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An Appraisal of Research on the Predictive Power of Market Orientation

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The majority of studies on market orientation claim compelling evidence exists that market orientation has a positive effect on business performance. This study takes a closer look at 51 studies which have addressed the relationship between market orientation and business performance between 1990 and 2002. The results show that there is no unequivocal evidence as to *if* and *when* market orientation has a positive impact on business performance. There is however some unequivocal proof, albeit limited, on *how* market orientation influences business performance. These findings are unsettling for academics and managers because market orientation is the foundation of marketing strategy.

Keywords: Market orientation, Marketing strategy, Business performance, Customer satisfaction

Introduction

Market orientation is a business culture that: (1) places the highest priority on the profitable creation and maintenance of superior value for customers while considering the interest of other stakeholders, and; (2) provides norms for behaviours regarding the organisational generation of, dissemination of, and responsiveness to market information (Deshpandé *et al.*, 1993; Kohli and Jaworski, 1990; Narver and Slater, 1990). Moreover Hunt and Morgan (1995) state that a market-oriented culture produces a position of sustainable competitive advantage and, thus, superior long-run financial performance. In line with this reasoning researchers have extensively pursued an understanding of the link between market orientation and business performance in the past thirteen years. These studies have, in general, claimed that market orientation has positive effects on business performance (e.g., Jaworski and Kohli, 1993; Narver and Slater, 1990). Not surprisingly, the interest in the assumed positive relationship between market orientation and business performance has ostensibly remained steadfast for its apparent predictive power with regard to business performance (Matsuno *et al.*, 2002).

A closer look at the results of empirical research on the relationship between market orientation and business performance reveals however that the predictive power of market orientation is still an open question (Deshpandé and Farley, 1998; Noble *et al.*, 2002). For example, Ruekert (1992) and Slater and Narver (1994) find a positive direct relationship, Diamantopolous and Hart (1993) and Han *et al.* (1998) report no direct relationship, while Jaworski and Kohli (1993) and Narver and Slater (1990) encounter mixed results. These inconsistencies are unsettling, because they suggest that being market-oriented, a good management practice and the foundation of marketing strategy formulation and execution, may not always be beneficial for a firm. This contention is an unnerving one for managers who believe in market orientation: know the market, share the market information and act on it (Jaworski and Kohli, 1993). The purpose of this study is therefore to investigate the predictive power of market orientation with regard to business performance. To this end we examine 51 key studies that have addressed the relationship between market orientation and business performance. The appraisal reported here helps shape the field by directing researchers' attention towards research issues that really add to the existing knowledge on market orientation.

Measuring Market Orientation

Homburg and Pflesser (2000) distinguish two complementary perspectives on market orientation: behavioural and cultural. The *behavioural* stream of research describes market orientation in terms of specific behaviours related to the organisation-wide generation of market intelligence pertaining to current and future customer needs, dissemination of this intelligence across departments and organisation-wide responsiveness to it (Kohli and Jaworski, 1990). Key features in this view are a focus on markets, an emphasis on a specific form of inter-functional co-ordination and a focus on activities related to information processing. To measure market orientation from this behavioural perspective Jaworski and Kohli (1993) developed a scale that was later labelled MARKOR by Kohli *et al*. (1993). This 20-item scale was constructed using non-linear factor analysis of matched samples of senior marketing and non-marketing executives from 222 strategic business units. The MARKOR scale is shown in Appendix A.

The *cultural* stream describes market orientation as a culture that commits the organisation to the continuous creation of superior value for customers (Deshpandé *et al*., 1993; Narver and Slater, 1990). This culture creates an environment that maximises opportunities for learning about markets, for sharing information among functions in the organisation that allows for common interpretations, and for taking co-ordinated actions (Slater and Narver, 1994). The result is an integrated effort on the part of employees and across departments in an organisation to create superior value for customers, which, in turn, gives rise to superior business performance. Narver and Slater (1998, p. 235) emphasised the importance of the cultural perspective in comparison to the behavioural approach: 'If a market orientation were simply a set of activities completely disassociated from the underlying belief system of an organisation, then whatever an organisation's culture, a market orientation could easily be implanted by the organisation any time. But such is not what one observes.' For example, one study indicated that only 36 per cent of a sample of UK firms has embraced a comprehensive market orientation (Greenley, 1995a).

Homburg and Pflesser (2000) notice that research within the cultural perspective, although based on a cultural definition of market orientation, has typically measured market orientation in terms of behaviours. For example, Narver and Slater (1990, pp. 20–21) define market orientation as 'the business culture that most effectively and efficiently creates superior value for customers', but they measure market orientation through three behavioural components (i.e., customer orientation, competitor orientation and inter-functional co-ordination) that constitute 'the activities of market information acquisition and dissemination and the co-ordinated creation of customer value.' To measure these activities Narver and Slater (1990) developed a 15-item factor-weighted scale, which was tested on split samples of 371 self-administered questionnaires from top managers of 113 strategic business units of a single corporation. Similarly, Deshpandé *et al*. (1993, p. 27) define market orientation as 'the set of beliefs that puts the customer's interest first, while not excluding those of all other stakeholders …. in order to develop a long term profit', but develop a 9-item behavioural market orientation scale using results from a study of 138 Japanese executives. The scales developed by Narver and Slater (1990) and Deshpandé *et al*. (1993) are shown in Appendices B and C.

More recently, Deshpandé and Farley (1998, p. 226) defined market orientation as 'the set of cross-functional processes and activities directed at creating and satisfying customers through continuous needs-assessment'. To measure market orientation they developed the MORTN summary scale. This scale was synthesised from the three existing scales by Kohli *et al*. (1993); Narver and Slater (1990) and Deshpandé *et al*. (1993), in a study of eight European and 19 US companies. The MORTN scale is shown in Appendix D.

In summary, scholars designate being market-oriented as an important factor that creates a setting conducive for behaviours by employees throughout the organisation. These congruent behaviours are directed at the continuous creation of superior value for customers that leads to superior business performance.

Market Orientation and Business Performance

In line with this reasoning, and using the scales previously described, researchers have pursued an understanding of the link between market orientation and business performance by investigating: (1) a *direct* relationship (e.g. Pelham, 1999; Ruekert, 1992); (2) a *moderated* link (e.g. Greenley, 1995b; Pelham, 1997), and; (3) a *mediated* relationship (e.g., Baker and Sinkula, 1999b; Han *et al*., 1998). Table 1 provides a summary of 51 studies that have addressed the relationship between market orientation and business performance. A study had to meet three criteria in order to be included: (1) the study investigated the relationship between market orientation and business performance for profit organisations; (2) the study employed one or more of the original, or an adaptation of the scales developed by Deshpandé *et al*. (1993); Kohli *et al*. (1993) and/or Narver and Slater (1990), and; (3) the study did not reanalyse previously reported data.

Studies investigating a Direct Relationship

The overview reveals 50 studies that have investigated the direct influence of market orientation on business performance[1]. Looking at individual studies as a unit of analysis the overview reveals 26 (52.0