WHY ORGANIZATIONS FAIL: THE ROLE OF MARKET ORIENTATION AND ENTREPRENEURIAL ORIENTATION IN DEVELOPING MANAGERIAL DIFFUSION BALANCE MODEL

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ABSTRACT

Organizations of all sizes can and do fail. Building upon theoretical basis of Market and Entrepreneurial Orientations this paper posits to develop greater understanding of why some ongoing entities fail. To shed more light on the above issue, a focus group approach was utilized with a total of 43 undergraduate and 19 graduate student groups, engaging a total of 223 undergraduate and 81 graduate students. We observed a rather consistent failure of management to maintain simultaneous balance between market and entrepreneurial orientations, in favor of profit maximization. In response, a Managerial Diffusion Balance Model was developed that visually presents this progression and promotes further conceptual understanding of the processes involved.

Keywords: Entrepreneurial Orientation, Market Orientation, Managerial Diffusion Balance Model.

INTRODUCTION

Corporate failure can be an unpleasant and often harmful event, frequently leading to personal hurt and economic misfortune. One may wonder whether there are commonalities and similarities across situations in which companies fail. The concept of executive diffusion, first presented by Todorovic et al. (2018) is a new concept that looks at executive behavior and the resulting corporate consequences. Using focus group studies, they presented executive diffusion from the concept of Entrepreneurship, competing Values Model and Product Life cycle bodies of knowledge Todorovic et al. (2018). It was observed that many of the failures had a consistent pattern, suggesting significant potential for further research to increase our understanding why companies fail Todorovic (2007).

Evidence presented by Todorovic et al. (2018) suggests that executives, who often face daily pressure from stakeholders and shareholders, may lose sight of the customer and market essentials in favor of above-mentioned short-term measures. In fact, it is observed that both Market Orientation and Entrepreneurial Orientation, each developed from the theoretical foundation of Resource Based View, provide strong evidence that a company can suffer significantly if it loses sight of its customer and/or market (Hui and Subramony, 2008).

Employing 43 undergraduate student focus groups and 19 graduate student focus groups, this paper reports on a study of four corporate entities. Considering that this study employs a very similar method to the study by Todorovic et al. (2018), this study also shows support for the

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claim made by Todorovic et al. (2018) that executive diffusion is a situation where executive judgements are made in favor of profit maximization at the expense of other factors.

Towards that goal, we first draw upon the base of the relevant literature to select the relevant theoretical lens for the consideration of this issue, and draw pertinent conclusions. Consequently, method used in this study is expounded, and is followed by findings section. Finally closing remarks are made highlighting the future value of this stream of research.

LITERATURE REIVEW

Entrepreneurial orientation

The notion that large organizations can benefit from doing things in an entrepreneurial manner is established by a stream of literature on the "*entrepreneurial orientation*" of firms. Entrepreneurial Orientation is often seen as a capability of an organization within RBV paradigm Greven et al. (2020). Studies of Entrepreneurial Orientation link entrepreneurial orientation with the resource-based view of the firm (RBV) Lee (2001). The key assumption of RBV is that the heterogeneity of their resource base distinguishes organizations from one another. The main objective of RBV is to enhance understanding of how competitive advantage is achieved and how that advantage might be sustained in the future Eisenhardt & Martin (2000). An entrepreneurial orientation can be interpreted as a search for additional rents given the resource base of an organization.

Miller (1983) provided the first operationalization of the EO construct, which includes the dimensions of innovation, risk-taking, and proactiveness. This definition is the base for several more recent studies Lumpkin & Dess (2001); Rodrigues et al. (2019).

Entrepreneurial Orientation is associated with improved performance in private sector corporations Bauweraerts (2019); Liu et al. (2021). Literature provides strong support for a positive relationship between EO and organizational performance Lumpkin & Dess (2001); Robb & Stephens (2021); Weinzimmer et al. (2021).

