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Market Orientation:

The Implementation of the Marketing Concept

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Introduction

The marketing literature has provided little guidance in relation to creating market driven organisations. It has traditionally provided pieces of the puzzle i.e. the product life cycle, segmentation etc, but it has fallen short of demonstrating how to put the pieces together to complete the picture i.e. creating a market oriented organisation. As a result marketing has largely been confined to ‘overseeing and co-ordinating activities directly involved with the outside - such as sales, promotion and delivery’ (Witcher B J, 1990). This has led to a situation where many organisations have reservations about the success achieved with the implementation of the marketing concept (Darden and Barksdale 1971).

Marketing needed to be brought out of the marketing department and into a position where it is the concern of all employees and is a top priority throughout the company. Until the late 1980’s it was unclear exactly what a market orientation was. Since then, a number of empirical studies have investigated the concept and a sizeable body of work has been published (Day 1990; Kohli & Jaworski 1990/3; Narver & Slater 1990; Deshpande 1993; Webster 1992) There is general agreement on the components of market orientation but very little on how to successfully develop it. The following definition was proposed by Kohli and Jaworski 1990 :

‘Market orientation is the organisation wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments and organisation wide responsiveness to it’. Similarly Day (1994) says that market driven organisations have superior market sensing, customer linking

and channel bonding capabilities. Let us now look at the components of market orientation.

1. Market Sensing / Generation of Market Intelligence

In its narrowest sense market sensing involves obtaining information from customers on their needs. However to be truly market oriented a company needs to examine any factor that might affect customers needs in the present or in the future. This involves monitoring not just expressed customer needs but also the competitive, technological, political, legal and economic environments of the customer and company. The information should be conducted by all functional areas on both a formal and informal basis. This information should be held in company memory e.g. via a database and should be easily accessible for decision making throughout the organisation. In this way the organisation will be able to anticipate customer needs as well as satisfy current ones.

While companies proclaim an external focus, the reality is that most organisations are internally focused (Kordupleski, Rust and Zahorick 1993). Even those exceptional firms which have an external focus are inclined to concentrate on current issues - often technical in nature.

2. Dissemination of Intelligence

Unless market information is communicated throughout the organisation it is of little use in decision making. A market-oriented company makes information available at the point of contact with the customer. It can also be achieved via cross-functional teamworking, flatter hierarchies and employee empowerment. This type of organisational structure enables rapid dissemination of information throughout the firm. Empirical studies have shown that interdepartmental connectedness and decentralised decision making are positively related to market orientation (Kohli & Jaworski1993)

Responsiveness to Market Intelligence

Responsiveness requires application of the marketing tools to elicit favourable market response. These tools take the form of segmenting and selecting target markets, designing products, setting pricing strategies etc. Unfortunately frontline employees generally do not have sufficient knowledge of marketing, the company markets or marketing strategy to be able to take on this responsibility with marketing decisions. It would require extensive training e.g. before an operative could decide to develop a new product as a response to a customer problem. Responsiveness requires an innovative corporate culture and a positive attitude toward risk (Kohli & Jaworski 1993). To create a market-oriented company a certain level of guidance is needed from the top. An integrated approach needs to be taken to decision making i.e. a combination of top down strategy development and bottom up employee empowerment. Frontline employees should be able to make everyday decisions pertaining to the customer via cross-functional teamworking but management should set the broad marketing strategies. To achieve this employees would need to be taught to recognise the significance of certain types of market intelligence and how to respond to it, in the same way that they have learned to recognise important information on quality and the appropriate responses to take.

The following study aims to gain further insights into the concept of market orientation by examining the pre-requisites to its development in Irish companies.

Research Design

The study was undertaken with firms in the Irish Print industry to examine some of the essential elements and consequences of a market orientation. The researcher used a judgement sampling procedure, based on extensive knowledge of the industry, to choose companies that varied in size and industry subsector. The sample size was 22. Data was gathered via a postal survey. The questionnaire was addressed to the managing director because it was felt s/he would have a less biased view than the marketing manager when it came to the companies degree of market orientation. Over

70% of the sample firms were found to be strongly market oriented i.e. they scored 3.55 or more on a scale of 1-5. The remainder were found to have a weak market orientation. For the remainder of this paper these firms will be referred to as strong and weak respectively. Data was analysed using the statistical package SPSS.

Measurement

Market Orientation

Market orientation was measured using scales devised by Kohli and Jaworski (1993). Twenty of the original thirty-six scales were used (see appendix A).

Business Performance

One measure of business performance was chosen i.e. Net operating profit margin. This measure was deemed appropriate because the industry was experiencing a period of severe recession coupled with market / technological transition. It was felt net operating profit margin would provide a true measure of business performance since it disregards extraordinary items such as acquisitions. This was an important consideration because there was a move towards consolidation in the industry at the time. While this is not a comprehensive measure it was sufficient to enable a tentative examination of the relationship between market orientation and business performance.

Hypotheses

The author set out to test the following Hypotheses:

- H1 Market orientation varies with the number of marketing personnel employed.**
- H2 Interdepartmental conflict has a negative effect on market orientation.
- H3 Risk aversion has a negative effect on market orientation.**
- H4 Strongly market oriented companies pursue more aggressive growth strategies than companies with a weak market orientation.

H5 Market orientation is positively related to superior business performance.

H6 Top management support is critical in fostering a market orientation.

Discussion

H1. Market orientation varies with the number of marketing personnel employed

One would expect that the more marketing personnel an organisation employed, the greater the likelihood that firm would be market oriented.

H2 Interdepartmental conflict has a negative effect on market orientation.

