

Managing in an Economic Crisis: The Role of Market Orientation in an International Law Firm

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Abstract

This research paper contributes to the understanding of the relationship between market orientation and performance in the context of a law firm during a time of economic crisis. The contribution is twofold, adding to the fairly limited research on market orientation within law firms, and to the limited research on the role of market orientation in times of economic crisis. The findings, from the questionnaire survey and semi-structured interviews within practice groups of a large multinational law firm, conclude that market orientation is important during an economic crisis. Those practice groups with higher market orientation scores withstand the increased turbulence and outperform those practice groups with lower market orientation scores.

Keywords: Economic crisis, market orientation, performance

1. Introduction

A sub-prime crisis in 2007 triggered the credit crunch and caused the collapse of established companies and unprecedented fluctuations in stock, housing and currency markets. Government and central banks then called for internationally coordinated actions. A market situation, with government bailouts, the collapse of household company names, increasing repossessions, as well as unprecedented interest cuts is, without exaggeration, highly volatile and turbulent.

Grewal and Tansuhaj (2001, p.68) argued, with great foresight, that globalization and interconnected markets: “Sooner or later economic crises are going to have a direct or indirect effect on almost every firm.” A crisis is “a low probability, high impact situation that is perceived by critical stakeholders to threaten the viability of the organization” (Pearson and Clair, 1998, p.66).

From a business research point of view, an interesting question is whether or not well-established concepts, such as market orientation’s positive effect on firm performance, hold true for the 2007/2008 economic crisis and the ensuing extraordinary circumstances and severe market changes. This research considers how one law firm operated during this crisis. The focus is on how market orientation, as a strategic factor, gives the different practice groups, within a single firm, different levels of insulation from the market pressures that arise from the crisis. This study compares the different practice groups within this law firm, ascertaining whether or not maintaining a market orientation is more or less applicable during adverse economic conditions. This paper first reviews the general literature on market orientation theory and its links to firm performance, then the literature on market orientation within professional service firms and law firms and finally the literature on market orientation and economic crises. The next section gives contextual information about the case study company, an international law firm. The paper explicates the research methodology and timing of the data collection and then explains the research findings on the relationship between market orientation and performance. The following section provides a more detailed profile of two of the practice groups within the law firm giving a richer and qualitative insight into the quantitative market orientation and performance data. The final section discusses the findings, drawing out the theoretical contribution of this research, the implications for practice and areas for further research.

2. Literature Review

The literature review focuses on market orientation theory, the use of market orientation in law firms, and market orientation in times of economic crisis.

2.1 *Market Orientation Theory*

“The market orientation literature is the closest the marketing discipline has to a theory of the firm that can explain why some firms outperform others” (Von Raaij and Stoelhorst, 2008, p.1265). Market orientation is not a synonym for marketing orientation. Marketing orientation focuses on staff and activities in the marketing function, whereas market orientation is a much wider concept that involves all employees and focuses on the market environment, including customers, competitors, and internal processes (Esteban, Millan, Molina, and Martin-Consuegra, 2002; Gounaris, 2008).

The market orientation concept traces back to the early 1990s when Kohli and Jaworski (Jaworski and Kohli, 1993; Kohli and Jaworski, 1990; Kohli, Jaworski, and Kumar, 1993) and Narver and Slater (Narver and Slater, 1990; Slater and Narver, 1994, 1995) published their market orientation frameworks, analysing and characterizing market-driven organizations. Although their constructs differ around the precise definition and characteristics of market orientation, both approaches propose that market orientation improves performance in the market. This seminal work inspired many scholars to test and analyse market orientation in different sectors (e.g. Appiah-Adu, 1998; Grinstein, 2008; Schlosser and McNaughton, 2007; Shoham, Rose, and Kropp, 2005; Webster, 2005). In a paper reviewing and integrating the contributions to date, Von Raaij and Stoelhorst (2008) conclude that some of the most influential definitions of market orientation share the same strong client-focus. However, they also emphasize different organizational elements, such as the decision-making process (Shapiro, 1988), information processing activities (Kohli and Jaworski, 1990), the business culture as a set of behavioral components (Narver and Slater 1990), the business culture as a set of beliefs (Deshpandé, Farley, and Webster, 1993), the organizational strategy process (Ruekert, 1992), and organizational capabilities (Day, 1994). Table 1 provides a summary of these definitions.

