

The quality of market-oriented behaviors: Formative index construction [☆]

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Abstract

Current measures of market orientation do not systematically capture the quality of market-oriented behaviors [MOBs] (Jaworski BJ, Kohli AK. Market orientation: review, refinement, roadmap. *Journal of Market Focused Management* 1996;1[2]:119–135). In a bid to address this issue, the authors develop formative indices of the key factors underlying market-oriented behavior quality, and empirically validate the indices using survey data from a sample of 253 marketing managers. Findings suggest that optimal market-oriented behavior involves many distinct activities, such as speed and formalization of information generation, dissemination and response, quantity of information generated, comprehensive information dissemination, and extent of information use, to name a few. For researchers, the findings expand the platform from which to generate fresh understanding of MOBs' antecedents and consequences. The indices also have diagnostic capabilities which can help managers understand how to improve the quality of market orientation within the firm.

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1. Introduction

Deshpandé and Webster (1989, p. 3) define the marketing concept as a “distinct organizational culture, a fundamental shared set of beliefs and values that put the customer in the center of the firm’s thinking about strategy and operations”. By translating the philosophy of the marketing concept into practice, firms can tap into a source of sustainable competitive advantage (Kohli and Jaworski, 1990). The consensus is that to be market-oriented, firms’ *behavior* must be consistent with the marketing concept (Hunt and Morgan, 1995). Kohli and Jaworski (1990) define market-oriented behaviors ([MOBs] Jaworski and Kohli (1996)

in terms of three behavioral processes, namely the generation and dissemination of, and responsiveness to, market intelligence.

Importantly, empirical evidence demonstrates that firms displaying market-oriented activity typically outperform their less market-oriented rivals on a wide variety of performance indicators (e.g., see the meta-analyses of Cano et al., 2004; Kirca et al., 2005). Researchers are focusing also on identifying ways in which firms can improve their MOBs. These studies generally look to identify organizational systems, structures, and managerial attitudes that may facilitate (e.g., reward system design) or impede (e.g., interdepartmental conflict) MOBs’ emission (e.g., Jaworski and Kohli, 1993).

However, despite these considerable advances in knowledge of market orientation’s nomological network, “confusion still exists as to [...] how to measure it [...] and how it is developed” (Matsuno et al., 2005, p. 1). In this context, Jaworski and Kohli (1996) point out that one of the main drawbacks of existing measures of MOBs is that their main focus is on capturing the *extent* to which firms engage in market-oriented activities, and that they fail to systematically and rigorously measure the *quality* of those behaviors.

The purpose of this study is to take a first step towards conceptualizing and measuring the quality of MOBs. The next

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section reflects on why it is that current market orientation measures do not adequately capture the quality of MOB, and argues for a formative measurement approach. The authors then develop models featuring the key components forming the quality of, in turn, market intelligence generation, market intelligence dissemination and responsiveness to market intelligence. Finally, the authors report on an empirical study which validates the models.

2. Background

2.1. Reflective versus formative measurement indicators

A key reason why current measures of MOB fail to provide sufficient information on the quality of those behaviors rests on the fact that researchers use classical test theory rather than formative measurement models to operationalize market orientation's three core activities (market information generation, dissemination and responsiveness). While it is beyond the scope of this paper to discuss in detail the various modeling options available when developing measures of latent variables (see, e.g., Diamantopoulos and Winklhofer, 2001; Jarvis et al., 2003), it is important to note that classical test theory and formative measurement models differ in their assumptions regarding the relationship between a latent variable and its indicators. Classical test theory assumes that the latent variable causes scores on the indicators (i.e., the indicators reflect the latent variable). However, formative measurement models assume the opposite causality (the indicators *cause* the latent variable), such that the content of the indicators defines the meaning of the latent variable. An implication of this observation is that classical test theory's *reflective* indicators must be internally consistent, whereas no such requirement exists for *formative* indicators.

From the perspective of measuring the quality of MOB, the reflective model has at least two shortcomings which formative measurement modeling can overcome. First, a reflective measurement model assumes unidimensionality, and should contain only items that correlate positively with one another: indeed, the items will be inter-changeable, and exclusion or inclusion of specific items from the scale will have no impact on the meaning of the scale. However, quality is multifaceted, with likely trade-offs between the different facets. For example, Jaworski and Kohli (1996) indicate that the cross-functional planning of marketing responses and firms' speed of response to market developments may be standards against which to judge the quality of MOB. Yet, while cross-functional planning may contribute to more holistic decision-making, striving to increase cross-functional involvement in the design of marketing responses may compromise the speed of such responses. Trade-offs of this kind (a) could mean that some facets of quality may not correlate, or may negatively correlate, with others, and (b) are not commensurate with the notion of internal consistency and the reflective measurement model (Diamantopoulos, 1999). Typically, since developers of market orientation scales adopt classical test theory as their default measure development approach, they eliminate potentially important items from their scales when those items do not display internal consistency with the remaining scale items. As a result, these scales

provide incomplete pictures of the quality of MOB, and the few dimensions of quality they capture tend to correlate positively (e.g., speed and frequency of intelligence generated). On the other hand, since formative measurement models allow indicators to correlate positively, negatively, or not to correlate at all, formative measurement approaches will not eliminate important indicators if trade-offs occur.

As Rossiter (2002, p. 305–308) notes: "Almost universal use of the traditional [scale development] procedure, with its strict emphasis on factor analysis and internal consistency reliability [...] has led to some anomalous results in scale development in marketing. These include the deletion of conceptually necessary items in the pursuit of factorial unidimensionality (e.g., [...] in the Market Orientation scale, Narver and Slater, 1990)". Similarly, Kohli et al. (1993) eliminate numerous conceptually important items from their item bank. The items they retain and their resulting factorial structure provide a poor representation of firms' MOB (Matsuno et al., 2000), despite the authors choosing the original items for their "appropriateness, uniqueness, and ability to convey to informants 'different shades of meaning'" (Kohli et al., 1993, p. 468).

Second, as Jarvis et al. (2003) point out, when researchers measure a latent variable with reflective items, the nomological network for each of the reflective indicators should not change; all reflective indicators must have the same antecedents and consequences. As a result, researchers seek to understand the conditions that may help firms become more market-oriented by looking for antecedent factors at the latent variable-level (not the item-level). However, a latent variable's formative indicators need not have identical antecedents. Rather, each formative indicator will have its own nomological network — its own system of antecedent factors. By imposing a reflective measurement approach to MOB, researchers place artificial constraints on how they model and examine antecedents to MOB. A formative model of the quality of MOB would remove such restrictions, allowing researchers to explore the antecedents to market orientation in a more systematic fashion.

For these reasons, the authors use a formative measurement modeling approach to develop measures of MOB. The paper contributes on a theoretical front by providing a more fine-grained approach to the study of MOB, and a platform from which to map MOB's nomological network in more detail. A formative model of the quality of MOB also has immediate practical relevance, containing indicators that managers can make sense of operationally.

2.2. Practical considerations

This study develops a model of the formative indicators of the quality of MOB, and thus three latent variables are of interest: quality of generation, quality of dissemination, and quality of responsiveness activities. Market information generation is the acquisition of data concerning the firm's markets from sources external to the firm; dissemination refers to the transfer of market information across departments/between individuals to those in the firm who require it for decision-making purposes; and responsiveness is the use of market information to develop and implement

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