

Market Orientation, Performance, and Perceived Environmental Uncertainty in South Korean Apparel Retail Stores

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Abstract: This paper investigates the effects of environmental uncertainty on the performance and market-orientation (MO) strategies of South Korean apparel retailers, and the effects of their MO strategies on their performance. Market turbulence negatively affects retailers' performance and the use of some MO strategies, but their use of some MO strategies positively affects performance.

Key words: market orientation, performance, uncertainty, apparel retailing, South Korea

1. Introduction

South Korean apparel retailers are facing both rising competition from foreign retailers and rising demand from consumers for reduced prices and enhanced value in their purchases. Thus, these retailers' success may depend increasingly on employing market-oriented strategies to respond well to consumer demands. This study is the first to investigate (a) the effects of environmental uncertainty from market turbulence and competitive intensity on South Korean apparel retailers' performance and market-oriented strategies, and (b) the effects of the retailers' market-oriented strategies on their performance. Previous research on the relationships investigated in this study has focused largely on Western businesses and rarely on retailing.

2. Literature review and hypotheses

Kohli and Jaworski (1990) defined market orientation (MO) as an organizational strategy that involves the whole organization in generating intelligence on competitors, the external environment, and customers' current and future needs, disseminating the intelligence throughout the organization, and responding to identified customer needs. Although MO includes gathering information about the external environment,

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firms also gather such information even before adopting highly market-oriented strategies (Narver and Slater 1990). The sustained competitiveness of firms operating in environments undergoing rapid change requires that the firms anticipate changes and be prepared to adapt business activities accordingly (Johnston, Gilmore, and Carson 2008). Davis, Morris, and Allen (1991) found a positive relationship between perceived environmental dynamism and firms' MO level. Kohli and Jaworski (1990) noted that the competitiveness of a firm's operating environment is positively related to the likelihood the firm would be market oriented. McKitterick (1957) emphasized that firms operating in competitive environments must recognize and respond to customer needs or face rivals that develop products to meet those needs and capture the firms' business. Indeed, firms operating in highly competitive markets tend to be sensitive and responsive to customer needs (Lusch and Laczniak 1987).

Pelham and Wilson (1996) concluded, however, that some situations do not demand MO strategies after finding no effect of market dynamism and competitive intensity on the degree of MO among small firms. In addition, antecedents to MO in one country may neither foster nor hinder firms' MO in others (Burgess and Nyajeka, 2006). We hypothesized (H1) positive effects of market turbulence and competitive intensity on each of four components of market orientation (i.e., intelligence generation, intelligence dissemination, response design, and response implementation), partly because Davis et al. (1991) argued that environmental changes not only create need for entrepreneurial and market orientations, but also motivate firms to adopt these orientations.

Features of the external environment, including the state of the economy, competitive intensity, and market turbulence, have been found to affect business performance (Miller and Toulouse, 1986; Peterson, 1985). Power and Reid (2003) found that market turbulence negatively affects the performance of long-lived small firms. Nickell, Nicolotsas, and Dryen (1997) showed that firm performance is negatively related to market turbulence, but positively related to the degree of competition in the firm's market. Januszewski, Koke, and Winter (1999) observed that enterprises in intensely competitive markets tend to exhibit high growth in productivity. On the basis of the literature, we hypothesized that the degree of market turbulence perceived by South Korean apparel store managers negatively affects the managers' satisfaction with their stores' performance (H2), and the degree of perceived competitive intensity positively affects the managers' satisfaction with store performance (H3).

Some researchers have reported that MO level is positively related to company performance (Shoham, Rose, and Kropp, 2005; Subramanian, Kumar, and Strandholm, 2009). Sound understanding of customers and competitors often results in effective decision making within a firm and leads to sales growth (Pelham and Wilson, 1996). Improved customer retention and sales follow when a market-oriented firm tracks customer satisfaction and implements timely responses to the generated information. Narver and Slater (1990) elaborated this view, stating that a business with strong MO will expend great effort to offer superior value to customers, thereby increasing the probability of offering superior value and enjoying profitability advantages over competitors. Slater and Narver (1994a) reported a positive relationship between MO and both sales growth and return on assets when controlling for market environment. Pitt, Caruana, and Berthon. (1996) and Caruana, Gauci, and Ferry (1995) found similar links.