A majority of scholars in this field either use Kohli and Jaworski’s (1990) or Narver and Slater’s (1990) frameworks of market orientation, or an adapted form of their constructs (Langerak, 2003; Shoham et al., 2005). Carrillat, Jaramillo and Locander (2004), amongst others, categorize Narver and Slater’s (1990) framework as the cultural approach to market orientation, which focuses on fundamental organizational characteristics. Narver and Slater’s (1990) market orientation framework, the MKTOR scale, comprises elements of customer orientation, competitor orientation, and inter-functional co-ordination, as well as decision criteria of long-term focus and profitability. According to Slater and Narver (1999), market-oriented firms address both expressed customer needs as well as latent customer needs. In contrast to Slater and Narver (1994, 1995), Kohli and Jaworski (1990) do not define market orientation as a cultural phenomenon, but rather as organizational behaviors comprising the generation of information, dissemination of information, and the responsiveness to information. Their approach, using the MARKOR scale, is a behavioral approach to market orientation (Carrillat et al., 2004).

Authors	Definition
Shapiro (1988, p.120).	An organization is market oriented if “information on all important buying influences permeates every corporate function... [; and] ... strategic and tactical decisions are made interfunctionally and interdivisionally ... [; and] ... divisions and functions make well-coordinated decisions and execute them with a sense of commitment”
Kohli and Jaworski (1990, p.6).	“Market orientation is the organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization wide responsiveness to it”
Narver and Slater (1990, p.20).	Market orientation is “the business culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for customers”
Ruekert (1992, p.228).	Market orientation is the level to which an organization “(1) obtains and uses information from customers; (2) develops a strategy which will meet customer needs; and (3) implements that strategy by being responsive to customer needs and wants”
Deshpandé et al.(1993, p.27).	Customer orientation, which is in this a synonym for market orientation, is “the set of beliefs that puts the customer’s interest first, while not excluding those of all other stakeholders such as owners, managers, and employees, in order to develop a long-term profitable enterprise”
Day (1994, p.37).	“Market orientation represents superior skills in understanding and satisfying customers”

Table 1 Definitions of market orientation

Given the significance of market orientation, many scholars refine the model (Day, 1999; Deshpandé et al., 1993; Matsuno, 2000), discuss antecedents (Carrillat et al., 2004; Kohli and Jaworski, 1990), moderators (Bhuian, Menguc, and Bell, 2003; Kirca, Jayachandran, and Bearden, 2005; Pulendran, 2000), mediating factors (Langerak, 2003), and organizational barriers to developing market orientation (Harris, 2000; Kohli et al., 1993). Different market orientation scales now exist to rigorously test the concept in different situations and under diverse circumstances. For example, scholars apply market orientation theory to organizational functions such as key account management (Workman Jr., Homburg and Jensen, 2003) or sales (Siguaw, Brown, and Widing, 2004). Academic research also focuses on different business sectors including retail firms (Elg, 2002, 2003; Kara, Spillan, and DeShields, 2005; Rogers, Ghauri, and George, 2005) and other organizational orientations, such as entrepreneurial orientation (Atuahene-Gima and Ko, 2001; Bhuian et al., 2003). Cross-cultural studies (Ellis, 2006; Selnes, Jaworski, and Kohli, 1996) examine market orientation in an international context. Other research (Homburg, Wieseke and Bornemann, 2003; Matsuno and Mentzer, 2000) investigates the impact of strategy on market orientation. According to Day (1999), the positive impact of market orientation manifests in superior cost and investment efficiency, employee satisfaction, price premium, sales and revenue growth, and competitive pre-emption.

Cano, Carrillat, and Jaramillo (2004), Grinstein (2008), Kirca et al. (2005), and Shoham et al. (2005) perform detailed meta-analyses on market orientation studies and the impact of market orientation on firm performance. For example, Cano et al. (2004, p.193) provide a meta-analysis of 53 empirical studies on market orientation from 23 countries, across five continents with a combined total sample size of 12,043 respondents, and state: “market orientation is a critical component of business performance and offers evidence of the effectiveness of the implementation of the marketing concept”. Table 2 summarizes the findings, in chronological order, of meta-analyses on market orientation to date.

2.2 Market orientation and law firms

Not much research focuses on the role of market orientation within the professional services sector, although Van Egeren and O’Connor (1998) do publish a study showing a positive relationship between market orientation and performance in service firms. The rise of the professional services sector is a fairly recent development (Hitt, Bierman, Uhlenbruck, and Shimizu, 2006; Muzio and Ackroyd, 2005; Reihlen and Apel, 2007), which may explain why only limited efforts are thus far targeting this specific segment of organizations.

