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ARE MALTESE FIRMS MARKET ORIENTED, AND DOES IT MATTER?

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INTRODUCTION

In recent years, there has been a revival of interest in market orientation and what it involves. While its importance has been relentlessly expounded by business schools, underlying, as it does, any marketing course, there have been fewer attempts to define the construct, and delineate what market orientation really means. Furthermore, while it is held that one of the major reasons for its importance is that the market orientation of a firm results in improved business performance, this link appears to have had little empirical support. What little confirmation there is, comes from the U.S.A (Jaworski and Kohli 1993; Narver, Park and Slater 1990; Narver and Slater, 1990; Reukert, 1992) In this study we seek to further investigate the market orientation – business performance link and report the results of a study, from a cross-section of firms in Malta.

ON MARKET ORIENTATION

The *market* oriented firm is one which successfully applies the marketing concept. The term 'market' oriented is to be preferred to 'marketing' oriented as this highlights its organisation-wide application (Kohli and Jaworski, 1990; narver and Slater, 1990; Shapiro, 1988). On the other hand a *marketing* orientation is seen to be specific to the activities of the marketing department or division. McGee and Spiro (1988) hold that the marketing concept can be defined in three ways: as a *philosophy,* as a *concept* and as currently *implemented.* Much of the confusion over the years in defining marketing and in the understanding of the marketing concept results from a failure to make these distinctions between marketing as a culture, as a strategy, and as atactic. Each of these dimensions is the responsability in the organisation of the corporate, SBU and operational level, respectively (Webster, 1992).

Market orientation as a philosophy

There is broad agreement that market orientation as a philosophy consists of three core aspects (Kohli and Jaworski, 1990; Kotler, 1991; McGee and Spiro, 1988; Runyon, 1980). These are:

(a) *Customer orientation.* This essentially requires an understanding of the psychological and social factors that determine the customer's action. Such an understanding enables the marketer to ask the market research questions that enable the identification of core needs which in turn will give clear direction to basic research. This is essentially Levitt's (1960) argument against 'marketing myopia', and the necessity for firms to identify the basic customer needs that they serve, and define their business accordingly.

(b) *The integration of effort.* This enables the firm to provide the value to meet customer needs. It involves the need to co-ordinate effort in terms of the elements of the marketing mix for each product. Moreover, because the market orientation is an organisation-wide prescription, it is necessary that the whole firm is organised and co-ordinated in the service of the customer.

(c) *Organisational objectives (or, in the case of business firms, profitability).* In adopting the marketing concept the organisation seeks to serve customer needs in order to meet its requirements for achieving objectives/profit. This is essential for long-term survival. Market orientation, from the beginning, was formulated with a view to providing the organisation with long-term direction (Felton, 1959; McGee and Spiro, 1988; Webster, 1988; Narver and Slater, 1990). Many managers however, especially in Western firms, must balance this against the demands they face for short-term performance. To these three core aspects of the marketing philosophy, Kotler (1991) also adds 'market focus' and appears to imply that a segmentation policy is a must. However, in certain circumstances an undifferentiated offering can represent an exemplary use of the market concept (Houston, 1986).

Market orientation as a construct, and its operationalisation

Kohli and Jaworski (1990) have contributed by providing an operational definition for market orientation as a construct. In their study, they do this by comparing the three core elements of market orientation as a philosophy, to the perceptions of practising managers. Their work enabels them to offer the following:

> "Market orientation is the organisation-wide *generation* of market intelligence pertaining to current and future customer needs, *dissemination* of the intelligence across departments and organisation-wide *responsiveness* to it".

Market intelligence is seen to be not just based on 'verbalised customers opinions' but 'a broader concept' in that it includes consideration of (1) exogenous markets factors (e.g. competitors, regulation) that affect customer needs and performance and (2), current as well as future needs of customers.

Grönroos (1991) recognises the need for a firm to have a strong information system especially in the case of those 'in a relationship marketing situation'. Recent work by Jaworski and Kohli (1993), following the approach suggested by Churchill (1979), utilised the market intelligence related activities of their definition to develop just such a measuring instrument for market orientation. The alpha coefficients (Cronbach, 1951) reported for each subdivision of this instrument are greater than 0.70, and are therefore acceptable for theory development (Nunnally, 1978). At least three other scales for measuring market orientation based on different emphasis in their conceptualisation of market orientation as a construct have also been developed (Deshpandé, Farley and Webster, 1993; Narver and Slater, 1990; Reukert, 1992).

