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A value-based perspective of market orientation and customer service

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ABSTRACT

This study aimed to build a model of business performance based on customer value-defined market orientation. In the context of a service retail industry, both firms' and customers' perspectives were involved in the development of the construct, using such dimensions as management support, employee efforts and customer satisfaction. The authors undertook a large-scale fieldwork to collect matched response data from firms and consumers and to test the proposed model. The results provide empirical evidence of the effects of a customer value-based market orientation on business performance, measured in terms of customer retention. In addition, this study identified three drivers of employees' effort to implement market orientation from a value perspective.

1. Introduction

Although market orientation is one of the most dominant concepts in the development of marketing theory, previous empirical findings suggest that its implementation does not necessarily result in business profit (e.g., Jaworski and Kohli, 1993; Kohli and Jaworski, 1990; Liu, 1995; Narver and Slater, 1990; Pelham and Wilson, 1996; Slater and Narver, 1994a, b; Appiah-Adu, 1998; Atuahene-Gima, 1995; Cahill et al., 1994; Greenley, 1995a, b; Liu and Davies, 1997; Workman, 1993). This uncertain relationship between market orientation and business performance calls for a closer investigation of the original market orientation construct. The discrepancy in empirical findings may stem from a variety of reasons. Despite market orientation scholars paying much attention to the validation of extant measurement (Oczkowski and Farrell, 1998) or their capability for generalisation (Mavondo and Farrell, 2000), the controversy over market orientation may not be limited to these issues. Other problems may lie embedded in the original market orientation constructs themselves. For instance, while a customer-centric thinking would appear to be at the core of market orientation (Levitt, 1960), the organization's views have dominated the development of market orientation constructs. A criticism often leveled at past market orientation studies concerns the domination of the organization's view in the research process (Gabel, 1995; Harris, 2002).

Given the variety of reasons behind the mixed empirical results found in relation to the market orientation-business performance relationship, the focus of this research was to define and measure market orientation to allow a fuller reflection of customer-centric thinking. Hence, this study aims to build a model of performance based upon a market orientation construct that includes customer value, and which also comprises customer service (exchange process) and customer retention (business performance). A specific strength of this study lies in its inclusion of the perceptions of both firms and consumers in validating the proposed customer value based market orientation (CVBMO thereafter) construct. Such an approach was deemed essential to bring about customer-centric thinking and provide new insights into market orientation.

With this purpose in mind, we undertook the following research steps. The first step integrated the concept of customer value into the proposed construct. A review of the literature on the advantage of customer value suggests its potential to consolidate the market orientation construct (Weinstein and Pohlman, 1998; Woodruff et al., 1993). Then, we tested the CVBMO construct in the service context of the retail industry. Hypotheses were developed in order to provide a better understanding of the construct and its effect on business performance. This empirical study examined the frontline service employee–customer relationship in terms of market orientation implementation. As most previous studies about market orientation focus on the internal interface (the relationship of an organization and its employees), a focus on the external interface (the relationship of employees and consumers) provided a much-needed perspective in relation to market orientation outcomes. Moreover, the use of customer retention, a non-financial

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performance index, shed additional insight into the market orientation-business performance link. Past research in this area has typically used traditional financial indices, primarily in the context of the manufacturing industry.

2. Theoretical foundations

2.1. Market orientation and customer value

To date, researchers continue to define market orientation in various ways (Deshpandé et al., 1993; Kohli and Jaworski, 1990; Narver and Slater, 1990). When examined as a whole, three general components can be identified in extant definitions: (1) customer focus, (2) process emphasis, and (3) goal achievement. All are aimed at satisfying customers or exchange partners' needs and wants to achieve an organization's business goal. Narver and Slater (1990)'s definition of market orientation was adopted in this study. Market orientation is "the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business (Narver and Slater, 1990, p. 21)". Narver and Slater's definition of market orientation reflects a real business phenomenon much better than others. Moreover, they claim that an organization can achieve a longer lasting business performance if creating superior customer value is the way to gain a sustainable competitive advantage. Examples of this can be seen in practice. For example, the top retailer in Taiwan, 7–11 convenience stores, with its 24 h and year-round opening hours, provides convenience for customers and especially for late night shoppers. Hence, 7–11 achieved its prominent business position by a sustainable competitive advantage: delivering superior customer value. This underlying premise of providing value for customers justifies its use in this study.