Researchers have found that MO can create a sustainable competitive advantage that leads to profit growth (Slater and Narver, 1994b) and increased success of new products (Perin and Sampaio, 2001). Silva, Moutinho, Coelho, and Marques (2009) concluded that a driving-market approach based on solid intelligence dissemination and a learning orientation helps improve performance; however, Chao and Spillan (2010) found for U.S. and Taiwanese small- and medium-sized enterprises that the intelligence generation and dissemination components of MO are unrelated to firm performance, but the responsiveness component of MO positively affects firm performance. On the basis of the literature, we hypothesized (H4) that each of four components of market orientation (i.e., intelligence generation and dissemination and response design and implementation) has a positive effect on South Korean apparel store managers' satisfaction with their stores' performance.

3. Sampling and data collection

Primary data collection was conducted with a self-administered questionnaire sent to top managers of apparel retail stores in five major cities or towns in South Korea: Seoul, Deajeon, Suwon, Daegu, and Busan. We obtained permission for research with human subjects from the institutional review board at one of our universities before any data collection. At least 200 respondents were needed for the structural equation model estimated in data analysis. Previous research (e.g., Crawford-Welsch 1990) led us to expect a response rate of 20-25%, a rate requiring a target sample of about 1,000. The questionnaire and a cover letter were sent to 1,000 apparel stores drawn randomly from the following Korean publications: *A National Department Store Yearbook*, *Fashion Retail Guide Book*, and *Korea Fashion Brand Yearbook*.

The questionnaire and cover letter were written in English, translated into Korean, and back translated into English to check retention of meaning. We sent the questionnaire and cover letter by facsimile to stores with facsimile numbers and by mail with postage-paid return envelopes to those without such numbers. Respondents could return questionnaires by facsimile or mail. Dillman's (1978) total design method was used to increase the response rate. Two weeks after the initial mailing, a reminder postcard was sent to each store, followed by re-mailing the entire package to store managers who did not respond within three weeks of the initial mailing. The questionnaire contained scales to measure stores' MO, the managers' degree of satisfaction with their stores' performance, and the managers' perceptions of the degree of market turbulence and competitive intensity in South Korean retailing. Demographic information on respondents and their stores was also requested. Finally, a question was asked to confirm that each store carried apparel merchandise.

4. Research methodology and construct development

Two scales with four and five items respectively were used to measure perceived market turbulence and competitive intensity, with response from strongly disagree (1) to strongly agree (5). The market-turbulence items, adapted from Jaworski and Kohli (1993), concerned the perceived degree of change over time in a store's customers and their preferences or purchase criteria. The competitive-intensity items were designed to measure the perceived degree of competition in South Korean apparel retailing on the basis of a method Khandwalla (1972, 1977) used to measure competitive intensity perceived by management. Lawrence and Lorsch (1967) argued that the perceived level of competition, rather than the actual level of competition, influences managers' decisions in response to their firms' operating environment. Some other questionnaire items adapted from Jaworski and Kohli (1993) were used to measure four components of MO strategy: intelligence generation (3 items), intelligence dissemination (5 items), and response design and implementation (3 items each), with response from strongly disagree (1) to strongly agree (5).

A subjective, rather than objective, measure of store performance was used for the following reasons. Because private firms' financial information is usually confidential, respondents may be unwilling to provide such data. Objective and subjective measures of firm performance are strongly related (Dawes, 1999; Jaworski and Kohli, 1993). Many researchers have used subjective performance measures (e.g., see Bowman and Ambrosini, 1997; Wooldridge and Floyd, 1990). We measured retail store performance with a modified version of a scale developed by Gupta and Govindarajan (1984). Respondents were asked to

rate on a scale from highly dissatisfied (1) to highly satisfied (5) their degree of satisfaction with their own stores' current performance relative to other stores in their industry and separately relative to their stores' key competitors on each of the following financial performance criteria: return on investment, earnings growth, sales growth, market share, return on assets, and cash flow. Responses for the six performance criteria were averaged for satisfaction with performance relative to key competitors and separately for satisfaction with performance relative to other stores in the retail industry.

