Market Orientation in the Transition Economies of Central Europe:
Tests of the Narver and Slater Market Orientation Scales

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The Narver and Slater (Narver, J.C., and Slater, S.F.: The Effect of Marketing Orientation on Business Profitability. Journal of Marketing *54 (1990): 20–35.) market orientation scale is tested in the context of the transition economies of central Europe and found to be both valid and reliable. Relationships between market orientation and both marketing strategy and performance broadly follow predictions from the Western literature indicating that the adoption of a market orientation is equally applicable in transition as in Western economies. A number of different approaches, however, are evident in the transition economies suggesting that other business orientations may coexist with a market orientation creating a richer and more complex set or organizational drivers.* J BUSN RES 2000. 50.273–285. *© 2000 Elsevier Science Inc. All rights reserved.*

There has been a great deal of recent research in the area of market orientation following the seminal works of Narver and Slater (1990) and Kohli and Jaworski (1990). Researchers such as Hart and Diamantopoulos (1993), Cadogan and Diamantopoulos (1995), Greenley (1995a, 1995b), Siguaw and Diamantopoulos (1995), and Gray, Matear, and Matheson (1998) have tested, developed, and refined the early market orientation scales to create useful tools for measuring the degree of market orientation Western firms exhibit. To date, however, there has been relatively little research into the extent of market orientation in developing economies in general and the transition economies of central Europe in particular. The question remains whether the construct is equally applicable in such different and turbulent environments.

Gray, Matear, and Matheson (1998) summarize the findings of recent market orientation studies, concluding that only a small number have investigated the moderating effects of environmental variables on the relationship between market orientation and performance. Those that have searched for such moderators, however, generally have found them. Researchers in the United States and other developed economies have found that the relationship between market orientation and performance is stronger in cases of high market and technological turbulence (Slater and Narver, 1994; Greenley,

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1995b; Doyle and Wong, 1996; Cadogan, Diamantopoulos, and Siguaw, 1998). The explanation appears to be that in more turbulent markets managers need to be more sensitive to market changes (Gray, Matear, and Matheson, 1998).

The transition economies of central Europe exhibit a high degree of environmental turbulence. Three macroeconomic indicators in particular point to the turbulence of the economies of the region: fluctuating growth rates, rising unemployment, and high levels of inflation.

The first factor has been the large, and relatively difficult to predict, swings in economic performance and growth rates. In Hungary, for example, the decline in GDP of 11.9% in 1991 was halted by 1993 and reached an annual growth rate of 1.3% by 1996. In Poland, decline of 11.6% in GDP in 1990 was converted to strong growth of approximately 7% per annum (pa) by 1995. Slovenian GDP decline peaked at 8.9% in 1991 and by 1996 was showing an annual growth of 3.1%. Future predictions remain, however, subject to wide margins of error. A second factor has been the significant rise in unemployment rates, a phenomena not known (or at least not officially acknowledged) during the period of central planning. In Hungary unemployment rose from 2% of the workforce in 1990 to 10% in 1996, whereas in Poland the rise over the same period was from 6% to 11% (with a peak of 16% in 1993–94). In Slovenia, unemployment rose from 5% in 1990 to 14% in 1996. The rapid rise of unemployment has created a great deal of insecurity that has translated itself to the marketplace. The third factor is inflation. The economic shock measures taken in 1989–90 in Poland and Slovenia resulted in exceptionally high rates of inflation in those years (590% in Poland and 550% in Slovenia). Although never reaching such levels since, inflation continues to be a significant factor in all economies of the region. In Hungary, annual inflation peaked at 35%pa in 1991 but has stabilized at approximately 20%pa since. In Poland, the annual rate was brought down to 19% in 1996 and in Slovenia to 9% in 1996. Despite the success in reducing inflation levels, they remain significantly higher that in many Western, developed economies (see Business Central Europe, 1998).

Hooley et al. (1998) have discussed the microeconomic, or industry specific environment facing firms in the region. This is characterized by increasingly price sensitive customers (directly related to the economic and employment pressures noted above) demanding better quality products and services. Because of the deregulation of markets and the encouragement of inward investment (especially in Hungary and Poland), customer choice is increasing, and new market segments are beginning to emerge; new products are coming to market more rapidly, and new technologies are being introduced. All these factors lead to markets experiencing rapid, and often unpredictable, change. In short, highly turbulent markets resulted. Under such circumstances, the relationship between market orientation and performance might be expected to be strong.

If market orientation is a reliable and valid construct, it should be applicable in environments and economies other those in which it originally was developed and tested. Testing and extension of the construct to date has largely occurred in similar, Western developed economies. This study set out to investigate the reliability and validity of the market orientation construct in the very different economic and business environments of central Europe. Specifically content validity was assessed through the use of in-depth interviews with managers, nomological validity was assessed through the ability of the market orientation construct to perform as predicted by marketing theory with relation to other strategy constructs, including performance, and internal reliability and consistency of the scale was assessed through the use of split-half testing by using Cronbach's coefficient alpha (see Malhotra, 1996).

Theoretical Background and Research Propositions

Building on earlier theoretical and empirical work (e.g., Houston, 1986; Shapiro, 1988; Day and Wensley, 1988; Deshpande and Webster, 1989), two significant approaches to measuring market orientation emerged in the early 1990s. Kohli and Jaworski (1990) conceptualized market orientation as the acquisition of, dissemination of, and organization-wide responsiveness to, market intelligence. Their approach was further refined in Kohli, Jaworski, and Kumar (1993) and Jaworski and Kohli (1993, 1996). In parallel, Narver and Slater (1990) and Slater and Narver (1994, 1995, 1996) developed market orientation as a unidimensional construct (a single scale) with three underlying behavioral components (customer orientation, competitor orientation, and interfunctional coordination).

Both the Kohli and Jaworski's and Narver and Slater's approaches have been tested and refined in the literature (see, e.g., Hart and Diamantopoulos, 1993; Deng and Dart, 1994; Siguaw and Diamantopoulos, 1995; Greenley, 1995b). The Narver and Slater (1990) scale, in particular, is both conceptually and operationally appealing because it encapsulates the main aspects of the Kohli and Jaworski intelligence gathering, dissemination, and responsiveness constructs while at the same time assessing cultural factors (see Deshpande, Farley, and Webster, 1993; Hunt and Morgan, 1995). In addition, Wrenn (1997) has pointed out that the Kohli and Jaworski (1990) construct more accurately reflects *marketing* orientation (the implementation of the marketing concept) than *market* orientation (a concern with both customers and competitors). Below, we term the Narver and Slater scale "MO" for brevity.

The substantive issue for this research was to assess both the reliability and the validity of the MO construct in the turbulent economies of central Europe. If the scale is to be adopted as a measure of MO in environments other than those