth for the last three years (%) (POBJ2)

[ ] Less than 0
[ ] 0 - 4.99
[ ] 5 - 9.99
[ ] 10 - 14.99
[ ] 15 - 19.99
[ ] 20 - 24.99
[ ] 25 - 29.99
[ ] 30 or more

c) Your firm's sales volume per square metre over the last three years (Rp million/month) (POBJ3)

[ ] less than 2.00
[ ] 2.00 – 2.99
[ ] 3.00 – 3.99
[ ] 4.00 – 4.99
[ ] 5.00 – 5.99
[ ] 6.00 – 6.99
[ ] 7.00 – 7.99
[ ] 8.00 or more

d) Your firm's stock-age for the last year (times/year) (POBJ4)

[ ] more than 2 months
[ ] 1 – 2 months
[ ] 15,1 – 30 days
[ ] 10,1 – 15 days
[ ] 6 – 10 days
[ ] less than 6 days

e) Your firm's number of employees for the last year (POBJ5)

[ ] less than 25
[ ] 25 - 100
[ ] 101 - 500
[ ] 501 - 1,000
[ ] 1,001 – 5,000
[ ] 5,001 - 10,000
[ ] 10,001 - 50,000
[ ] 50,001 or more

f) Your firm's average size of selling space for each outlet (sq metre) (POBJ6)

[ ] less than 50
[ ] 50 - 100
[ ] 101 - 200
[ ] 201 - 300
[ ] 301 - 500
[ ] 501 - 1,000
[ ] 1,001 - 5,000
[ ] more than 5,000

Section G

1. How long have you been involved with your ***key suppliers*** ? .... years

2. How many suppliers you consider as ***key suppliers*** ? .... suppliers

3. Does your firm have a policy of using multiple suppliers for each category of product?

   1 [ ] No, go to question no. 5

   2 [ ] Yes, how many suppliers an average do you have for all product categories? ...suppliers

4. What are the reasons for having multiple suppliers for a single product?

....

....

....

....

....

5. Do you believe that having a close relationship with ***key suppliers*** will improve your performance?

1. [ ] No,
2. [ ] Yes,

Please give the reasons for your answer: ....

....

....

....

....

6. Do you believe that your business exists primarily to serve customers?

1. [ ] No,
2. [ ] Yes,

Please give the reasons for your answer: ....

....

....

....

....

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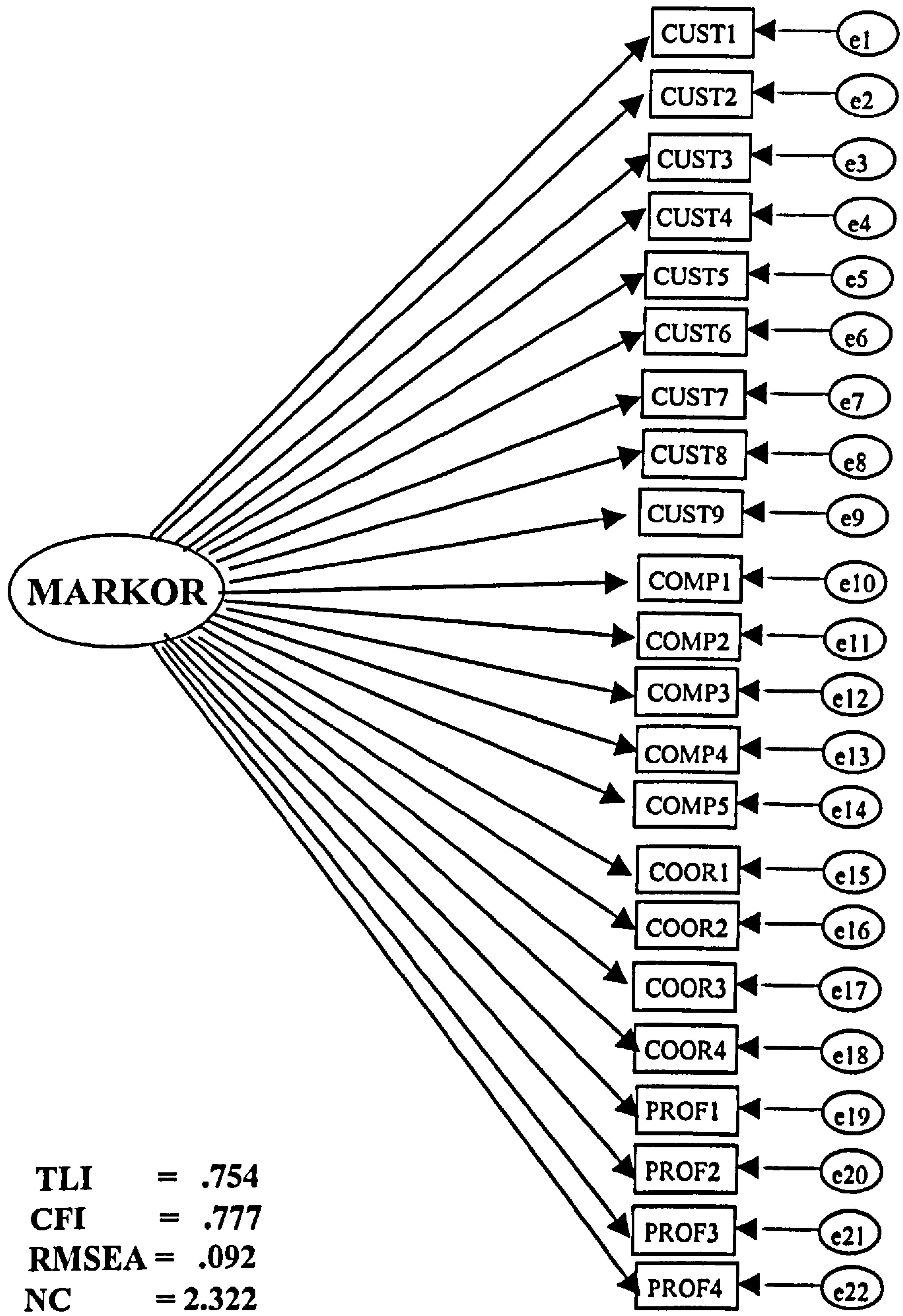
Appendix B