Market Orientation

Another line of research that comes from the RBV discussion is the Market Orientation of firms Santos-Vijande et al. (2005). It has been observed that Market Orientation allows firms to be more competitive as observed in light of process approach of RBV Mulyana & Hendar (2020).

Market Orientation has gained significant interest by researchers in the last three decades. Since the two momentous conceptual works published in 1990 Kohli & Jaworski (1990); Narver & Slater (1990), the concept Market Orientation has been studied and applied in various industries in many different countries. Kohli & Jaworski's (1990) published work was based on previous literature review, which they subsequently confirmed with field interviews. In fact, Kohli & Jaworski (1990) proposed that Market Orientation has three dimensions: intelligence generation, intelligence dissemination, and responsiveness. Kohli & Jaworski (1990) also propose that market turbulence and technological turbulence moderate the relationship between market orientation and business performance.

Narver & Slater (1990) consider Market Orientation as an organizational culture. Narver & Slater (1990) proposed that market-oriented culture consists of three behavior components: customer orientation, competitor orientation and inter-functional coordination. Since customer orientation and competitor orientation include activities that involve acquiring information about customers and competitors in the target market (and disseminating it throughout the business),

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the three dimensions of Market Orientation proposed by Narver & Slater (1990) are aligned with the three dimensions proposed by Kohli & Jaworski (1990). The three dimensions proposed by Narver & Slater (1990) are also widely used in later studies.

Studies confirmed that the direct benefits of market-oriented culture include improved profitability Baker & Sinkula (2009); Slater & Narver (2005) and new product success Morgan & Anokhin (2020); Narver et al. (2004). The link between the Market Orientation and organization performance has also been tested in different types of organizations such as universities Buratti et al. (2021) nonprofit organizations Levine & Zahradnik (2012), hospitality industry Chen & Myagmarsuren (2013), and exporting companies Robb & Stephens (2021).

Several studies evaluated the combined effect that Market Orientation and Entrepreneurial Orientation have on firm performance. For example, Frishammar & Ake Horte (2007) and Hong et al. (2013) examined the role of two strategic orientations (Market Orientation and Entrepreneurial Orientation) have on new product development. Further, others found that Market Orientation and Entrepreneurial Orientation together have a significant positive impact on firm's performance Ali et al. (2020) ; Baker & Sinkula (2009); Kocak et al. (2017); Mulyana & Hendar (2020) and firm innovativeness Renko et al. (2009).

The purpose of study is to build a conceptual model and develop a greater understanding of by what means executive diffusion appears to affect corporate profitability and even survival. Past research appears to point to both Entrepreneurial Orientation and Market Orientation as worthy of further examination in this context.

METHODOLOGY

This paper employs the use of focus groups to develop a greater conceptual understanding of the subject. Over a three-year period, between Spring of 2014 and Fall of 2017, eight undergraduate and four graduate management capstone classes were set up in focus groups. A total of 43 undergraduate focus groups and 19 graduate focus groups were utilized accounting for 223 undergraduate and 81 graduate students. These focus groups were organized as part of capstone classes where every class had a minimum of four and a maximum of six focus groups. These students were asked to discuss the following organization cases: (1) Enron (example of corporate failure), (2) Box Tree (an example of a near corporate failure), (3) Southwest Airlines (an example of corporate challenge averted) and (4) Karsten Manufacturing Corporation (example of successful ongoing strategy).

These companies were selected because they were recent enough to have research available, but not so current to be heavily discussed in the media. Before every case, students were given a medium size (approx. 10 page) description of the case, and students were shown an informative video developed by the textbook publisher. Next, students were asked to write and hand-in a summary before any discussion commenced. All focus groups were given between 30 and 45 minutes to discuss the case.

Since both classes were capstone classes, both classes were taken by students in their last semester at the University. An attempt was made to reach and capture a consensus from these students who have been trained in business. All the students had their concentration major in one of the following fields: Marketing, Management, Accounting, Finance, and Economics. Consequently, considering that the students in question were in their last semester at the university, it is assumed that students are very knowledgeable about their major and business in general.

