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The market orientation–performance relationship in the context of a developing economy An empirical analysis

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Abstract

The buyer market conditions that emerged in India following its decision to liberalize the economy in 1991 provided the setting for studying the effect of market orientation on organizational performance. Results from a sample of 162 manufacturing and service firms provided support for a strong positive relationship between market orientation and growth in overall revenue, return on capital, success of new products and services, ability to retain customers, and success in controlling operating expenses. The study found that competitive hostility, suppliers' power, and market turbulence did not moderate the market orientation–performance relationship.

Keywords: Market orientation; Performance relationship; Developing economy; Revenue; Return on capital

An important stream of research currently being pursued in the fields of marketing strategy and strategic management relates to the concept of market orientation. Kohli and Jaworski (1990, p. 3). defined the construct as "the organization wide generation of market intelligence, dissemination of intelligence across departments and organization wide responsiveness to it." While the business literature has long underscored the importance of market orientation to organizational performance, only recently efforts have been made to operationalize the construct of market orientation (Kohli and Jaworski, 1990; Narver and Slater, 1990) and establish empirical support for its relationship to performance (Ruekert, 1992; Jaworski and Kohli, 1993; Slater and Narver, 1994; Atuahene-Gima, 1996).

The early studies on market orientation examined the construct and its relationship to business performance using US and, to a lesser extent, UK samples. It is only recently that the focus has shifted to studying the construct in non-Western contexts. The results of the body of empirical literature on the subject, however, are equivocal about the importance of market orientation to business performance. For example, Greenley (1995a) found that the market orientation–performance relationship was not statistically significant in his sample of British companies and that the influence of market orientation on performance was moderated by environmental variables. On the other hand, consistent with the results of US-based studies cited earlier, Bhuian's (1998) study of Saudi Arabian manufacturing companies found support for a positive relationship between market orientation and business performance. The inconsistency in results necessitates further examination of the relationship between the two variables in other contexts before one can conclude that market orientation is important to organizations.

The overall purpose of the current study was to examine the construct of market orientation as it relates to a developing country, namely India, which has recently opened up its economy to foreign competition. The study also sought to identify control variables and moderator variables that are unique to the Indian economy, and could affect the market orientation–performance relationship.

The significance of the study is that it tests a phenomenon observed primarily in Western business cultures to a country that, in the words of one observer, "is the first, massive

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complex developing country to successfully transit from a socialist to a market economy . . . ” (Bullis, 1998, p. xiii). Thus, it seeks to extend findings generated in one context-specific environment to another context-specific setting. From an academic point of view, the current study contributes to the growing body of empirical literature on the market orientation and organizational performance relationship.

1. Theoretical framework of analysis

1.1. The market orientation literature

Ever since Kohli and Jaworski (1990) and Narver and Slater (1990) operationalized the construct of market orientation and devised a scale to measure it, extant research on the topic has flown along three lines. The first consisted of empirically determining the relationship between market orientation and organizational performance primarily in the Western context. The early studies (Kohli and Jaworski, 1990; Narver and Slater, 1990; Ruekert, 1992), using US samples, established unequivocal support for a positive relationship between the two variables. Subsequent work in this stream examined market orientation’s relationship to performance in non-US but primarily Western contexts (Diamantopoulos and Hart, 1993; Greenley 1995a). Studies conducted with UK samples introduced the element of equivocality by finding only a weak (Diamantopoulos and Hart, 1993) or no association (Greenley 1995a) between the two variables of interest.

The second stream of research was a more eclectic collection of studies that examined the relationship between market orientation and performance in context-specific settings. Such settings included biotechnology firms (Appiah-Adu and Ranchhod, 1998), hospitals (Raju et al., 1995; Kumar et al., 1998), service firms (Van Egeren and O’Connor, 1998) and small organizations (Pelham and Wilson, 1996).

The more recent stream of research, the one that is of the most relevance to the current study, built on the early work on market orientation and performance done in Western contexts to examine the relationship between the variables using non-Western samples. The samples included Thailand (Powpaka, 1998), Hong Kong (Au and Tse, 1995; Ngai and Ellis, 1998; Tse, 1998), Taiwan (Horng and Cheng-Hsui, 1998), Saudi Arabia (Bhuian, 1997, 1998), and Ghana (Appiah-Adu and Singh, 1998). However, contrary to Jaworski and Kohli’s (1996, p. 131) observation that “each set of studies suggests that the effect of market orientation on business performance generalizes across national cultures,” as Ngai and Ellis (1998, p. 121) point out, “in the main, the American research shows a positive association between market orientation and performance while the replicative studies done in other countries provide mixed support for this linkage.”

This element of equivocality presents a egregious need to study the relationship between market orientation and performance in specific country contexts before one can state with conviction the importance of this construct to competitive advantage. The 1991 economic liberalization program in India offers a good platform to apply this predominantly Western developed construct to a developing country.

According to Jain (1993), several factors can be cited in support of India’s attractiveness to foreign businesses. First, by the turn of the century, India is expected to have nearly 300 million consumption-hungry consumers with significant purchasing power. Next, India’s diverse, affordable and skilled labor pool has become the envy of the Southeast Asian “tigers.” For example, both Hewlett Packard and Texas Instruments engage in in-house software development in one city alone, within India. Finally, a strong manufacturing base, availability of capital, a satisfactory infrastructure, critical management skills and a new and improved legislative system make India one of the region’s lucrative markets. In particular, two reasons can be cited for selecting India as the locus for the current study.

The first is the major exodus of foreign firms to the subcontinent that came about after 1991. Foreign capital investment increased from US$8 million in 1991–1992 to US$2.214 billion in 1995–1996 (Thiagarajan, 1998) as firms such as PepsiCo, Coca-Cola, Kelloggs, Toyota, and Daewoo entered the Indian market. Faced with the advent of successful foreign competitors to a hitherto sellers market, many Indian firms resorted to mimetic isomorphism, investing heavily into market research, environmental scanning and other related boundary-spanning activities. As a result many new marketing techniques were introduced into the Indian marketplace both by foreign firms as well as Indian firms that had observed and learned from the successful new entrants. For example, a domestic firm, Godrej Foods spent 2 years in intensive market research prior to launching extensions of its ready-to-drink brand Jumpin’ (Chakraborty, 1998). The Indian market research industry grew explosively at an annual rate of 25% every year since economic liberalization as more and more firms put “the Indian consumer under observation like never before” (Chakraborty, 1998, p. 96). Rahul Bajaj, Chairman and Managing Director of a leading automotive firm Bajaj Auto, admitted in an interview that “earlier the government used to plan shortages for the businessman’s comfort. But, now markets are the determining factors. So, the orientation of the business is no longer towards overcoming government hurdles, but the focus is increasingly on consumers, competition, stockists, and dealers” (Panwar, 1997, p. 14).

The second factor is the presence of a buyers’ market in many industries in the post-economic liberalization milieu. The cement industry is a case in point. The Associated Cement Company (ACC) held a near-monopoly position in terms of market share prior to 1991. In 1998, however, the cement market is fiercely competitive with six companies (ACC, Gujarat Ambuja, India Cements, Madras Cements, L&T, and Grasim) vying for customers as the smaller players increased their scale when government licenses for capacity