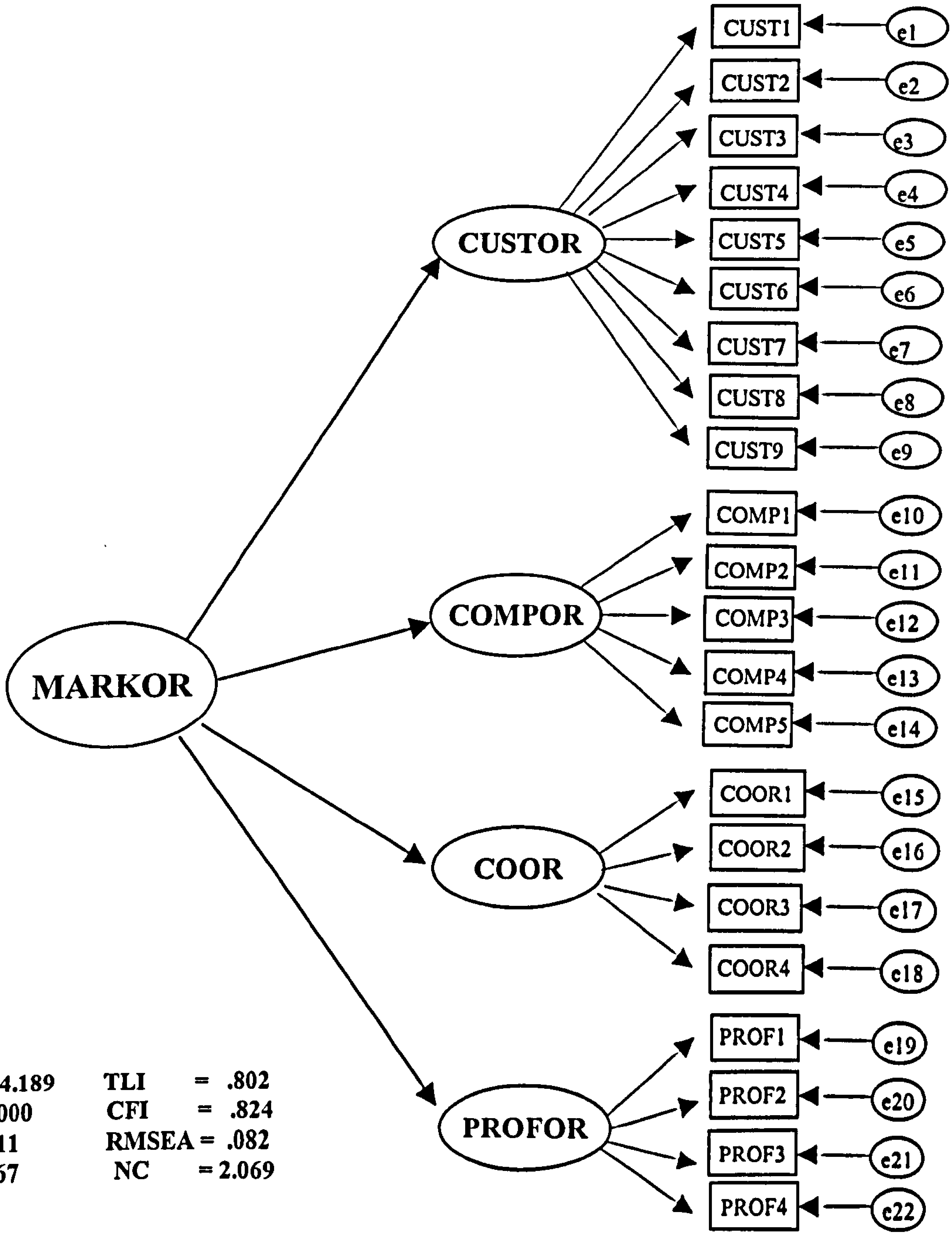
CFA and LISREL Results

Appendix B-1. Market Orientation Construct (MOD1)



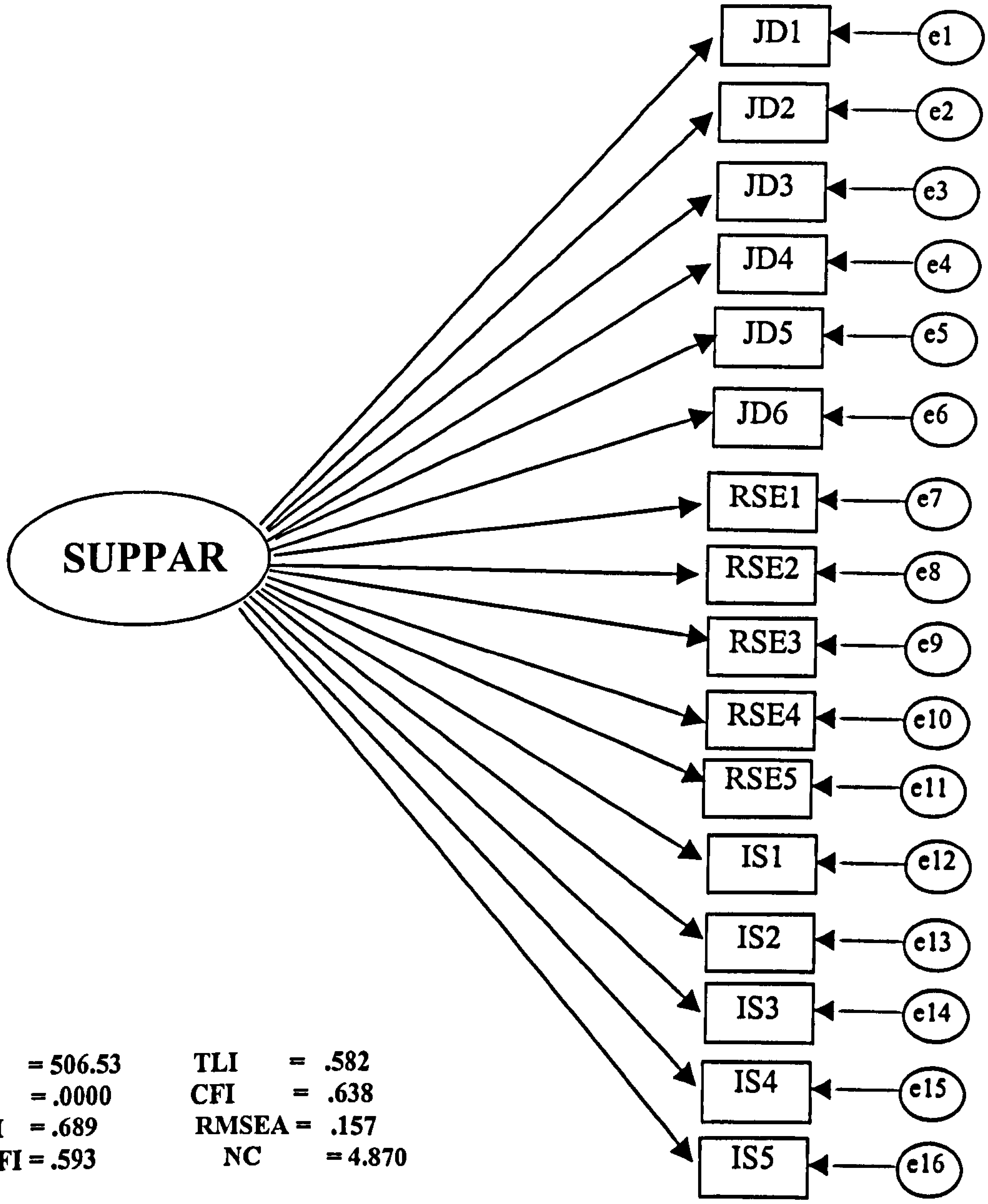
χ^2	= 487.36	TLI	= .754
p	= .0000	CFI	= .777
GFI	= .791	RMSEA	= .092
AGFI	= .747	NC	= 2.322

Appendix B-2. Market Orientation Construct (MOD2 (Second Order Factor))



