CHAPTER 3

CONCEPTUAL FRAMEWORK AND RESEARCH HYPOTHESES

3.1 Introduction

This chapter details the conceptual framework and proposes the model drawn from literature review. This is followed by the major hypotheses and the sub-hypotheses addressed.

3.2 Conceptual Framework

The proposition that market orientation improves business performance has been borne out by previous studies (Kohli and Jaworski, 1990; Narver and Slater, 1990; Deshpande & Webster, 1989; Becker & Homburg, 1999; Deng and Dart, 1994; Greenley, 1995; Deng & Dart, 1994; Atuahene-Gima, 1996; Pelham and Wilson, 1996; Farrell & Oczkowski, 1997 etc). Subsequently, it has also been empirically proved that several environmental factors moderate the market orientation- business performance relationship (Kohli and Jaworski, 1990; Narver and Slater, 1990; Appiah-Adu, 1997; Diamantopoulos and Hart, 1993; Grewal and Tansujah, 2001). They include market turbulence, technological turbulence and competitive intensity (Kohli and Jaworski, 1990; Jaworski and Kohli, 1993). The market orientation construct, as described by Kohli and Jaworski (1990) consists of three components namely, intelligence
generation, intelligence dissemination and responsiveness. Several antecedents like top management emphasis, management risk aversion, interdepartmental connectedness, interdepartmental conflict, formalisation, centralisation and reward system orientation are believed to affect the market orientation construct (Kohli and Jaworski, 1990).

This study is modelled along the lines of Kohli and Jaworski's (1990) and Jaworski and Kohli's (1993) view of market orientation. Kohli and Jaworski's view is one of the most widely accepted measures of market orientation (Farrell and Oczkowski, 1997). Originally a 32 item scale, they later reduced the number of items to 20, during development. Compared to Narver and Slater (1990), they show greater emphasis on customers, than competitors.

3.2.1 Model Specification

Following the Jaworski and Kohli's (1993) view of market orientation, this thesis proposes that the market orientation model consists of four major components,

1. The Antecedents,
2. The Market orientation construct,
3. The Environmental Moderators, which affect the MO-BP relationship, and
4. The Consequences.

The comprehensive framework is as shown in the figure. 3.1.

3.2.1.1 The Market Orientation Construct

At the core of the framework is the market orientation construct, which consists of three sub-components, namely, intelligence generation, intelligence dissemination and intelligence responsiveness (Kohli and Jaworski, 1990).

3.2.1.1.1 Intelligence Generation

Market orientation thus involves setting up an intelligence system, whereby the firm regularly and systematically collects marketing information regarding changing consumer preferences, knowledge about competitors, government regulations, technology, and other environmental forces. Houston (1986)
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stresses on the need to gather information regarding the consumers future needs as well, in addition to their present needs. According to Webster (1988) intelligence generation is not the exclusive function of the marketing department. He concludes that it is a collective effort and the whole organisation is responsible for the collection of information.

3.2.1.1.2 Intelligence Dissemination
Once the intelligence is gathered, the need to disseminate it to all departments in the firm is paramount. The changing trends in consumer preferences, for example, need to be translated into product innovation by the R&D division, which then necessitates a change in the production system, changes in the marketing system, allocation of resources by the finance wing, purchase of raw material, reallocation of distribution channels and so on. Information dissemination is also necessary for all the departments in a firm to remain abreast of all new developments in the principal markets the firm serves. This helps in quicker transitions and faster responses to the market changes.

3.2.1.1.3 Responsiveness
Responsiveness is the translation of the firm's reaction to the market information collected and internally circulated throughout the firm. The
process of information generation and dissemination remains incomplete without responding to the information received (Kohli and Jaworski, 1990). In today’s changing market conditions, firms need to be on their toes to respond immediately to the market signs received by it, as their survival may depend on how fast they are able to respond to the customers’ demands.

3.2.1.2 Antecedents to Market Orientation

The antecedents or the causal factors, which influence the degree of market orientation in a firm, are grouped under three major sub-components. They include top management characteristics, interdepartmental characteristics and organisational characteristics.

3.2.1.2.1 Top Management Characteristics

The top management characteristics are represented by the top management emphasis for implementing market orientation and the top management risk aversion, which explores the management’s propensity for taking risks.

3.2.1.2.1.1 Top Management Commitment

For implementing market orientation in a firm, it is absolutely vital that the management be committed to the change, in the form of full support and guidance, as well as commitment of resources to the effort. Without the...
wholehearted involvement of the top management, the firm will not be able to implement market orientation successfully (Kohli and Jaworski, 1990).

3.2.1.2.1.2 Top Management Risk Aversion
This factor represents the attitude of the top management to take risks in the form of innovative changes etc to changing market conditions. The more risk averse a manager is, the lower will be the market orientation, and the firm may not be able to cope up with the changing market dynamics.

3.2.1.2.2 Interdepartmental Characteristics
These are the formal and informal interactions and relationships among an organisation's departments Kohli & Jaworski (1990). The interdepartmental characteristics include the sub-components interdepartmental connectedness and interdepartmental conflict.

3.2.1.2.2.1 Interdepartmental Connectedness
Kohli & Jaworski (1990) contend that connectedness between departments helps in faster dissemination of intelligence and results in quicker response to intelligence (Cronbach et al., 1981). Managers should promote connectedness to ensure the streamlined movement of market information and for faster decision-making.
3.2.1.2.2 Interdepartmental Conflict

Conflict between departments lowers efficiency, speed of information flow, creates bad feeling and disharmony, affects working relations and thereby the working process. Managers should seek to minimize this by promoting interdepartmental meetings, informal communication lines etc.