This study defines customer value based on previous theoretical and empirical studies relevant to the current research purpose. As stated by Taylor (1961), the term "value" refers to a judgment of preference by consumers. An overview of customer value theory suggests that consumers can perceive value from the rational and the experiential perspectives (Holbrook and Hirschman, 1982; Zeithaml, 1988). In order to enhance the comprehension of customer value in consumption experiences, some scholars contend that both perspectives are equally important (Holbrook and Hirschman, 1982).

Moreover, two kinds of measures for customer value are identified under the rational and experiential perspectives: they are attribute/monetary (Weinstein and Pohlman, 1998) and experiential/non-monetary ones (de Ruyter et al., 1997; Holbrook, 1999). Some scholars also introduce different dimensions of customer value, which can mainly be classified as extrinsic and intrinsic ones (Hartman, 1967; Holbrook, 1999). In this study, we used the integrated approach proposed by Chen and Quester (2005, p. 783) to define customer value. Customer value is defined based on a three-dimensional categorization: the rational and the experiential perspectives, attribute/monetary and experiential/non-monetary ones, and extrinsic/intrinsic ones.

Regarding the link between market orientation and customer value, a review of the literature on the advantage of customer value suggests two key arguments for adopting this view: (1) Customer value is a theory emphasising the implementation of customer-centric thinking in marketing (Weinstein and Pohlman, 1998), and (2) Customer value is regarded as the premise to achieve a positive business performance (Woodruff et al., 1993). Because of its pivotal role in consolidating the market orientation construct, customer value was integrated with market orientation in order to form a customer value-based market orientation construct. In terms of research focus, selecting a convincing basis from existing market orientation constructs and/or conceptualisations was crucial since modifying existing construct or building theory from existing conceptualisation are generally accepted approaches for scholars (Zaltman et al., 1982). Narver and Slater's (1990) underlying premise of providing value for exchange partner justified its selection as the foundation for the conceptual development of the proposed CVBMO construct.

Embedding customer value in the market orientation construct enabled this research to address the major shortcoming identified with existing market orientation constructs. Previous researchers have called for the development of market orientation to involve customers' viewpoints (Chang and Chen, 1998; Deshpandé et al., 1993). The inability of most existing constructs to reflect customer-centric thinking was thus overcome by involving consumers' opinions. In addition, the concept of customer value and its related delivery processes are more complex, multi-dimensional, and dynamic (Ganesh et al., 2000; Woodruff et al., 1993). In order to fully integrate customers' value perceptions in an organization's implementation of market orientation, this study used a dyadic approach. By including both firms' and consumers' shared perceptions of value, we aimed to provide an alternative view on market orientation construct.

2.2. Market orientation and non-financial performance indices

Current measures for market orientation are derived from the perspectives of business executives or managers in the manufacturing industry. Consequently, current business performance indices used in market orientation are inevitably biased in favor of traditional financial indices. This is despite the fact that, in the short term, traditional financial indices may neither capture the comprehensive nature of market orientation nor reveal its total effects, partly because of time lag effects, which are suggested as a critical cause of ineffective market orientation (Appiah-Adu, 1998; Greenley, 1995a). In addition, financial indicators may also be inappropriate for the non-manufacturing sector. It is thus critical that market-oriented organizations adopt performance indices that appropriately reflect business performance.

To address the limitations of financial measures, this study relies on the non-financial performance index of customer retention to examine the consequence of our proposed CVBMO. As discussed previously, the observed discrepancy in empirical findings regarding the market orientation-business performance link may stem from the choice of unsuitable performance indicators. In addition, in order to reflect customer-centric marketing thinking (Sheth et al., 2000), it is essential to include non-financial indicators in evaluating the impact of market orientation. However, little effort has been made to utilise non-financial performance indices in the research domain of market orientation (Slater and Narver, 2000). Prior researchers have empirically verified different causal relationships between market orientation and service quality (Webb et al., 2000), between market orientation and internal customer (i.e., employees) satisfaction (Siguaw et al., 1994), and between market orientation and external customer satisfaction (Slater and Narver, 2000). However, to the best of the authors' knowledge, few studies have empirically explored the connection between market orientation and customer retention. Exploring the link between these two variables deserves attention, especially in the research domain of market orientation (Gray and Hooley, 2002; Slater and Narver, 2000), as this non-financial indicator should reveal a clear effect of market orientation on business performance. Adopting a non-financial performance index (customer retention) thus provides an alternative way of appraising the effects of market orientation