From a systematic literature review on market orientation and law firms, Vickerstaff’s (2000) contribution is the only journal paper specifically focusing on the market orientation of law firms. Using a sample of managing partners of The Legal 500 (the top 500 legal firms in England and Wales; response rate of 32%), and applying Deng and Dart’s (1994) market orientation scale, Vickerstaff (2000) finds that only 17% of the law firms in her survey have a high market orientation, 63% of law firms show a medium market orientation and 20% of the firms have a low market orientation. Law firms with a high market orientation demonstrate consistently high scores across the scale, rather than achieving outstanding performance in one particular area. Law firms generally score highly on customer orientation and long-term profit emphasis, and then on employee orientation and competitor orientation. Vickerstaff (2000, p.357) does not find any significant relationship between market orientation and age of the firm or firm size and concludes: “the level of marketing orientation in legal firms appears to be limited”. Regrettably, she does not discuss the impact of market orientation on law firm performance, which would further enrich the findings.

2.3 Market orientation in an economic crisis

Researchers generally pay little attention to the role of market orientation during an economic crisis (Grewal and Tansuhaj, 2001). Grewal and Tansuhaj (2001) do analyse the role of market orientation and strategic flexibility during the Asian economic crisis in Thailand. They take into account the economic environment and competitive intensity (the degree of competition that a firm faces), demand uncertainty (the variability in customer populations and preferences), and technological uncertainty (the pace and degree of innovations and changes in technology). The definition for strategic flexibility is a firm’s ability to respond quickly to both technological changes and market opportunities to meet the needs of clients.

Authors	Focus/Method	Key findings
Grinstein (2008)	Analysis of 70 empirical studies with a focus on market orientation and its relationship with alternative strategic orientations, such as innovation, learning, entrepreneurial orientation, and employee orientation. The study covers 135 effects.	<ul style="list-style-type: none"> – Strong positive relationship between MO and learning orientation ($r = .64$, $p < .05$), entrepreneurial orientation ($r = .63$, $p < .05$), and employee orientation ($r = .52$, $p < .05$). – Moderate positive relationship between MO and innovation orientation ($r = .40$). – The findings suggest that companies that combine MO with alternative strategic orientations are more likely to perform better.
Ellis (2006)	Analysis of 56 market orientation studies, across 28 countries.	<ul style="list-style-type: none"> – A generic relationship between MO and performance, moderated by measurement and contextual factors. – MO effects on performance depend on market size and the level of economic development. The relationships are stronger in large, mature markets. – The effects are also stronger when using the MARKOR construct.
Shoham et al. (2005)	Analysis of 28 studies from the past 15 years, with a focus on the relationship with performance, esprit de corps, and organizational commitment. The study covers 35 effects.	<ul style="list-style-type: none"> – MO has a positive impact on a firm's performance, organizational commitment, and esprit de corps. – The MO-performance relationship is strongest when using subjective measures, followed by the combination of subjective and objective measures, and then objective measures independently. – No significant difference between the three types of MO scales (Jaworski/Kohli, Narver/Slater, other scales). – The location of the study has a significant impact on the result (USA versus other locations)
Kirca et al. (2005)	Analysis of antecedents (63 effects) and consequences (355 effects) from 114 studies.	<ul style="list-style-type: none"> – Positive relationship between MO and performance, including performance measures such as overall business performance, profits, sales and market share. – Significant positive relationship between MO and top management

Authors	Focus/Method	Key findings
		<p>emphasis, interdepartmental connectedness, marked-based reward systems, and market-oriented training.</p> <ul style="list-style-type: none"> – Significant negative relationship between MO and interdepartmental conflict, centralization, and formalization. – The relationship is stronger in manufacturing companies and when using subjective performance measures. – The use of cost- and revenue-based performance measures (ROA) strengthens the relationship and is stronger in manufacturing companies.
Cano et al. (2004)	<p>Analysis of 53 empirical studies from 23 countries, across five continents and a combined total sample size of 12,043. The study covers 58 effects.</p>	<ul style="list-style-type: none"> – Significant positive relationship between MO and performance across countries, which socioeconomic factors or national cultures (i.e. collectivism) do not influence. – The relationship is stronger when using the MARKOR scale. – Stronger relationship between MO and performance when using subjective performance measures (rather than objective measures). – Stronger correlations between MO and performance in services firms (rather than manufacturing) and not-for-profit organizations.
Langerak (2003)	<p>Analysis of 51 studies between 1990 and 2002 that examines the predictive power of MO and the relationship between MO and business performance.</p>	<ul style="list-style-type: none"> – Using the percentage of positive (68.3%), non-significant (30.0%), and negative (1.7%) direct effects of MO on performance, Langerak describes the direct impact of MO on business performance as equivocal. – Any irregularities are independent from the MO scale (i.e. MARKOR, MKTOR) used. – Single-corporation surveys show the highest number of positive relationships between MO and performance.
Esteban et al.	<p>Qualitative analysis of market orientation</p>	<ul style="list-style-type: none"> – MO improves the results of service companies.

Authors	Focus/Method	Key findings
(2002)	studies focusing on the service industry, covering 23 studies between 1971 and 2000.	–No significant relationship between the different types of services and the variables.

