Market Orientation -Transforming Trade and Firm Performance

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Abstract

This paper examines the role of market orientation on trade and firm performance. Recent studies conducted in the United States and Europe have shown significant evidence of the relationship between market orientation and business performance. Kohli and Jaworski's empirical work has provided the critical first steps in the examination of market orientation theory. The overall aim of the research reported in this paper was to build on this limited body of literature and provide a conceptual model. Market orientation focuses on a business culture producing superior value to customers and outstanding performance for the firm leading to growth and benefits for trade. The findings of the study suggest market orientation is positively related to business performance. Secondly, firm performance can dramatically improve output, which can result in expanded markets and trade. The implications of this study for future research include the findings that market orientation is a reliable construct which has now become a necessary strategic direction for change in all organization and institutions.

Keywords: Market orientation, Market driven, Marketing, Strategic marketing

1. Introduction

With increasing economic trade liberalization and growing interdependence of national economies for trade have created a growing interest among academic researchers and business practitioners to study the issue of market orientation on trade and firm performance. Many authors have argued the marketing facilitates trade, including Schneider (2005) who argues that with a market driven approach to trade exposes domestic firms to the best practices of foreign firms and to the demands of discerning customers encouraging greater efficiency. Trade gives firms access to improved capital inputs such as technology, equipment and expertise, boosting productivity and providing new opportunities for growth and development. Theoretically, market orientation is defined as the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of intelligence across departments, and organization-wide responsiveness to it (Kohli & Jaworski, 1990). Market orientation is thus seen as these three dimensions: (1) intelligence generation, (2) intelligence dissemination, and (3) responsiveness. Intelligence generation refers to monitoring customer needs and preferences, as well as analyzing how they might be affected by factors such as government regulations, competitors, technology, economics and other environmental factors. Intelligence dissemination refers to the transfer of this intelligence to everyone within the organization, and responsiveness means the action the organization takes in response to the intelligence that is acquired and disseminated (Raju, Lional, & Gupta, 1995).

2. Literature Review

Ellis (2005) argues that the marketing concept is universal construct when measured in terms of specific business activities and institutions with a market orientation tend to perform better in trade. Ellis (2004) said that market orientation will also be affected by the size and level of development of the host market.

"Market orientation" as a term and as a process has grown from the earlier terms "marketing philosophy" and "marketing concept." It was defined by Kohli and Jaworski in 1990 as the implementation of the marketing concept towards a market driven approach. Kohli, Jaworski and Kumar (1993) further developed the structure of marketing orientation as an aid to improve the business performance of firms, mostly in the private sector. Their work is essentially based on the developed economies of North America, but it has extensive applications in emerging economies that are now becoming market driven, as well as in large public sector companies all over the world as they move towards privatization. If its principles and conclusions are modified suitably to suit those environments, market orientation can play an important role in both the public and private sector.

Market orientation is essentially the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of this intelligence across departments and organization-wide responsiveness to it (Kohli & Jaworski, 1990). To emphasis the focus on the entire organization, Kohli and Jaworski are careful to distinguish "market orientation" from "marketing orientation," because according to them, the latter tends be limited to the marketing department. Some of the important and relevant conclusions arrived at in this study are:

- The greater the market orientation of an organization, the higher its business performance
- The greater the market orientation, the greater the espirit de corps, job satisfaction and organizational commitment of employees
- The greater the market orientation, the greater the customer satisfaction and greater the repeat business from customers

An early mention of "market orientation" appeared in the work of Wadinambiaratchi (1972), who recommended a basic change in thinking among the government and business segments of society. Specifically, he proposed a two-pronged approach: at the operational level, a widespread education of businessmen in marketing principles, and at the higher levels of government, the imposition of a "market orientation" upon operators of plans and policies for the improvement of the entire marketing sector of the economy. Later, a 1977 study by Kotler proposed ways of measuring marketing effectiveness. The activities he measured include those commonly included in the marketing concept: customer orientation and the integrated efforts of all-company orientation; he used the term "marketing orientation" to describe the outcome.

Payne, however, while citing this study of Kotler, referred to marketing orientation and market orientation interchangeably in his own work (Payne, 1988). Shapiro explained that marketers adopting the marketing concept are market-oriented, and he noted a difference between market orientation and marketing orientation (Shapiro, 1998). The literature up to this point interpreted embracing the marketing concept as control of the firm by the marketing department. Thus, a firm was seen as having adopted the marketing concept when the marketing function had become the dominant function in the organization, which was primarily concerned with marketing strategy and the design of the marketing mix (Wind & Roberston, 1983; Ruekert, Walker, & Roering, 1985; Webster, 1992). The marketing-oriented firm, according to Shapiro (1998) is not to be confused with a market-oriented enterprise that completely understand its markets and the people who decide whether to buy its products or services. Additionally, Zeitman (1988) noted that market-oriented firms make well coordinated strategic and tactical decisions based on the customer's definition of value and market analysis.