The preliminary questionnaire was pilot tested with 10 South Korean retail store managers and 5 faculty members at a major South Korean university. The managers were asked to complete the questionnaire; they and the faculty members were asked to assess the content, wording, comprehension, completion time, and appropriateness of questions. Recommended changes were made before primary data collection. Analysis of the primary data included calculation of descriptive statistics for the sample characteristics and research variables, exploratory and confirmatory factor analysis, and estimation of a structural equation model to test the hypotheses.

5. Results

5.1 Sample profile and mean scores for the variables

We received 400 completed questionnaires (40% response rate), mainly from shop managers (53.3%), presidents (16.3%), sales persons (15.8%), and assistant managers (6.0%). Many of the stores (54%) opened between 2000 and 2004, the others between 1980 and 1999. Most (61%) had less than 5 employees. Respondents had a range of experience in retailing: 27.0% had worked in retail for more than 10 years, 10.3% for 10 years, and 29.8% for 5 or fewer years (32.9% did not report years of experience). Cronbach alphas of .69, .76, and .88, respectively, for the environmental-uncertainty, MO, and store-performance scales indicate unidimensional reliability.

The overall mean score for perceived market turbulence is 3.47; that for perceived competitive intensity is 3.28. These scores suggest fairly high perceived turbulence and competitive intensity in the retail market. The overall mean for the intelligence-generation component of MO is 3.32, that for intelligence dissemination is 3.41, that for response design is 3.47, and that for response implementation is 3.59, indicating the use of MO strategies to some extent. The overall mean for satisfaction with store performance relative to other stores in the industry is 3.05 and relative to key competitors is 3.11, suggesting moderate satisfaction with store performance.

5.2 Exploratory factor analysis

Exploratory factor analysis with varimax rotation was performed on the data for the two aspects of perceived environmental uncertainty, the four components of MO, and the two dimensions of satisfaction with store performance to extract the relevant latent variables. Factor analysis was found appropriate with KMO values of .699 for environmental uncertainty, .809 for MO, and .903 for satisfaction with store performance, along with statistical significance ($p = .001$) of each value in Bartlett's test of sphericity. Eigen value of 1 or more was the criterion for selecting extracted factors.

Two environmental-uncertainty factors were found. Factor 1, market turbulence, includes seven items with Cronbach alpha of .67, 23.43% of the variance explained, and loadings from .33 to .76. Factor 2, competitive intensity, includes three items with Cronbach alpha of .65, 18.69% of the variance explained; and loadings from .69 to .80 after three of the five original competitive-intensity items were moved to Factor 1.

Results revealed four MO factors. Factor 1, intelligence generation, includes four items with Cronbach alpha of .74, 15.75% of the variance explained, and loadings from .51 to .81 after deleting one item to increase Cronbach alpha from .70 to .74. Factor 2, intelligence dissemination, includes five items with Cronbach alpha of .76, 18.73% of the variance explained, and loadings from .57 to .79 after an original response-design item was moved to this factor, but then deleted to increase Cronbach alpha from .71 to .76. Factor 3, response design, includes two items with Cronbach alpha of .76, 11.42% of the variance explained, and loadings from .62 to .70 after one original response-design item was moved to Factor 2 (intelligence dissemination), but then deleted due to low Cronbach alpha when included and low contribution to explaining the variance. Factor 4, response implementation, includes three items with Cronbach alpha of .70, 14.96% of the variance explained, and loadings from .71 to .79 after deleting one item to increase Cronbach alpha from .68 to .70.

Results also revealed two performance factors. Factor 1, satisfaction with performance relative to key competitors, includes six items with Cronbach alpha of .89, 32.33% of the variance explained, and loadings from .54 to .86. Factor 2, satisfaction with performance relative to other stores in the retail industry, includes six items with Cronbach alpha of .88, 31.51% of the variance explained, and loadings from .59 to .86.

5.3 Overall fit of the model to the data

The model as modified according to the exploratory factor analysis was assessed for goodness of fit to the data using 12 goodness-of-fit measures. One measure, the likelihood ratio of the chi-square (χ^2) statistic, has a value of 4.787 with 1 degree of freedom at $p < .05$, indicating acceptable fit. Another measure, the χ^2 /degrees of freedom ratio, equals 4.787, indicating the model fits the data well. Other measures are the standardized root mean square residual (RMR), the root mean square error of approximation (RMSEA), the goodness-of-fit index (GFI), and GFI adjusted for degrees of freedom (AGFI). We found an RMR value of .011, an RMSEA value of .097, a GFI value of .957, and an AGIF value of .893. These values indicate acceptable to good fit to the data. The remaining goodness-of-fit measures calculated in this study are the normed fit index (NFI), the parsimonious comparative fit index (CFI), the parsimony goodness-of-fit index (PGIF), the relative fit index (RFI), the incremental fit index (IFI), and the parsimony normed fit index (PNFI). The values found for NFI (.994), CFI (.995), PGIF (.508), RFI (.833), IFI (.995), and PNIF (.557) also indicate acceptable to good fit to the data. In summary, the values found for the goodness-of-fit measures indicated no reason to reject the model and led to the conclusion that the model fits the data well and is a reasonably close approximation of the sample data.

5.4 Composite reliability and convergent and discriminant validity

Confirmatory factor analysis was conducted to assess composite reliability (p_c) and convergent and discriminant validity. Composite reliability values of .60 or more indicate acceptable reliability. Convergent validity was assessed with average variance extracted (AVE), with values of .50 or more indicating convergent validity. Discriminant validity was assessed by comparing the AVE of a construct with the squared correlation between constructs. When AVE exceeds the squared correlation between constructs, discriminant validity is indicated.

The p_c value for market turbulence is .560; that for competitive intensity is .570. These values are close to but below .60, indicating marginal reliability. It should also be noted that confirmatory factor analysis indicated deletion of one market-turbulence item. The AVE value for market turbulence is .343 and that for competitive intensity is .393, indicating lack of convergent validity for these constructs. The AVE value for each of these constructs exceeds the squared correlation between constructs, indicating discriminant validity. The p_c values for intelligence generation (.712), intelligence dissemination (.708), response design (.746), and response implementation (.646) indicate that the MO components are reliable. The AVE values for these are respectively .487, .439, .622, and .436, indicating convergent validity for

only response design although the AVE values for the other three MO components are close to .50. AVE for each MO component exceeded the squared correlation between the constructs, indicating discriminant validity. The p_c values for satisfaction with store performance relative to key competitors (.734) and to other stores in the retail industry (.829) indicate composite reliability. The AVE values for these two constructs are respectively .605 and .702, indicating convergent validity. In each case, the AVE value exceeds the squared correlation between constructs, indicating discriminant validity. Despite weakness in composite reliability for the environmental-uncertainty variables and in convergent validity for these variables and for some MO components, we proceeded with SEM estimation due to the evidence of unidimensional reliability and discriminant validity for these variables, as well as the validity and unidimensional and composite reliability for the other variables.

5.5 Hypothesis testing and discussion of results

We tested the four hypotheses using structural equation modeling (SEM) and the data as modified according to the factor analyses. The effects of exogenous constructs on endogenous constructs and of endogenous constructs on other endogenous constructs, as well as relationships among exogenous constructs can be tested simultaneously in SEM. In the present study, the two exogenous variables are the two aspects of environmental uncertainty and the six endogenous variables are the four components of MO strategy and the two dimensions of store performance. The correlation matrix for all the measured variables showed that 20 of the 28 correlations among the constructs were statistically significant at $p < 0.01$ and $p < 0.05$, fulfilling a pre-condition for SEM.

