Market orientation and business performance: some European evidence

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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 and indeed the entire marketing discipline, 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 USA (Jaworski and Kohli, 1993; Narver and Slater, 1990; Narver et al., 1990; Reukert, 1992). Kohli et al. (1993) have suggested that their instrument for the measurement of market orientation, MARKOR, provides an adequate means for the measurement of market orientation. However, all of the important work in the development of this instrument was in the USA, and in an essentially homogenous setting. In this study we seek to assess further the broader applicability of MARKOR, and to investigate specifically the market orientation-business performance link. We report the results from two replicative studies in Europe –one, of the larger British service companies, and the other, from a cross-section of firms in the rapidly industrializing island economy of Malta. Obviously, two important questions may be raised at this early stage: Why is further replication needed? And, why Malta? Answers are indeed necessary before proceeding.

In their 1993 work Kohli et al. (1993) emphasize the need for further work of a replicative nature to be done with MARKOR, especially in other cultures and other organizational settings. Moreover, there is no more fundamental requirement in science than that the replicability of findings be established (Epstein, 1980), and in the marketing discipline the role of replication has at best been a tenuous one: “Research is not only a creative process, it is a discipline. Some concertos are best understood by being played more than once” (Easley et al., 1994). It should also be noted that replicative studies do not need to be conducted in identical ways, nor is the data analysed, or presented, in exactly the same way each time. As Brown and Gaulden (1984) point out, this is indeed acceptable practice in research, and frequently adds valuable insights if replication is to add to the development of theory. It is not absolutely essential that replications of studies be clones of those studies.

Malta was chosen as the second country for the study of market orientation in Europe for the following reasons: first, it is a country where English is an official language, understood and spoken by all; this eliminated the need for translation and back-translation of the MARKOR instrument, and controlling for instruments in more than one language. This would have been required were the instrument to have been used in most other European countries. Second, Malta is a small, but densely populated country, which made the use of personal interviews both easier and less costly. Third, Malta is a developing country, as opposed to the UK (and most other Western European countries), and it was deemed desirable to assess the effects of level of development on market orientation. Finally, marketing has come quite late to Maltese firms, adapting from the Mintov socialism of the 1970s and 1980s, and very little research has been conducted on any aspects of marketing in the Maltese economy.

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 organization-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 three distinctions between marketing as a culture, as a strategy, and as a tactic. Each of these dimensions is the responsibility in the organization of the corporate, strategic business unit (SBU) and the operational levels, 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:

(1) *Customer orientation*. This essentially requires an understanding of the psychological and social factors which determine the customer's action.
Such an understanding enables the marketer to ask the market research questions which 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", the necessity for firms to identify the basic customer needs that they serve, and define their business accordingly.

(2) *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 market orientation is an organization-wide prescription, it is necessary that the whole firm is organized and co-ordinated in the service of the customer.

(3) *Organizational objectives* (or, in the case of business firms, profitability).
In adopting the marketing concept the organization 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 organization with long-term direction (Felton, 1959; McGee and Spiro, 1988; Narver and Slater, 1990; Webster, 1988). 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 marketing concept (Houston, 1986).

Market orientation as a construct, and its operationalization

Kohli and Jaworski (1990) have contributed by providing an operational definition for market orientation as a construct. In their work, they do this by comparing the three core elements of market orientation as a philosophy, to the perceptions of practising managers. Their work enables 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 based not just on "verbalized customers' opinions" but also on "a broader concept" in that it includes consideration of: exogenous market factors (e.g. competitors, regulation) which affect customer needs and performance, and current as well as future needs of customers. Grönroos (1991) recognizes 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), utilized the market intelligence related activities of their definition to develop 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 conceptualization of market orientation, as a construct, have also been developed (Deshpandé et al., 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 marketing orientation – business performance link

Strategic business units in some US firms are reported to exhibit a direct link between their levels of market orientation and performance (Jaworski and Kohli, 1993; Narver and Slater, 1990; Narver et al., 1990; Reukert, 1992). Deshpandé et al. (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; Kohli and Jaworski, 1990; Kotler, 1991; McGee and Spiro, 1988; Webster, 1988). In investigating the market orientation-business performance link, Kohli and Jaworski (1990) saw this as being influenced by four moderators, namely: market turbulence; technological turbulence; competitive intensity; and performance of the economy, which also suggests the possible impact of a national economy and culture on market orientation. However, their subsequent work found the link to hold irrespective of the first of these three variables (Jaworski and Kohli, 1993). Narver and Slater (1990) identified nine moderators on the market orientation-business performance link, to which Narver et al. (1990) add a further moderator. Dobscha et al. (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 confirms the relationship between market orientation and performance for a number of SBUs in a limited number of US firms. Nevertheless, since the theory establishes a clear linkbetween the market orientation of firms and their achievement of their objectives/profit, it is expected that this relationship should also extend to whole companies, in different industries, and in different countries and cultures.

Measurement instruments used, sample and response

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 instrument developed by Kohli et al. (1993) was utilized 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 et al., 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 a 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 between firms and recommend that researchers consider using subjective perceptual measures of organization performance. Pearce et al. (1987) show that such subjective evaluations are a 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 seven-point scale, ranging from 1 = I strongly disagree that this firm is marketoriented through to 7 = I strongly agree that this firm is market-oriented.

Sample 1

In the first sample, 1,000 questionnaires were mailed to the largest (by number of employees in the last three years) UK-based service firms, as identified from the FAME CD-ROM database. A covering letter, addressed to the marketing director, was sent with each questionnaire, together with a return postage paid envelope. Fifty were returned, mostly because of incorrect addresses, while three respondents refused to participate principally "as a matter of policy" not to reply to questionnaires. These were excluded leaving a base of 947 firms. By the cut off date, three weeks later, 161 usable questionnaires had been received, for an effective response rate of 17.0 per cent.

Sample 2

In the second sample, personal interviews using the same questionnaire 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. Two hundred firms were selected randomly from a total sampling frame of 336 of the largest Maltese firms. This resulted in 193 usable replies (or an effective response rate of 96.5 per cent).

Hypotheses

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

> *H1:* MARKOR is a reliable instrument for the measurement of market orientation in countries and cultures other than the USA.
>
> *H2:* MARKOR possesses convergent validity for the measurement of market orientation, i.e. it is a good and independent predictor of overall market orientation.
>
> *H3:* A firm's market orientation (i.e. the scores obtained on the MARKOR scale) is related positively to a better business performance.
>
> *H4:* The higher level of performance obtained by market-oriented firms applies, irrespective of cultural context, level of economic development, or survey method.

Descriptive data

Table I provides statistics, in the form of overall mean market orientation (where maximum could be 140), variance, and standard deviation, for the MARKOR scale used in both samples. The Malta sample shows a marginally higher level of market orientation than the top UK service companies. This is somewhat surprising, but could be indicative of easier intelligence gathering in a smaller country, and quicker intelligence dissemination in these generally smaller-sized firms. Corrected item-to-total correlations for both samples are shown in Table II. The corrected item-to-total correlations for the MARKOR scale obtained from the Malta sample is generally lower than for the British counterpart, and items 1, 4, 9 and 16 are generally low in both samples. However, in neither sample do any particular items detract from the overall alpha for the scale, at it would seem that researchers could use the scale in varying cultures and countries with reasonable confidence in its internal consistency.

Table I. Statistics for the MARKOR scale

Table II. Item-total statistics for MARKOR, both samples

Instrument reliability

The coefficient alphas (Cronbach, 1951) obtained for MARKOR and the performance scale in both samples, are shown in Table III. These are all acceptable, and greater than the suggested cut-off level of 0.70 (Nunnally, 1978). Furthermore, the standardized alphas, which compensate for the effect of the number of items in the scale, are not very different from the alpha in each case. This provides support for H1, namely that MARKOR is a reliable instrument for the measurement of market orientation in countries other than the USA.

