Market Orientation: A New Direction for Profit Orientation

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Market orientation has been emerged from the marketing theory and originated from the marketing concept philosophy. Describing the marketing concept, "Peter F Drucker (1954) suggested that purpose of a business is to create customers that are satisfied." Researchers have been observing the concept of market orientation and trying to explain and develop its constructs. Concept of orientation is in the sense that whether the organization is local, national or multinational. It not only focuses on recognizing the information that recognizes the consumer requirements, incorporates that information and then responds to it in the sense. It will help them in producing goods and services that help in fulfilling the needs of consumers, and as an organizational culture that infuses in all other tasks of an organization. Later on, different researchers explained that the market driven firm's orientation is towards staying ahead of competition and focusing on satisfying the requirements of customers (Kotler, 1977). But, the particular features and elements of an organization that is market driven were insufficiently tested or even explained till latest market orientation research (Kohli&Jaworski, 1990; Narver& Slater, 1990). As per Lafferty and Hult, 2001, implementation of marketing concept is market orientation. Thus, market orientation is 'dealing with the methods and tasks linked with generating and gratifying customer needs by constantly assessing their wants and requirements, and keep on doing it in the same sense so that there is a measurable and obvious impact on performance of business (Uncles, 2000, p.i).' In conjunction with various other recognized variables, orientation is important to strategic management because they are being affiliated with the better organizational and financial performance (Narver& Slater, 1990)."

There has been some sort of similarity between the two concepts; marketing orientation and market orientation. So the important task is to draw a line of distinction between these two marketing concepts. As marketing orientation is the particular marketing strategies clubbed together with the association of marketing tasks and market orientation is manifestation of specific business philosophy or particular corporate mindset.

Marketing orientation is different from market orientation as latter is cross functional in nature, which involve organizational learning and decision making in the company and comprehending the changes in the outer environment (Uncles, 2000). It comprises of various processes related to business, which involve comprehending both internal abilities as well as dynamics of external marketing environment. Market orientation directs all employees towards the market, while marketing orientation engages only those employees working in the marketing department (Kotler& Armstrong, 1996). Profit orientation has also been linked with market orientation. Researchers have included long term focus (Narver& Slater, 1990) and profit orientation components (Narver& Slater, 1990; Deng & Dart, 1994) as important variables of market orientation. Profit orientation has been viewed as a consequence of market orientation (Farrell, 2000), as both long term focus and profit signify practical reasons for supposing market orientation. Organizations may find it irrelevant to think about taking any marketing plan except they observe any positive proven financial implications, adding value to organization. Besides improving financial position of an organization, it has also been observed that market orientation has influenced employee attitudes. Kohli&Jaworski (1993) recognized a connecting link between an organization's market orientation and attitude of employees, e.g.; esprit de corps and organizational commitment.

Driving Force behind Market Orientation

Driving force behind market orientation is the desire to create superior value for customers and achieve sustainable competitive advantage (Narver and Slater, 1990). They analyzed relationship between market orientation and performance by studying a sample of 140 SBUs (Strategic Business Units) of large corporations consisting of product and service industry. The performance was assessed on subjective basis whereby respondents were solicited to compare ROA (return on assets) of last one year of their SBUs with respect to other competitors in their principle market. Research showed that market orientation was a significant factor in determining the profitability of a business and nature of this relationship was to some extent different for the two businesses. Thus they attributed three main dimensions of market orientation; customer orientation, competitor orientation and inter functional coordination. Another significant research in market orientation literature is of Kohli and Jaworski (1993); they conducted their research by taking the two samples of sizes 230 and 222 chosen from the American Marketing Association, the Dun and Bradstreet *Million Dollar Directory* and the Marketing Science Institute (MSI) membership rosters.

Research suggested that there is a strong correlation between the market orientation and performance of an organization when performance was assessed using subjective measures of evaluation and not objective measures of market share. With respect to selecting market share as performance measure according to Kohli and Jaworski (1990), market orientation is, "Organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization wide responsiveness to it." Based on this definition, an instrument has been designed to measure market orientation (Jaworski and Kohli, 1993; Kohli et al., 1993). Consequently this definition suggests that market orientation has multiple dimensions; intelligence generation, intelligence dissemination and responsiveness. It is understood from the above definitions of market orientation, researchers have not reached a consensus about the nature and actual number of dimensions.