Collinearity among the independent variables was examined through variance inflation factors (VIF) and condition indices. Condition indices between 30 and 100 indicate moderate to strong collinearity. The condition index for each independent variable is below 33, which is acceptable. The VIF for each independent variable is less than the standard comparison score of 10, indicating that multicollinearity is not serious.

Table 1 shows the results for SEM estimation. The results indicate lack of support for hypothesis 1 as stated, but those for two of the eight cases tested for this hypothesis show the hypothesized significant positive direct effects of market turbulence on the response design and implementation components of MO strategy. Those two significant cases indicate that the more (less) the market turbulence perceived by apparel store managers, the more (less) the managers design and implement responses to market

intelligence. These findings are consistent with those of Jaworski and Kohli (1993) and the argument by Davis et al. (1991) that environmental change motivates firms to adopt MO strategies. Our results also show, contrary to hypothesis 1, that competitive intensity has a significant negative effect on the response design component of MO strategy; thus, the more (less) the perceived competitive intensity, the less (more) apparel store managers design responses to market intelligence. Our finding of no significant effects in five of the cases tested for hypothesis 1 aligns with the results of Pelham and Wilson (1996) that market dynamism and competitive intensity do not influence the degree of MO among small firms.

SEM results do not support hypotheses 2 and 3 as stated, but they support one hypothesized effect: Market turbulence has a significant negative direct effect on satisfaction with store performance relative to other stores in the retail industry; thus, the more (less) the market turbulence perceived by apparel store managers, the less (more) the managers' satisfaction with their stores' performance relative to other stores in the Korean retail industry. This result agrees with similar findings of Power and Reid (2003) and Nickell et al. (1997). Our results also show, contrary to hypothesis 3, that competitive intensity has a significant negative direct effect on satisfaction with store performance relative to key competitors, indicating that the more (less) the competitive intensity perceived by apparel store managers, the less (more) the managers' satisfaction with their stores' performance relative to the stores' key competitors.

Hypothesis 4 is not supported as stated, but four of the eight cases tested for this hypothesis produced significant results as hypothesized. The four significant cases are the positive effects of both intelligence generation and response implementation on satisfaction with store performance relative to key competitors and to other stores in the retail industry; thus, the more (less) that apparel store managers gather market intelligence and implement responses to the intelligence, the more (less) the managers' satisfaction with their stores' performance relative to key competitors and to other stores in the Korean retail industry. These findings, as well as the lack of significance for intelligence generation and dissemination, agree with those of Chao and Spillan (2010) regarding U.S. and Taiwanese small- and medium-sized enterprises. Our results for response implementation also indicate that market turbulence has counteracting direct and indirect effects on satisfaction with performance. As noted above, market turbulence has a negative direct effect on satisfaction with performance. The indirect effect of market turbulence on satisfaction with performance is positive and operates through response implementation because market turbulence has a significant positive effect on response implementation, which has a significant positive effect on satisfaction with performance. Thus, the more (less) the perceived market turbulence, the more (less) that

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apparel store managers implement responses to market intelligence and in turn the more (less) the managers are satisfied with their stores' performance relative to both key competitors and to other stores in the Korean retail industry.

Table 1. SEM standardized estimates of paths

Exogenous variable	Endogenous variable	Estimate	<i>p</i> value	Hypothesis supported?
MO intelligence generation	Market turbulence	.051	.465	no
MO intelligence generation	Competitive intensity	.041	.482	no
MO intelligence dissemination	Market turbulence	.008	.907	no
MO intelligence dissemination	Competitive intensity	.101	.080	no
MO response design	Market turbulence	.243	.001	yes
MO response design	Competitive intensity	-.124	.047	no
MO response implementation	Market turbulence	.165	.011	yes
MO response implementation	Competitive intensity	.035	.522	no
Performance relative to other retail stores	Market turbulence	-.148	.047	yes
Performance relative to other retail stores	Competitive intensity	.094	.135	no
Performance relative to key competitors	Market turbulence	.112	.121	no
Performance relative to key competitors	Competitive intensity	-.138	.023	no
Performance relative to other retail stores	MO intelligence generation	.123	.050	yes
Performance relative to key competitors	MO intelligence generation	.238	***	yes
Performance relative to other retail stores	MO intelligence dissemination	.040	.526	no
Performance relative to key competitors	MO intelligence dissemination	.056	.360	no