Table 2 Summary of meta-analyses on market orientation

In highly competitive environments, Grewal and Tansuhaj (2001, p.71) believe that market oriented companies are often “locked into institutionalized thinking about competitive behaviors”. Their results suggest emphasizing strategic flexibility and deemphasizing market orientation in conditions of highly competitive market intensity. Market orientation, however, is important in times of high demand and technological uncertainty. As a conclusion, Grewal and Tansuhaj (2001) suggest developing both a market orientation and strategic flexibility with a focus on reactive movements during a time of crisis.

Grewal and Tansuhaj (2001) highlight the need for further research in this area, but few studies address this call. Ottesen and Grønhaug’s (2004) case study on the impact of market orientation is an exception, which reveals that organizations experience a rise in externally initiated interactions when they face turbulent environments. In addition, Naidoo’s (2010) research analyses Chinese small and medium sized manufacturing firms. Naidoo (2010) finds that market orientation can have a positive impact on marketing innovation, which in turn can affect competitive advantage in adverse economic conditions. According to Grewal and Tansuhaj (2001), Naidoo (2010) and Ottesen and Grønhaug (2004), more research will clarify the role of market orientation in an economic crisis.

This paper shows how market orientation affects the performance of a law firm during an economic crisis. The contribution is twofold. First, this research adds to the fairly limited research on market orientation and professional service firms, or more specifically law firms. Secondly, the paper contributes to the limited research on the role of market orientation in times of economic crisis.

3. Case company

The case company in this study is an international law firm with over 2,000 lawyers spanning 25 offices worldwide. The firm provides a comprehensive global service to national and multinational corporations, financial institutions and governments. To retain anonymity, this paper refers to the case study company as LawCo. LawCo’s organizational structure is a matrix design, which divides the firm into practice groups (service lines), sector groups (industries and markets), and regions (see Müller-Stewens, 1999; Scott, 2001).

LawCo comprises eight practice groups, focusing on areas of the technical legal specialization of lawyers, such as competition, corporate, and litigation. To retain the confidentiality of the internal data within this study, the remainder of this paper refers to the practice groups with the aliases PG1 through to PG8. Lawyers typically work within one practice group, although occasionally lawyers may work across two groups. Sector groups divide clients into their industry sectors and run across all practice groups. Sector group membership is optional. The 10 sector groups cover various areas including energy, financial institutions, and automotive. The third dimension of the matrix structure covers the regions in which LawCo has offices:

the United Kingdom, North America, Asia, Continental Europe I (German speaking countries and Central Eastern Europe), Continental Europe II (remaining European countries), and the Middle East. A centralized knowledge management and practice development department carries out vital processes which relate to market orientation, including client relationship management, strategic research, and know-how management. Everyone in the firm, including lawyers, actively captures and shares knowledge (i.e. submitting precedents to the know-how database, participating in team meetings, and sharing knowledge and best practices) and develops their practice (i.e. strategic planning, client relationship management and pitching activities).

4. Methodology

For this research, the data collection period spans from early September 2008, immediately before Lehman Brothers filed for Chapter 11 bankruptcy, through to the beginning of 2009. The economic downturn heavily impacted financial markets, resulting in negative implications for the legal sector. According to Mergermarket (2009), an information provider, the global mergers and acquisition (M&A) market plummeted in 2009. Despite the credit crunch, the financial year 2007/08 (from May 2007 to May 2008) proved a strong year for many United Kingdom (UK) law firms. A brilliant first half cushioned many law firms from the difficult downturn during the second half. The results of the financial year 2008/09 thus paint a clearer picture of the negative impact of the economic crisis on UK law firm performance. These figures show a profit per equity partner (PPP) change on the previous year ranging from +0.6% to -36.6%, with a mean change of -14.2% (Legal Week, 2009) across the top 10 law firms by revenue. Nine of the ten firms show a negative PPP change.

This study follows a mixed method approach, with a sequential explanatory design (Teddlie and Tashakkori, 2003). In particular, the design follows an embedded case study design (Yin, 2009), with the eight practice groups of an international law firm serving as sub-cases. The first hypothesis predicts that market orientation positively impacts the performance of the practice groups, using Hult, Ketchen, Griffith, Chabowski, Hamman, Johnson Dykes, Pollitte, and Cavusgil's (2008) performance measurement framework. This framework distinguishes between financial performance, operational performance, and overall effectiveness. In this study, the financial performance variable is the average profit per partner (PPP) over the past two financial years. PPP is a key indicator in the legal industry and within law firms (Maister, 1993; Scott, 2001; Parsons, 2005). Operational performance derives from the job satisfaction scores of employees and overall effectiveness is a subjective measure of the firm's performance.