ANTECEDENTS OF MARKET ORIENTATION

The first antecedent set relates to top management of organization. Various authors have observed that the top level managers play an important role in determining an organization's orientation and values (Felton 1959; Hambrick and Mason 1984; Webster 1988). Unless an organization's top management doesn't give clear instructions about the significance of responsiveness to customer requirements, the organization is not likely to be market oriented (Levitt 1969, Webster 1988). Support from top management regarding market orientation can encourage employees in an organization to keep a track of dynamic markets, organization wide dissemination of market intelligence and being responsive to the requirements of market.

Second antecedent of market orientation includes risk posture of top managers. Being responsive to the dynamic requirements of customer generally calls for production of new products and services to meet the growing customer requirements and expectations. However, new products and services usually have an inherited risk of failure associated with them, which is lower in case of established products.

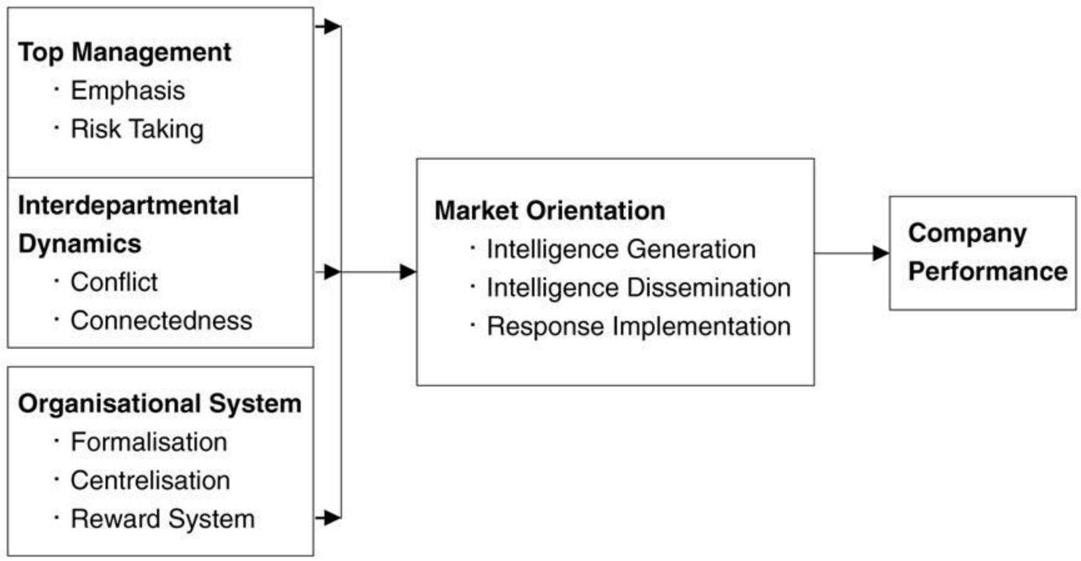
Interdepartmental dynamics is included in the second set of factors that is assumed to have a huge impact on market orientation. Interdepartmental conflict also inhibits communication process across departments in an organization, and thus acts as a barrier for disseminating the market information.

Another antecedent that affects market orientation is organizational systems and structure. This set of antecedents are composed of three variables; departmentalization, centralization and formalization. Departmentalization refers to a process where the various departments of an organization among which the activities are compartmentalized and segregated. Centralization is the reverse of the degree of delegation relating to decision making capacity in an organization and the empowerment of employee participation in decision making activities (Aiken and Hage 1968). Formalization refers to the extent to which regulations define communications, authority relations, procedures, sanctions and norms and roles.

As mentioned earlier, market orientation can be seen as an innovative behavior exhibited by an organization, as it is designing unique products and services to meet the requirements of the market. Innovative behavior is being described by Holbek, Duncan and Zaltman (1973) and characterized into two stages; Initiation and Implementation stages. In initiation stage, an organization gets awareness with respect to intelligence generation and dissemination, which is important for decision making and can be an input for the organizational responsiveness. Implementation stage of innovative behavior corresponds to the actual decision making and the accurate response of an organization towards market needs. Holbek, Zaltman and Duncan (1973) are of another view that the organization's structure consisting of formalization, centralization and departmentalization can have the inverse effect on the organization's innovative behavior. Their studies have shown that the organizational structural variables (departmentalization, centralization and formalization) can act as an obstacle for the initiation stage of innovative behavior, but the same variables can assist its implementation stage. Thus it can be concluded from the above statement that intelligence generation, dissemination and response design stages of market orientation can have opposite effect by formalization, departmentalization and centralization, whereas the implementation stage facilitates the organization's response implementation.