Performance relative to other retail stores	MO response design	-.056	.335	no
Performance relative to key competitors	MO response design	-.038	.506	no
Performance relative to other retail stores	MO response implementation	.182	.002	yes
Performance relative to key competitors	MO response implementation	.131	.024	yes

Note. *** $p < .001$

6. Conclusions, contributions, and implications

When a market is highly competitive and dynamic, as is South Korea's current apparel retail market, firms in the market must closely attend to market conditions, both current and on the horizon, and adjust business activities accordingly or lose business to more aware and responsive competitors (Johnston et al. 2008; McKitterick, 1957). Market orientation is a key strategy devised in modern business, at least in Western business, to afford firms a means to understand and respond effectively to market conditions. Given that South Korean apparel retailers appear to have adopted MO strategies to some extent, but not at a high level, it may be unsurprising to find these retailers' limited use of MO strategies in response to market signals, specifically perceived market turbulence and competitive intensity. Our findings lead to the conclusion that these retailers do increase their efforts to design and implement responses to market intelligence the more the managers perceive turbulence in the market, but that the retailers have a reduced tendency to design responses to market intelligence the more the managers perceive competitive intensity in the market; however, perceived market turbulence and competitive intensity do not appear to lead to collecting and disseminating market intelligence that could inform the retailers' activities. Perhaps these results are affected by some weakness in the reliability and validity of our measures of environmental uncertainty, but they agree with those of some other researchers, as noted previously, albeit not in the context of Korean apparel retailing. The small size of the retailers in our sample, and corresponding resource limitations, may impede efforts to gather market intelligence and formulate and implement responses to the intelligence. If so, it may help these retailers to join forces in contributing to R&D by a retail trade association as a way to at least generate market intelligence.

Other results of the present study lead to the conclusion that perceived turbulence and competitive intensity in the Korean retail market reduce apparel store managers' satisfaction with their stores' performance, but proactively generating market intelligence and implementing responses to the intelligence increases satisfaction with store performance. Especially when implementing responses to market intelligence, managers experience satisfaction with their stores' performance, even in the face of market turbulence. Several researchers have indicated that firms' performance improves when they employ MO strategies (e.g., see Shoham et al., 2005; Subramaniam, 2009). Improved performance when using MO strategies seems to occur because firms that employ these strategies are constantly aware of the level of consumer satisfaction and expend great effort to offer high value to their customers, thereby increasing the probability of providing superior value and enjoying profitability advantages over competitors (Narver and Slater, 1990). This scenario is consistent with our findings. Indeed, our results suggest that, on their own, perceived market turbulence and competitive intensity have depressing effects on satisfaction with performance, but taking action in the form of MO strategies helps increase satisfaction with performance.. It thus appears that Korean apparel retailers that employ MO strategies should continue and even expand their use of these strategies, and those that do not employ MO strategies would benefit from findings ways to use these strategies, perhaps with the aid of their trade associations.

As noted above, this study is the first to investigate the effects of environmental uncertainty on Korean apparel retailers' performance and MO strategies and the effect of these retailers' MO strategies on their performance. Research should continue to address these issues because of the dynamic nature of Korean retailing as Korean consumers increase their demands on retailers and can look increasingly to global retailers that operate in Korea and have experience with MO strategies and often have large resources to meet consumer demands. Future studies in this area should include exploration of ways to refine the measures of the research variables that we used. Researchers in the future could also focus on particular systems Korean retailers apply in using MO strategies; however, MO strategies are only part of modern strategic management. Future research on Korean retailers could include investigation of their other approaches to strategic management, such as reengineering and multichannel retailing.

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