This research tests whether market orientation has a positive or negative impact on practice group performance during an economic crisis, in terms of subjective performance, profitability and job satisfaction. This research uses an existing market orientation framework (Jaworski and Kohli, 1993), with adaptations for a professional service firm setting (see Churchill, 1979; Esteban et al., 2002; Kara et al., 2005) and to meet the case study organization's criteria for a shorter questionnaire. Questions cover intelligence gathering, intelligence dissemination and responsiveness behaviors, to provide practice groups' market orientation scores. An additional question, on how partners and senior associates evaluate the group's overall performance over the last two years relative to their main competitors, assesses subjective performance. For operational performance (job satisfaction), respondents answer how satisfied they are with the kind of work they do. The questionnaire is in Appendix 1.

Using an online survey tool and following successful pilot testing and minor adjustments, the questionnaire seeks responses from partners and senior associates within the case company. A total of 367 partners and 191 associates received the questionnaire; representing three quarters of the combined population of partners and senior associates in LawCo. In total, 202 people returned a completed survey, with 189 usable responses (with no missing data), and a response rate of 33.9%. The total response rate of 33.9% is within an acceptable range (36 +/- 13) for top management personnel (Baruch and Holtom, 2008) and exceeds the average response rates of similar types of online surveys within the case company. The response rates for the individual practice groups range from 48.5% (PG7) to 23.2% (PG3), and are therefore also acceptable.

Correlation analysis measures the strength of the relationship between market orientation and three performance variables for the 189 useable responses. Conventional tests (Churchill, 1979), using coefficient alphas and factor analysis, determine the validity and reliability of the measurement instrument. Cronbach's alphas for the market orientation compound (.78), intelligence gathering (.78), intelligence dissemination (.73), and responsiveness (.76) are consistently above 0.7, which suggests that the market orientation compounds are reliable (Nunnally, 1978). Similarly, the tolerance and VIF values in this study are within acceptable thresholds (Kline, 2005), so multicollinearity raises no concerns and is not affecting the statistical model.

In the next stage of the research, the researchers presented the empirical findings to knowledge management and practice development professionals within each of the practice groups of LawCo to build a better and deeper understanding of the results from the survey. The 10 semi-structured interviews provided further insights into market orientation and performance in a professional service firm context during an economic crisis. A detailed analysis of the interview transcripts reveals key themes within and across practice groups and reveals how each practice group, and the law firm overall, approaches market orientation, responds to an economic crisis and performs during this time.

5. Findings

The empirical findings suggest that market orientation positively and significantly impacts on subjective performance and job satisfaction. Although a positive relationship between MO and objective performance (PPP) exists, this relationship is not significant. The results of the correlation analysis are in Table 3.

This paper explores the role of market orientation in times of economic crisis, and the main focus of the findings and discussion sections is therefore on this aspect of the research. The correlation analysis indicates a positive relationship between MO, subjective performance and job satisfaction. Table 4 shows the individual scores for each practice group. These scores show that the relationships are strongest for PG5 and PG7, which have lower than average scores for all three variables and PG6 and PG8, which have higher than average scores for all three variables. For illustrative purposes, the following sub-sections describe practice group 5 (PG5), which has low scores, and practice group 6 (PG6), which has high scores across the variables.

Variable		MO	SP	OP	JS
Market Orientation (MO)	P.	1,00			
	Correl.				
	Sig.				
Subjective Performance (SP)	N	189			
	P.	,37**	1,00		
	Correl.				
Objective Performance (OP)	Sig.	,00			
	N	177	177		
	P.	,09	,33**	1,00	
Job Satisfaction (JS)	Correl.	,22	,00		
	Sig.	,189	,177	,189	
	N	,32**	,23**	,05	1,00
	P.	,00	,00	,56	
	Correl.	,175	,171	,175	,175
	Sig.				

Table 3 Outcome of correlation analysis

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Practice Group	Market Orientation Score	Subjective Performance Score	Job Satisfaction Score
P1	4.46	6.41	5.48
P2	4.56	5.66	5.63
P3	4.47	5.87	5.75
P4	4.8	5.64	6.09
P5	4.3	4.6	5.31
P6	4.66	5.71	6.33
P7	4.51	4.94	5.69
P8	4.52	5.86	5.85

Table 4 Questionnaire mean scores by practice group

5.1 Practice Group 5

PG5 is a medium-sized practice group with more than 400 lawyers unevenly spread worldwide. The credit crunch and the subsequent financial crisis severely affected this practice group. Many of LawCo's clients could not carry out their usual level of transactional activity. Given the nature of its practice and a lack of market orientation, the group could not effectively mitigate the challenges from economic turbulences. The practice group's financial figures show a medium rise in revenues, but a consistently high increase in profitability. The subjective performance measure (4.6), however, is the lowest of all practice groups.

