MARKET ORIENTATION AND ORGANISATIONAL PERFORMANCE: THE INFLUENCE OF MODERATORS

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Abstract

The concept of market orientation has received a great deal of attention from marketing scholars, indicating its conceptual and practical importance. The concept has been investigated from many perspectives and examined in many ways. The current general understanding is that market orientation, in most cases, is positively related to some measures of organisational performance and that different internal and external situations moderate this relationship. This paper aims to (1) introduce a measure of market orientation effectiveness, which represents a synthesis of the influence of different internal and external moderators on market orientation, and (2) measure the association of market orientation effectiveness with (a) a marketing performance outcome and (b) the overall organisational financial performance. The results from a survey of 216 large Australian businesses indicated that some variables (an organisation's strategy of cost leadership, market strength, implementation effectiveness, and market volatility) have positive contributions at different degrees to market orientation effectiveness, while anticipated competitive reaction contributes negatively. Results also indicated that in the sample studied, both market orientation and market orientation effectiveness were more strongly associated with a measure of marketing performance, than with the overall financial performance, which is a function of both marketing and non-marketing initiatives.

Introduction

Since the introduction of the concept of market orientation, a large number of contributions to the study of market orientation have established, at least in most cases, its positive relationship with a number of organisational performance measures (Sundqvist *et al.* 2000). To quantify the concept and measure its relationship with performance measures, a number of authors have developed clearly defined sets of questionnaire items (Cadogan 1999; Deng and Dart 1994; Jaworski and Kohli 1993; Kohli and Jaworski 1993; Narver and Slater 1990; Narver and Slater 1993; Slater and Narver 1994). Aside from some conceptual variations, the two instruments, MARKOR (Jaworski and Kohli 1993) and MKTOR (Narver and Slater 1990) include measures of a firm's active interactions with market dynamics, and organisational readiness and the flexibility required to change with, and react to, changes occurring in the environment. There have been many studies since that have attempted to validate and compare these instruments (Mavondo and Farrell 2000). Others have studied the effects of different moderating elements in the internal and external environments (Homburg and Pflesser 2000; Jaworski and Kohli 1993; Narver and Slater 1990; Slater and Narver 1990), the process of strategy formulation (Tadepalli and Avila 1999), industry types and organisation size (Pelham 2000), export markets (Sunqvist *et al.* 2000), and the generalisability of the findings across different industries (Conduit and Mavondo 1998), just to mention a few.

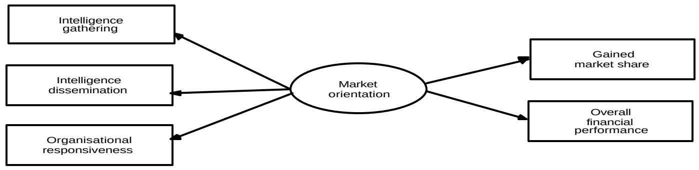
There is a general understanding that market orientation appears to be related positively to organisational performance, and therefore, would be beneficial to an organisation. There are, however, some market and industry circumstances that may not necessitate market orientation as a requirement for success, or where the cost of achieving an effective level of market orientation would be cost inhibitive (Matsuno and Mentzer 2000; Pelham 1997; Pelham 2000; Slater and Narver 1994; Sundqvist *et al.* 2000). In many cases, in their investigations, authors have had to modify/purify the current items in the lists of both MARKOR and MKTOR to suit their target of study, and have had to add new relevant items suitable to their topic of study (Matsuno and Mentzer 2000; Venkatesan and Soutar 2000). The issue that emerges from the current studies is the **effectiveness of market orientation**, allowing for the collective interaction of moderators, strengthening or weakening the effect of market orientation. Clearly, the effectiveness of market orientation may be influenced by the quality of the marketing decisions made, the extent of the organisational capability to implement the marketing decisions, and some other internal and external factors. **Market orientation effectiveness**, therefore, is proposed as a multidimensional construct. To consider the association of individual moderators with some performance measures, only separately, would not allow for the interaction between them and, therefore, would not measure the dynamic or comprehensive nature of the construct.

The construct of **Market Orientation Effectiveness** incorporates, and in a composite nature synthesises, all the different positive and negative influences into a consolidated mix that takes a new collective characteristic representing, but being different from, all the individual influences, in one separate measurable score.

