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The Consequences of Market Orientation on Business Performance

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Abstract
The present research aims to develop a conceptual model to test the market orientation dimensions: customer orientation, competitor orientation, interfunctional coordination, and their effects on organizational performance. The most common question found in marketing studies refers to the role assigned to the marketing concept to achieve performance. Often, companies are forced to undertake different strategic approaches to be competitive, but few companies manage to become market oriented and meet difficulties in implementing the marketing concept, because the environment in which they operate are extremely dynamic. The present empirical study utilized the results obtained by processing 121 completed questionnaires containing data from large firms that operate in Romanian. The presence of the following market orientation dimensions: customer orientation, competitor orientation and interfunctional coordination, and their consequences on organizational performance were tested using simple linear regression. The results

show that the surveyed firms are market oriented and the positive consequences of this orientation dimensions on performance. The major contribution of the study is that it provides empirical proof of the effect of marketing on firm performance.

Keywords: market orientation, financial performance, customer satisfaction.

Introduction

Market orientation is an issue that has caught the attention of researchers from the moment this theoretical construct was predicated, since it was studied in terms of its effects on performance. Studies have shown a positive relationship between market orientation and firm performance. The theoretical foundation of this relationship was proven first by Narver and Slater (1990, 1994), and then by Kohli and Jaworski (1990). Implementing the concept of market orientation denotes firm's concern to provide customers with constant value (Kara et al., 2005). Narver and Slater's study (1990) was based on the idea that firms must consist of a cultural unity, yet previous research in the field proved this to be superficial.

More recent research (Hooley et al., 2000; Kara et al., 2005; Langerak et al., 2004) in the field of strategic management focused on the development of theoretical concepts and the empirical testing of the relationship between market orientation and performance. This trend was substantiated by conceptualizing and measuring the market orientation construct. At the very beginning, the link between the theoretical definitions and the results of measuring market orientation was a weak one. Along the way, different measurement scales that generated connections between the theoretical and the empirical research were developed. These empirical researches are interesting because of their role in guiding managers in the actions they undertake to transform market orientation in organizational performance.

On the other hand, different studies (Matsuno et al., 2002) shows that market oriented firms strive to meet the latent needs of customers, identify new markets and invest in emerging opportunities. Thus, market orientation is important to firms that have an entrepreneurial orientation, because it helps them adapt to the environment and react quickly to opportunities and threats.

This paper has the following structure: at first we present a critical review of the existent literature on the dimensions of market orientation and it's consequences on performance, followed by the research hypotheses and the used methodology. Thereafter, we present the hypotheses test results and, at the end, they are findings, limitations, managerial implications and suggestions.

Literature review

Market orientation

Market orientation entails the generation of market intelligence through decision support systems, marketing information systems, marketing research efforts, intelligence dissemination to all departments of the organization and response generation to changes occurring in the firm. Many of the researches conducted to analyze market orientation showed complex and varied results while establishing a relationship between market orientation and performance. However, most of them have underlined a positive link between the two concepts.

Narver and Slater (1990) present market orientation from a cultural perspective. The two assume that creating superior value for customers and the performance of the firm can be obtained through organizational culture. Thus, market orientation is defined by three components: customer orientation, interfunctional coordination and competitor orientation. With these dimensions in mind, the MKTOR measurement scale was created and empirical results of this study demonstrate the existence of a positive influence of market orientation on performance, and also that interfunctional coordination, especially between the research, development and marketing departments, which has a great influence on new product success.

Customer orientation (Desphande, Farley and Webster, 1993) insists that a complete understanding of target customers, as well as goods delivery for them, so that they perceive the goods as having superior value, is sufficient. Because of the fact that this firm’s priority is the customer, they are willing and able to identify and analyze the needs and preferences of customers, eventually managing to provide especially good service; however, the downside of customer orientation is that, in some situations, it becomes a barrier to innovation. Customer orientation reflects the firm's ability to understand target specific customer segment, so that the organization can offer them higher value.

Customer orientation is the extent to which the organization engages in actions designed to increase long-term customer satisfaction. Thus, customer needs should be the priority of all firm's departments; studies on market orientation have shown that this has a beneficial effect on employee performance, since they share a common goal, which is only achievable by developing efficient communication and collaboration.