In line with the subjective performance measure, PG5's job satisfaction score (5.31) is the lowest among the practice groups. This practice group achieves the lowest market orientation (4.3), intelligence gathering (4.56) and responsiveness (4.25) scores. The intelligence dissemination score (4.05), however, is average. The interviewee states that the decentralization of practice groups may have an impact on their market orientation scores:

“I am not surprised that practice group size does not lead to significantly different market orientation scores. The large practice groups tend to have sub-teams, which are of similar size to smaller and medium size practice groups. This is why the results may be similar. The sub-teams are focused on their sub-team rather than the bigger practice group. This practice group is split into teams and sub-teams, which leads to a lack of community sense. Some fee earners may feel isolated. I think this has to do with the team dynamic in human organizations” (PG5-IV).

The interviewee points out that the intelligence dissemination scores are generally lower than intelligence gathering and responsiveness scores across the practice groups:

“The low intelligence dissemination scores across all practice groups can be explained by the perception among senior associates that they are not being kept in the loop and that important, more reliable information is kept among partners. These are common complaints, but I doubt whether this perceived imbalance is true. Of course, highly sensitive information regarding clients or the firm’s strategy is kept among partners or the senior management. In reality, however, the vast majority of information including important confidential information is shared among fee earners and where necessary also between business services functions.” (PG5-IV)

Other practice groups report less integration, which affects their market orientation and ability to disseminate market information within the group. They feel that the current poor economic conditions exacerbate this situation and result in a decline in performance. For example, practice group 8 says that they tend to focus more on legal issues than market knowledge and this focus is not helpful during a crisis. Despite the problems with low market orientation and performance scores, some benefits arise from the crisis period. For example, PG5 now finds the time to improve internal processes, which may result in stronger future performance and survival in future crises:

“The practice group has been badly hit by the economic crisis. The survey was taken deep in the crisis. Rather counter-intuitive, the crisis and the uncertainty in the market triggered new and better processes regarding knowledge generation and knowledge sharing” (PG5-IV).

5.2 Practice Group 6

PG6 is a small-sized practice group with 120 lawyers. The practice group concentrates strongly on Europe, in particular the UK and German markets. Although the financial indicators only show a medium rise in revenues, profitability rose consistently over the previous three years. The group’s subjective performance scores (5.71) are above average. The interviewee highlights that economic developments can impact practices in diverse ways:

“Market developments can have different effects on partners, even within smaller practice groups. Many partners have developed an expertise in specific areas of the law and sector knowledge with strong personal client relationships. Even the market for smaller practice groups leaves enough room for partners to find a niche where they can develop a reputation in the market. These niches are usually not equally impacted by economic downturns.” (PG6-IV).

Similar to other interviewees (PG2-IV and PG5-IV), the respondent flags the relationship between smaller and larger practice groups:

There are no huge differences between smaller and larger practice groups since smaller practice groups deliver support services for the larger groups and are frequently linked into the communications processes. Many smaller practice groups are too strongly aligned with larger practice groups, but they should be more agile. (PG6-IV).

PG6 leads the job satisfaction scores (6.33). The interviewee believes that the explanation is recent changes in strategy and product mix:

“We have managed to find a balance between support work for the larger practice groups and maintaining our standalone practice. This was a key issue within the group that caused concerns and that we addressed openly. We have got a clear strategy now, which is characterized by a large portfolio and a healthy mix between support work and standalone work. This clear strategy led to an increased self-confidence and less uncertainty. The satisfaction within the team was sharply increased and also appreciated by the group’s clients”. (PG6-IV).

The practice group achieves the second highest market orientation score (4.66) and the highest intelligence gathering score (5.2). The intelligence dissemination score (3.9) is average, but the group’s responsiveness score (4.9) is high.

“The increased self-confidence may have also played a role in the relatively high intelligence gathering scores. Fee earners tend to take the initiative when it comes to acquiring market intelligence”. (PG6-IV)

“PG4 and PG6 are early adopters of the wiki technology – a web platform for easy and quick internal communications. Both teams also focus strongly on market intelligence rather than only legal information.” (Centr3-IV)

Practice group 4 also performed better in the crisis. They attribute their performance to a higher market orientation and to disseminating market and competitor information quickly around the group. The challenging times enable their lawyers to become more prominent within the firm, which improves job satisfaction and performance. They also feel that their clients perceive that they are a joined-up team, which differentiates them in the market during the crisis. LawCo passes its market knowledge on to their clients, which in turn enables these clients to perform better during a crisis.