Table III. Reliability for scales

Validity

Content validity. Assessing the content validity of a scale is necessarily qualitative rather than quantitative. It involves two aspects:

> *(1)* the thoroughness with which the construct to be scaled and its domain were explicated; and
>
> *(2)* the extent to which the scale items represent the constructs' domain (Parasuraman et al., 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 organization (Tables IV and V) show an R2 of 0.28 and 0.24 significant at the $p < 0.01$ level, in the UK and Malta samples respectively. This provides support for H2, namely that MARKOR possesses convergent validity for the measurement of market orientation.

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 both samples. Tables VI and VII show an R2 of 0.10 and 0.09 for the samples from the UK and Malta respectively, which are both significant at $p < 0.01$. This offers support for both:

H3: (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); and

H4: which hold and that this relationship holds irrespective of cultural context and level of economic development.

While the R2 values are somewhat low and suggest that market orientation explains only around 10 per cent of overall business performance in each country, it must be remembered that performance is likely to be affected, not just by a market orientation, but by a number of other variables, including external factors.

Table IV. Multiple regression (dependent variable: overall impression; independent variable: MARKOR) – UK sample

Table V. Multiple regression (dependent variable: overall impression; independent variable: MARKOR) – Malta sample

Table VI. Multiple regression (dependent variable: business performance; independent variable: MARKOR) – UK sample

Table VII. Multiple regression (dependent variable: business performance; independent variable: MARKOR) – Malta sample

Conclusion

Obviously, the findings reported must be evaluated in the light of certain limitations. These include the possible presence of non-response bias associated with postal questionnaires in the UK study; the use of self-reported performance measures; and the fact that the British population consisted of the larger service companies. This means that any generalizations of findings to other populations in the UK must be done with some caution. It might also be tempting to criticize the study for some obviously non-consistent aspects of the approach followed: can one "compare" Malta and the UK? Why was a mail survey used in one study and personal interviews in the other? Can service firms be compared with other firms?

These two concerns can be addressed simultaneously by viewing the studies described here as replications. It has long been considered worthwhile to replicate studies, particularly those involving instruments, in order to gain further insight into the quality of the original work, and the reliability and validity of the instruments used (see, for example, Carman, 1990). With regard to the first concern, even non-geographers and those who have travelled little would realize that Malta and the UK are two very different countries – therefore, the intention was not so much as to compare them, but to study market orientation and its effects in both. After all, Kohli and Jaworski (1990) propose that market orientation should be independent of such conditions as environmental turbulence, competitive intensity and rates of technological change. A simple conclusion from our studies is that MARKOR appears to capture well the construct of market orientation in both countries, and that its effect on performance is similar in both. With regard to the second concern, namely survey method, it should be pointed out that a reliable and valid measuring instrument should maintain these characteristics in a robust way, so long as the survey method chosen was carefully conducted. It appears that the survey methods chosen did not materially affect the results. Hitherto, most work with MARKOR has been done only using mail surveys. Third, service firms can be compared to other firms – this kind of research has been conducted by business academics for many years. Product manufacturers are compared to service providers, industrial marketing is compared to consumer goods marketing, and marketing in the non-profit sector is compared with for-profit firms. In summary, studies of a replicative nature do not have to be exact copies or mirrors to be useful and to provide insights (Brown and Gaulden, 1984).

This paper has sought to contribute further to knowledge concerning market orientation and business performance by applying the established MARKOR scale to firms in other countries, under somewhat unique circumstances. While the original development work was at the SBU level, this study focused on marketing decision makers at corporate level. Moreover, in the UK sample, the emphasis is on very large service firms, while in the case of the Maltese 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, characterized by high levels of both firm and market concentration in most industries.

It may be concluded fairly that MARKOR is a reliable scale which can be used across a variety 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 it offers opportunities for further 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 organizations across boundaries. 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 conceptualized by Jaworski and Kohli (1993), 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, organizational commitment, and excellence) and external to the firm.

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