Market orientation as implementation

The level of market orientation of a firm depends on the degree of implementation of the marketing concept. The significant criticism the marketing concept has received (Hayes and Abernathy, 1980; Kaldor, 1971) appears to have been a problem with implementation (Houston, 1986; McGee and Spiro, 1988; Webster, 1988). Perhaps this is because it appears that there has been no complete agreement as to what constitutes market orientation. What is often implemented in the name of a market orientation may therefore differ considerably. It is thus not surprising that Kotler (1991, p. 22) asks:

> "But how many companies have actually implemented the marketing concept? The answer is too few. Only a handful of companies really stand out as master practitioners of the marketing concept..."

When the product offering cannot or will not be changed, a market orientation is difficult to implement. In such cases as religion, art, and ideology, where profit is not a concern, some of the tools of marketing can be used, but the fixed nature of the product or offering, limits manoeuvrability. Hirschman (1983) has investigated artists and ideologists and suggests that a study of the exchange process and the value transfers involved, could help build a modified marketing concept.

THE MARKET ORIENTATION – BUSINESS PERFORMANCE LINK

SBU's in some U.S. firms are reported to exhibit a direct link between their levels of market orientation and performance (Jaworski and Kohli, 1993; Narver, Park and Slater, 1990; Narver and Slater, 1990; Reukert, 1992). Deshpandé, Farley and Wbster (1993) also confirm this relationship in Japan. Until recently this linkage appears to have been taken for granted by both academics and practitioners (Houston, 1986; Kotler, 1991; McGee and Spirto, 1988; Webster, 1988; Kohli and Jaworski, 1990). In investigating the market orientation – business performance link, Kohli and Jaworski, (1990) saw this as being influenced by four moderators, namely: market turbulence; technolgical turbulence; competitive intensity; and performance of the economy. However, their subsequent work found the link to hold irrespective of the first three variables (Jaworski and Kohli, 1993). Narver and Slater (1990) identified nine moderators on the market orientation – business performance link, to which Narver, Park and Slater (1990) add a further moderator. Dobscha, Mentzer and Littlefield (1994) argue that external factors may have an effect on market orientation itself rather than simply acting as moderators on the market orientation-business performance link. The work of both Narver and Slater, and Jaworski and Kohli only confirm the relationship between market orientation and performance for a number of SBU's in a limited number of U.S firms. However, since the theory establishes a clear link between the market orientation of firms and their achievement of their objectives/profit, it is expected that this relationship should aslo extend to whole companies, in differenct industries, and in different countries and cultures.

MEASUREMENT INSTURMENTS USED, SAMPLE AND RESPONSE RATE

To be able to investigate the relationship between market orientation and performance in the studies described here, two measuring instruments were used. MARKOR, which is a 20 item insturment developed by Kohli, Jaworski and Kumar (1993) was utilised to measure market orientation. A change, however, was that a seven point instead of a five point Likert-type scale was used. Such a change should help reliability (Churchill and Peter. 1984) and has no effect in a factor analysis (Barnes, Daswar and Gilbert, 1994). To measure performance it was thought impractical to expect busy managers to collect actual performance data, even if they were agreeable to divulging such information. Obtaining such data from documentary sources, such as trade and other publications, was not seen to be viable alternative. Dess and Robinson (1984) who looked at the accuracy of such data hold that it is also of minimal use in explaining variation in performance bwtween firms and recommend that researchers consider using subjective perceptual measures of organisation performance. Pearce, Robbins and Robinson (1987) show that such subjective evaluations are reliable means for measuring performance. A Likert scale consisting of three items was used to measure performance. Two of these items sought to measure ROCE and sales growth of the respondent's firm, in the last five years, relative to other companies in the industry; while the third item asked respondents for their impression of their firm's overall performance, in the last five years, relative to others in their industry. Factor analysis revealed the items to be tapping into a unidimensional construct, and so for further analysis, these items were summed to form one overall measure of performance. Finally, one item required respondents to give an overall impression of the level of market orientation of their firms, on a 7-point scale, ranging from 1 = I strongly disagree that this firm is market oriented through 7 = I strongly agree that this firm is market oriented.

