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The Contextual Nature of the Market Orientation and Organisational Performance Relationship: An Australian and New Zealand Study

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Abstract

As part of a broader study of the relationship between traditional and online marketing mix elements and organisational performance, the study reported in this paper utilised structural equation modelling to examine the relationship between market orientation and organisational performance. The study found that there was an insignificant relationship between market orientation and organisational performance, thereby lending support to studies conducted in the UK, Ghana, and the US (since the studies in the US by Narver and Slater (1990)), which found that there may be a contextual nature to the relationship between the two constructs. The study, therefore, does not support Pulendran et al. (2000).

Keywords: Market orientation, organisational performance.

Introduction

As part of a broader study of the influence of traditional and online marketing mix elements on organisational performance, the study reported in this paper utilised structural equation modelling to include examination of the relationship between market orientation and organisational performance. The present paper presents an overview of the literature before presenting the methodology employed, and discussing the findings of modelling with AMOS 4.0. The paper concludes with a discussion of the study's limitations and suggested further research.

Background

There are two major views of market orientation discussed in this section. The antecedent literature concerning organisational performance and the measures employed in measuring this construct are also discussed in this section.

Market Orientation

Kohli and Jaworski (1990) suggested that market orientation (MO) is an organisational state that is, in part, determined by the senior management of the organisation. They posited that the degree of market orientation in evidence is dependent on the resources devoted to gaining market knowledge, disseminating it, and responding to it. In some instances, a high degree of market orientation may not be associated with financial rewards, making it necessary for executives throughout the organisation to tolerate failures, yet maintain a commitment to market orientation. Nevertheless, Kohli and Jaworski (1990) concluded that market orientation positively influences organisational performance, and that this association is moderated by the environment. Their subsequent study failed to identify such moderation.
effects from market turbulence, competitive hostility and technological turbulence (Jaworski and Kohli, 1992).

Narver and Slater (1990, p. 21) inferred "that market orientation had three behavioural components – customer orientation, competitor orientation, and an interfunctional coordination – and two decision criteria – long-term focus and profitability" which they saw as consistent with the earlier stated definition of Kohli and Jaworski (1990).

Narver and Slater’s (1990, p. 21) culture-oriented conceptualisation of market orientation involves "the organisational culture that most effectively and efficiently creates the behaviours for the creation of superior value for buyers" and is complementary, but different, to the information-based conceptualisation of Kohli and Jaworski (1990). It is Narver and Slater’s view of market orientation that has been adopted in this study, particularly in light of some concerns with the major alternative concerning item criterion, unidimensionality and reliability (Farrell and Oczkowski, 1997).

**Organisational Performance**

Businesses exist to create wealth for their owners, while non-profit organisations seek to survive in order to continue satisfying those who depend on them. It is to be noted that while some researchers initially held the view that profits are an element of market orientation (e.g., Kohli and Jaworski, 1990), Narver and Slater (1990) took the position that profit is the objective of business.

One key question facing each type of organisation is which objective and subjective performance measures to use in assessing performance. Increasingly, organisational performance (OP) measures involve the domains of marketing management (Barwise and Farley, 2004). For example, Ambler and Kokkinaki (1997) reviewed 150 prior studies covering the period 1991 to 1995 and found that the three most widely used measures were sales (and growth) (22 per cent of all measures), market share (17 per cent), and profit contribution (11 per cent). However, financial measures dominated (67 per cent). Pont and Shaw (2003) extended this study with an examination of a further 46 empirical, performance studies published between 1992 and 2003, nearly all of which were published between 1996 and 2003. They found that while the majority of measures were still financially oriented (54 per cent of indicators used), non-financial measures were increasingly being favoured. The OP items employed in this study were based on the work of Ambler et al. (2001) (Also see Ambler et al. (2004)).

The earlier-mentioned US studies by Narver and Slater (1990) and Jaworski and Kohli (1993) employed subjective performance measures, i.e., self-reported by managers. Harris' (2001) UK study employed both subjective (i.e., self-reported data) and objective (i.e., reported data from company reports) measures in assessing organisational performance. Harris (2001, p. 30) found "no significant association between market orientation and [the four measures of] performance, [while] the moderated regression analysis [found] an association which is moderated by competitor hostility". The findings of this study indicate that for UK industry, and regardless of whether objective or subjective performance measures are used, market orientation does not directly affect sales growth or profitability. Harris' (2001, p. 30) UK study found "an association between market orientation and subjectively measured sales growth", and also found that the association between market orientation and subjectively measured sales growth is moderated by the extent of market turbulence.
Appiah-Adu (1998, p. 29) favoured the culture-oriented conceptualisation, stating that "in emerging markets such as Ghana's, it is market-oriented firms which are likely to devise customer- and competitor-focused strategies". However, this study's findings did not directly support the proposition that market orientation influences organisational performance as measured by sales growth and return on investment. Hart and Diamantopoulos (1992), and Slater and Narver (1994), similarly found that such control variables as the environment had limited moderator effects on the market orientation – organisational performance relationship.

The present study employed Narver and Slater's (1990) multi-item inventory, in that eight items were drawn from the full instrument employed by Narver and Slater (1990), Deng and Dart (1994), and Gray et al. (1998), and as used in the stage two self-administered instrument employed by Ambler et al. (2001), to measure market orientation (Customer Orientation – CVO, Competitor Orientation – CPO, and Inter-Functional Co-ordination – IFC). In addition, an item was drawn from Adam and Deans' (2000) study concerning strategic use of organisations' websites, which is also a surrogate response implementation item (Jaworski and Kohli, 1993).

