CHAPTER III
REVIEW OF LITERATURE AND RESEARCH HYPOTHESES

SECTION I
LITERATURE REVIEW

Liu (1996) identified three chronological periods of market orientation literature dated from the late 1950s to the early 1990s. However, a fourth chronological period can be identified from the subsequent literature concerning the major market orientation issues. These four chronological periods can be named as era of introduction, era of barriers and revision, era of conceptualisation and operationalisation, and era of establishment and replication.

3.1(i) Era of Introduction (late 1950s to the early 1960s)

In this period, the literature mainly focused on the meaning, implication, and implementation of the marketing concept (Togesen, 1956; Borch, 1957; McKitterick, 1957; Smith, 1958; Allen, 1959; Felton, 1959; Keith, 1960; Levitt, 1960, 1962; King, 1963; Lear, 1963).

3.1(ii) Era of Barriers and Revision (late 1960s to the early 1980s)

From the late 1960s, attention turned to the problems or barriers in the adoption of the marketing concept and ways of surmounting them within the organisation (Saunders, 1965; Levitt, 1969; Ames, 1970; Kaldor, 1971; Shapiro, 1977; Stampfl, 1978). The application of the marketing concept started to spread beyond conventional consumer packaged-goods industries to other industries, such as retailing (Fram, 1965), aerospace business (Reynolds, 1966), health service (Zaltman and Vertinsky, 1971),
fund raising (Mindak and Bybee, 1971), the promotion of social objectives (Kotler and Zaltman, 1971), nursing (Lewis, 1977), library and information services (Oldman, 1977), and service or non-profit organisations in general (Kotler and Levy, 1969; Kotler, 1972). Issues on consumerism associated with the marketing concept were addressed (Buskirk and Rothe, 1970; Bell and Emory, 1971; Kotler 1972; Rothe and Benson, 1974). Kotler (1972) proposed a ‘societal marketing concept’ to respond to the new consumerism. The marketing concept was seen as outmoded, and so a ‘new concept’ was proposed (Dawson, 1969; Lavidge, 1970; Rothe and Benson, 1974). The adoption of the marketing concept made companies increasingly reliant on customer oriented sources for new product ideas, and resulted in a proliferation of imitative products at the expense of technological breakthrough (Bennett and Cooper, 1979; 1981; Riesz, 1980; Hayes and Abernathy, 1980).

3.1(iii) Era of Conceptualisation and Operationalisation (1980s to the early 1990s)

Corporate culture influences the transformation of corporate information (Lorsch, 1986). Empirical research showed a positive correlation between the corporate culture and a customer orientation and marketing effectiveness (Dunn, Norburn, and Birly, 1985). The traditional marketing belief that corporate orientation has experienced a transition from production to sales and finally to marketing was challenged (Fullerton, 1988) and an alternative model concerning the historical marketing evolution has been proposed (Fullerton, 1988). The marketing concept has further been examined from a viewpoint of information. This examination has concluded that the marketing concept has been established as the optimal management philosophy when it is not necessarily so in all instances, and there are many examples of poor
marketing practices which have been adopted in the name of the marketing concept (Houston, 1986). In response to the previous criticism of the marketing concept, numerous researchers have sought to refute the challenges to the marketing concept and to defend its validity (Lawton and Parasuraman 1980; Parasuraman, 1981; Webster, 1981; 1988; Gaski, 1985; McGee and Spiro, 1988). In the late 1980s and early 1990s five different perspectives were advanced in the literature to operationalise the market orientation construct including decision-making perspective, market intelligence perspective, culturally based behavioural perspective, strategic focus perspective, and customer oriented perspective (Shapiro, 1988; Kohli and Jaworski, 1990; Narver and Slater, 1990; Ruekert, 1992; and Deshpande et al., 1993).

3.1(iv) Era of Establishment and Replication (early 1990s to date)