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Summary of Student Focus Group Observations

In this section we examine the comments and findings of different student groups by looking at each company as a unit. Following are the key concise observations and notes made, which capture most of the arguments presented about every company. To better understand and identify the thinking/insights of the students, each discussion was started with a discussion of initial success factors of a given company, and thereafter a discussion of what went wrong. Analysis is then done to understand common and underlying issues that appear to exist in each of the companies discussed.

Enron

There was a strong agreement amongst different student groups that Enron "*had it right in the beginning*". When asked for elaboration, students often point to early successes where Enron allowed producers and users to reduce their risk trading in the energy derivatives market. This also agrees with the academic sources of that time Greenhouse (1998). Many students also commented on the military like culture that allowed Enron to manage and streamline its internal functions.

When we turned to the issues of concern, students brought up the issue of interviewing in a strip club as a way of maintaining of "*progress at all cost – don't question attitude*". Students also pointed our Enron's innovative ability as a problem in this case. When prompted deeper, students identified management as "*innovative towards profit, growth and self-gratification*" rather than "*customer-oriented value proposition*." Students were surprised at the level of deception that was present at Enron, and the "*we can do no wrong*" attitude. Students repeatedly observed that Enron's radical no-excuses culture was an asset while they were focused on their value proposition and their customers, but became a liability when Enron used the same culture to focus solely on profit maximization. It was in fact observed by students that the dominant attitude at Enron went from "*no excuses attitude*" to "*don't question attitude*" in favor of "*profit and growth at all cost.*"

Box Tree

Box tree was identified as a company that stayed in business and was successful because they knew how to provide "*top notch dining experience*" often attended by "*local politicians and dignitaries*." Students also speculated that the food and environment must have been exemplary because the customers were willing to cross the picket lines for their dining experience. Student conclusions appear to be well justified by available literature Greenhouse (1998).

Students perceived the strike (from 1994 to 1998) at Box Tree Restaurant, not as a cause of problems but rather as an event that allowed for existing underlying issues to come to surface. Those issues were identified as an "*absent owner*" and "*poor inter-functional cooperation*" between the restaurant and the hotel. Students also identified "*poor inter-functional coordination*" and between the management and employees of those departments. Students groups were asked to explain why they perceived "*absent owner*" as a problem, and the answers given include a lack of unified vision, lack of coordination between restaurant and hotel, lack of consistent emphasis on the customer and fair treatment of the employees.

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Karsten Manufacturing Corporation

Students observed from the case that Karsten Manufacturing Corporation had "*long term happy employees*" and that every employee was able to "*abort and scrap the product*" in every operation. Employees are actively involved in research and development and "*identify and take ownership*" of the company.

Students were asked to categorize today's state of this company originally started in 1959. Students often quoted John Solheim (CEO and son of the founder) who said "*If you look after the people, the money will look after itself*". Students conclude that Mr. Solheim's continuation of the same vision and customer emphasis of his father (the founder) is the main reason why this company has managed to stay strong and profitable. This is especially notable, however, when one observes that Karsten Manufacturing Corporation is the oldest company studied herein.

Southwest Airlines

Students were asked to analyze Southwest Airlines during the time Herb Kelleher was the CEO (until 2001) and compare his leadership to that of James Parker who was the CEO from 2001 until 2004. Students quickly identified the culture of the company as the "*fun loving customer-oriented culture*" where the employees felt valued. Students also identified a strong sense of competitiveness. Some students also brought up supply decisions as instrumental, identifying the purchase of one type of aircraft (Boeing 737) and purchase of fuel futures as critical contributors to Southwest success.