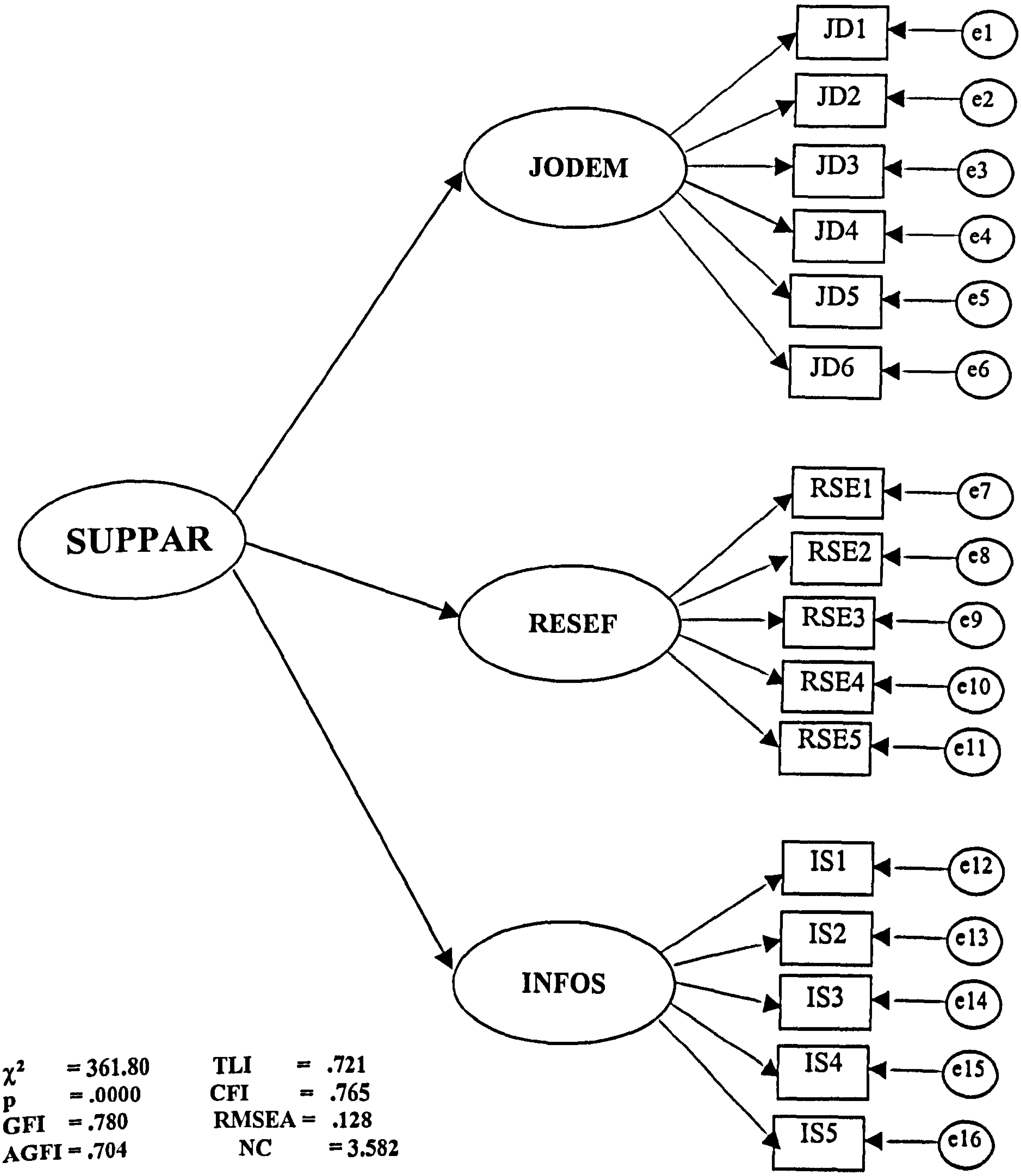
χ^2	= 424.189	TLI	= .802
p	= .0000	CFI	= .824
GFI	= .811	RMSEA	= .082
AGFI	= .767	NC	= 2.069

Appendix B-3. Supplier Partnership Construct (MOD1)



χ^2	= 506.53	TLI	= .582
p	= .0000	CFI	= .638
GFI	= .689	RMSEA	= .157
AGFI	= .593	NC	= 4.870

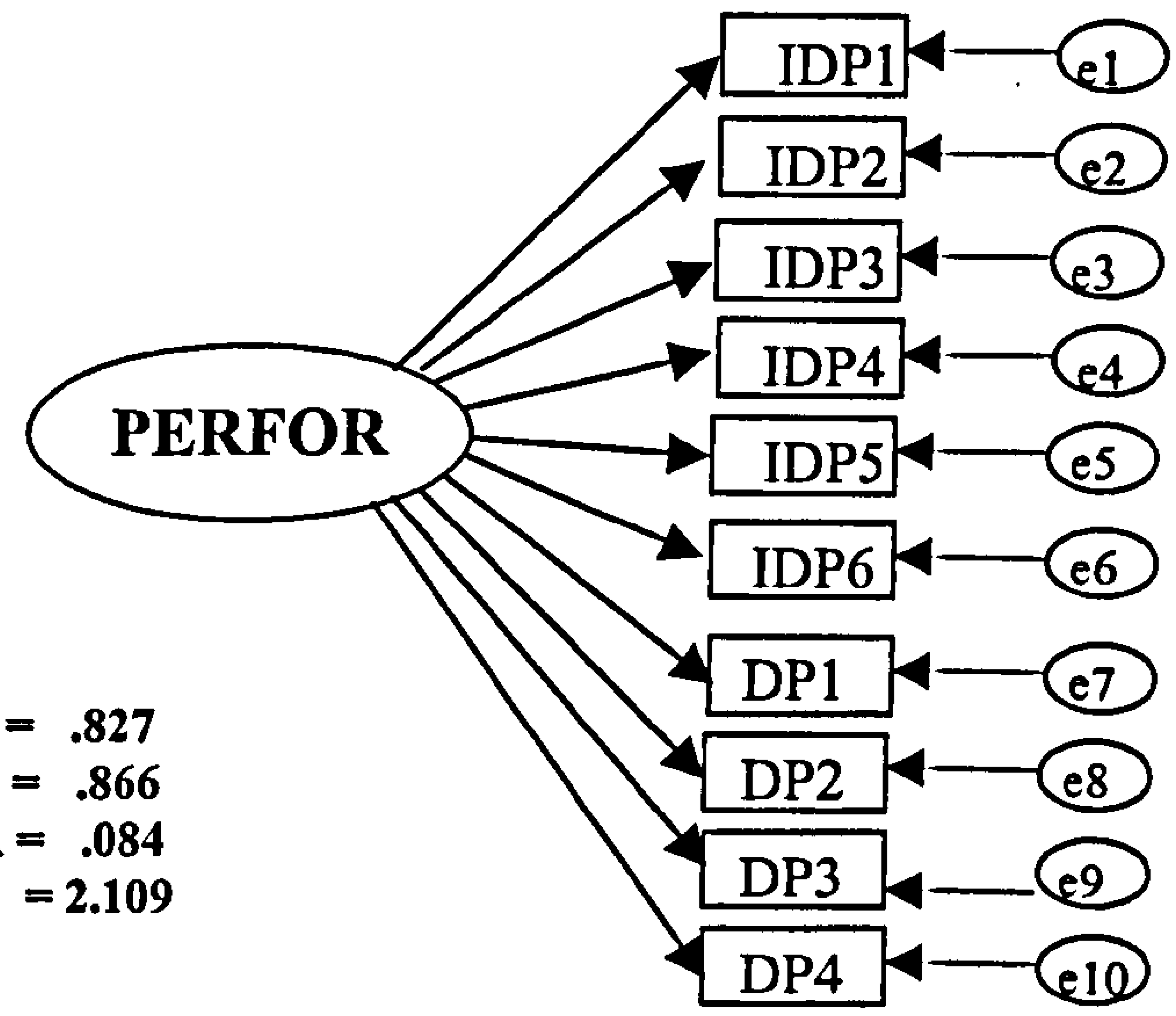
Appendix B-4. Supplier Partnership Construct (MOD2 (Second Order Factor)