The relationships of market orientation with its antecedents and consequences were established and interest in replicating the different market orientation perspectives has grown tremendously during this period. Most of the market orientation studies were carried out following the work of Shapiro, 1988; Kohli and Jaworski, 1990; Narver and Slater, 1990; Ruekert, 1992; and Deshpande et al., 1993. The market orientation studies carried out in this era are as follows. Glazer (1991) and Glazer and Weiss (1993) were built on the work of Shapiro (1988). While Glazer (1991) considered information or knowledge as an asset to be managed, and a variable to be researched with a conceptual framework and a series of research propositions, Glazer and Weiss (1993) identified the importance of the decision process and the time sensitivity of information in a turbulent environment. Several studies have been built upon the work of Kohli and Jaworski (1990). Cervera (1998) chose to investigate the intelligence perspective with some adaptation and proved the behavioural
model to be reliable and valid for local governments. In the study Cervera et al. (2001), in order to understand the market and satisfy the citizens of the country again identified the activities of information generation, information dissemination and response to market information. Avlonitis and Gounaris(1999), placed emphasis on the company’s behaviour to collect intelligence, disseminate intelligence company-wide and designing company’s response on the basis of collected market intelligence and suggested that a company should perceive these market-oriented activities as a prerequisite. In an earlier study by Avlonitis and Gounaris (1997) a positive relationship between market orientation and business performance was indicated. Cadogan et al. (1998) capitalised on the intelligence perspective in order to identify the market-oriented behaviours, antecedents, and performance consequences in the export sector in two different countries. While identifying the market orientation and its antecedents and consequences, they also examined the moderating effect of the export environment and found the intelligence perspective positively related to performance. Hart and Diamantopoulos (1993) found a positive relationship between market orientation and business performance and suggested that this should be adopted in daily business practice. Jaworski and Kohli (1993) tested their earlier intelligence perspective model (Kohli and Jaworski, 1990) and found it to be positively related to business performance. The study also identified a positive relationship between market orientation and its antecedents. Kohli et al. (1993) revised the Jaworski and Kohli’s (1993) 32-item market orientation scale and developed a 20-item MARKOR scale. Maltz and Kohli (1996) worked on intelligence dissemination and identified non-linear effects of both dissemination frequency and formality on perceived intelligence quality. Their study also found that the frequency with which market intelligence is disseminated is related to inter-
functional distance, joint customer visits, sender’s personal power, receiver’s organisational commitment, and trust in a sender. Jaworski and Kohli (1996) have worked on refining and redirecting the intelligence perspective of Kohli and Jaworski (1990). Selnes et al. (1996) conducted a cross-cultural study of market orientation of companies in the USA and in Scandinavia. Their study identified that the organisational antecedents are affected by national context (culture and political-economy of the country), that the effects of the antecedents are similar in the USA and in Scandinavia, and that market orientation affects overall performance and esprit de corps in both cultures.

Cadogan and Diamantopoulos (1995) worked on the integration and internationalization of Narver and Slater (1990) and Kohli and Jaworski’s (1990) market orientation construct. They compared the conceptual and operational dimensions of both constructs and commented that they are complementary and mutually exclusive. Diamantopoulos and Cadogan (1996) in their study discussed the respondents’ view with regard to intelligence generation essential to market orientation, dissemination of intelligence, responsiveness to that intelligence and its coordination. The study concluded that export firms that demonstrate a high degree of market orientation are involved in generating, disseminating, and responding to market intelligence. Han et al. (1998), basing their work on that of Narver and Slater (1990), examined the effect of market orientation on organisational performance using banking industry data and found a substantial positive relationship between these two variables. Earlier, Siguaw et al. (1994), in their study on market orientation, followed Narver and Slater’s (1990) perspective and found no significant association between market orientation and organisational commitment of employees. Siguaw and Diamantopoulos (1995) further investigated Narver and Slater’s (1990) three-component scale on measuring market
orientation and found a significant influence of market orientation on salesperson customer orientation and job attitudes. Slater and Narver (1992; 1994b); Narver and Slater (1998); Narver et al. (1998) carried out further research based upon Narver and Slater’s (1990) study and found market orientation to be both supportive and effective in achieving organisational objectives. Ruekert (1992) examined the relationship between the degree of market orientation from an organisational strategy perspective and organisational process, individual attitudes, and long run financial performance at the business unit level (e.g., different levels in an organisation) of analysis. Firstly, the study identified that the degree of market orientation varies across business units within large-scale organisations. Secondly, it found the degree of market orientation to be positively related to the broader organisational process including ‘recruiting, training, and wages’. And finally, it also identified market orientation to be positively related to business unit’s long-term performance. Day (1994) followed the strategic perspective and provided a complete picture of the attributes of a market-driven organisation, highlighting the roles of culture, information utilisation, and inter-functional coordination. Day and Nedungadi (1994) suggested at least four distinct managerial representational modes, characterised by their relative emphasis on customer and competitor dimensions. They labelled these as self-centred, competitor-centred, customer oriented, and market-driven orientations. Gatignon and Xuereb (1997) also followed the strategic orientation approach and found a positive relationship between strategic orientation and new product performance. Further, Morgan and Strong (1998) found that a firm’s proactiveness, analysis and futurity in strategic orientation to be positive and significant in their association with market orientation and thus, they claimed that market oriented activities and behaviours are related to a proactive search for market place opportunities, a problem solving analytical approach to organisational learning, and long term planning and future positioning
considerations. Consistent with Morgan and Strong (1998), Webster (1992) in his research on the changing role of marketing in the corporation, focused on managing strategic partnership and positioning the firm between vendors and customers in the value chain with the aim of delivering superior value to customers. He argued that marketing might merge with strategic planning or, more generally, the strategy development function, with shared responsibility for information management, environmental scanning, and coordination of network activities. In addition, Moorman (1998) suggested the importance of information in order to help competitive responses and consumer dynamics. Deshpande et al. (1993) developed the customer orientation perspective on the basis of their literature review and at the same time examined the relationship between customer orientation and business performance. The study used both the managers’ and consumers’ assessment and found customer orientation and performance relationship positively significant in both cases. Deshpande and Farley (1999) conducted a study based on the work of Deshpande et al. (1993). Their study examined how organisational dimension, corporate culture and market orientation affect major Indian and Japanese firms. The study identified similar business performance in both countries despite the different economic environments.