Personal interviews were conducted with 200 marketing managers or officers responsible for marketing, across different types and sizes of firms in Malta, using a government register as sampling frame. This resulted in 193 usable replies (or an effective response rate of 96.5%).

HYPOTHESES

Although the main aim of the study was to investigate the market orientation – business performance link a few other aspects were also considered and the following hypotheses were formulated:

H_1: That MARKOR is a reliable insturment for the measurement of market orientation.

H_2: That MARKOR possesses convergent validity for the measurement of market orientation.

H_3: That a firm's market orientation (i.e. the scores obtained on the MARKOR scale) is related positively to a better performance over the past five years than other companies in the industry.

DESCRIPTIVE DATA

Table 1 provides statistics for the MARKOR scale used in the samples. The relatively high levels of market orientation is somewhat surprising but could represent easier intelligence gathering in a small country and quicker intelligence dissemination in what are generally relatively small-sized firms.

TABLE 1 STATISTICS FOR THE MARKOR SCALE

Mean	Variance	Std Dev
104.45	279.08	16.70

Item-to-total correlations are shown in Table 2. The corrected item total correlation for the MARKOR scale obtained from the Malta sample is generally low.

TABLE 2 ITEM-TOTAL STATISTICS FOR MARKOR

ITEM	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Alpha if Item Deleted
1. In this company, we meet with customers at least a year to find out what products or services they will need in the future.	99.62	254.89	0.29	0.21	0.84
2. In this organisation, we do a lot of in-house market research	99.86	248.34	0.50	0.38	0.83
3. We are slow to detect changes in our customers' product preferences	99.16	253.14	0.43	0.47	0.83
4. We survey end users at least once a year to assess the quality of our products and services	99.79	251.82	0.37	0.31	0.83
5. We are slow to detect fundamental shifts in our industry (e.g., competiton, technology, regulation)	99.27	253.10	0.41	0.40	0.83
6. We periodically review the likely effect of changes in our business environment (e.g., regulation) on customers.	99.40	254.04	0.45	0.32	0.83
7. We have interdepartmental meetings at least once a quarter to discuss market trends and developments.	99.24	248.73	0.44	0.45	0.83
8. Marketing personnel in our company spend time discussing customers' future needs with *other* functional departments.	99.66	248.90	0.51	0.46	0.83
9. When something important happens to major customer or market, the whole company knows about it in a short period.	99.11	262.59	0.24	0.34	0.84
10. Data on customer satisfaction are disseminated at all levels in this business unit on a regular basis.	99.77	251.57	0.44	0.42	0.83

TABLE 2 (contd)

11. When one department finds out something important about competitors, if is slow to alert other departments.	99.04	255.31	0.40	0.32	0.83
12. It takes us forever to decide how to respond to our competitors' price changes.	98.97	250.25	0.47	0.44	0.83
13. For one reason or another we tend to ignore changes in our customers' product or service needs.	98.90	252.35	0.49	044	0.83
14. We periodically review our product development efforts to ensure that they are in line with what customers want.	98.77	257.00	0.43	0.33	0.83
15. Several departments get together periodically to plan a response to changes taking place in our business environment.	99.76	245.69	0.55	0.45	0.82
16. If a major competitor were to launch an intensive campaign targeted at our customers, we would implement a response immediately.	98.90	262.49	0.26	0.15	0.84
17. The activities of the different departments in this company are well co-ordinated.	99.08	250.83	0.54	0.43	0.83
18. Customer complaints fall on deaf ears in this company.	98.28	256.47	0.43	0.41	0.83
19. Even if we came up with a great marketing plan, we probably would not be able to implement it in a timely fashion.	99.41	257.39	0.35	0.27	0.83
20. When we find that customers would like us to modify a sercvice, the departments involved make concerted efforts to do so.	98.47	265.57	0.34	0.20	0.83

INSTRUMENT RELIABILITY

The coefficient alphas (Cronbach 1951) obtained for MARKOR and the performance scale, are shown in Table 3. These are all acceptable, and greater than 0.70, (Nunnally 1978). This provides support for H1, namely that MARKOR is a reliable instrument for the measurement of market orientation.