χ^2 = 361.80
p = .0000
GFI = .780
AGFI = .704

TLI = .721
CFI = .765
RMSEA = .128
NC = 3.582

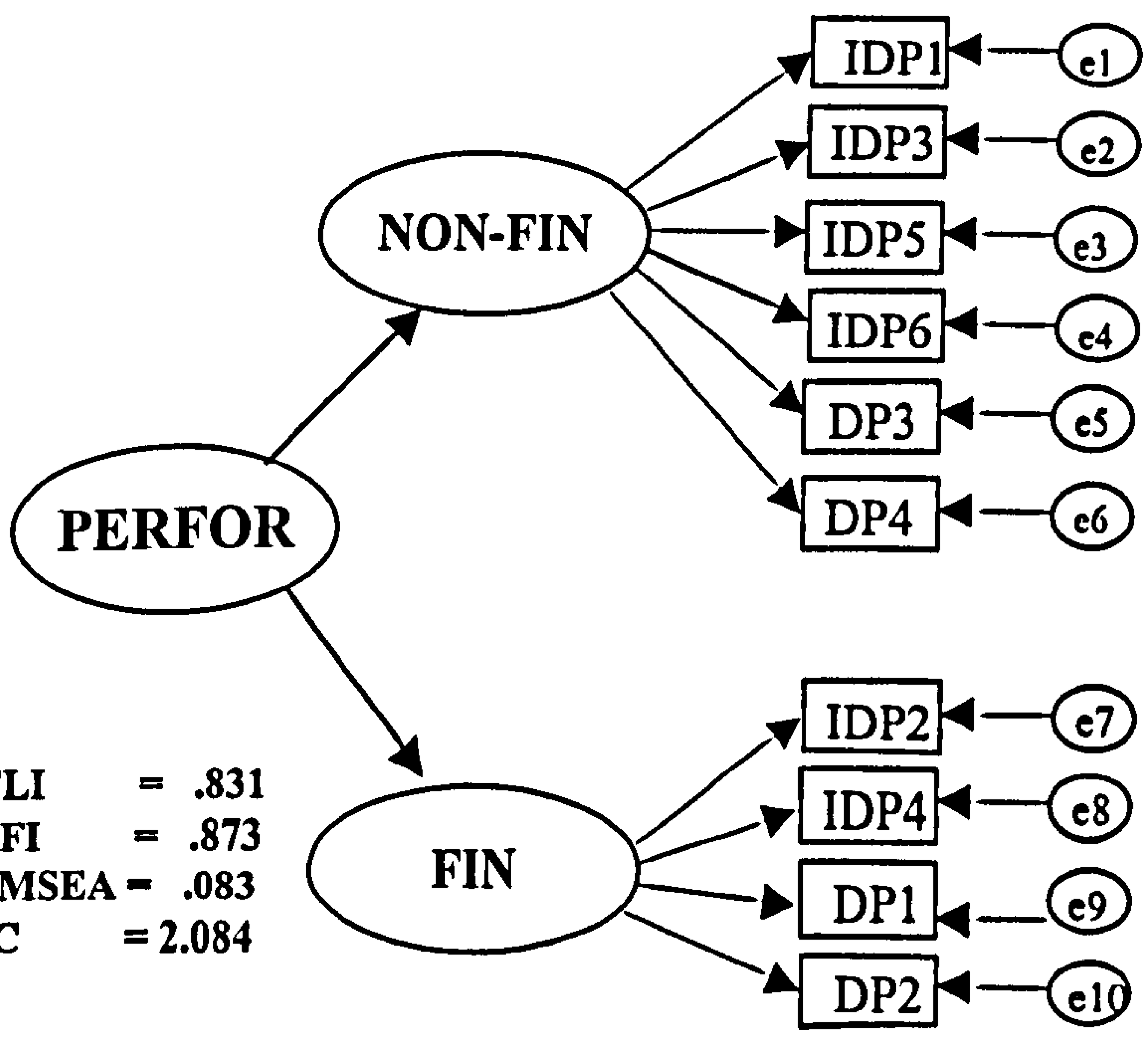
Appendix B-5. Performance Construct (MOD1)



χ^2 = 73.80
p = .0000
GFI = .917
AGFI = .869

TLI = .827
CFI = .866
RMSEA = .084
NC = 2.109

Appendix B-6. Performance Construct (MOD2)



χ^2 = 70.848
p = .0000
GFI = .919
AGFI = .869

TLI = .831
CFI = .873
RMSEA = .083
NC = 2.084

Appendix B7. Correlation Table of Summated Scales (Supplier Partnership)

Composite scales	RSE	IS	JD	MO	PERF
Relation Specific-Effort	**.79***				
Information Sharing	.55	**.84**			
Joint Decision Making	.70	.54	**.80**		
Market Orientation	.11	.24	.36	**.90**	
Performance	.14	.02	.05	.56	**.73**

* alpha's value

Appendix B-8. Correlation Table of Summated Scales (Performance)

Composite scales	NONFIN	FIN	MO	SP
Non-Financial	**.52***			
Financial	.48	**.61**		
Market Orientation	.38	.37	**.80**	
Supplier Partnership	.22	-.08	.54	**.89**

* alpha's value

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Appendix C

Interview Findings

Appendix C-1

Interview Scripts

Company A exhibits strong commitment to learn about its market. Accordingly, innovation and being to the market are the key success factors in this business. Hence, the firm encourages its employees to learn from their competitors, has a deep knowledge about its target customers, and respond to customer needs by providing products that fulfil customer needs, and treats them with respect. These efforts are intended to promote customer loyalty.

Managing relations with key suppliers is a key issue in this firm. They have created a **suppliers club** as a medium for communication between the firm and suppliers. The board of directors is involved in managing the club in order to give the suppliers an opportunity to talk about problems and get immediate responses. In addition to this, the firm has a partnership programme for small and medium sized suppliers. The main objective of the programme is to increase the level of dependability of suppliers toward the company.

Company B focuses on the middle-low income group, which is the largest portion of market. All activities are driven by the needs of their target market. The firm is expanding actively spreading their outlets to all the identified strategic locations such as areas close to bus stations, train stations, "wet market" or traditional markets. Further, the firm is concerned with labour productivity and manages its financial resources carefully to keep the cost of operation low. This firm consistently communicates their philosophy to customers, which is ***value for money*** through creating the impression that the customers can afford to buy and use the product, which is similar to product associated with middle class purchase. These strategies are very effective in targeting their market. Co-ordination meetings are used as a medium for problem solving in the field and gaining the commitment from different departments in support of any decisions arising from the meetings.