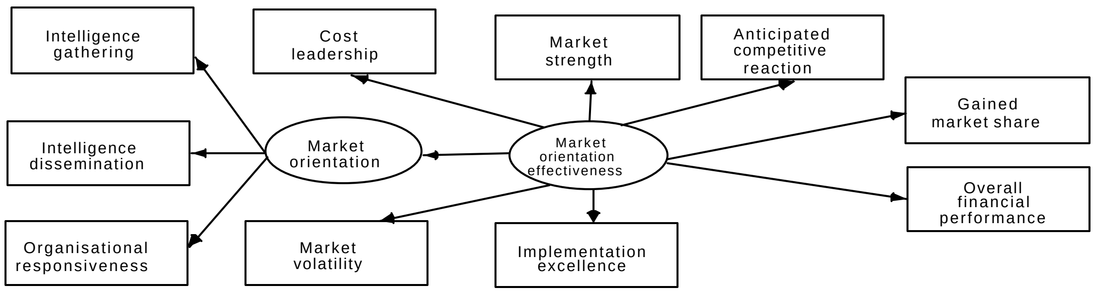
The Present Study

The aim of this paper is to (1) propose an extended model of market orientation, which incorporates a **market orientation effectiveness** component incorporating and reflecting the interaction of some relevant internal and external moderators and to investigate its relationship to some measures of organisational performance, and (2) distinguish the relationship between **market orientation effectiveness** and a marketing driven performance measure, from a performance measure which is not predominantly marketing driven. Pelham (1997) has used a similar approach by combining some, different organisational performance elements into his construct of “Firm Effectiveness”. This paper suggests that the consideration of market orientation without incorporating the influence of environmental factors would result in an incomplete understanding of the construct and inaccurate measurement of its relationship to the performance outcome. The underlying reason is that positive and negative influences in the environment may alter the effectiveness of market orientation and, therefore, its extent of association with performance measures. As some of these moderators are outside the control of the marketing decision-maker, it would be important to include a clear understanding of their probable influence on the outcome. This present study should be regarded as a preliminary attempt to demonstrate the extent of relationship between market orientation, market orientation effectiveness, and some measures of performance. The following AMOS models demonstrate the conceptual linkages.

Model 1- Relationship between market orientation and performance measures



Model 2 – Relationship between market orientation effectiveness and performance measures



Model 1 estimates the relationship between market orientation and the measures of performance without the influence of the moderators, while Model 2 demonstrates the effectiveness of market orientation when all the moderator influences are taken into account.

The model is built using the principle of chain reaction, where the consequences in one stage become influences in the following stage.

Hypotheses

It is hypothesised that:

1. There is a positive relationship between market orientation effectiveness and (a) a Marketing-driven performance measure, “Gained market share over our major competitors last year”, and (b) a measure, which is not predominantly marketing-driven, “The overall financial performance last year was better than in the previous year”.
2. The moderators used in this study, i.e., implementation, cost leadership, market strength, anticipated competitive reaction, and market volatility, in combination, are related to the strength of association between market orientation effectiveness and the two performance measures, (a) and (b) (stated above).
3. The extent of relationship between (a) market orientation and (b) market orientation effectiveness and the marketing-driven performance measure is stronger than their relationship with the overall financial performance measure.
4. The association between the marketing-driven measure and the organisation’s overall financial performance is related to the influence of the moderators.

Methodology

The questionnaire for this study was developed as part of a larger marketing research project, which included a market orientation section. The questions on market orientation originally included MARKOR items (Jaworski and Kohli 1993). However, these questions were modified through a two-stage pretest process. The first stage included a peer (academic) review and marketing practitioner review. The feedback included recommendations for some alterations and the deletion of questions considered to have the same meaning (Deng and Dart 1994). After comparing the two sources, the changes were considered and implemented. The modified version of the questionnaire was re-tested and was confirmed as suitable. The resulting instrument included items for market orientation, performance measures, and the moderators as listed in Table 1. All measurements were subjective assessments by the respondents using a seven-point Likert-type scale (Wren 1997).

The sample frame used was the Dun & Bradstreet's Australian businesses database (September 1999 edition) including 22,000 businesses. The sample selection was based on the largest companies, in terms of reported revenue, in both manufacturing and services. The assumption was that these companies had a greater likelihood of practising more "professional" marketing. Of these companies, the largest 1,441 companies were sent questionnaires with a personally addressed letter to the chief executive requesting that the questionnaire be completed by the senior marketing person. The mail out included an incentive of a $2 Scratch and Reveal lottery ticket with 1,000 of the questionnaires. Complete anonymity was guaranteed as no traceable identification was requested on the questionnaire. The returned useable questionnaires, after allowing for non-deliverables, those returned not attempted, and those returned incomplete, totalled 216, which was a response rate of 16 per cent. The comparison between the outgoing sample profile and the returned questionnaires indicated no significant non-response bias nor incentive effect.

