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Customer orientation as a multidimensional construct: Evidence from the Russian markets

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ABSTRACT

This study revisits one of the most widely used concepts in marketing - customer orientation (CO) - in the context of the Russian emerging market. Analysis of three sets of survey data, combined with insights from in-depth interviews with industry experts, suggest that customer orientation in the Russian market consists of two distinct dimensions: customer-centric strategy and customer service delivery. Both dimensions contribute to firms' ability to serve their customers, adapt to their market environment, and optimize growth and profitability. However, the relative impact of the two dimensions of CO does differ across diverse types of performance outcomes, suggesting that both are critical in a firm's quest to improve its overall business performance.

1. Introduction

Customer orientation (CO) is a set of beliefs that establishes customers' needs and satisfaction as a priority for an organization. Many of the extant studies on CO build on the classical definition of market orientation (MO) by Narver and Slater (1990) as an organizational culture that creates superior value for both customers and the firm through an in-depth understanding of the firm's customers and competitors across all business functions. This definition views CO as a long-term commitment to serving customers' needs, and requires constant effort and a proactive approach to understand latent, unexpressed needs (e.g., Blocker, Flint, Myers, & Slater, 2011). The MKTOR scale Narver and Slater (1990) developed has, over time, become one of the most established measures of MO and, thereby, also CO (e.g., Grinstein, 2008). Following Narver and Slater's (1990) definition and the related operationalization of the construct, most extant research considers CO as an individual, unidimensional construct (e.g., Deshpandé, Farley, & Webster, 1993; Rapp, Trainor, & Agnihotri, 2010), or as one of the three dimensions of the larger concept of MO (customer orientation, competitor orientation, and interfunctional coordination) (e.g., Conduit & Mavondo, 2001; Frambach, Fiss, & Ingenbleek, 2016; Grinstein, 2008).

CO is central to implementing the marketing concept in contemporary firms (Deshpandé, Farley, & Webster, 2000; Kohli & Jaworski, 1990), because it creates a thorough understanding of customer needs, which enhances the firm's ability to serve its customers effectively and thereby improves customer satisfaction. It also enables

firms to differentiate their offering to customers in a meaningful way (Theoharakis & Hooley, 2008), thereby helping them to enhance customer acquisition (Calantone, Harmancioglu, & Droge, 2010). Since attracting new customers is more expensive than retaining existing ones, improved customer satisfaction also has a direct and significant impact on business performance (Anderson, Fornell, & Lehmann, 1994). Accordingly, strong CO is often associated with heightened business performance (Deshpandé et al., 2000).

Theoharakis and Hooley (2008) stress that in terms of its practical implications, CO plays a role that is just as important in Eastern economies as it is in Western economies. In the early 2000s, Farley and Deshpandé (2006) predicted CO would become the leading driving force for Russian firms, replacing the previously prevailing "producer orientation" typical of a centrally planned economy. Over the years of Russia's transition to a market economy, however, CO has failed to meet these expectations. Extant research on CO in Russia indicates that firms are unable to derive benefits from building a CO-based competitive advantage (Smirnova, Naudé, Henneberg, Mouzas, & Kouchtch, 2011). During the first two decades after the collapse of the Soviet Union, the emerging Russian market provided substantial growth opportunities motivating firms to focus on easy growth in a large domestic market, with no need to invest in CO. As a result, firms in the market started widely adopting a so-called "declared" CO, i.e., an overestimation of the firm's level of CO (e.g., Roersen, Kraaijenbrink, & Groen, 2013) since the nature of competition was not defined by the level of firms' CO, and attracting new customers was considered as a remedy against

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potentially losing customers due to low CO. Additionally, a number of interviews with Russian firms conducted within the present study highlights contradictory experiences in building and implementing CO:

“CO means working with each customer, understanding their needs and individual approach... However, the main difficulty for us is that there is no CO at the level of top management... They are managing current issues.”

Marketing manager, CD manufacturing and distribution firm

“CO is definitely an advantage for a firm. However, Russian business is not used to the situation where clients' problems matter to the supplier.”

CEO, branding agency

This evidence raises questions about the appropriateness of classical approaches to CO in fully capturing firm-customer interaction in the Russian emerging market environment in line with recent evidence on the Russian market (Smirnova et al., 2011). This empirical observation, together with criticism of the prevailing approaches to CO (Roersen et al., 2013), lead to the question of whether the CO concept could be better adjusted to emerging markets. An increasing number of studies investigating the applicability of existing core marketing constructs in the new context of emerging markets is supporting the call for further investigation of the role and nature of CO (e.g., Deng & Dart, 1994; Dwairi, Bhuiyan, & Jurkus, 2007; Ellis, 2005; Gaur, Vasudevan, & Gaur, 2011; Kirca, Bearden, & Roth, 2011; Murray, Gao, & Kotabe, 2011).

The present study addresses this question by exploring the structure and content of the MKTOR-based CO measure (Narver & Slater, 1990) and its suitability for studying customer-oriented organizational culture in Russian firms. In particular, the study addresses potential multi-dimensionality in the CO construct, reflecting diverse approaches to the concept. The study further addresses the practical implications of CO in terms of its effects on business performance. More specifically, the study addresses the following research questions:

- (1) How does the widely adopted MKTOR scale on customer orientation fit the Russian data? Is the structure of the CO construct unidimensional in nature, or can distinct dimensions of CO be identified?
- (2) What is the relationship between (the distinct dimensions of) CO and diverse performance outcomes in the Russian market?