The final antecedent of market orientation pertains to the organization's measurement and reward system. Existing body of literature reveals that reward system placed within an organization is helpful in determining the employee. In the current context, Webster (1988) explains that "... the key to developing a market-driven, customer-oriented business lies in how well managers are evaluated and rewarded." He analyses that if profitability and short term sales are taken as a criteria to evaluate managers, they tend to lose focus towards the customer satisfaction that is most important in determining the long-standing health of any organization. As per the prior arguments, it can observed that employees in an organization that lay emphasis on market oriented behavior and customer satisfaction as pre-requisite for governing rewards will show greater potential in terms of market intelligence generation, disseminating it within the organization and being responsive to the requirements of the market.

Figure 1 Antecedents to and Consequences of Market Orientation



Jaworski, B. J., and A. K. Kohli (1993), “Market-orientation: Antecedents and Consequences,” *Journal of Marketing*, Vol.57(3), pp. 53-70.

CONSEQUENCES OF MARKET ORIENTATION

The basic underlying principle behind market orientation and performance of an organization is related to value perceived by buyers of a service or a product and value created of sellers. While organization’s effort to accomplish competitive advantage through superior value creation and offering that value to the customer, an organization has to develop a culture that will help in maintaining that competitive edge in the market. Organizations that are market oriented also produce sources of competitive advantage by generating intelligence and disseminating the appropriate intelligence among the departments. Narver and Slater (1990) have pointed out that seller can generate value for a buyer in mainly two ways; amplifying the benefits to buyer with respect to the cost or by reducing the cost with respect to benefit. As a result, market oriented organization can occupy a better position in creating superior value for the service receivers (Reed et al., 1996) and in turn that will lead towards the enhanced performance of organization.

Market orientation is generally hypothesized to advance performance of an organization. The point of contention is that organizations that keep a record of customer requirements and respond to their needs properly (i.e.; market oriented) can satisfy customers and hence they achieve higher degree of performance. The relationship has been explained by many research studies (Lusch and Laczniak 1987). Narver and slater (1990) have also established the positive relationship between market orientation and performance.

Market orientation consequences can also be extended to employees of an organization. Research studies have reiterated on the thought that employees get benefitted by market orientation socially and psychologically (Kohli and Jaworski 1990). It is also believed that market orientation leads to a state of pride for the employees as they belong to the organization in which every individual and each department is working for the ultimate goal of satisfying customers. Attainment of this goal is observed to result in a sense of belongingness, worthwhile contribution, and henceforth leads to the increased commitment of employees towards their organization.

Market orientation and Organizational Performance

Relationship between market orientation and organizational performance on the basis of certain empirical grounds has evoked mixed reactions. Several marketing researchers have supported the thought that market orientation has positive impact on the performance of an organization (Jaworski and Kohli, 1993; Narver andSlater, 1990; Slater and Narver, 1994; Green et al.,2008), whereas the other researchers could not find any association or direct relationship of market orientation and organization performance (Greenley, 1995; Harris, 2001). And because of the same reason, Harris (2001) concluded that market orientation bares no direct relationship with organizational performance in all cultures, since it has no linkage with and dependence on environment. Correspondingly, Diamantopoulos and Hart (1993), Han et al. (1998) also confirmed that market orientation has no direct relationship with performance of an organization. Some researchers have confirmed that there exists a positive relationship between market orientation and organizational performance in various contexts when they used the scale developed by Narver and Slater (1990) (Kumar et al., 1998, Horng and

In the table below, summary of major studies showing the positive linkage between the market orientation with several market and financial indicators are:

a.Subjective Measures:

Author(s) of the study	Performance measure used	Findings: Nature of Relationship
Narver and Slater, 1990.	Subjective assessment of ROA for self and compared to competitors.	Positive relationship.
Despande et al. 1993	Subjective evaluation of profit, size, market share and growth compared to largest competitor.	Positive relationship for subjective measure but not objective measure.
Jaworski and Kohli, 1993.	Subjective measure- Financial, market/product development, Internal quality.	Positive relationship.
Narver and Slater, 1993	Subjective evaluation of return on assets and sales growth relative to competitors.	Positive relationship with sales growth but not profit.
Deng and Dart, 1994.	Subjective evaluation including financial performance, liquidity, sales volume.	Positive relationship.
Narver and slater, 1994.	Subjective evalaution of ROA relative to competitors.	Positive relationship.
Greenly, 1995.	Subjective evaluation of ROI, new product success and sales growth.	Relationship may be positive or negative, dependent on competitive environement.
Pelham and Wilson, 1996	Subjective evaluation of business position relative to expectations.	Positive relationship.
Pitt et al. 1996	Subjective evaluation of return on capital and sales growth.	Positive relationship.