The firm manages suppliers as part of a solid chain: customers, retailer, and suppliers, for instance: (1) it engages in joint co-operation projects to enhance their image, (2) its developing a suppliers club, and (3) it helps suppliers to reduce their financial burden by paying them in advance or supplying the materials (fabrics) before the payment due.

The firm evaluates its stores based on: (1) sales volume, (2) selling space productivity, (3) gross margin and (4) stock-age.

Company C formed alliances with two foreign companies (David Holding Company and Dairy Farm Hongkong) to increase their competitiveness. The firm's outlets are spread across middle-class residential areas in the Jabotabek area (Jakarta and surrounding), where they control 40 % of supermarket business.

Unlike the previous companies, the informant does not see supplier partnership as a necessary management activity. Accordingly, the key point here is sales. As long as the store contributes significantly to their sales, they will stay close to you. Further, sometimes partnership has been used to squeeze other parties. For example, the suppliers club programmes have been used as a medium to squeeze suppliers although they claimed it was a medium for improving suppliers' performance.

Company D sees customer, supplier and retailer as a chain, if one component has a problem, the overall performance will be affected. The firm tries to convey the message that customers and suppliers are part of the family. Management develops customer reward programme as media for communicating the firm's values and offering business opportunities. Further, the management encourages every store operator to keep in close contact with customers.

Management engage in several co-operative activities with suppliers such as: (1) frequently informing suppliers about their position in the store (retail price, stock, customer information etc.), (2) fulfilling any agreements especially term of payments, (3) organising frequent discussion to encourage joint problem solving, (4) inviting them into management meeting to find out better ways to improve service level to suppliers, (5) encouraging merchandisers to build personal relationships with suppliers. Management believes that personal relationships are effective in solving many problems with suppliers, and as a result firm benefits.

The firm evaluates its stores based on: (1) sales growth, (2) selling space productivity and (3) gross margin.

Company E's view is that it is important to choose the right segments and serve them better than competitors. The firm actively searches for market information by collecting all meeting minutes that come from daily meetings between supervisors and store operators, weekly meeting between store managers and the whole staff, and weekly meeting between the store manager and the merchandiser manager in the headquarters. The firm also hires research agencies to conduct market surveys. The information is used to predict potential demand, levels of competitive intensity, the firm's share, and potential growth in that area. The firm positions its stores as close as possible to the target customers, and locates each store near to its main competitors. The aim of this strategy is to show the customers that their store prices are the cheapest.

The informant observed that there is no long-term relationship with suppliers. As long as both parties get benefits, have equal power and are highly dependent, then the relationship continues. Benefits according to a supplier point of view are getting good sales, profit and payment on time. On the other hand, perceived benefits to the retailer are getting information on the saleability of products, support in joint promotions, and getting order priority for stock-out items.

The firm evaluates its stores based on: (1) sales volume, (2) number of active customers, (3) selling space productivity and (4) stock-age.

Company F is a foreign hypermarket store, opened six months ago. The firm is concerned more with their main competitors than customers do due to the firm is desire to offer the lower prices. The firm has set up a marketing intelligence department to support their orientation. Department staff do competitor price checks twice weekly. Even so, every store operator has an obligation to make a note in their "employee information book" about customers regarding their comments, suggestions, and complaints especially price information. Every manager on duty (once every week) should read the employee notes before the notes are sent to the intelligence department. The objective was clearly to improve their knowledge about what happening on the shop floor.

The firm recruited senior merchandisers who have good personal relations with local suppliers. The objective was to gain the trust of local suppliers. This policy was quite effective in getting support from suppliers when the firm had its grand opening; it was able to offer a complete range of items even though the grand opening was delayed for five months.

The firm evaluates their stores based on: (1) deviation of real sales to target sales, (2) cumulative mark-on, (3) selling space productivity, (4) sales turnover per category product and (5) sales turnover per supplier.

Company G is a foreign discount warehouse store. The key success factors in this business are (1) a full range of product assortments, (2) minimisation costs of through efficiency of operation and labour productivity and (3) a strong customer database. The informant believes that customer information affects firm performance. This information helps his firm to be more flexible in implementing its customer service programme, of continuously informing customers about the firm's promotional programme that fits with their profiles. The objective is to create awareness that the store pays attention to and cares for customers. As a result, customers should be loyal to the store. The need to monitor its main competitor activities is even more real due to recent aggressive price promotion by its competitors. This situation has lead to a price war among big retailers. Co-ordination across departments and teamwork will enhance the firm's capability to improve cost efficiency and customer satisfaction.

Close relationships with suppliers has a positive effect on performance. The firm could gain several benefits such as (1) suppliers being involved in actively joint promotions, (2) suppliers support in improving operational efficiency such as fast-track order processing, and delivery, and (3) suppliers support of product availability.

The firm evaluates their stores based on: (1) overall net profit, (2) sales turnover, (3) stock-base (stock-turnover or stock-age), and (4) labour productivity.

Company H is a foreign convenience store. The firm focuses on a niche target of the is nightlife market. The key success factors in this business are (1) concentrating on fast moving items through continuously monitoring and evaluating the sales performance of each item, (2) providing services that for cater customer needs, (3) conducting creatively store image programmes through designing attractive store exteriors and interiors displaying merchandise and continuously offering sales promotions, (4) continuously monitoring three types of information, namely consumer preferences, suppliers' capabilities in product distribution and competitor activities and (5) having good relations with suppliers.

The firm encourages all employees to search for market information. However, marketing and sales department have a special responsibility to get market information. They carry out surveys twice a week by asking customers in the store, or store operators. In addition, they carry out informal surveys to get competitor information through visiting competitors' stores, and making notes of interesting observations such as saleable items, promotion programmes, store atmosphere, and customer service. The firm underlines a strong message to employees across departments that there is no best department, and success is due to strong teamwork.

The firm follows a marketing concept, which focuses on selling products that fulfil customer needs. The informant believes that suppliers share a major part in achieving this marketing objective. Thus, in every programme, the informant asks the suppliers to be involved and join in the programme. If suppliers are concerned about their product image, they be interest in the success of the programme. The informant and his staffs have regular contact with suppliers (1) to update them on the performance of each item in terms of its rank from fast moving to slow moving, (2) to discuss any discrepancies and to avoid misunderstanding, (3) to request the service level (stock and delivery) of each item, (4) to find the caused of any drop in sales and (5) to suggest if necessary that suppliers change their packaging to improve sales performance. All information from suppliers helps management to make better plans and decisions.

The firm evaluates its stores based on: (1) sales turn over (primary), (2) store appearance, (3) sales growth, (4) selling space productivity, and (5) gross margin.

Company I is a foreign health and cosmetics store. The key success factors in this business are (1) enhancing the brand image, particularly the use of natural ingredients, avoiding animal testing, and use of recycled materials, (2) being a trend setter in cosmetic products in Indonesia, to influence consumer preference and (3) continuously offering a new theme every month, to create an image for the customers of something difference, and to encourage customers to patronise its store.

The informant believes that there is a correlation between customer care and firm performance. Currently, the firm focuses on improving customer service by assessing the store based on the level of customer service. The firm has an informal meeting among store operators to discuss customer type and how best to deal with certain types of customer. In addition, the firm emphasises to all store operators that they should treat customers fairly across all types of customers, and never judge solely based on their appearance.

The firm has co-ordination meeting every week. At every meeting, management points out the importance of having similar orientation or vision across divisions, to offer the best customer service in this business. Thus, all activities are driven by a customer service orientation.