The study starts by reviewing the vast body of CO literature established in developed countries, as well as highlighting more recent approaches from the emerging markets context. Building on extensive survey data collected from the Russian market on three separate waves over the past decade, the study then proceeds to explore the structure of CO in this particular context. Finally, adding data on business performance, the study proceeds to examine the relative performance implications of the refined CO construct in the local market.

The rest of the report is structured as follows. The second chapter presents the study's theoretical background, discussing the role and origin of CO in the MO discourse. The third chapter presents the analytical approach used to examine the multi- versus the unidimensional nature of the construct. The fourth chapter highlights the findings, introducing two diverse dimensions of customer orientation in the classical MKTOR scale: customer-centric strategy and customer service delivery, and introduces their different impacts on diverse performance outcomes. Finally, the fifth chapter discusses these findings and their implications for research and practice.

2. Theoretical background

2.1. Market orientation as a multidimensional construct

Market orientation represents a firm's long-term strategic focus on

customer value in pursuit of firm profitability, rooted in the marketing concept (McKitterick, 1957). Since the 1990s, MO has represented one of the key constructs in strategic marketing, and has been considered an important element explaining business performance (e.g., Kirca, Jayachandran, & Bearden, 2005; Kumar, Jones, Venkatesan, & Leone, 2011; Olavarrieta & Friedmann, 2008). Two approaches dominate the field: first is the cultural school (Narver & Slater, 1990), which views MO as a central part of organizational culture reflecting the firm's cross-functional commitment to the creation and delivery of superior value to customers. Second is the process school (Kohli & Jaworski, 1990), which defines MO in terms of a firm's market information-processing activities. Both approaches view MO as an organization-level philosophy or way of operating that requires top management commitment and an organization-wide set of specific market-oriented values and practices (Gebhardt, Carpenter, & Sherry, 2006).

Previous literature has identified MO as consisting of multiple individual dimensions that complement each other in enhancing the firm's performance by creating in-depth understanding of the market. For instance, following the cultural school, MO has been viewed as part of an organizational culture consisting of CO (shared in-depth understanding of customer needs serving as a basis for strategic decision making), competitor orientation (in-depth understanding of, and responsiveness to, competitors' strategies and competitive actions), and interfunctional coordination (the coordinated use of firm resources in creating superior customer value) (Narver & Slater, 1990). Proponents of the process school, on the contrary, distinguish between processes devoted to the organization-wide generation of market intelligence, to disseminating this intelligence across all units in the organization, and to ensuring a coordinated response to the resulting market insights (Kohli & Jaworski, 1990). Additionally, previous research distinguishes between:

- Reactive MO (a passive market-driven approach focusing on customers' expressed needs) and proactive MO (actively driving the markets by focusing on customers' latent, unexpressed needs) (Jaworski, Kohli, & Sahay, 2000; Narver, Slater, & MacLachlan, 2004; see also Herhausen, 2016);
- MO that is internal (focusing on 'internal customers') or external (focusing on customers and competitors in the market) to the organization (Conduit & Mavondo, 2001; Gounaris, 2006; Lings, 2004), as well as MO focusing on intra- versus inter-firm structures and interfaces (Elg, 2002; Grunert et al., 2005; Jüttner, Christopher, & Baker, 2007);
- Firm-level MO (related to organizational culture and processes) and individual-level MO (related to intrinsic motivations guiding, for instance, sales personnel behavior) (e.g., Jones, Busch, & Dacin, 2003; Lam, Kraus, & Ahearne, 2010); and
- MO focusing on customers vs. other stakeholders, such as shareholders, employees, suppliers, partners, and the community at large (Greenley, Hooley, & Rudd, 2005; Wood, Bhuiyan, & Kiecker, 2000).

Numerous empirical studies have demonstrated that MO and its diverse dimensions play an important role in fostering innovativeness (e.g., Atuahene-Gima, 1996; Hurlley & Hult, 1998; Zhou, Yim, & Tse, 2005), enhancing new product performance (Homburg, Krohmer, & Workman, 2004; Im & Workman, 2004; Najafi-Tavani, Sharifi, & Najafi-Tavani, 2016), and improving business performance (e.g., Jaworski & Kohli, 1993; Narver & Slater, 1990; Slater & Narver, 2000) in different country settings, including transitional economies (Hooley et al., 2000; Sin, Tse, Yau, Chow, & Lee, 2003; Subramanian & Gopalakrishna, 2001; Wang & Chung, 2013). Yet they differ in terms of their individual contributions to, for instance, firm innovativeness (e.g., Gatignon & Xuereb, 1997; Han, Kim, & Srivastava, 1998; Im, Hussain, & Sengupta, 2008) and business performance (e.g., Hult, Ketchen, & Slater, 2005; Noble, Sinha, & Kumar, 2002). In summary, whereas MO itself may take different forms emphasizing diverse combinations of its underlying

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