Journal of Business Research 66 (2013) 2412–2417

Contents lists available at ScienceDirect

Journal of Business Research

# Does it pay for firms in Asia's emerging markets to be market oriented? Evidence from Vietnam☆

Le Nguyen Hau [a], Felicitas Evangelista [b,*], Pham Ngoc Thuy [a]

[a] *HoChiMinh City University of Technology, Vietnam*
[b] *University of Western Sydney, Australia*

A R T I C L E I N F O

*Article history:*
Received 1 October 2011
Received in revised form 1 December 2012
Accepted 1 February 2013
Available online 14 June 2013

*Keywords:*
Market orientation
Emerging markets
Asia
Vietnam

A B S T R A C T

The positive effects of market orientation (MO) on firm performance are empirically supported much more strongly by studies conducted in developed than in emerging markets. One commonly cited reason for this differential effect is that MO is affected by the cultural, economic and institutional characteristics of the economies in which it is applied. This study aims to determine whether or not MO is relevant in an Asian emerging market such as Vietnam and if so, how a firm in such countries can become more market oriented. Based on a survey of 300 firms and using structural equation modeling, the present study finds that MO has a significant effect on firm performance and that its adoption is driven by both internal organizational and external market forces. The study identifies these specific internal and external forces, including those that are unique to the emerging economies in Asia.



## 1. Introduction

Market orientation (MO) is an important concept in contemporary marketing philosophy. Introduced about half a century ago in the late 1950s (McKitterick, 1957), studies on this concept started to proliferate in the 1990s with the influential works of Kohli and Jarworski (1990) and Narver and Slater (1990). Despite the numerous studies on MO, some important research gaps remain. An analysis of more than 60 studies published from 1990 to 2008 reveals three key research streams about MO namely, conceptualization and measurement, antecedents and consequences, and implementation (Pandelica, Pandelica, & Dumitru, 2009). Of those studies investigating the consequences of MO the results are diverse. While many if not most have found a positive impact of MO on performance, a minority have reported nil effects (Kumar, Jones, Venkatesan, & Leone, 2011). Of those that support a positive impact, the strength of influence varies. A possible explanation for the diverse results according to Ellis (2006) is that MO is significantly affected by the cultural, economic and institutional characteristics of the country being studied. This argument is supported by the findings of a meta analysis of 56 studies conducted in 28 countries which show that MO has a significantly stronger impact on performance in Western than in Eastern countries. The same study also finds MO to have a greater effect on performance in large and mature economies than in the small and developing economies of Asia (Ellis, 2006).

The reported lower returns in developing and in Eastern countries give rise to the question of whether or not firms in Asia's emerging economies should bother to be market oriented. In 2005, Ellis had doubts about the potency of MO as a predictor of firm performance in developing countries. According to Ellis (2005), more research from developing nations is needed before any claim could be made about the robustness of the MO construct. Sheth (2011) makes the prognosis that what is needed in emerging economies is not market orientation but rather market development. Other authors question the applicability of MO, being a western and mainstream concept, in non-western (Bathgate, Omar, Nwankwo, & Zhang, 2006) and emerging (Sheth, 2011) markets.

Another issue is why some firms are more market oriented than others. What antecedents drive the level of MO in a firm? What should firms do in order to improve their MO? Although these issues are addressed by some scholars (e.g., Brettel, Engelen, Heinemann, & Pakpachong, 2008), the majority focus on internal organizational factors only (Pandelica et al., 2009). The current study attempts to address these issues by investigating both the internal and external antecedents of MO and the effects of MO on firm performance in Vietnam, a relatively small, transitional and emerging economy in South East Asia. During the last two decades, Vietnam has transitioned from a central planning economy into a market economy. With the support of an open-door policy, firms have been given more discretion in terms of the products/services they can offer to the market. Competition has become an important "rule of the game" although in practice, some state owned companies have more privileges compared to private owned firms (Beresford, 2008). Its joining the WTO in 2007 has led to several

☆ The authors gratefully acknowledge the comments and suggestions of Professor Gerald Albaum, University of New Mexico, U.S.A., Dr. Lancy Mac, University of Macau, China SAR, and two anonymous JBR reviewers on the earlier drafts of this paper.
* Corresponding author at: School of Business, University of Western Sydney, Australia.
*E-mail address:* f.evangelista@uws.edu.au (F. Evangelista).

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http://dx.doi.org/10.1016/j.jbusres.2013.05.028

opportunities (e.g. international trade and international business cooperation), as well as threats (i.e., severe competition) (Nguyen & Nguyen, 2011). Thus, with the emergence of a market economy, Vietnam provides a suitable context for investigating the adoption of MO and its consequences.

The present study aims to expand the current understanding about the relevance of MO in Asia where many emerging economies such as China, India, Indonesia, Thailand, Vietnam and others are located. The proposed conceptual framework focuses on the role of both the external and internal environments in determining the MO level of firms while the data obtained in Vietnam serve to test this framework. The next section of this article presents the theoretical background of the research followed by the proposed theoretical model, research methods, results, discussion and conclusion.