SECTION II
RESEARCH OBJECTIVES

Since the original launch of the concept, research into market orientation has established the relationship between market orientation and business performance (Ellis 2006). A significant number of studies have been done on identifying the link between market orientation and its antecedents and consequences. While identifying the link between market orientation and its consequences, some of the studies examined the moderating effect of
external variables on the relationship between market orientation and profitability and some of them identified the direct relationship without considering the external factors.

The current research attempts to find answers to several questions.

1. Is the relation between market orientation and business profitability (performance) vary across the different studies and what is the overall impact of market orientation on business profitability?

2. Does degree of market orientation vary by type (manufacturing and service) of organisation?

3. Is the market orientation–profitability relationship affected by measurement scale (MKTOR and MARKOR) of market orientation?

4. Is there any effect on the relationship of market-orientation and profitability, when we use the different scale (subjective or objective) for measure profitability?

5. Does the market orientation affect equally both (profit and not-for-profit) the organisations performance?

The research questions lead directly to the study's hypotheses.

SECTION III
RESEARCH HYPOTHESES
Market orientation and Business Profitability (Performance)

Because market orientation helps firms track and respond to changing customer needs, it should be associated with business performance. Literature suggests that firms manage their relationship with the environment in order to maximize their performance (Shoham et al., 2005). Resource Based View Theory postulates that differential firm
resources give rise to superior strategy and performance (Barney, 1991). Because market orientation helps firms to improve their resources and is a market differential, the investments on this strategy should result in superior performance (Perin, Sampaio, & Henriqson, 2005). Thus, we hypothesize that there is a positive relationship between market orientation and performance (Deshpandé & Farley, 1998; Kohli & Jaworski, 1990; Slater & Narver, 1994b; Urdan, 2000, 2001a, 2001b).

H1: There will be a positive relationship between market orientation and Business performance.

Market orientation measurement Scales

The MKTOR instrument of Narver and Slater (1990) has a strong nomological link with customer value. In contrast, the MARKOR instrument of Kohli et al. (1993) is more narrowly defined in terms of intelligence gathering and disseminating activities, activities which may be less well linked with performance (Oczkowski and Farrell, 1998). Consequently, performance effects may be greater when market orientation is measured with MKTOR rather than MARKOR (e.g. Moorman and Rust 1999).

H2: The relationship between market orientation and business performance will be stronger when market orientation is measured using MKTOR scale rather than the MARKOR scale.

Manufacturing vs. Service Industry

For Gray and Hooley (2002) there is equivocal evidence of the moderating effect of industry type (service vs. manufacturing) on the relationship between market orientation and business performance. The implementation of market orientation could entail a higher degree of customization in services firms than in manufacturing firms, which
implies that the correlation between these two constructs might vary (Cano et al., 2004). Moreover, this association should be greater in service firms due to greater dependence on person-to-person interaction, which has more customer communication and personalized services than those of manufacturing firms (Kirca et al., 2005). Services are less tangible, less separable in production and consumption, and more perishable than manufactured goods (Parasuraman, Zeithaml, and Berry 1985). Because market orientation focuses on meeting customer needs, the fulfillment of customer needs involves a higher degree of customization in service firms than in manufacturing firms (Anderson, Fornell, and Rust 1997). Therefore, the implementation of market orientation could entail a higher degree of customization in service firms than in manufacturing firms, which implies that the correlation of market orientation with organisational performance might vary between manufacturing and service firms. Specifically, the relatively higher levels of customization that service firms must use to implement market orientation imply the need to target smaller customer segments, thereby constraining service firms’ ability to increase sales and market share (revenue-based performance measures) to the same extent as manufacturing firms. Higher degrees of customisation in services could also result in higher costs due to lower production efficiency and the hiring and training of qualified employees (see Anderson, Fornell, and Rust 1997). In turn, such higher costs should generate lower levels of profit (i.e., cost-based performance) for service firms than for manufacturing firms. Thus:

**H3 :** The relationship between market orientation and business performance will be stronger for service compared to manufacturing organisations.
Business Profitability(performance) Scales

The strength of the relationship between market orientation and organisational performance that we assessed using subjective evaluations of performance might differ from relationship tests based on objective measures of performance (Harris 2001). Common methods variance may strengthen the correlation between market orientation and performance when research uses subjective measures to capture both constructs (Doty and Glick 1998). In this study, we will take two forms of performance measures: Subjective (e.g., self-reported) and Objective scale. In the latter, the variables were sales, profit, sales-by-employee, profit and market share. When there is more than one way of measuring objective performance, for instance the market share, sales and profit as used in Sampaio et al. (2005).

H4 : The relationship between market orientation and business performance will be stronger when business performance is measured using subjective rather than objective measures.

Profit vs. Not-for-profit

Literature suggests that market orientation is more effective for not-for-profit organisations than profit organisations. In not-for-profit organisations there is direct relation between customers and organisation and these organisations works for social welfare.

H5 : The relationship between market orientation and business performance will be stronger in not-for-profit compared to profit organisation.