6. Discussion and Conclusions

The findings of this research add to existing literature on market orientation, professional service firms, and economic crises. Previous research into market orientation relies heavily on quantitative rather than qualitative or mixed research methods (Kirca et al., 2005). Given the mixed method approach taken in this research, the in-depth case study of a single law firm, with multiple embedded sub-cases, provides new and unique insights into market orientation during economic crises.

From the questionnaire survey on market orientation and performance, the findings from this research are broadly similar to previous studies and meta-analyses. Within LawCo and its individual practice groups, a strong and positive correlation exists between MO and subjective performance. This finding is similar to other research (Cano et al., 2004; Esteban et al., 2002; Grinstein, 2008; Kirca et al., 2005; Shoham et al., 2005; Van Egeren and O'Connor, 1998). However, just as Cano et al. (2004) find, the relationship is stronger for subjective performance measures than for objective performance measures in LawCo. So, the conceptualization of the performance measure can affect the relationship between market orientation and performance. Market orientation has a significant positive impact on subjective performance and job satisfaction, but no significant relationship with the objective performance measure using average profit per partner (PPP).

Vickerstaff (2000) surveys market orientation (MO) in law firms and finds that most of the top 500 firms (63%) have medium market orientation scores. LawCo also has a medium market orientation score. The quantitative data in this survey provides market orientation scores for the individual practice groups within LawCo as well as for the firm overall. The findings show that those practice groups with lower MO scores do not perform as well during the economic crisis as those with higher MO scores. This finding is different to Grewal and Tansuhaj's (2001) study, which shows that market orientation is counter-productive in times of crisis and results in lower firm performance.

The semi-structured interviews within each practice group explore some of the reasons for these quantitative findings. Within this paper, a discussion of two practice groups, one with low and one with high scores, illustrates some of the differences in approach to market orientation across the firm. The practice group with the lower MO scores and lower performance scores (PG5) finds that the increased market turbulence and uncertainty improves their intelligence gathering and intelligence dissemination behaviors and processes. Their low market orientation causes problems during this period and PG5 now feel that monitoring the market closely to gather and use market intelligence during turbulent times is necessary. PG5 has a low responsiveness score. The low responsiveness score may be a factor in PG5's inability to respond to the changing market conditions quickly, which supports Grewal and Tansuhaj's (2001) recommendation that firms should emphasise strategic flexibility and responsiveness in times of crisis. PG6 focuses strongly on market intelligence but also on responsiveness, which navigates them through more turbulent market conditions. These findings support Ottesen and Grønhaug's (2004) conclusions from their case study into market orientation in turbulent environments. Ottesen and Grønhaug (2004, p.969) discover that during times of turbulence, companies may experience an increased number "of externally-initiated interactions by different types of market actors focusing on a range of different issues". Companies thus need to react to these kinds of disturbances, which requires an increased responsiveness on a broad level. Interviewees at LawCo highlight that clients actively request the firm's view on market developments and the regulatory environment, which can increase information gathering and information dissemination activities and processes.

One interviewee notes that although the economic crisis affects nearly all sectors and regions, the impact on individual practice groups and partners may be quite different. Not only do some practice groups specialize in legal areas that may be of a counter-cyclical nature, but also partners become highly specialized either in a specific subject area or sector, with a

unique portfolio of clients. This combination of technical specialism and client mix can act as a counterbalance within a practice group or region.

6.1 Implications for Practice

From the quantitative and qualitative findings in this research, market orientation does play an important role in law firms, which is a similar finding to other studies. This study also shows that market orientation is increasingly important in times of crises or increased market turbulence. A key recommendation arising from this study is that managers should actively foster market-oriented behaviors. In addition, the findings show that market oriented behaviors that relate to intelligence dissemination rank lower than those that relate to intelligence gathering or responsiveness. Senior associates of LawCo indicate that they receive less information than they may require for carrying out their tasks. In times of economic crisis, this can be very detrimental to performance. The results suggest that a lack of interdepartmental communication predominantly causes the lower intelligence dissemination ranking, although in larger practice groups a lack of intradepartmental communication may be an issue too. Investments in improving interdepartmental communications, as well as intelligence dissemination between the sub-groups of larger practice groups, should improve an organization's market orientation, which in turn improves performance and job satisfaction.

Responsiveness is the highest scoring market orientation compound. Responsiveness has the biggest impact on the subjective performance and job satisfaction measures. Given its importance, managers of professional service firms should look into this particular area as a means of improving performance. As well as gathering and disseminating market intelligence, they need to develop decision-making processes, which allow them to react to the intelligence in a timely manner, especially in turbulent market conditions.

In conclusion, the findings from this research suggest that a more market-oriented firm can respond to adverse economic conditions and so limit the impact on performance. They are more likely to seek and act on market information early. They can develop more niche markets, which spread the risk across their portfolio of activities. They can pass their knowledge gains from market-oriented activities to their clients, which in turn enable these clients to perform better during economic crises as well.

