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The measurement of a market orientation and its impact on business performance

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Abstract

"Market orientation" is conceptualized as consisting of two components ("customer and competitor orientations"), each involving a four-stage process (acquisition of information, organization-wide sharing of information, a shared interpretation of market information, and utilization of market information), and reliable and valid measurement scales are developed. The impact of customer and competitor orientation on business performance is investigated based on multiple-informant data from two US industries. The results suggest that while customer and competitor orientation each have a positive and significant impact on overall market orientation, only customer orientation has a positive and significant effect on business performance. From a managerial perspective, the measurement scales can be used to assess a firm's level of market orientation and identify "bottlenecks" in intraorganizational information flows. © 2001 Elsevier Science Inc. All rights reserved.

Keywords: Market orientation; Customer orientation; Market information; Marketing concept; Competitor orientation; Market-driven

1. Introduction

Until the mid-1950s, the traditional view of marketing held that the key to profitability was greater sales volume and therefore it was marketing's responsibility to sell whatever the factory could produce (Webster, 1988). Marketing methods were oriented toward a short-term, tactical process of personal selling, advertising, and sales promotion (Webster, 1988).

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In the mid-1950s, as postwar conditions of scarcity were replaced by an abundance of products competing for the patronage of increasingly affluent consumers, the "marketing concept" evolved (Webster, 1988). The short-term, tactical sales approach to marketing was replaced by a long-term, strategic orientation (Webster, 1988) that encouraged businesses to look at basic consumer needs rather than at transient products (McGee & Spiro, 1988). The marketing concept was considered to be a philosophy for conducting business. The term "market orientation" refers to the implementation of a market orientation (McCarthy & Perreault, 1984).

While various conceptualizations of a market orientation appear in the literature, three appear to dominate. Specifically, Narver and Slater (1990) conceptualize a market orientation as a three-dimensional construct consisting of customer orientation, competitor orientation, and interfunctional coordination. Kohli and Jaworski (1990) also identify a market orientation as a three-dimensional construct, but suggest that the three components are organization-wide generation of market intelligence, dissemination of market intelligence across departments, and organization-wide responsiveness. Alternatively, Day (1993) and Sinkula (1994) propose that a market orientation may be more appropriately conceptualized as a process consisting of four stages: (1) acquisition of market information, (2) organization-wide sharing of market information, (3) a shared interpretation of market information, and (4) utilization of market information in the firm's strategic planning and enacted response.

A review of the 1990s marketing literature suggests a renewed interest in the area of market orientation (cf. Davis, Morris, & Allen, 1991; Deshpande, Farley, & Webster, 1993; Jaworski & Kohli, 1993; Kohli & Jaworski, 1990; Kohli, Jaworski, & Kumar, 1993; Narver & Slater, 1990; Ruekert, 1992; Slater & Narver, 1994a). This is not surprising since a market orientation represents the foundation of high-quality marketing. However, as important as a market orientation is to the study and practice of marketing, marketers have yet to integrate their conceptualizations and measures of a market orientation.

The primary objective of the current research is to develop of a reliable and valid measure of a market orientation that integrates and builds upon the existing literature (Walker, 1997). A secondary objective is to investigate the individual effects of a customer orientation, competitor orientation, and overall market orientation on business performance (Walker, 1997).

2. Market orientation literature review

Various conceptualizations of a market orientation appear in the literature (cf. Davis et al., 1991; Deshpande et al., 1993; Kohli & Jaworski, 1990; Narver & Slater, 1990; Ruekert, 1992; Shapiro, 1988). For example, Shapiro (1988), perhaps the first author to identify aspects of a market orientation, describes a market-oriented firm as one in which (1) information on all important buying influences permeates every corporate function, (2) strategic and tactical decisions are made interfunctionally and interdivisionally, and (3) divisions and functions make well-coordinated decisions and execute them with a sense of commitment.