3.2.1.2.3 Organisational Characteristics

Under this factor come three sub-components, namely formalisation, centralisation and reward system orientation.

3.2.1.2.3.1 Formalisation

Hall et al., (1967) define formalisation as the degree to which rules define roles, authority relations, communications, norms and sanctions, and procedures. Formalisation has been found to adversely affect information utilization and therefore slows down the response to market intelligence. This usually occurs in big organizations with formal settings, wherein the information has to pass through the numerous lines of authority.

3.2.1.2.3.2 Centralisation

Centralisation is defined as the delegation of decision-making authority throughout an organisation and the extent of participation by organisational
members in decision making (Aiken and Hage, 1968). Centralisation is also considered to hinder information utilization (Deshpande and Zaltman, 1982; Hage and Aiken, 1970).

3.2.1.2.3.3 Reward System Orientation

Reward systems are believed to motivate employees to perform well. Managers can use rewards to reinforce desired behaviour (Anderson & Chambers, 1985). The evaluation criteria for rewards should be focused on long-term behaviour, otherwise it may influence employees to set their sights on short-term goals (Webster, 1988).

3.2.1.3 Environmental Moderators

Several environmental factors are believed to moderate the relationship between market orientation (MO) and business performance (BP). Jaworski and Kohli (1993) conceptualized three environmental moderators that might mediate the market orientation-business performance relationship. They include market turbulence, technological turbulence and competitive intensity. Other moderators, which have been studied less commonly, include supplier power, buyer power, market growth, demand uncertainty and extent of entry barriers (Kirca et al., 2005). This study focuses on the three moderators, as
proposed by Jaworski and Kohli (1993) namely, market turbulence, technological turbulence and competitive intensity. While market turbulence and competitive intensity are expected to enhance the MO-BP relationship, technological turbulence is believed to diminish the same.

3.2.1.4 Business Performance

The fourth component of the market orientation model is the consequences or the business performance. It has been established by extant literature that business performance of a firm is improved by adopting market-oriented principles. The business performance component has been classified into three sub-components, namely economic performance, customer consequences and employee consequences. The latter two consequences are otherwise classified as non-economic performance in contrast to the economic performance.

The economic business performance includes five subjective financial indicators such as ROI, sales growth relative to competitors, overall performance, overall performance relative to competitors and overall performance related to what was expected.

The non-economic performance on the other hand was a function of sixteen subjective measures, which included scales on the customer satisfaction, repeat
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purchase frequency, employee consequences, equity measures, environmental factors affecting the job, success in introduction of new products, relative trend of product pricing, material usage efficiency, labour efficiency, capital utilization efficiency, environment protection awareness and market expansion.

This is in line with the measures used by most market orientation studies.

The market orientation conceptual framework is as represented in the Fig.3.1.
3.3 Research Hypotheses

Four main hypotheses are tested in this thesis. They yield answers to the research questions addressed in Chapter 1. The hypotheses are as detailed below:
3.3.1 **Hypothesis I**

3.3.1.1 **Antecedents significantly determine levels of Intelligence generation.**

This hypothesis involves several sub-hypotheses, namely:

Intelligence generation increases when, the top management emphasis increases, the top management risk aversion decreases, the interdepartmental connectedness increases, the interdepartmental conflict decreases, the formalization decreases, the centralization decreases, and when the reward system orientation increases.

The effect of the seven antecedents on the market orientation construct of intelligence generation are measured.

**Antecedents significantly determine levels of Intelligence dissemination**

Intelligence dissemination increases when top management emphasis increases, top management risk aversion decreases, interdepartmental connectedness increases, interdepartmental conflict decreases, formalization decreases, centralization decreases and reward system orientation increases.
The effect of the seven antecedents on the market orientation construct of intelligence dissemination is measured.

3.3.1.2 Antecedents significantly determine levels of Intelligence responsiveness

Intelligence responsiveness increases when, top management emphasis increases, risk aversion decreases, interdepartmental connectedness increases, interdepartmental conflict decreases, formalization increases, centralization decreases and reward system orientation increases. The effect of the seven antecedents on the market orientation construct of intelligence responsiveness is measured.

3.3.2 Hypothesis II

Antecedents determine the level of overall market orientation of firms.

Market Orientation increases when, top management emphasis increases, risk aversion decreases, interdepartmental connectedness increases, interdepartmental conflict decreases, formalization increases, centralization decreases and reward system orientation increases. The effect of the seven antecedents on the overall market orientation construct is measured.
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3.3.3 **Hypothesis III**

Market orientation significantly determines level of Business performance.

This main hypothesis has several sub-hypotheses, which measure the effect of market orientation on the overall business performance, economic performance, non-economic performance, customer consequences, employee consequences, customer retention consequences, new product introduction and market expansion.

3.3.3.1 Market orientation significantly determines level of Overall Business performance.

3.3.3.2 Market orientation significantly determines level of Economic Performance and Non-Economic Performance.

3.3.3.3 Market orientation significantly determines level of Customer Consequences.

3.3.3.4 Market orientation significantly determines level of Employee Consequences.

3.3.3.5 Market orientation significantly determines level of Customer Retention Consequences.
3.3.3.6 Market Orientation Significantly determines level of Introduction of new or modified products.

3.3.3.7 Market orientation significantly determines level of Market expansion.

3.3.4 Hypothesis IV

The market orientation-business performance relationship is moderated by market turbulence, technological turbulence and competitive intensity.

This is the final hypothesis and examines the effect of the three moderators on the MO-BP relationship.

3.4 Conclusion

This chapter presents the conceptual framework for the market orientation in Indian seafood processing firms. The four main components of the framework are explained by means of the illustrated model. Following this, the research hypotheses are outlined, along with the sub hypotheses.