TABLE 3 RELIABILITY FOR SCALES

MARKOR		PERFORMANCE	
Alpha	Standardised Alpha	Alpha	Standardised Alpha
0.8376	0.84	0.75	0.75

VALIDITY

Content Validity. Assessing the content validity of a scale is necessarily qualitative rather than quantitative. It involves two aspects: (a) the thoroughness with which the contsruct to be scaled and its domain were explicated and (b) the extent to which the scale items represent the constructs' domain (Parasuraman, Zeithaml and Berry, 1988). The procedures that have been followed by Jaworski and Kohli (1993) are in line with the recommendations of Churchill (1979) for the development of psychometric marketing scales.

Convergent Validity. Evidence of the convergent validity of a measure is provided by the extent to which it correlates highly with other methods designed to measure the same construct (Churchill, 1979). Regression of the sum of items for MARKOR with a measure of the overall impression of management's perception of the market orientation of their organisation (Tables 4) show an R^2 of 0.24 significant at the $p<0.01$ level. This provides support for H2, namely that MARKOR possesses convergent validity for the measurement of market orientation.

TABLE 4 MULTIPLE REGRESSION (DEPENDENT VARIABLE: OVERALL IMPRESSION; INDEPENDENT VARIABLE: MARKOR)

Multiple R	.49
R^2	.24
Adjusted R^2	.24
Standard Error	14.57

Analysis of Variance

	DF	Sum of Squares	Mean Square	F	Sig F
Regression	1	13036.54	13036.54	61.41	.000
Residual	191	40547.14	212.29		

Variables in the Equation

Variable	B	SE B	Beta	T	Sig T
val	5.996756	.77	.49	7.84	.0000
(Constant)	69.645771	4.56		15.26	.0000

MARKET ORIENTATION AND BUSINESS PERFORMANCE

In order to investigate the link between market orientation and business performance, the sum of the business performance scale was regressed with the sum for MARKOR for the sample. Table 5 shows an R^2 of 0.09. This offers support for H3 which holds that a firm's market orientation (i.e. the scores obtained on the MARKOR scale) is related positively to a better performance over the past five years than other companies in the industry. While the R^2 value is somewhat low, it must be remembered that performance is likely to be effected not just by a market orientation but by a number of other variables including external factors.

TABLE 5 MULTIPLE REGRESSION
REGRESSION (DEPENDENT VARIABLE: BUSINESS PERFORMANCE; INDEPENDENT VARIABLE: MARKOR)

Multiple R	.29607
R^2	.09
Adjusted R^2	.08
Standard Error	16.00

Analysis of Variance

	DF	Sum of Squares	Mean Squares	F	Sig F
Regression	1	4696.92	4696.92	18.35	.000
Residual	191	48886.76	255.95		

Variables in the Equation

Variable	B	SE B	Beta	T	Sig T
Perf	2.58	.60	.30	4.28	.000
(Constant)	75.77	6.79		11.16	.000

CONCLUSION

The confirmation of a link between the market orientation of firms in Malta and their performance should be of interest to local managers. These need to devote attention to making their firms more market oriented by ensuring not only information gathering and its organisation-wide dissemination but also, perhaps more importantly, their responsiveness to market intelligence. Obviously, the findings reported must be evaluated in the light of certain limitations. These include the use of self reported performance measures and the use of a single scale item to assess convergent validity. This paper has sought to contribute further to knowledge concerning market orientation and business performance by applying the established MARKOR scale to firms in Malta, under somewhat unique circumstances. While the original development work was at the SBU level, this study focused on marketing decison makers at corporate level. Moreover, in the sample MARKOR was used in personal interviews on a large scale for the first time, at least as far as can be established from the extant literature. Additionally, the Maltese economy is a developing one, characterised by high levels of both firm and market concentration in most industries.

It may fairly be concluded that MARKOR is a reliable scale which can be used across a vareity of boundaries – companies, cultures and industries. While more work needs to be done on specific aspects of validity, the instrument does appear to perform reasonably well in some respects. This means that if offers opportunities for future research in many areas. The link between market orientation and performance has also been supported, which has practical implications in that market orientation becomes a worthwhile aspiration for organisations, across boundaries. There are numerous avenues for further research. Further work needs to be done on such facets as nomological and discriminant validity. The availability of MARKOR also enables the study of the effects of market orientation, as conceptualised by Jaworski and Kohli, on other variables, such as: innovation and new product development; marketing mix strategies, such as advertising, sales management, distribution, and pricing; and any number of other variables both internal (such as entrepreneurial orientation, managerial ethics; organisational commitment; and, excellence) and external to the firm.

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