Kohl and Jaworski's field observations confirmed the presence of three pillars in the foundation of market-oriented firms, although with slight modifications. For example, while all interviewees agreed on customer focus as the principal element of market orientation, comments suggested that having a customer orientation meant acting on marketing intelligence as well as on stated customer opinion. They found that coordinated marketing, the second pillar, applies only when it is related to market intelligence. The third pillar, profitability, was found to be a result of market orientation, rather than a part of it. Additionally, they discover a need to change the term "marketing orientation" to "market orientation" in order to involve all company departments acting on market intelligence, not just the marketing department. The end result is the following definition: "Market orientation is the organization wide generation of market intelligence pertaining to current and future customers needs, dissemination of the intelligence across departments and organizations wide responsiveness to it." (p. 6).

Narver and Slater built their concept of market orientation on Day and Wensley's 1988 description of the key elements of competitive advantage, of which one is a balance of customer-focused and competitor-centered methods. In a subsequent study, they stated, "A market orientation is an externally focused business culture that makes creating superior value for buyers its top priority" (Slater & Narver, 1994, p. 27).

In a 1993 study, Jaworski and Kohli reviewed the four most common definitions of market orientation, from the work of Narver and Slater (1990), Kohli and Jaworski (1990), Deshpande, Farley, and Webster (1993) and Day (1994). They then proposed their own updated working definition as "the organization wide generation, dissemination, and responsiveness to customer and competitor intelligence," noting that it captures "the essence of the behavioral perspective" employed by the previous authors (122).

More recently, Kaynak and Hudanah (2001) suggested five stages of marketing development in a business organization. The first stage consists of small firms, characterized by a general manager or president, relatively few workers, and no clear delineation of specialized functions. Marketing does not exist at this stage, but the elements of selling are present. In the second stage, firms tend to establish separate departments for their functions, like production, personnel and finance. Marketing staff are still absent, but a sales manager may be appointed. In stage three, with an increase in production, sales problems begin to emerge and a marketing concept/department begins to emerge, which combines most of the modern activities of marketing in their elementary form. In the fourth stage, one sees the first signs of "market orientation" emerging, and a full-fledged marketing department finds its place in the firm. In the final, fifth stage, the management realizes what "market orientation" promises for the fulfillment of overall corporate objectives, and thus marketing becomes the basic driving force for the entire firm as seen in all multi-national organizations.

In a brief paper on marketing and economic development, Bartels (1981) refers to the agencies whose thinking must change before marketing can make its contribution to trade. He also indicates the means for achieving this goal, and the levels at which this "market orientation" must take place: at the operational level, by the widespread education of personnel in marketing principles, and at a higher administrative level, through imposition upon operators of plans and policies for improvement of the entire organization.

3. Theoretical Conceptual Framework

The opportunity now for additional research in marketing' orientation is to develop a conceptual framework for how market orientation can improve trade and firm performance. These findings have important implications for the way marketing can be used effectively to realize their public-policy objective of promoting trade. The issues of marketing's role in society can be studied at three levels: the government level, the multinational level and the commercial sector level.

The conceptual model developed here illustrates relationships between variables and the outcome of expanded market and firm performance This model shows asymmetrical relationships, where changes in one variable, the independent variable, are responsible for changes in another variable, the dependent variable (Cooper and Schindler, 2001).

The conceptual model shows relationships between variables and the Outcome, increase trade and firm performance

Please insert Figure 1 here

3.1 Market Orientation and Profitability

On the issue of the relationship between market orientation and profitability, there are somewhat differing views in the literature. By and large, the literature suggests that the overriding objective in a market orientation is profitability or economic wealth (Felton, 1959; McNamara, 1972). Although in 1990, Kohli and Jaworski felt that profits were a component of market orientation; as a result of their fieldwork, they later modified their concept somewhat to say that profitability is a consequence of market orientation. Narver and Slater (1990), however, take a compromise position and hold that profitability, though conceptually closely related to market orientation, is appropriately perceived as an objective of a business. For nonprofit organizations, the objective analogous to profitability is survival, which means earning revenues sufficient to cover long-run expenses and/or otherwise satisfying all key constituencies in the long run (Kotler & Andresen, 1987).

Regardless of variation, clearly, the underlying theme in market orientation is revenue and profitability. This is as applicable to private businesses as it is to public organizations. This is so, primarily, because no business or enterprise can survive unless it generates enough revenues or profits to pay for its functioning and for its long-term growth or modernization. Beyond the survival and growth levels, the amount of profit made, for stakeholders, is a matter of detail and does not alter the basic concept of earnings/profits being an important goal for any enterprise.