A firm's ability to be both innovative and market oriented is called into question, because the organization can be held up from innovative actions while being too concentrated on client needs. There is a risk that companies keep too close a relationship with the client and then copy the competitors thus tending to deviate from innovativeness (Narver et al., 2004).

Competitor orientation requires the organization to understand the short term strengths and weaknesses of its competitors, their long-term capabilities and strategies, as well as the entire set of technologies required to meet the current and latent needs of competitors targeted customer segment. Also, the competitor orientation dimension is designed to reflect how the organization understands the capabilities of competitors, both actual and potential.

Interfunctional coordination refers to the coordinated use of an organization's resources to create higher value to its customers. As well as this, it points to the ability to implement the concept that all departments share the same goal: serving the market. Profit orientation represents an efficient and effective implementation of operations and organizational processes. Because there is an opportunity for value creation at every point in the value chain, every person working in the organization can contribute to adding value for the customer. Interfunctional coordination actually illustrates the coordinated use of company resources towards the creation of increased value for customers.

Information processing techniques and the ability to use them are behind the process of market sensing activity. Learning also comes from observation and evaluation of previous decision results, decisions based on the prioritizing of information. Whether the market reacted to it as expected or not, organizational memory played different roles in this process: it was used in the collection of secrets on policies, procedures, routines and rules that can be used, if necessary, in the creation of a source for answers to following problems and helping the firm take appropriate action.

Market oriented firms are distinguishable by the ability to detect events and market trends ahead of the competition. They can predict with greater accuracy reactions to actions designed to retain or attract customers. They can act on information in real time and in a coherent manner. This capability determines innovative and unique solutions; the distribution of information obtained through synergy, sharing interpretations and provides access to databases containing old firm information (Narver and Slater, 1995).

The consequences of market orientation on business performance

Different antecedents and consequences of the market orientation construct have been identified through numerous studies (Hooley et al., 2000; Kara et al., 2005; Kumar et al., 2000). These identify systems, structures and characteristics that influence performance, specific to market oriented firms.

Among the first researches (Hooley et al., 2000) that show the influence of market orientation on performance are the studies that perform an analysis of the firm present in a transitional economy.

In an emerging economy, managerial perception towards a dynamic environment can influence companies to develop market orientation, as monitoring the external environment enables firms to satisfy customers, track competitors and effectively segment the market in highly dynamic environments; these emerging markets are characterized by the growth of markets, demand and competition.

As well as this results of research performed in the stable market economies show that market orientation provides the organization with a better understanding of customers, competitors and of the environment, which leads to performance. (Kara et al., 2005; Kumar et al., 2002; Langerak, 2003; Santos-Vijande et al., 2005)

Organizational learning is a key factor for market orientation, but is also a consequence of market orientation. In market oriented companies, employees are predisposed to gather, share and review market information. Organizational learning also influences the development of knowledge within the firm. Thus, it can be said that market orientation can be considered a resource capable of generating a higher level of organizational learning, which strengthens the understanding of the way in which market orientation contributes to the performance of firms, and also learning has a positive effect on the market oriented companies behavior (Vijande-Santos et al., 2005).

Organizational processes required to achieve performance may vary depending on the strategies adopted from firm to firm, therefore it is necessary to analyze each market orientation component, to achieve a positive relationship between strategy and performance. Company management selects those strategies that better apply to the environment in which the firm operates, and market orientation is imperative as it helps with the assimilation ability to react to threats and opportunities created within the environment. (Kumar et al., 2002)

Implementing market orientation has a positive result on positional advantage. The connections analyzed to demonstrate this relationship focused on the three dimensions of market orientation: customer orientation, competitor orientation and interfunctional coordination, as well as on the type of strategy used by the firm, and on the market characteristics. Later research focused on demonstrating that positional advantage will lead to organizational performance (Langerak, 2004).

Also demonstrated in market orientation literature (Kara et al., 2005) is the positive link between market orientation and performance, which is explained by the fact that market orientation provides a better understanding of customers and the environment, which will generate organizational performance. Other arguments used to explain the need to add market orientation to the list of factors that promote performance: market orientation influence on customer orientation, increase of sales, financial performance and organizational profitability.