Narver and Slater, 1996.	Subjective evaluation of ROA, sales growth and new product success, relative to competitors.	Positive relationship.
Balakrishnan, 1996	Subjective evaluation of relative profits, satisfaction with profit, customer retention and repeats business.	Positive relationship.
Avlonitis and Goundaries, 1997	Subjective evaluation of profit, turnover, ROI and market share.	Positive relationship.
Deshpande and Farley, 1998.	Subjective evaluation of sales growth, customer retention, return on investement, return on sales.	Positive relationship.

b.Objective Measures:

Author(s) of the study	**Performance measure used**	**Findings: Nature of Relationship**
Esslemont and levis, 1991.	Objective evaluation, ROI, and change in ROI.	No relationship.
Ruekert, 1992.	ROI with high level companies.	Positive relationship.
Diamantopoulos and Hart, 1993.	Sales growth and average profit margin compared to industry average.	Positive relationship.
Jaworski and Kohli, 1993.	Objective measure, market share.	Negative relationship.
Au and Tse, 1995.	Hotel occupancy rates.	Weak relationship.
Tse, 1998.	Financial data supplied by external organization.	No relationship.
Han, et al. 1998	Financial performance, net income growth and return on asset.	Positive relationship.

Market orientation of an organization also influences its market performance by giving them the ability for a learning orientation, carrying its innovation link. In addition to it, a linkage between the organization's market orientation and employee attitudes e.g.; esprit de corps and organizational commitment is also established (Jaworski and Kohli, 1993). Most of the research work has been conducted in several western countries, which support the view that market orientation is robust culturally (Greenley, 1995; Shipley, Hooley, Beracs, Fonfara, &Kolos, 1995; Gray, Matear, Boshoff, & Matheson, 1998; Lafferty &Hult, 2001). Major contribution towards competitive advantage of an organization is because of market orientation, which can be explained by demonstrating the relationships of market orientation with innovation and financial performance.

It is evident from the existing body of academic literature that the organization can improve their performance if they lay emphasis on the implementation of various principles of market orientation. Several studies have been conducted in different parts of the world in different settings and the consequences have been observed as there is a relationship. Major contributors who conducted research for describing this relationship were Kohli&Jaworski (1990), Narver& Slater (1990), Ruekert (1992),Deng & Dart (1994), Slater and Narver (1994), Atuahene-Gima (1996), Diamantopoulos &Cadogan (1996), Becker & Homburg (1999), Pulendran et al., (2000); Slater and Narver, (2000) etc.

Market orientation has an important linkage with determining the performance of an organization. Best (2000) has given a good idea about why and how market orientation has an impact on organizational performance. This thought has been reiterated by various research studies, which has confirmed relationship of market orientation with organizational performance in business as well as in healthcare sector (Kumar, Subramanian, &Yauger, 1997; McDermott, Franzak, & Little, 1993; Narver& Slater, 1990). After conducting the series of research studies, many authors have also confirmed the presence of a strong relationship between market orientation and performance in healthcare sector (Raju, Lonial, & Gupta, 1995; Raju, Lional, Gupta, & Ziegler, 2000; Raju and Lional, 2001).But, even if the studies reveal that there exists a fairly strong relationship between market orientation and organizational performance, the exact nature of this relationship is moderated in various environments.