## 2. Theoretical background and hypotheses

### *2.1. The concept of market orientation*

Market orientation is the implementation of the marketing concept and a market-oriented organization is one whose actions are consistent with the marketing concept. Particularly, MO is defined as "the organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization wide responsiveness to it" (Kohli & Jarworski, 1990, p.6). While Kohli and Jarworski (1990) view MO in terms of an organization's behavior, Narver and Slater (1990) view it as a cultural mindset. The latter's belief is that it is "the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business" (p. 21).

The behavioral and cultural perspectives of MO are similar in the contention that firms should focus on customers and competitors, and that responsiveness to the external environment is the joint effort of the entire organization, not only of the marketing function. If Kohli and Jarworski (1990) consider "profit orientation" as a consequence of MO Narver and Slater (1990) view it as a target or an aim of achieving profit and maintaining long-term value to the enterprise. Narver and Slater's (1990) customer and competitor orientations correspond to the intelligence generation of Kohli and Jarworski (1990) while the intelligence dissemination of the latter corresponds to the interfunctional coordination element of the former. The main difference is that Narver and Slater (1990) have not explicitly included responsiveness in the MO concept the way Kohli and Jarworski (1990) have done.

In addition to the cultural and behavioral perspectives, Lafferty and Hult (2001) identify three other perspectives of MO namely, decision-making, strategic, and customer orientation. Shapiro (1988) conceptualizes MO as an organizational decision-making process which involves the interfunctional and interdivisional sharing of market information and decision making, and the implementation of well-coordinated decisions with a sense of commitment. The strategic perspective proposed by Ruekert (1992) focuses on the business unit rather than the corporate or individual market as the unit of analysis while the customer orientation perspective of Deshpande, Farley, and Webster (1993) proposes that MO is synonymous with customer orientation and that competitor orientation is antithetical to customer orientation.

Despite the various conceptualizations of MO, many authors (e.g., Hooley, Cox, Fahy, Shipley, & Beracs, 2000) agree about three key notions. First, the concept of MO includes customers, competitors and other environmental factors (Day, 1994). Second, MO is about the firm's ability to understand current market conditions, predict future conditions and act appropriately upon this knowledge (Narver & Slater, 1990). Third, a unified concept of MO is the problem of the whole enterprise rather than just the marketing department's (Slater & Narver, 1994).

The present study adopts the inclusive definition of Gray and Hooley (2002) which refers to MO as

> "the implementation of a corporate culture or philosophy which encourages behaviors aimed at gathering, disseminating and responding to information on customers, competitors and the wider environment in ways that add value for shareholders, customers and other stakeholders" (p.981).

This definition considers "both philosophy and behavior" and at the same time allows "the investigation of mediating and moderating variables, as well as antecedents and consequences" (Gray & Hooley, 2002, p.981).

Just as there are varied conceptualizations of MO, there also are different ways of operationalizing the construct. While most studies adopt the three MO dimensions namely, customer orientation, competitor orientation and interfunctional coordination (Kim, 2003; Tang & Tang, 2003; Tsai, 2003) some studies (e.g., Soehadi, Hart, & Tagg, 2001) adopt profit orientation as a fourth component while others include responsiveness (Gray, Matear, Boshoff, & Matheson, 1998) and long term orientation (Subramanian & Gopalakrishna, 2001) as a fifth component. In contrast, some adopt only a two dimension construct namely, customer orientation and competitor orientation (e.g., Venkatesan & Soutar, 2000). These variations indicate that MO takes on a slightly different meaning in different countries.

### *2.2. Model and hypotheses*

The proposed model (see Fig. 1) views MO as a second-order construct with four dimensions. Responsiveness is added as a fourth dimension because not unless firms respond to market needs, very little is accomplished (Kohli & Jarworski, 1990). Environmental challenge in the proposed model includes competitive intensity and market turbulence while leadership covers competence and commitment. The three main hypothesized paths are the positive impact of environmental challenge and leadership on MO, and the positive impact of MO on firm performance.

This study is framed in the context of an emerging or developing economy in Asia which, may also be relevant in the emerging economies of Latin America, Africa and the Middle East; and in the transitional economies of Central and Eastern Europe, and the former Soviet Bloc.

#### *2.2.1. The impact of market orientation on firm performance*

Theoretically, MO affects firm performance in a positive way. A market-oriented firm helps create superior value which contributes to greater customer satisfaction and stronger customer loyalty (Zeithaml, 2000). Empirical studies however, show that MO does not always lead to superior firm performance (e.g., Sandvik & Sandvik, 2003). A review of empirical studies which was undertaken specifically for this paper shows that out of 34 articles on developed economies, published in 1990–2003, only 55% support a positive relationship between MO and firm performance. In contrast, the same review shows that 100% of the 18 studies on developing and transitional economies published in 1997–2007 provide supportive results. In a meta-analysis of 58 empirical studies conducted in various countries in 1990–2004, Ellis (2006) reports an overall positive link between MO and performance. However, the effect sizes are significantly stronger in the USA than elsewhere while those in Western Europe are somewhat higher than in Eastern Europe and Asia.

The varying effects of MO on firm performance may be attributed to various reasons. Kohli and Jarworski (1990) suggest that under conditions of limited competition, stable market preferences, and technologically turbulent industries or booming economies, MO may not be strongly related to performance. Another reason is that MO may lead a firm to narrowly focus on current customers and their stated needs, without anticipating threats from nontraditional sources (Kumar