Kirca (2005) shows that market orientation within an organization entails organizational performance and has positive consequences on the customers, employees and innovativeness. These consequences are: a high level of customer loyalty and satisfaction towards the quality of the firm's products, and will subsequently provide a source of organizational performance. The effects of market orientation on company employees are: stimulating commitment and loyalty to the organization, improving team spirit, a higher level of focus on customer need and increased work place satisfaction.

Research into strategic marketing demonstrates that market orientation generates market sensing capabilities, as well as the capability to establish strong customer relationships within the organization, which lead to organizational performance. Overall organizational performance is quantified by means of measurements on cost performance, which result in the profit dimensions, and measurements on revenue performance, resulting in the sales dimension or company market share.

One consequence of market orientation on performance is the positional advantage created. This positional advantage represents the relative value delivered by the firm to the target market. This value is obtained from efforts made towards the implementation of marketing and decision making strategies, and from the costs required for this implementation (Morgan, 2012).

Hypothesis

According to the results observed in the seminal researches conducted by Narver & Slater (1990) and Kohli & Jaworski (1990) market orientation has a positive influence on sales, financial performance and profitability.

In contrast to more stable markets, market orientation is required to achieve performance on specific markets where demand has a higher degree of unpredictability. The reason for this is that market oriented firm's pay greater attention to customers and maintains a closer relation to them.

A more intense level of competition creates a greater wider array of choice for customers (Hooley et al., 2000). Market oriented firms will exceed competitor performance level, because of their pursuit of ways to differentiate offers, through the difference in product quality, services offers and pricing policies. Thus, companies will focus more aggressively on the external environment, will develop long term strategic priorities and will identify the changing needs and preferences of customers, to properly respond; this can be successfully implemented only if the firm is market oriented.

Interfunctional coordination is important for company activities that manage customer relationship (Day, 1994), especially for the following activities: scheduling deliveries, planning and joint programming of production, creation of a connected information system, activities that ensure that the firm and its customers correctly understand requirements in order to establish joint commitments to improve quality and increase performance.

Organizations that have developed good interfunctional coordination own integrated strategies and have developed distinctive capabilities through the managing of relationships in a collaborative manner. This task does not only belong to the sales department, but also to the development and support services (Vorhies, Harker and Rao, 1999). Interfunctional coordination and information sharing, necessary for a collaborative customer relation, require an understanding of the strategy and the role of different functions throughout the organization. Based on the arguments presented, we formulated the following hypotheses:

H1: Market orientation dimensions positively influence firm's performance.
H2: Market orientation dimensions positively influences customer satisfaction.
H3: Market orientation dimensions positively influences market effectiveness.
H4: Market orientation dimensions positively influences current firm profitability.

Method

Sample and data gathering

Pertaining to the research method, we can provide the following information: the approach we took is the questionnaire based survey; the data was obtained for processing the current hypotheses from 1800 companies with market operations in Romania; the criteria used to select companies for this database comprised of company size (medium and large companies with over 10 employees) and their area of activity (different fields). The next research stage consisted of generating the database obtained by contacting electronically the top management of 1.800 companies, in order to fill in the online questionnaire. After two weeks since sending the first invitations, we sent an e-mail reminder. Finally, due to the fact that the number of results was unsatisfactory, we approached the sample members telephonically with an invitation to participate in the study. Thus, from the original 1,800 questionnaires distributed, we retained a number of 121 questionnaires.

Measures and measurement models

Measurement of the collected results was performed using scales recognized and validated by previous research. Market orientation was measured using Narver and Slater's scale (1990). To determine the performance of the company we used Vorhies and Morgan's development scale (2005). Measuring scales were accepted because the α Cronbach's value exceeded the level of acceptability for all constructs (above 0.5). Research model hypothesis testing was performed with the linear regression. We present the values of the regression using standardized coefficient β and the level of significance of *p* for each tested hypothesis. Depending on this level of significance (value less than 0.50), hypotesis were rejected or accepted.

Results

The scales used for this study are at an acceptable level, α Cronbach's being between 0.773 and 0.824 for the market orientation dimensions and 0.816 for firm performance, as in Table no.1.