In the context of the relationship between market orientation and profitability or business performance, Narver and Slater (1990) make another important point. They deduce from their research that businesses having the highest degree of market orientation are associated with the highest profitability. However, none of these businesses have attained the maximum possible market orientation score. Are these businesses now in equilibrium or are they continuing to increase their market orientation? According to these authors, it is possible that at some point the incremental costs of increasing market orientation will exceed the incremental benefits. This is an important deduction in the study of market orientation's effect on profitability and growth of a business.

3.2 Firm Performance

There is a large body of research that asserts a positive relationship between market orientation and organizational performance. There has also been a great interest in market orientation as an intangible factor that has an effect on organizational performance (Homburg, Krohmer, & Workman, 2004). Market orientation is a business culture that produces performance by creating superior value to customers (Slater & Narver, 2000). Kohli and Jaworski (1990) argued that organizations must innovate in every aspect of their business operations in order to compete and survive in a competitive marketplace. They provided an interpretation of the marketing concept which led to a market orientation. They defined market orientation as the organization-wide generation of market intelligence pertaining to the current and future needs of customers, dissemination of intelligence across departments and the organization-wide responsiveness to it. Slater and Narver found a positive relationship between market orientation and business profitability where market orientation was primarily concerned with learning from various forms of contact with customers and competitors in the market.

Slater and Narver's earlier findings (1995) suggested that a market-oriented culture is the prerequisite to developing a set of core competencies that will lead to a sustainable competitive advantage. Webster (1992) supported this concept, stating that "marketing as culture is a set of values and beliefs about the central importance of the customer that guide the organization, is primarily the responsibility of leadership" (p.10). Deshpande (1993) suggested that a company's customer orientations and organizational culture determines its business performance. Slater and Narver (2000) focused on the values and beliefs that a market orientation approach encourages, such as the continuous cross-functional learning about customers' needs, expressed and latent, and the development of competitive capabilities and strategies.

There has also been increasing interest in the use of market information for strategic purposes. Choe (2003) argued that external factors, such as competition, uncertainty and needs, are the driving forces for strategic applications and provide a competitive advantage when understood and applied effectively can improve trade. Despite an increase in research and the growing importance of market orientation in both domestic and foreign trade there are few comparative studies have been done regarding global companies. This limits the understanding of the importance and need for understanding how marketing is carried out in these markets.

4. Conclusion

This research study was valuable in highlighting the benefits of market orientation. By recognizing the limitations and shortcomings of this research study, future researchers can benefit by reconsidering aspects where necessary and taking corrective procedures if appropriate. The findings suggest that developing free market business practices in connection with market orientation can provide economic returns including expanded markets and trade. The study suggests that the concept and principles of market orientation have validity and applicability for all markets. Practitioners should feel comfortable applying the principles of market orientation because they will enhance performance both for the firm and the economy. The need for performance measures that truly describe market-oriented behaviors and business performance was demonstrated by this research study. To satisfy this need, additional qualitative and quantitative research is required for further developments in marketing.

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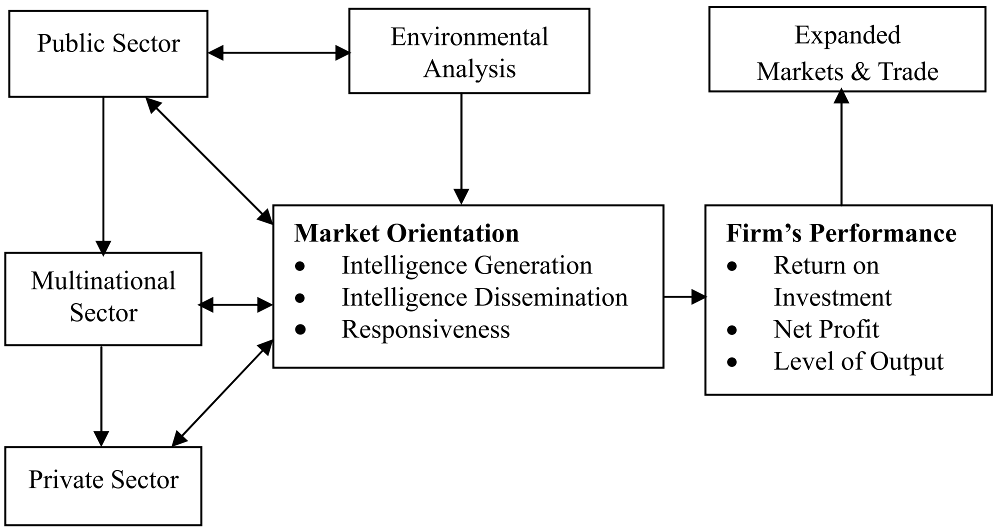

Figure 1. Conceptual model

Source: Developed by the Author (Dr. Rodney Oudan)