**Research Aims**

The paper reports the results of testing the following hypothesis:

$$H_1: \text{Market orientation is directly related to organisational performance (when using subjective measures, as initiated by Narver and Slater (1990)).}$$

That is, it was anticipated that the null hypothesis would be rejected, because the Australasian study’s findings would not support Harris (2001) and others, who found that there is actually no significant direct relationship between the two variables. The hypothesis is in line with Pulendran et al’s. (2000, p. 131) finding in Australia, "that MO is significantly related to business performance". It is to be noted that these researchers used the MARKOR scale, unweighted sums, and somewhat restricted business performance measures.

**Method**

The unit of analysis in this study is the marketing organisation. The marketing decision-maker, or other senior manager, was invited to respond via an online self-administered questionnaire. Two samples were involved, the first being a list of 3,500 high network traffic Australian and New Zealand organisations constructed from the top 20 network traffic organisations identified by Hitwise Market Intelligence. The second sample involved a purchased list of 8,500 Australian organisations. Invitations to respond were delivered via a two-sided postcard to sample one, and delivered via personally addressed e-mail to sample two. The same online questionnaire, secured by individual username and password, and employing PostgresSQL database output, was employed with each sample. Eleven-point Likert type scales, and modified Juster scales, were used with the multi-item inventories involved.

In each case a response level of 1.5 per cent was achieved, providing 168 completed questionnaires in all. It is concluded from non-respondent emails that the combination of
computer virus and worm attacks, together with the final introduction of the SPAM Act 2003 in Australia led to this poor response. T-tests on demographic items of day one responses (67 per cent) with later responses, found no significant differences, thereby suggesting that there was insignificant non-response bias (Armstrong and Overton, 1977).

JavaScript was employed to prevent item-skipping on nearly all inventories. Where a ‘Don’t know’ category was employed, analysis was undertaken to ensure that no systematic missing data existed. The analysis employing Little's MCAR test showed that any missing data was missing completely at random (MCAR): Organisational Performance – Three year change ($\chi^2$ 208.24, df = 237, $p = 0.91$); Organisational Performance – Change last year ($\chi^2$ 544.48, df = 637, $p = 0.99$) (Hair et al., 1998). Estimated means (EM) imputation was employed given the small amount of missing data.

**Analysis, Findings and Discussion**

The study adopted a two-step approach suggested by Anderson and Gerbing (1988) whereby each multi-item inventory (e.g., market orientation, organisational performance – direct (OPD), and organisational performance – indirect (OPI)) was subjected to confirmatory factor analysis using AMOS 4.0, followed by testing of the relationship between pairs of constructs, before proceeding to analysis of all constructs involved. Confirmatory factor analysis showed the need to remove two of the Narver and Slater (1990) items from the inventory, as well as the Web use item from Adam and Deans (2000).

Confirmatory factor analysis results for OPD and OPI are shown in Figures 1 and 2, respectively. In each case, the goodness of fit indices show a good fit of the models to the data, albeit there was a need to take into account the covariance between the manifest variables indicated in Figures 1 and 2.
In determining the model presented in Figure 3, the manifest variables OPD and OPI are an aggregate of the summed and factor loading index weighted items shown in Figures 1 and 2 (Kline, 1998). The model shows a good fit of the data to the model, however, when the regression weights are examined, there is no significant relationship between MO and OP, i.e., OP <-- MO: C.R. 1.06, P = 0.29. Regression of MO and OPD in SPSS also found an insignificant association (F = 1.06, p = 0.31), as was the finding in the case of MO and OPI (F = 3.10, p = 0.08).

While not shown in the modelling presented, this study found no moderating effects of organisational demographics (i.e., years of establishment), nor innovation culture (i.e., top management encourage innovative decisions), and only a weak negative influence of environment (i.e., customer-base changes) on organisational performance. These findings tend to support those of Hart and Diamantopoulos (1992), and Slater and Narver (1994).
In effect, $H_1$ is not supported, in that there is no direct influence of market orientation on organisational performance using subjective measures. One question which arises from these findings is whether the lack of association is, in part, the result of the variety of industry sectors in evidence, for among other findings, Ambler et al. (2004) observed that industry sector moderates the measures used. Arguably, this facilitates inter-firm comparisons. Kumar et al. (1998) made a similar observation in their health sector study.

**Limitations and Further Research**

Given that subjective measures of organisational performance were employed and single respondents within each organisation self-reported, there are limitations with the extent to which the findings might be generalised beyond the immediate sample. In addition, while no demographic information has been provided herein, it is of note that 75 per cent of respondents reported revenue in the past year of less than $50$ million, indicating that small and medium enterprises dominate this Australasian study. This is in direct contrast to Harris’ (2001) study, which surveyed larger organisations. On the positive side, respondents were the most senior managers who should be familiar with both market orientation and their organisations' performance measures.

Further research into the antecedents of market orientation (e.g., Pulendran et al. (2000)), is needed, as are further studies examining the direct association between holding a market orientation and organisational performance where both subjective and objective measures are employed (Dawes, 1999). In particular, the study of the marketing mix elements as mediating variables needs to be undertaken in order to help substantiate the legitimacy of marketing practice's (and the science's) claim to add value to the organisation.
References