Table no. 1. Scale properties Cronbach's α at construct and dimension level

Construct and dimensions	Cronbach's α
Customer orientation	.824
Competitor orientation	.792
Interfunctional coordination	.773
Firm performance	.816
Customer satisfaction	.802
Market effectiveness	.725
Current profitability	.686

During this research we tested four regression models to validate the research hypothesis. The first model tests the direct effects of market orientation dimensions on customer orientation, competitor orientation and interfunctional coordination. The second model tests the direct effects of market orientation dimensions on customer satisfaction. The third model tests the direct effects of market orientation dimensions on the firm's market effectiveness. Last model tests the direct effects of market orientation dimensions on current firm's profitability. The results of these tests are shown in Table no. 2 and Table no. 3.

Table no. 2. Results of testing the effect of all market orientation dimensions on firm's performance

Market orientation	Firm performance	
	β	p
Customer orientation	.542	*.000*
Competitor orientation	.134	.071
Interfunctional coordination	.213	*.007*

Table no. 2 shows that only customer orientation (β=0.542; p=0.000) and interfunctional coordination (β=0.213; p=0.007) have a positive and direct effect on the firm's performance construct, although in some market contexts, competitor orientation can be have the same importance.

Table no. 3. Results of testing the effect of all market orientation dimensions on customer satisfaction, market effectiveness and current firm's profitability

Strategic orientation	Customer satisfaction		Market effectiveness		Current profitability	
	β	p	β	p	β	p
Customer orientation	.520	*.000*	.348	*.001*	.529	*.000*
Competitor orientation	.186	*.015*	.236	*.010*	-.080	.401
Interfunctional coordination	.179	*.026*	.185	.054	.184	.068

According to results displayed in Table no. 3, customer satisfaction is influenced by all three market orientation dimensions: customer orientation (β=0.520; p=0.000), competitor orientation (β=0.186; p=0.015) and interfunctional coordination (β=0.179; p=0.026). As far as market effectiveness goes, it is influenced only by two of the market orientation dimensions: customer orientation (β=0.348; p=0.001) and competitor orientation (β=0.236; p=0.010), while current firm profitability is mainly influenced by one of the market orientation directions, namely customer orientation (β=0.529; p=0.000).

Conclusions

During this research we analyzed the influence of market orientation dimensions on firm performance and size. The analysis revealed that the firm's performance is influenced only by customer orientation and interfunctional coordination. By adopting a customer orientation, firms are mainly concerned with identifying and meeting the needs of current and potential customers, concern that is reflected in obtaining a superior marketing performance. Thus, companies should not only specialize on product manufacturing and marketing, but also on new customers, therefore consistently delivering value to customers. This can only be achieved through a coordinated marketing effort, involving all the company's departments in collecting customer information and providing the clients with value.

Although we considered the influence of the competitor orientation dimensions of market orientation on performance as statistically insignificant, we observe that this dimension provides a significant influence on customer satisfaction. This performance dimension is significantly influenced by all the market orientation dimensions, but more by the customer orientation dimension. It goes without saying that a company that understands the needs of customers and is concerned with fulfilling these needs will implicitly increase customer satisfaction levels, as well as keep the customer in the company portfolio. Company knowledge of competitor strengths and weaknesses and designing answers to competitor reactions also contributes to increasing customer satisfaction degree.

The increase of both customer orientation and competitor orientation contribute in generating a higher degree of market effectiveness, exhibited in a market share and sales income increase. Customer orientation should not only refer to the needs, requirements and demands of current customers, but also those of potential ones, whose desiderates are, oftentimes, not articulated; satisfaction of these needs regularly reflect in winning over new customers. Competitor orientation becomes essential on highly competitive markets. Competitor companies can use aggressive price strategies and intense advertising campaigns, and can also launch new products and services, actions that may determine a decrease in the company’s sales and its market share, if not correctly monitored.

The analysis performed showed the fact that an increase in firm profitability is only promoted by the customer orientation dimension of market orientation.

Fulfilling the company's financial goals is influenced by the company's ability to understand and meet customer needs, leading to long-term customer retention, with positive effects on financial results.

A market oriented firm must be prepared to create and maintain a competitive edge in any environmental situation, by identifying new market opportunities. For a company to become market oriented, it should be concerned with the acquiring of customers and competitor knowledge and with continuous creation of superior value for customers, which will ultimately reflect in increased marketing performance.

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