Company J is the first superstore in Indonesia, and is owned by the government. The key success factors in this business are (1) focusing on Indonesian traditional handcrafted products, (2) offering a wide range of handcrafted items from across Indonesian regions and (3) to be located in central Jakarta, surrounded by hotels, office buildings, and foreign embassies.

The informant believes that there is a positive correlation between market information and performance. The reasons are (1) knowing better customers' behaviour and preferences, and (2) having better knowledge of main competitor activities, capabilities and strategies. As a result, management can plan more accurately.

The firm treats the suppliers as partners, and gives them an impression that they can survive and grow along with the firm.

The firm evaluates its stores based on: (1) gross margin and net margin, (2) sales volume, (3) market share, (4) selling space productivity and (5) ratio employees/sales area.

Company K focuses on middle-low income consumers who love to go to shopping centres. The key success factors in this business are (1) having flexibility in implementing strategy, (2) focusing on middle retail space (800-1000 sq. m), (3) offering unbranded and low price branded products, (4) using home industries as target suppliers, (5) placing the outlets near Matahari outlets, to cater for customers who cannot afford to buy Matahari's products and (6) the owner who has strong knowledge and experience in retail business.

Customer care is very important because consumers can compare price and service within shopping centre area. The firm continuously monitors three keys areas of customer care, which are price competitiveness, product assortment, and customer service. The informant believes that market orientation has a positive correlation to firm performance. Member of management visit two or three outlet everyday at least, to speed-up response to or handling of any problems in the field. Responsiveness is the key weapon to beat the competition in this business. Responsiveness, in this case, not only relates to customers but also suppliers.

The informant believes that close relationships with suppliers has a positive effect on firm performance. The success of the firm is due to suppliers' support. In Chinese business, they respect someone who has qualities such as being diligent, a hard-worker, honest, and trusty. They could provide or drop full range of merchandise without any letter agreement.

The firm evaluates its stores based on: (1) sales growth, (2) sales volume and (3) gross margin.

Company L focuses on women's office clothes. The firm is owned by one of the largest Textile Companies in Indonesia. Thus, the firm can offer half the competitor price for the same quality.

The informant believes that customer orientation has a positive correlation with performance firm performance. The firm has strong and detailed knowledge about Indonesian fashion. It actively finds out consumer information through several activities: (1) observation and involvement in the fashion designer association (2) making market observations through observing consumers in shopping areas, office buildings and other commercial areas, (3) frequently asking customers about their preferences toward colour, model, and patron, or the extent to which they are satisfied with the firm's services, (4) analysing Indonesian fashion trends; and (5) asking sales personnel and store operators' opinions on consumer behaviour. The firm can develop a new model in no more than 90 days, to avoid outdated and changing consumer preferences.

The firm has been in the position of controlling the suppliers because firm gives guaranteed orders for thousands of pieces every month and the firm has convinced them that they still can continue to do business as long as the quality criteria are fulfilled.

The firm evaluates its stores based on: (1) gross margin, (2) selling space productivity, (3) store operator productivity, (4) tidiness of the merchandise display and (5) product assortment.

Company M focuses on price sensitive customers. Unlike previous firms, this firm thinks customer information is unimportant. The firm is concerned only with competitors' price and store turnover. If its main competitor introduce a price discount, management gives store managers the authority to change the price without further reference to headquarter. In developing new product lines, the firm just observes the Matahari store and identifies items that could fit with the firm's customers. Then, the firm asks its suppliers to produce it. Management believes in a trickle down effect, so that consumers from lower segments will follow upper segments regarding model and design.

The informant does not believe that retailers could get benefit from suppliers through closes relations. Accordingly, the amount of benefit relates only to the volume retailers could buy from suppliers.

The firm evaluates their stores based on: (1) sales turnover, (2) number of lost items, and (3) selling space productivity.

Company N exhibits the importance of building store image. The key areas of building store image are (1) providing a wide range of product assortment, (2) continuously developing new products and (3) maintaining product availability.

The informant believes that customer information relates positively to firm performance. The reasons are the retailer has an opportunity to fulfil customer needs and preferences, to develop products more accurately, and to avoid customer dissatisfaction. Store operators have a duty to complete customer profiles and make notes as often as possible on customers. The firm conducts seminars every six-month, the audiences being affluence "housewives" who have significant influence in the target market. Further, the firm locates its outlets near main competitors. One of the reason is the possibility of getting valuable information from customers as to what they think about the firm and firm's competitors.

The informant believes that close relations with suppliers' has a positive effect on firm performance. The key factor in building a relationship is trust. If they have trust, they will show their processes or how they produce the product. These are difficult to get in this business. In return, the firm gives key suppliers buying plan information.

The firm evaluates their stores based on: (1) sales growth, (2) sales turnover, (3) bottom line (profit), (4) store image based on customer and competitor perception, (5) stock-age and (6) market share by asking a consultant.

Company O is owned by a ceramics and paint distributor, and it is possible to control the price of ceramics and paint in the Jabotabek area. The firm offers a new concept of selling home improvement materials, which are totally different from existing retail format. They are known as the supermarket home improvement (like B&Q or Home Base in UK).

There are two types of buyer in this business: contractors and end users. Contractors buy a basic product, and they are plan buyers. End users, on the other hand, are impulse buyers. In this case, the firm displays set of items instead of individual items, to make it easier for end users to choose the product they really need. This tactic is effective in influencing them to buy.

The informant believes that the relationship between suppliers and the firm is vulnerable, meaning that as long as suppliers' prices are profitable, firm will continue to do business with them.

Then firm evaluates its stores based on: (1) sales turnover; (2) stock turnover; and (3) cash flow.

Company P is supported by its own publisher, which contributes 40 % of sales turnover. The informant believes the role of the owner is vital in this business. The owner should have (1) experience and knowledge about the book market, (2) be highly committed and (3) have clear vision.

Headquarters treat store managers as SBU's (strategic business unit) managers. This means they have the authority to run the store. The informant believed that store managers have more knowledge about customers and competitors. Apart from this, they often had had the experience of running the store before becoming part of this firm, as most of them had previously worked for the firm's biggest competitor.

"Most of our store are located near to the firm's biggest competitor, or in locations that they are not interested in. The firm's store lay-out and display are similar to theirs. However, there is one slight difference in product assortment due to their unwillingness to stock our own publisher."

The key points in relevant to suppliers are the fulfilling of commitments especially terms of payments and providing special shelves for displaying new items.

The firm evaluates its stores based on: (1) sales turnover, (2) stock turnover (maximum ratio 1:4), (3) selling space productivity, (4) cost efficiency, (5) store appearance and cleanliness and (6) customer visits.

Company Q is similar like catalogue store but there is no outlets to display merchandise. The customers (members) use telephone as a medium for asking order. The key success factors in this business are (1) number of bank providers (2) time of processing a member's card, (3) time taken to publish a catalogue, (4) number of stockist and (5) distribution capabilities in term of order cycle, and delivery operators (internal vs. outsourcing).

Top management teams are concerned about customer information. Accordingly, it is important to plan the merchandise mix accurately. There are several activities aimed at gaining customer information: (1) management phone customers at random asking for their views and suggestions on the firm's services and (2) it encourages delivery operators to make notes about customers.