6.2 Limitations and Further Research

This study contributes to research on market orientation and addresses particular gaps in relation to the implementation of market orientation and the role of market orientation during an economic crisis in the context of a professional service firm. This study explicates specific relationships between market orientation and performance within a professional service firm. Using a literature review and a mixed-method research design, the findings project conclusions beyond the specific case of LawCo (see Miles and Huberman, 1994). Besides its contribution, some of the limitations within this research provide potential avenues for further research.

The collection and in-depth analysis of a large amount of multi-level data, including surveys, interviews, and internal documents, is a key strength of this study. The access to this level of confidential data is only possible from working closely together with one law firm, which may influence some of the findings. Although the structure of LawCo is characteristic for the legal industry, future research should examine the cross-industry stability of the results. Some strategies, activities, or processes, for example, may be firm specific, rather than industry

standards. The interview findings suggest that other factors besides those relating to market orientation may be important. Further research should assess the influence of other factors, such as technical specialism and client mix in terms of how well organizations can manage economic crises and turbulence.

Since the main unit of analysis of this study is practice groups within a single law firm, an analysis of the role of organizational or national culture in relation to market orientation is not feasible. Several scholars (Ellis, 2006; Homburg and Pflesser, 2000; Singh, 2004; Slater and Narver, 1995) highlight the potential importance of culture in this context. Shoham et al. (2005) state that the location of the study has a significant impact on market orientation. Similarly, Kirca et al. (2005) conclude that the relationship between market orientation and firm performance is stronger in low power distance and uncertainty-avoidance cultures. Ellis (2006) finds that measurement and contextual factors, such as market size and the level of economic development, moderate the relationship, which explains why the relationships are stronger in large, mature markets. Although Cano et al. (2004) find that socioeconomic factors or national cultures do not influence the significant positive relationship between market orientation and performance across countries; future studies should take these factors into account.

The findings on market orientation suggest that responsiveness plays a key role in professional service firms. Future research should therefore study responsiveness to further understanding of this particular aspect of market orientation. Similarly, using the findings of this study, researchers should investigate the role of direct client contact on market intelligence gathering, as well as how to improve intelligence dissemination within professional service firms.

Finally, this study finds differences in the relationship between market orientation and objective and subjective performance measures. Further research should take care not to rely on a single aspect of performance and strive, where possible, to include both subjective and objective measures.

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Appendix 1: Questionnaire (with adaptations for LawCo)

Final version after pilot. Initial draft using Kara, Spillan, and DeShields's (2005) adapted version of the MARKOR questionnaire.

Intelligence Generation

Select from 'strongly disagree' to 'strongly agree' (1-7)

1. Individuals from our practice group interact directly with clients to learn how to serve their needs better.
2. In our practice group, we do a lot of in-house market research.
3. We are slow to detect changes in our client's product/service preferences.
4. We are slow to detect fundamental shifts and trends in our industry such as competition, technology, and regulation.
5. We periodically review the likely effect of changes in our business environment, such as market developments, regulations and technology, on clients.

Intelligence Dissemination

Select from 'strongly disagree' to 'strongly agree' (1-7)

6. A lot of informal talks in my practice group concern our competitors' tactics or strategies.
7. We have interdepartmental meetings at least once a quarter to discuss market trends and developments.
8. Our practice group periodically circulates documents (for example, reports and newsletters) that provide information on our clients.
9. We periodically review our product and service development efforts to ensure that they are in line with what clients want.
10. When something important happens to our top tier clients, the whole practice group knows about it within a short period.
11. When one practice group finds out something important about competitors, it is slow to alert other practice groups or functional departments.

Responsiveness

Select from 'strongly disagree' to 'strongly agree' (1-7)

12. It takes us forever to decide how to respond to our competitors' price changes.
13. In our practice group, principles of market segmentation drive new product and service development efforts.
14. For one reason or another we tend to ignore changes in our clients' product/service needs.
15. The products and services we market depend more on internal considerations than real market needs.
16. If a major competitor were to launch an intensive campaign targeted at our clients, we would implement a response immediately.
17. The activities of the different practice groups in this firm are well coordinated.
18. Even if we came up with a great marketing plan, we probably would not be able to implement it in a timely fashion.
19. When we find out that clients are unhappy with the quality of our service, we take corrective action immediately.
20. When we find that clients would like us to modify our services or processes, the departments involved make concerted efforts to do so.

Performance

Select from 'Much worse than our competition' to 'Much better than our competition' (1-7)

21. Please evaluate your practice group's overall performance over the last two years relative to your main competitors.

Job satisfaction

Select from 'To no extent' to 'A very great extent' (1-7)

22. I am generally satisfied with the kind of work I do in my job.