Looking at James Parker's leadership, students identified his leadership as a critical strategic shift, indicating that Mr. Parker was "*more interested in profit than in a fun culture*". Most students assigned this attitude of Mr. Parker (with focus on profit and growth) as the reason why labor relation problems erupted during his leadership. Mr. Parker's lack of appreciation of the role culture and attitude play in an organization as the reason why Herb Kelleher had to step in with a generous compensation package for the employees. Many Students indicated that they believed that this "*was not about money, but about the feeling of fairness*" and a "*positive culture being reinstated*"

DISCUSSION AND FINDINGS

To enhance an easier review of main findings, Table 1 presents the main observations that the students appear to agree on in all the focus groups. Considering the sheer number of student focus groups (43 undergraduate and 19 graduate) and significant numbers of students (223 undergraduate and 81 graduate) it is impractical to try to present every statement made in every meeting. Recognizing that the use of focus groups is often employed in qualitative (or exploratory) research, it is important to remember that these finding are subjective at best. Nonetheless, one has to also keep in mind that the purpose of this paper is to present a more complete and more inclusive conceptual understanding of Managerial diffusion, which in due time can be further delineated and enhanced in appropriate quantitative studies.

Defining Managerial Diffusion Balance Model

From the work of Todorovic et al. (2018) we understand that there has to be a balance between entrepreneurial orientation (i.e. being innovative, risk-taking and proactive) and managerial emphasis Todorovic (2007); Todorovic et al. (2018). Essentially, they argued that at

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any point on corporate development axis, the executive can be too entrepreneurial; or too focused on traditional Management. Essentially, they present the idea that at any part of the corporate growth curve there is an ideal balance of entrepreneurship and managerial skill needed to lead such a company. Literature also agrees with the concept that management is essentially an act of balancing different functions Kumar et al. (2015). It is therefore posited that:

P_1 – Management activity is often a balancing act between different strategic demands.

Table 1 shows that Early success factors as perceived by students for all the companies. A closer observation of these statements shows that most of these statements fall within “Consumer Orientation, Competitor Orientation and Inter-Functional Coordination, which are three dimensions of Market Orientation Narver & Slater (1990). Statement like “*no-excuses culture*” and “*military like organizational culture*” speak of organizational ability to complete its activities effectively and efficiently, which is a part of inter-functional coordination dimension of Market Orientation.

Furthermore, statements expressing care and concern for employees are also crucial for customer satisfaction. For example, in case Karsten Manufacturing Corporation, which is a differentiated supplier of high-quality golf clubs, employee morale is very crucial since the company has no quality inspectors, but instead, every employee has the right to reject clubs at any stage of manufacture. Likewise, a strong sense of employee endearment is closely related to Southwest core competency to keep the costs down and passenger service up – both of which are desired by the flying public. Perhaps the best representation of this view is the statement of the CEO of Karsten Manufacturing Corporation, who stated that “if you look after the people (i.e., employees) the money will look after itself (i.e., Sales, Customer Satisfaction, Reputation).

This conclusion agrees with many academic findings that show Market Orientation dimensions of Consumer Orientation, Competitor Orientation and Inter-Functional Coordination are correlated to Company Performance and success, leading to a second proposition that:

P_2 Market Orientation, with the dimensions of Consumer Orientation, Competitor Orientation and Inter-Functional Coordination contributes to corporate success.

Table 1 shows Managerial Emphasis factors (on the right) as the factors that are seen by participants as a significant cause of corporate failure or difficulty. One interesting reoccurring surprise is the role of innovation (dimension of Entrepreneurial Orientation) in accelerating the demise of Enron. In fact, it appears that innovation and taking of risk, when not motivated by customer perspective, appears to actually speed up the corporate failure of a company. Many students in almost all groups felt that innovation at Enron was one of the bigger issues that caused its collapse. Commonly brought up innovative abilities of Enron included job interviews in a strip club and innovations in the development of accounting pseudo entities. About half of the students observed that “*interviews in the strip club were designed to eliminate candidates*” that students often referred to as “*conscientious objectors*” from joining the company. This also led to another student observation that Enron had very “*high amount of deception*”.