The informant believes that close relations with suppliers has a positive correlation with firm performance. Accordingly, the benefits of it are getting (1) special rates, (2) information regarding availability of products, special packages, and trade promotions and (3) stock-out items, which are difficult to find in the market.

The informant believes that personal relationships are important. Accordingly, suppliers evaluate buyers based on the personal characteristics of the merchandisers especially their trustworthiness.

The firm evaluates its stores based on: (1) financial performance: ROI (return on investment), Gross Margin, and BEP (break even point) and (2) customer service.

Company R is the first modern book store in Indonesia. It focuses on improving customer service by: (1) delivering and installing office products, (2) allowing customers to return products, a rare practice in other store and (3) accepting credit cards without additional charge (many stores do).

The firm only puts minimum effort into getting customer information. Management only provides suggestion boxes in each store with almost no one, using them. Further, store managers do not encourage sales operators to search out customer information.

The informant believes that the relationship with suppliers is like that of married couples. Each party should share the proprietary information. The firm disseminates rating performance for each supplier regarding their monthly sales and stock every six month. It operates three options for unacceptable performance: (1) return the item to the supplier, (2) replace the item with fast moving item and (3) give discounts to boost sales with both parties sharing the cost. Further, the firm gives opportunities to regular suppliers to supply new items.

The firm evaluates its stores based on: (1) sales turnover (primary), (2) store appearance (cleanliness and atmosphere), (3) GMROI (gross margin return on investment), (4) market share, (5) selling space productivity and (6) employee productivity.

Company S demonstrates the importance of administrative efficiency, customer service and close relations with suppliers. Its expressed view was that some retailers fail due to bad relations with suppliers. Those suppliers tend to impede delivery of merchandise and as a result, retailers may face stock-out problems.

The firm does not encourage store operators to make note about customers, however, it urges them to smile, be polite, and treat customers as friends.

The firm frequently discusses with suppliers questions of (1) how to improve the presentation of suppliers' product in the store, (2) sales promotion activities to encourage product trial and (3) delivery schedule for fast moving product.

The firm evaluates its stores based on: (1) sales turnover and (2) store patronage.

Company T is owned by the biggest food distributor, and focuses on mini-markets. The firm uses a franchise system to expand their outlets. This approach is effective in expanding the outlets across Jabotabek area. The firm predicts an average pay-back period of less than three years.

The informant believes that market orientation has a positive affect on firm performance. Basically, retail businesses exists, as long as they can provide product that customer really need. Thus, every store managers should have a deep knowledge about their local market. It helps the firm to make strategic decision, such as: product assortment, retail price, promotion activities, and customer service.

The informant also believes that close relations with suppliers has a positive effect on firm performance. Accordingly, producer-distributor-retailer-customers should be treat as a value chain. The firm shares customer information from each supplier outlet, such as the number of customers who bought their product and average size of purchase per customer. Further, it invites suppliers to management meetings to discuss and solve problem.

The firm evaluates its stores based on: (1) sales per day, (2) gross margin, (3) sales per square meter, (4) gross margin per square meter, (5) ROE (return on equity) and (6) ROI.

Appendix C-2. Market Orientation

Firm	Informant's Attitude toward Market Orientation	What was the company doing most of?	Illustration	The consequences of Market Orientation	Illustration
A	strong commitment to learn about the market	(i) learns from other competitors, does market research and surveys, and attends int'l seminars and workshops etc.; (ii) analysis all market information and use it for choosing and implementing strategy	"I always learn, research, and make a note of all experiences in managing store to enrich my existing knowledge......I frequently urge my employees to learn and gain a knowledge about the market and managing the store"	increased store patronage and sales	"innovation and being close to the market is the key success factor in this business" "we believe if we provide product suitable to the customers' needs and our staffs treat them respectfully, then customers will be loyal to us" " in every interactions with employees, I strongly emphasise that customers will help us grow"
B	strong commitment to serve target market better than competitors	(i) monitors customers' behaviour, needs, preferences, and lifestyle, (ii) spend the effort to find a way of providing customers high value merchandise	"all merchandise, service and store climate follow the need at of the target segment" "we develop strategy based on customer characteristics"	capability to offer high value merchandise	"our philosophy is value for money .... through giving customers an impression that they can afford to buy products similar to those used by middle-upper class"
C	exhibits the importance of customer information and customer-care	(i) does marketing research both in-house and using research agencies, (ii) develops customer loyalty programmes	"retaining customers is more difficult than getting new customers.... customers are frequent buyers but consumers are just trying our product"		

D	exhibits the importance of maintaining relationships with customers	(i) develops customer reward programmes, (ii) does price checking, (iii) observes and watches customers on the shop floor	" the relationship between our store operators and customers is like a family" "knowing our target customers better than competitors"	positively affects performance	
E	the importance of choosing the right segment and serving better than competitors	(i) position the outlets as close as possible to target customers and main competitors, (ii) informally asking store operator's opinions regarding customer behaviour and preferences, (iii) does competitor surveys		positive correlation with performance, but the magnitude depend on the quality of management	" retail firms should pay attention and care for their customers…. it is essential to get and maintain loyalty customers"
F	concerned more with their competitors than customers	(i) does price checks twice a week, (ii) responds instantly toward competitors' price changes (iii) makes a note of any customer complaints, suggestions etc	"we have a marketing intelligence department, but not all information is being disseminated to other departments ….. related to the corporate culture"		
G	exhibit the important of market information, and coordination across departments	(i) frequently do observation in the sales floor; (ii) frequently inform any promotion programmes appropriate to customers; (iii) do price check four times a week		positively correlates with performance	"co-ordination among departments is key in this business….it can improve cost efficiency and customer satisfaction" "customer information helps us to serve customers more flexibly and to tailor promotional programmes to specific types of customers … resulting in increased customer loyalty" "competitor information helps us to counter attack effectively"

H	all activities are driven by customer needs and preferences	(i) encourages all employees across departments to observed shoppers behaviour while they are shopping (ii) survey of outlets twice a week (ii) benchmark to main competitors	"we follow a marketing concept, which focuses on selling product that fulfils customer needs" "we underline a strong message to employees across departments that there is no best department, and that success is due to strong teamwork"	positively correlates with performanc e and supplier partnership	"we believe suppliers play a major part to achieve marketing objectives"
I	all activities are driven by customer service orientation	(i) informal meetings among store operators to discuss about customer type and how to deal with certain type of customers (ii) continuously offer a new theme every month to attract customer patronage	"we believe that customer service is our weapon to beat competition"	positively correlates with increased customer loyalty	"customer information affects positively on selling capability due to the appropriateness of marketing plan" " in this business, the store is being judge by the services...dissatisfied customers will result in them switching to other stores"
J	market orientation is a necessity in the retail business	(i) benchmark to main competitors		capability to make better plans	"market information will help us make marketing plans more accurately"
K	exhibits the importance of responsiveness toward market information	(i) continuously monitors three key areas of customer care: price competitiveness, product assortment, and customer service (ii) management visit two or three outlets everyday to speed-up the handling of any problems in the field	"customer care is very important because they can compare prices and services within the shopping area"	positively correlate to increase customer patronage	"we believe if customers comfortably shop in our stores, they will return" " responsiveness is the key weapon to win the competition"
L	exhibits the importance of customer orientation	(i) actively searches for customer information through: observation and involvement in fashion designer association, observing consumers in the commercial area, frequently questioning customers, and asking sales personnel and store operators' opinion about consumer behaviour	"we should have a deep knowledge about our target customers"	positively correlate to product perform-ance	"in this business, the successful of our product depend on customer preferences"

