

Market orientation and performance in the service industry: A data envelopment analysis[☆]

Sven A. Haugland^{a,*}, Ingunn Myrtveit^{b,1}, Arne Nygaard^{c,2}

^a Norwegian School of Economics and Business Administration, Department of Strategy and Management, Breiviksveien 40, N-5045 Bergen, Norway

^b Norwegian School of Management, Department of Accounting, Auditing and Law, N-0442 Oslo, Norway

^c Norwegian School of Management, Centre for Advanced Research in Retailing, N-0442 Oslo, Norway

Received 1 November 2006; received in revised form 1 March 2007; accepted 1 March 2007

Abstract

The relationship between market orientation and performance is a cornerstone in the market orientation literature. However, few empirical studies applying objective performance measures raise concerns about whether or not the most market-oriented firms are the best performers. This article reports a study testing the market orientation model using a multi-method approach to measure performance. The study applies two objective performance measures—relative productivity, calculated by data envelopment analysis (DEA) and return on assets (ROA)—and one subjective performance measure—perceived profitability compared to key competitors. Building on empirical data from the hotel industry, the results indicate that market orientation has only a modest effect on relative productivity and no effect on return on assets. The strongest effect of market orientation on performance occurs when applying the subjective performance measure.

© 2007 Elsevier Inc. All rights reserved.

Keywords: Market orientation; Performance measurement; Data envelopment analysis; Service industry

1. Introduction

The market orientation literature argues that products should reflect market demand and changes in consumer preferences (Slater and Narver, 1995). Market orientation explains how the knowledge about and responses to market demands are related to business performance. Empirical studies indicate a positive link between market orientation and various outcome variables, like financial performance, innovativeness and organizational learning (e.g., Baker and Sinkula, 1999; Greenley, 1995; Han et al., 1998; Jaworski and Kohli, 1993; Narver and Slater, 1990; Ruekert, 1992). Despite these findings, other research has produced mixed results concerning the relationship between market orientation and performance (Noble et al., 2002). In

particular, when researchers apply objective performance measures, significant effects of market orientation on performance are difficult to find (Piercy et al., 2002).

Market orientation research relies heavily on perceptual or subjective measures, including subjective performance measures. This makes it difficult to advance rigorous analyses of how marketing costs may affect performance (Langerak, 2001). Despite its importance for marketing scholars and practitioners, theoretical and empirical understanding of the impact and value of the costs associated with market orientation is modest (e.g., Anderson et al., 2004; Rust et al., 2004). A fair criticism is therefore that knowledge is still limited concerning the costs of developing market-oriented firms and the corresponding benefits, and furthermore, more reliable and valid empirical measures should be developed.

This study tests whether or not the level of market orientation explains variations in firm performance. The aim is to identify the best performers in a sample of firms using data envelopment analysis (DEA). DEA is a method for measuring and comparing the productivity of a sample of firms. DEA calculates productivity as the ratio between input resources and output results

[☆] The authors contributed equally to this paper.

* Corresponding author. Tel.: +47 55 95 94 64.

E-mail addresses: Sven.Haugland@nhh.no (S.A. Haugland), Ingunn.Myrtveit@bi.no (I. Myrtveit), Arne.Nygaard@bi.no (A. Nygaard).

¹ Tel.: +47 46 41 04 31.

² Tel.: +47 46 41 05 49.

(Banker et al., 1984; Bhargava et al., 1994), and the outcome of the analysis is an identification of the most productive or efficient firms in the sample. Linking the productivity ratio to market orientation provides a test of whether the most productive firms are the most market-oriented. An accounting-based performance measure (return on assets) and a subjective, psychometric performance measure (perceived profitability compared to key competitors) are also included. This results in a test of the link between market orientation and firm performance using a combination of subjective and objective performance measures.