It is an interesting observation that not one statement in managerial emphasis factor section dealt with customer or market focus. Considering that the companies selected for this study include an array from failed companies to successful companies Winter (2000).

Literature shows that “ *different types of open innovation activities may thrive or fail*” Zacharias et al. (2020), and that companies may have “too much innovation Hottenrott & Lopes- Bento (2016). Nonetheless, innovation has been correlated to corporate success by many studies Zacharias et al. (2020). Likewise, many studies show that Entrepreneurial Orientation,

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with its dimensions of Innovativeness, Risk-taking and proactiveness is corelated to corporate success Liao & Subramony (2008) Table 1.

Table 1
SUMMARY TABLE OF MAIN FOCUS GROUP PARTICIPANT OBSERVATIONS

Early Success Factors[1]	Managerial Emphasis Factors[2]
Case of Enron (example of corporate failure)	
"Had it right in the beginning"	Interviewing in a strip club
Allowed producers and users to reduce their risk	"Progress at all cost – don't question attitude"
Military like organizational culture (focused on Customers)	Innovative ability as a problem
Streamline its internal functions	"Innovative towards profit, growth and self-gratification"
"Customer-oriented value proposition."	Radical no-excuses culture (liability)
Radical no-excuses culture (asset)	Amount of deception
	We can do no wrong attitude
	"No excuses attitude to don't question attitude".
	"Profit and growth at all cost."
Box Tree (example of near corporate failure)	
Provide "top notch dining experience"	"Absent owner" (identified as: lack of unified vision, coordination between restaurant and hotel)
Attended by "local politicians and dignitaries."	"Poor inter-functional cooperation between the restaurant and the hotel"
Food and environment must have been exemplary	"Poor inter-functional cooperation between the management and employees
Customers were willing to cross the picket lines for their dining experience.	Lack of consistent emphasis on the customer and fair treatment of the employees
Southwest Airlines (example of corporate failure averted)	
"Fun loving customer-oriented culture"	critical strategic shift (towards profitability as highest priority)
a strong sense of competitiveness	"More interested in profit than in a fun culture"
supply decisions (one type of aircraft - Boeing 737)	attitude of Mr. Parker (with focus on profit and growth) as the reason why labor relation problems erupted
Herb Kelleher had to step in with a generous compensation package for the employees.	
"Was not about money, but about the feeling of fairness"	
"Positive culture being reinstated"	
Karsten Manufacturing Corporation (example of successful ongoing strategy)	
"Long term happy employees"	None brought up
every employee was able to "abort and scrap the product" in every operation	
Employees are actively involved in research and development	
Employees encouraged to "identify and take ownership"	
"If you look after the people, the money will look after itself"	

Our focus groups, however, shows that a company (such as Enron) may be very entrepreneurial and still be headed towards complete corporate failure. We posit that entrepreneurial orientation, even though crucial, is only beneficial to the corporation if it is focused on the customer. This agrees with the findings of Matsuno et al. (2002) who state that "*results also suggest that entrepreneurial proclivity's performance influence is positive when*

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mediated by market orientation but negative or nonsignificant when not mediated by market orientation" (p. 18). Effectively, it follows that the balance examined by Todorovic et al. (2018) is in fact a balance of three constructs: Market Orientation, Entrepreneurial Orientation and Management Acumen. Such a close relationship between Market Orientation and Entrepreneurial Orientation is supported by other researchers who found that the two strategic orientations are inter-correlated Matsuno et al. (2002). This is further supported by the observation that both orientations come from the Resource Base View framework. The following propositions are therefore made Penrose & Penrose (2009):

P_3– Entrepreneurial and Market Orientations are correlated.
P_4 – A corporate entity can have too much innovation if that innovation is not based on the customer/client in mind.
P_5 – Entrepreneurial Orientation with its dimensions of Innovativeness, Risk-taking and Proactiveness contributes to corporate success.

It appears that the focus group participants all agreed that management lost sight of customer and stopped being sensitive to customer needs. Thus far, with the help of relevant literature, this paper posits that the management effectively lost its entrepreneurial and market orientation towards being laser focused on desired short-term rewards. When pressed on what those short-term rewards may be, many different answers came up. It is observed that students almost always included profitability and growth in the array of their answers. This also agrees with the academic literature where growth (often expressed in terms of market share and financial performance are often used as the most frequent indicators of performance Filbeck et al. (2012). It is therefore posited that:

P_6 – Managerial emphasis consists of financial performance and growth amounts.

Presenting Managerial Diffusion Balance Model

All too often, researchers and scientists are quick to engage in quantitative, data-specific studies to answer a research question or confirm a suspected phenomenon. Whereas, that is very admirable, it is sometimes important to take a broad look at the issues and engage in a qualitative or exploratory study. This paper report on one such study that employs multiple student focus groups to explore and understand (as well as delineate) a problem.

Student focus groups were consistently pointing towards a need for management to "*balance*" their priorities focus or even perceptions. To this end, this paper presents the propositions showing that Marketing Orientation, Entrepreneurial Orientation and Managerial Emphasis. Thus, there are two more observations students often made that need to be captured towards a more complete understanding of some corporate challenges and failures. The following two propositions capture these final thoughts.

P_7 – Management must balance the above-mentioned Customer Interest (MO), Innovation (EO) and Managerial Emphasis.
P_8 – Different industries may exhibit different combinations of "*ideal*" balance of the above-mentioned MO and EO and Managerial Emphasis.

Building on the feedback of our focus groups, thereafter, presented propositions and related arguments, and the observations of Managerial Diffusion by Todorovic et al. (2018) we present a Managerial Diffusion Balance Model shown in Figure 1.

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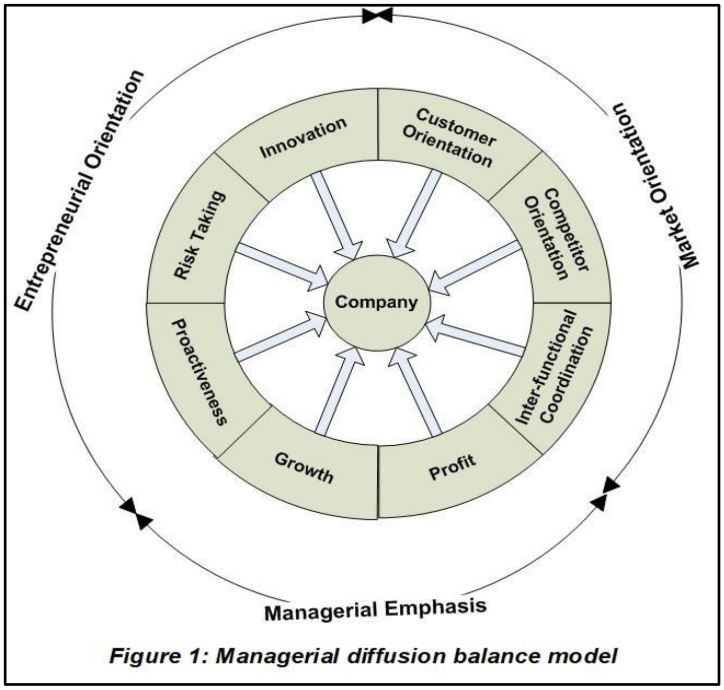

FIGURE 1
MANAGERIAL DIFFUSION BALANCE MODEL

As the presented model suggest, this paper also argues that management must ensure they are constantly monitoring and giving equal or sufficient emphasis to all the dimensions on this model.

It is also observed, however, that any one industry may have different conditions that may change what is "*perceived*" as the ideal balance between the above presented dimensions. For example, in one industry, Innovation, Customer Orientation, Competitor Orientation and Inter-functional Orientation may be critical Figure 2, while another industry may have completely different conditions and requirements.