M	not really important		"firm concerned only with competitors' price and store turn over" "we just follow the market leader strategy"	no effect on performance	"as long as our price is cheaper than competitors, customers will buy from us"
N	all activities are driven by customer needs and preferences	(i) joins in designer association (ii) conducts seminar every six month (iii) opens the stores near main competitors		positively correlates with performance	"customer information helps us to fulfil customer needs, to develop products more accurately, and to avoid customer dissatisfaction ... this results in increased customer loyalty"
O	currently, market orientation is not a necessity in this business	(i) encourages store operators to make notes on anything related to customers (ii) analysing customers' problems	"we are in the position of educating and influencing customers		
P	exhibits the importance of having a sound knowledge of the book market	(i) continuously monitors market trends (ii) analyses shoppers' characteristics (iii) does price and product checks on main competitors (iv) benchmark to main competitors		increases the capability to formulate better strategy	"we believe market information improves our strategy, which is reflected in better performance"
Q	exhibits the importance of customer information	(i) phoning customers after receiving the merchandise (ii) trains delivery operators on how to deal with customers (iii) asks delivery operators to make a report of any complaints, suggestions, or anything interesting		increases the capability to offer a better merchandising mix	
R	focuses more on internal than external matters		"bookstores actually are resellers" "we are more concerned with maintaining product, not over-stock or out-of-stock"		

S	concerned more to maintain price to be competitive as possible	(i) urges store operators to be polite, smile, and treat customers as friends (ii) provides products that target customers most familiar (iii) observe competitors' prices and sales promotion activities	"price is very important for our target customers"		
T	exhibits the importance of market orientation	(i) continuously caries out market observations	"we should act locally, which means we should have a deep knowledge about the local market, and all activities are driven by the market characteristics"	positively affects firm performance through having better store operations in term of product assortment, customer service, retail price, promotion activities etc.	"retail business can exist as long as they provide product that customers really need"

Appendix C-3. Supplier Partnership

Firm	Informant's Attitude toward Supplier Partnership	What was company doing most of?	The benefits of Supplier Partnership	Illustration
A (SS)	exhibits the need for having good relations with suppliers	(i) provides suppliers club as medium for communication, solving problems, and any disputes (ii) helps suppliers to get materials (iii) develops partnership programmes for small and medium suppliers	speed-up product development	"we give the suppliers an opportunity to grow and develop with the company" "we want long-term relationships with suppliers"
B (SS)	notes the importance of suppliers as part of a solid chain: customer, retailer, and supplier	(i) does joint co-operation (ii) develops suppliers club (iii) helps suppliers to reduce their financial burden	increased operational efficiency and marketing effectiveness	"we support our suppliers through paying them in advance for their operating cost" "we are concerned with their bottom line (profit)" "our relations with key suppliers are more than 10 years old" "we do joint promotion programmes to increase selling out"
C (SM)	partnership concept is not important in this business		ways to squeeze other parties	"the intention of suppliers to get close in this business depends on us, as long as we contribute significantly to their sales, they will care and be generous to us" "sometimes in reality, partnership programmes have been used to squeeze the other party"
D (DS)	believes in the importance of the supplier as part of a chain	(i) informs suppliers regarding their position (ii) always fulfils any agreement (iii) joint problem solving (iv) invites them to management meetings (v) encourages merchandisers to build personal relationships	positively affect performance	"customer, supplier, and store are like a chain, if one link has a problem it will affect the total performance"

E (SM)	there is no long-term relationship in this business, but as long as both parties get benefits, equal power and are highly dependent, then the relationship may continue		saleable product information, joint promotion programmes and getting priority for stock-out items	"currently, we need to stay close to key suppliers to get support since they have more power, but in the future the situation may be reverse"
F (SS)	believes in the importance of having close relations with suppliers	(i) recruit senior merchandisers from reputable retailers	Achieves a complete range of items	"we are a new player in the market, and need support from local suppliers"
G (WHS)	believes in the importance of having close relation to suppliers	(i) invites suppliers to management meetings to discuss certain activities such as joint promotion, delivery, order processing, and developing an online payment system	positively affects performance through intensive joint promotion, operational back-up in delivery and availability of product	" we believe having close relation with suppliers affects performance positively"
H (MM)	exhibits the importance of having good relation with suppliers	has regular contact: (i) to inform an performance of each items (ii) to communicate any discrepancies (iii) to ask for the service level (stock and delivery) of each item (iv) to find the cause of a drop in sales and (v) to suggest suppliers change their packaging to boost sales	positively affect performance	"we believe that suppliers play a major part in achieving marketing objectives" "the key success factor in the retail business is to have good relation with the suppliers" "we believe both suppliers and ourselves have a mutual understanding of how to increase sales volume"
J (O)	treats suppliers as partners	(i) holds discussions with suppliers to set up retail price, improve merchandise quality etc.	increased product performance	" we should give our suppliers the feeling that they can survive and grow with us"
K (DS)	treats suppliers as partners	(i) pays them straight away after completing the administration (2) gives earlier payment to reduce the financial burden	positively affects performance	"the success of the firm is due to suppliers' support" "the long-term relationship depends on the extent to which each party is prepared to sacrifice"

L (DS)	believes that the partnership concept is not important in this business			" we are in the position of controlling suppliers" "we always say to suppliers that they continue to do business with us as long as they fulfil our criteria"
M (DS)	a partnership concept is not important in this business			"the amount of benefits retailers can get depend on quantity order not a close relationship"
N	treats suppliers as partners	(i) offers training for their technicians (ii) shares information.	has a positive effect on performance	"the key factor of building a relationship is trust....without trust it is difficult to implement a partnership concept " "even if we order in small quantities, they still support us by giving priority orders"
O	there is no long-term relationship			" we believe the relationship between a supplier and ourselves is vulnerable, but as long as both parties are profitable, we continue to do business"
P	exhibits the important of having good relation with suppliers	(i) fulfils all the commitments especially the terms of payment (ii) provides special shelves for displaying new items		
Q	exhibits the importance of having good relation with suppliers	(i) recruit experienced merchandiser.	has a positive effect on performance through giving special rates and supply of items which are difficult to get in the market	"our policy is to recruit experienced merchandisers and we expect they will bring their suppliers"
R	exhibits the importance of having good relations with suppliers	(i) gives suppliers a chance to improve their quality and supply new items (ii) disseminates performance ratings	increased operational efficiency	"we think the relationship between a retailer and key suppliers is like a marriages...... it means we should maintain our relationship"

S	exhibits the importance of having good relations with suppliers	(i) has frequent discussions with suppliers regarding product performance, joint promotions and delivery schedules	has a positive effect on product availability	"we rarely have a conflict with suppliers...... the important thing is mutual understanding between us" Our relationship has been built over more than 15 years"
T	treats suppliers as partners	(i) shares customer information with suppliers (ii) invites suppliers into management meetings	has a positive effect on performance	"producer-distributor-retailer-customers should be treat as a value chain" "suppliers are frequently involved in solving our problems"