MARKET ORIENTATION AND ORGANIZATIONAL PERFORMANCE

Various studies have been carried out to prove that there exists a relationship between market orientation and organizational performance. Most of these empirical research studies have been conducted in US settings. Study conducted by Narver& Slater (1990) with sample taken from 113 SBU's in one US Corporation depicted that Return on Assets had shown positive relationship with market orientation. Ruekert (1992) after thorough discussion with managers of 5 SBU's of one US company concluded that sales growth and profitability bears a positive relationship with market orientation. It has been observed from the research study of Kohli&Jaworski (1993) that in US companies, where samples were drawn from almost 332 companies, organizational commitment, esprit de corps and overall performance had been positively impacted by market orientation. Furthermore, Slater &Narver (1994) using their market orientation instrument confirmed (from data collected from 81 SBU's in one forest company and 36 SBU's in one manufacturing company) that market orientation positively influences different performance measures (such as; ROA, sales growth & new product success). Pelham & Wilson (1996) conducted a study on 68 small US firms and concluded that product quality, profitability and new product success has strong association with market orientation. Using the instrument of Narver& Slater (1990) and Kohli&Jaworski (1993), Pelham (1997) gathered data from 160 manufacturing firms of US and validated that effectiveness of a firm has link with market orientation. Organizational performance is positively impacted by market orientation of a firm was confirmed by conducting a research on sample of 289 responses from 67 US service firms. Using Kohli et al. (1993) market orientation instrument, Baker &Sinkula (1990) by assessing 411 US companies concluded that overall performance, new product success and relative market share is surely influenced by market orientation. A sample of 128 US firms was selected by Moorman & Rust (1999) and administering Narver& Slater (1990) and Kohli&Jaworski (1993) scales were of the view that financial performance, customer relations performance and new product success is definitely related to market orientation. Another research study conducted was carried out with 210 telephone companies of US, which suggested that market orientation has positive impact on organizational performance. Matsuno&Mentzer (2000) choose 364 manufacturing US companies and the results revealed that return on investment (ROA), sales growth, new product sales and market share has a strong positive association with market orientation of the firms. Pelham (2000) conducted one more study with 160 manufacturing firms that showed that market orientation enhances marketing/sales effectiveness, growth/share and profitability. Return on investment has been positively impacted by market orientation of 53 US corporations in three western cities (Slater &Narver; 2000). The research study of 181 large multinational US Corporations conducted by Hult (1998) revealed that income, stock price and return on investment have been positively influenced by market orientation.

Interest among several non US researchers was generated and they started to study the relationship between market orientation and organizational performance. Later on under different cultural and regional settings different insights were provided by researchers in explaining a link between market orientation and organizational performance. The market orientation instrument widely used in these studies was Jaworski&Kohli (1993) and Narver& Slater (1990). Deng & Dart (1994) selected 248 Canadian companies as the sample and later concluded that marketing performance is being determined by market orientation of the firms. New product market performance and project performance is enhanced by market orientation of firms by studying 275 firms of Australia (Atuahene-Gima, 1995). By assessing 158 Australian manufacturing and 117 service firms in 1996, Atuahene-Gima confirmed that market orientation of a firm influences project impact performance. Two countries, UK & Malta were selected by Pitt et al (1996) wherein two samples were drawn; 161 UK based service firms and 193 firms from Malta, research study analysis results showed that performance for both the country's firms was positively influenced by their market orientation.

A study conducted by Chen, etal (1998) in Taiwan's 76 small and medium companies confirmed that overall performance, organizational commitment and esprit de corps is influenced by market orientation. 171 heads of government departments of Australia were selected as sample and after administering Kohli, Jaworski& Kumar (1993) instrument of market orientation revealed that performance has a positive link with market orientation (Caruana, Ramaseshan and Ewing; 1998). Dawes (2000) with extensive literature review and interviews with sample from 93 South Australian firms came up with a conclusion that profitability of firms has a strong connection with their market orientation. Employing market orientation instrument of Deshpande, Farley and Webster (1993) on sample of senior managers of 100 Shanghai based companies in China, it was evident from results that performance and market orientation is linked with each other (Deshpandeand Farley; 1998). By surveying 268 top Australian companies, Farrell (2000) deduced that market orientation has a strong impact on business performance and learning orientation. By taking a sample from Central Europe comprising of 1619 enterprises; Slovenia=629, Hungary=589, Poland=401, Hooley et al (2000) established that return on investment has a positive association with market orientation. Sin et al (2000) studied a sample from 210 firms across Chinese industries and later on confirmed that sales growth and overall performance of firms positively relate with market orientation. When a sample of 573 firms with operations in both Hong Kong and China was selected and administered with Narver and Slater (1990) market orientation instrument results revealed that business performance is associated with market orientation of firms. 162 manufacturing and service firms of India were selected as a sample by Subramanian and

Gopalakrishna (1998) and they confirmed that market orientation influences revenue growth, return on capital, success of new products and services, customer retention and controlling of operating expenses.

Market orientation and profit link was established by Anttila, etal by assessing 42 manufacturing companies of Finland and proving that financial performance is connected with market orientation. Rose and Shoham (2005) chose 124 exporters in 9 Israeli industries and this study suggested that change in export sales, export profits, change in export profits share a positive relationship with market orientation. Evidence suggesting that there is a strong link between market orientation and business performance and marketing performance was established by Tay and Morgan (1998) by researching 179 chartered surveying firms of UK, employing Kohli et al (1990).

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