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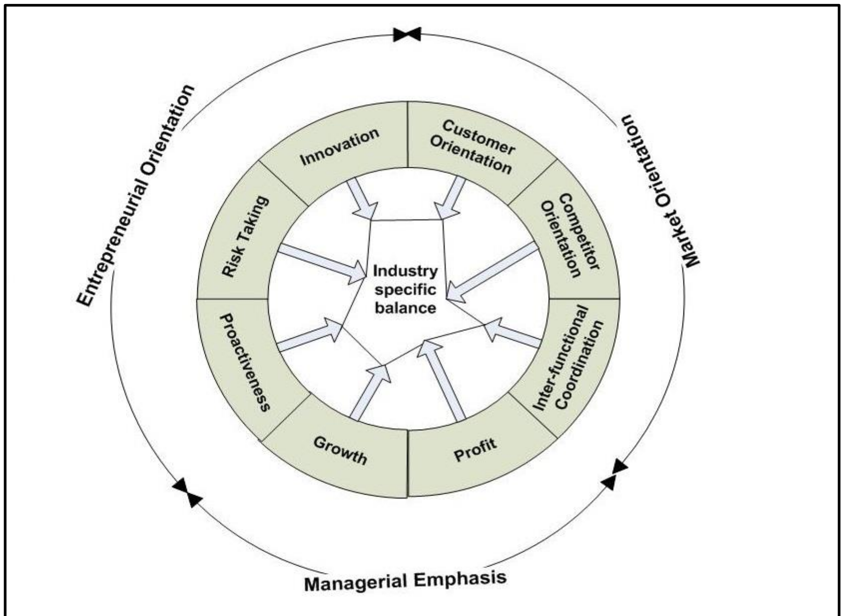

Figure 2: An example of industry specific managerial diffusion balance model

FIGURE 2
AN EXAMPLE OF INDUSTRY SPECIFIC MANAGERIAL DIFFUSION BALANCE MODEL

We observed a rather consistent failure of management to maintain simultaneous balance between entrepreneurial orientation, market orientation and Managerial Emphasis (as discussed in Todorovic et al. (2018) - in favor of profit maximization. In response, a Managerial Diffusion Balance Model was developed that visually describes this process. Finally, authors posit that each industry will have a different, perhaps unique "*ideal*" balance visually presented in the Managerial Diffusion Balance Model.

CONCLUSION

Organizations of all sizes can and have failed. As we continue to observe different, formerly successful organizations fail, we may wonder if there are perhaps some commonalities in these failures. In order to discuss this topic as broadly as possible, a conceptual approach backed up by a three-year focus group study is presented. Although this research does not produce statistical results, current authors felt strongly that a broad conceptual examination may be best suited in presenting the necessary discussion regarding these concerns.

Building upon relevant literature, an in-depth discussion of four companies is presented herein. Utilizing focus groups of undergraduate and graduate business students over a period of three years, we look at four companies, seeking evidence of common issues and observations.

ENDNOTES

[1]Identified as factors perceived to have led to company successes.
[2]Identified as factors perceived to have led to company failure.

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Citation Information: Todorovic, Z.W., Todorovic, J.M., & Fan, J. (2023). Why organizations fail: the role of market orientation and entrepreneurial orientation in developing managerial diffusion balance model. *Academy of Marketing Studies Journal, 27*(1), 1-12.

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Received: 22-Jan-2022, Manuscript No. AMSJ-22-10954; **Editor assigned:** 01-Feb-2022, PreQC No. AMSJ-22-10954(PQ); **Reviewed:** 17-Oc-2022, QC No. AMSJ-22-10954; **Revised:** 03-Nov-2022, Manuscript No. AMSJ-22-10954(R); **Published:** 12-Feb-2023

Citation Information: Todorovic, Z.W., Todorovic, J.M., & Fan, J. (2023). Why organizations fail: the role of market orientation and entrepreneurial orientation in developing managerial diffusion balance model. *Academy of Marketing Studies Journal, 27*(1), 1-12.