The data were analysed using both descriptive measures and exploratory factor analysis to identify the items contributing to each component. Given the nature of the alterations of some of the questions, the market orientation measurements were tested separately for internal consistency-reliability (Cronbach's alpha) and predictive validity.

The correlation matrix supported the predictive validity of the three factors of market orientation as indicated by the significant and moderate to strong relationships between them. The discriminant validity was confirmed by the negative correlation between competitive reaction and most of the other moderator factors.

All latent variables were calculated using single factor loadings representing the observed variables contributing to them (Deng and Dart 1994).

The regression analysis further supported the predictive validity of the models in terms of the two performance measures used.

AMOS structural modelling was used to estimate the multiple group "causal" relationships between the measure of market orientation in Model 1, and the composite influence of market orientation and moderating factors synthesised in the measure of **market orientation effectiveness** in Model 2. The procedure enables a direct comparison between the two models.

The fit statistics calculate through AMOS (CMIN/df = 2.28 and 1.99, p = 0.00, GFI = 0.89 and 0.82, AGFI = 0.85 and 0.79), indicated an acceptable model fit for both Models 1 and 2.

Results and Discussion

AMOS calculations for each model enabled the comparison between the two models. The results supported hypotheses 1 and 3 for the existing relationship between market orientation effectiveness and the two measures of performance, and that the extent of the relationship is stronger with the marketing-driven performance measure (0.90) as compared with the overall financial measure (0.25) in Model 1. The results also supported hypothesis 2 for the role of the moderators influencing the effectiveness of market orientation as translated into the extent of the relationship with the two measures of performance in Model 2. The moderators, in this sample, only marginally decreased the magnitude of the relationships with the marketing driven measure (from 0.90 to 0.88) and increased the magnitude of the relationship with the overall financial measure (from 0.25 to 0.45). Furthermore, the moderators appear to have only marginally changed the relationship, in this instance, between the two measures of performance in this sample, as per hypothesis 4. Without the moderators' influence, the relationship of the marketing performance measure to the overall financial performance was 0.35, and with the inclusion of the moderators this relationship changed to 0.33.

Clearly, different moderators influence the market orientation effectiveness measure at different levels. As anticipated, the competitive reaction contributed negatively, while all other moderators influenced positively the measure of market orientation effectiveness. There appeared to be very little difference between Market Orientation and Market Orientation Effectiveness in their relationship with the marketing performance measure (0.90 and 0.88 respectively), while Market Orientation Effectiveness registered a stronger relationship with the overall financial performance measure (0.45 and 0.25 respectively).

Implications

The results of this research suggest that the level of awareness of the existing relationship between the extent of market orientation achieved by a firm and some performance outcome is, at best, incomplete. The external and internal environment within which a marketing decision is implemented has an important influence on the performance outcome. Indeed, it may be suggested here that part of the reason for the existing research results being inconsistent with regard to this relationship may be due to the lack of consideration of the collective influence of the core moderators on the performance outcome. The model presented suggests that the relationship between **market orientation effectiveness** and performance outcomes is dynamic, reflecting the variable nature of the construct operationalised in a dynamic market environment.

The clear demonstration of this concept invites attention by marketing management to identify the core environmental moderators in each industry and incorporate them into the market orientation effectiveness strategy formulation and the marketing decision making process. The model also suggests that to improve organisational performance, management needs to improve in the areas of the controllable moderators, such as the skills and competence of the organisation in the marketing decision making process, as well as the effectiveness in the implementation of the decisions made.

The concept of market orientation effectiveness also has implications for a focus on the types of information that need to be gathered by the organisation, which will contribute to the quality and relevance of marketing decisions. It highlights the important uncontrollable moderators such as market volatility and perceived competitive reaction, and encourages management to recognise their anticipated influence on the expected performance outcome. The issues raised by the inclusion of the relevant moderators in the construct of market orientation effectiveness is very basic in nature, to the extent that the model is expected to be relevant to both small and large firms in all manufacturing and service industries.

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