2. Market orientation and firm performance

Two frameworks dominate market orientation research (Noble et al., 2002). The Narver and Slater (1990) framework defines market orientation as consisting of the three behavioral dimensions of customer orientation, interfunctional coordination, and competitor orientation, and a long-term horizon and profit emphasis in the implementation of the three behavioral dimensions. The Kohli and Jaworski (1990) framework focuses more on market orientation as a process having three stages: intelligence generation, intelligence dissemination and responsiveness. Although the two frameworks focus on different dimensions, they take a similar view of the concept of market orientation and how organizations should address market orientation (Noble et al., 2002).

A number of empirical studies test the impact of market orientation on performance. Some researchers find that market orientation increases business performance (e.g., Chang and Chen, 1998; Narver and Slater, 1990; Slater and Narver, 1994; 2000), while others do not find significant direct effects of market orientation on performance (e.g., Han et al., 1998; Siguaw et al., 1998). Empirical studies typically use a combination of single methods and subjective data, including subjective or perceptual performance indicators. Respondents evaluate business performance along dimensions such as profitability, return on assets, sales growth, and new product successes. Some studies have also included objective performance measures, but these studies have not revealed any direct impact of market orientation on performance (Han et al., 1998; Jaworski and Kohli, 1993).

The empirical link between market orientation and performance is thus questionable. Only research that has applied subjective performance measures reports positive effects of market orientation on performance. A serious drawback of subjective performance measures is that when firms perceive themselves in relation to customers and competitors, they may in fact overstate their performance (Noble et al., 2002), and the result is a false positive relationship. Therefore, the empirical literature is inconclusive, requiring further studies to enhance knowledge of the empirical relationship between market orientation and business performance (Noble et al., 2002).

At least two different research strategies may increase knowledge in this area. First, the research can investigate the mechanisms by which market orientation affects performance (Guo, 2002; Han et al., 1998; Hult et al., 2005). While most

empirical studies have tested the link between market orientation and performance, the underlying mechanisms or processes that enable firms to utilize market orientation as a strategy to improve performance are not well understood. Guo (2002) has introduced a gap analysis framework for service firms, in which service quality is an intervening variable. In a similar vein, Han et al. (1998) suggest that organizational innovation mediates the relationship between market orientation and performance, and Hult et al. (2005) propose organizational responsiveness to mediate the market orientation–performance link. More research along these lines may provide further knowledge of how market orientation can become a tool to increase business performance.

Second, developing better methods and measures than now available for testing the market orientation–performance link is possible especially by developing objective performance measures and using multiple methods of data collection. The main reason for reliance on subjective performance measures is that objective measures are difficult to gather due to firms' unwillingness to disclose financial information. The combination of subjective measures and single methods of data collection may affect analyses of the relationship between market orientation and performance due to spurious answers and inflated responses (Campbell, 1982). Such psychometric research may therefore lead to systematic shared method variance that affects the results (Campbell and Fiske, 1959). Examples of studies that have tried to mitigate these problems include Han et al. (1998), who used both objective and subjective, self-reported performance measures, and Slater and Narver (2000), who applied a multiple respondent design.

This study falls within this second approach as it applies a multi-method strategy. The performance measures include both subjective and objective measures, and the study uses multiple data sources to collect performance information. The study applies the following three measures: perceived profitability compared to key competitors, productivity, and return on assets. Perceived profitability compared to key competitors is a subjective measure based on perceptual, self-reported data, while productivity and return on assets are objective measures. The productivity measure is a calculation of efficiency based on the ratio between input resources and output results using the DEA method. DEA is particularly suitable for measuring and comparing organizations' performance (Afriat, 1972; Banker et al., 1984; Charnes et al., 1978). DEA compares a sample of organizations with one another in a normalized, multidimensional space. The idea is to find a non-parametric best practice frontier. Units on the frontier are efficient; for other units, distance from the frontier defines inefficiency. Studies applying DEA within marketing address topics such as assessment of retail productivity (Donthu and Yoo, 1998), channel efficiency in franchise versus non-franchise systems (Yoo et al., 1998), effects of allocation of marketing resources on corporate profits (Chebat et al., 1994), and assessment of the validity and reliability of performance measures related to marketing effectiveness (Bhargava et al., 1994). Productivity is a relative concept. It does not mean much to say that productivity is high or low without comparison with some benchmark. The

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات