

Market orientation and performance: An empirical investigation in the retail industry in Greece

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Abstract

Due to a void in the literature, the object of this study was to examine the adoption of market orientation and its impact on performance in a retail context. Supermarket chains with nation-wide stores in Greece were specifically selected. Findings clearly demonstrate a positive effect of market orientation on retail performance and support the notion that market orientation is an important determinant of firm performance. Retailers acknowledge the importance of implementing market orientation within their organizations. © 2006 Elsevier Ltd. All rights reserved.

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1. Introduction

During the 1990s, market orientation received a lot of attention from the marketing discipline (e.g. Chang et al., 1999; Diamantopoulos and Hart, 1993; Greenley, 1995; Kohli and Jaworski, 1990; Narver and Slater, 1990). Market orientation is defined as the ability of a firm to learn about customers, competitors and environmental factors on a continuous basis, permitting them to act on events and trends in present and potential markets (Day, 1994). The first phase of empirical studies on the subject, focused mostly on the meaning and measurement of the construct (Deshpande and Farley, 1990; Hooley et al., 1990; Kohli and Jaworski, 1990; Narver and Slater, 1990; Webster, 1988). In the next phases of the developing market orientation concept, researchers explored relationships. These included behavior and attitude (Avlonitis and Gounaris, 1997), focus on a variety of contexts like country (Cadogan et al., 1999; Deshpande and Farley, 1990), export orientation activities (Cadogan and Diamantopoulos, 1995) and the service industry (Lado et al., 1998; van Egeren and O'Connor, 1998).

In the last decades, the retail industry faced concentration and intensified competition. As a result, many companies have adopted a strategy of rationalization, giving emphasis to cost reduction. Others attempt to be more market orientated, becoming more responsive to market requirements and trying to satisfy different groups of customers.

Despite the great body of research devoted to the market orientation of manufacturing firms and to other business areas, research on the implementation of market orientation in retailing remains limited (Berry et al., 1990). Moreover, the retail industry remains till nowadays a relatively unexamined context of the relationship between market orientation and firm performance. Retailing deals with customer orientation. It continually gathers and analyzes market intelligence as well as adapting itself to the market trends. Thus, the retail industry provides a setting for further exploration of the market orientation construct and its dimensions. Retailing operates in a competitive environment, which potentially creates a need of differentiation, improvement of retail mix and customer service.

The aim of this research is twofold. The first objective is to examine the market orientation construct within the retailing context in the Greek market and secondly to examine the influence of market orientation on retail performance.

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2. Market orientation

The concept of market orientation can be approached from two perspectives: as a business philosophy and as behavior (Dreher, 1994). Market orientation as a business philosophy is defined as the pattern of shared values and beliefs within an organization, helping individuals to understand the functions of the organization and provide them with normative behaviors (Deshpande and Webster, 1989). The behavioral perspective focuses on characteristics of the organization like strategy, structure, process and activities (Dreher, 1994).

A number of definitions of market orientation can be found in the marketing literature regarding the behavioral dimension of market orientation (Kohli and Jaworski, 1990, 1993). Business philosophy, customer/market focus, integrated marketing efforts, and long-term profit goals are the most common elements of market orientation that have been used widely. Additional elements of market orientation behavior have been suggested, like intelligence generation, intelligence dissemination, and responsiveness to market intelligence (Kohli and Jaworski, 1990, 1993), innovation and competitor reference (Liu, 1995), or competitor orientation (Narver and Slater, 1990).

Kohli and Jaworski (1990) define market orientation as “organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of intelligence across departments, and organization wide responsiveness to it”. Moreover, they proposed that the market orientation construct is influenced by a number of antecedent variables (such as, top management involvement and interdepartmental conflict), is moderated by environmental variables (including market turbulence), and is manifested in a number of outcomes (for example, *esprit-de-corps* and company performance).

In contrast with Kohli and Jaworski (1990), Narver and Slater's (1990), operationalisation of market orientation incorporated three behavioral components: (a) customer orientation, the sufficient understanding of target buyers so as to be able to create superior value for them continuously; (b) competitor orientation, understanding the short-term strengths and weaknesses and the long-term capabilities of both current and potential competitors; and (c) interfunctional coordination: the coordinated utilization of company resources for creating superior value for target customers. Narver and Slater (1990) developed and refined their own measure of market orientation and investigated the association with performance. Their results supported the hypothesis that market orientation is an important determinant of business profitability.

The Kohli and Jaworski (1990) and Narver and Slater (1990) studies provide a theoretical foundation for others to build on. The instruments used to measure market orientation were often based on the questionnaire developed and tested by Narver and Slater (1990) (indicative: Greenley, 1995; Pelham and Wilson, 1996; Slater and Narver, 1994a, b). Simultaneously, a number of researchers responded to Kohli and Jaworski's (1990) proposition for

further exploration of market orientation construct (Diamantopoulos and Hart, 1993; Dobscha et al., 1994; Greenley, 1995; Slater and Narver, 1994a).

Even though the association between market orientation and business performance appears to have been taken for granted by both the academic community and practitioners (Houston, 1986; McGee and Spiro, 1988; Shapiro, 1988; Webster, 1988), only in the last decade empirical evidence of the proposed relationship has been revealed (e.g. Atuahene-Gima 1996; Balakrishnan, 1996; Diamantopoulos and Hart, 1993; Greenley, 1995; Jaworski and Kohli, 1993; Pelham and Wilson, 1996; Pitt et al., 1996; Raju et al., 1995).

Research into the market orientation has been conducted in a variety of contexts. A great number of studies have been conducted in the United States (for example Jaworski and Kohli, 1993; Narver and Slater, 1990; Pelham and Wilson, 1996; Ruekert, 1992; Slater and Narver, 1994a). Other studies have been conducted in Australia (e.g. Caruana et al., 1997, 1998, 1999a, b; Gray et al., 1998; Pulendran et al., 2000), in South Eastern Asia (Grewal and Tansuhaj, 2001; Soehadi et al., 2001) and in Japan (Deshpande et al., 1993). Considering the European continent one can find relative studies in the UK (e.g. Diamantopoulos and Hart, 1993; Greenley, 1995; Pitt et al., 1996; Caruana et al., 1999a, b), and in the Netherlands and Scandinavia (Langerak, 2001; Selnes et al., 1996). The only study concerning Greece is the research of Avlonitis and Gounaris (1997), which focuses on various industries.

Research devoted to the retail industry has been restricted to the examination of the operational marketing activities and practices (Greenley and Shipley, 1992), departmental marketing roles (Piercy and Alexander, 1988), and is mostly descriptive in nature. In 1998, Greenley and Shipley conducted a survey of British retailers' attitudes towards retail marketing. At the same time, Piercy and Alexander in their study on retailing found that the majority of retailers were “marketing oriented”. The most fruitful results concerning retail industry and the market orientation philosophy (in a UK context) can be found within the findings of Liu and Davies' piece of research (1997). They provide a more precise picture of the adoption of the market orientation within the retail industry. Even their analysis is descriptive to a great degree and they use their own measures of the market orientation construct. The other remarkable study relative to the retail industry is of Soehadi et al. (2001) which clearly demonstrates the adoption of the market orientation by Indonesian retailers.

It is clear that there is only little empirical evidence concerning the implementation of market orientation within the retail industry and this fact was the source of our research interest.

3. Retail business performance

Performance measurement has been developed as a mean of monitoring and maintaining the process of ensuring that

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