An empirical study found that the less conflict there was between departments, the greater was the market orientation of the firm (Kohli & Jaworski 1993). This finding supports the idea of integrated marketing deemed to be so important in many marketing texts (Kotler 1994, p 756). Many scholars have put forward the view that interdepartmental conflict may be detrimental to the implementation of the marketing concept as it inhibits communication between functional areas (Levitt, 1969; Lusch, Udell and Laczniak 1976; Felton 1959). Information dissemination is a vital component of market orientation and it is therefore important for firms to develop a degree of interdepartmental connectedness to facilitate the dissemination of and responsiveness to market intelligence.

H3 Risk aversion has a negative effect on market orientation .

A market orientation requires response to market intelligence, which often requires developing strategies for the introduction of new products or for the use of innovative marketing techniques. Therefore managers must be willing to take some risks in order to be successful. Where managers are very risk averse, the market orientation of the company is likely to be diminished. Rogers supports this proposition (1983, p 260),

reporting that in 43 of 57 studies a positive relationship was found between risk aversion and the degree of market orientation.

H4. Market oriented companies pursue aggressive growth strategies.

If market oriented companies have a positive attitude toward risk, then it is likely that they will also pursue more aggressive marketing objectives.

H5 Market orientation is positively related to superior business performance.

The marketing literature has long espoused the relationship between the application of the marketing concept and superior business performance. However since there was no real measure of market orientation until recent years it was impossible to empirically test this proposition. A 1990 study (Narver & Slater) found that firms with a strong market orientation had higher return on investment than companies with a weak market orientation. They also found that strong firms were better at retaining customers and that they were associated with the highest profitability. A similar study (Deshpande et al 1993) found that market orientation was a key determinant of business performance.

While these findings provide a first step in validating the posited relationship between market orientation and business performance, they are far from conclusive. In order to increase confidence in the results, the studies need to be replicated in diverse environments over time. Hence the inclusion of H5 in this study.

H6 The role of senior management is critical in fostering a market orientation.

Webster (1988 p37) asserts that customer oriented values and beliefs are "uniquely the responsibility of top management." Likewise Felton (1959, p55), asserts that the most important ingredient of a market orientation is an appropriate state of mind and that it is attainable only if the board of directors " appreciate the need to develop this marketing state of mind." Other authors concentrate on the need for top management

to communicate the message (Day, 1990 p 369; McNamara, 1972 p 55-6), by deeds and time invested in marketing activities. If the words are not consistent with actual behaviour the organisation soon learns the real priorities of top management and acts accordingly. Unfortunately many senior managers pay lip service to marketing and then wonder why their organisations are not market driven. This gap between word and action can be clearly seen in table 1, drawn from a study of 236 CEOs of Fortune 1000 companies:

Table 1 CEO Concerns and Priorities
(% of CEOs answering 'YES')

	Is this function very important to corporate growth and profit	Do you have considerable involvement with the following functions
Financial Planning	57%	46%
Customer relations	57	14
Production / Manufacturing	42	9
New Product Development	41	8
Research and Development	36	7
Labour Relations	28	5
Personnel Management	26	5
Market Analysis	24	3

Source: Richard T. Hise and Stephen W. McDaniel, "American Competitiveness and the CEO - Who's Minding the Shop," Sloan Management Review, 30 (Winter, 1988), 49-55.

It is not only important, therefore, for top management to be market oriented but they must also demonstrate it in action and deed.

Results of the Study

Market Orientation and Marketing Personnel

64% of sample firms did not employ any full-time marketing personnel. A cross tabulation of marketing personnel by degree of market orientation produced the following results:

Table 2 Marketing Personnel

No. of Marketing Personnel employed	None	One	Two	Three+
Strong Firms	60%	17%	23%	----
Weak Firms	80%	20%	----	----

A chi - square test showed no significant difference between weak and strong firms in terms of numbers of marketing personnel employed.

These findings are very interesting because although the majority of respondent firms were found to be market driven, 60% did not employ any marketing professionals. Companies that did employ professionals were not found to be significantly different from companies that did not employ professionals, in terms of degree of market orientation. This supports much of the marketing literature which espouses the idea that marketing should not be the sole responsibility of the marketing department but rather the concern of all company departments (Kotler, 1994;.Felton,1959; McNamara, 1972).

Market Orientation and Interdepartmental Conflict / Connectedness

The average score for strong firms was 4.19. A t-test indicated, at the 95% confidence level, that strong firms enjoyed a greater degree of interdepartmental connectedness than weak firms. This is not a surprising finding since information dissemination, which is an integral component of market orientation, can only successfully occur if there are open lines of communication within an organisation.

Market Orientation and Risk Aversion

Only 27% of respondent firms received a strong score for positive attitude toward risk. A t-test confirmed with 95% confidence that strong firms were more inclined to have a positive attitude toward risk than companies with a weak market orientation. This supports Kohli and Jaworski's (1993) finding that risk aversion has a negative effect on market orientation. It should be noted however that only 27% of respondents had a positive attitude toward risk and therefore it would not appear to be a prerequisite of market orientation. It may be the case that a positive attitude toward risk occurs in the later stages of market orientation development, while companies concentrate on 'safer' tasks like gathering information and opening lines of communication during the earlier stages.

Market Orientation and Company Objectives

A chi-square test indicated that strongly market oriented companies pursue more aggressive goals than companies with a weak market orientation. This was found to be significant at the 95% confidence level.

Table 2 Company Objectives

Objective	Weak	Strong
<i>Generate good short term profits</i>	60%	---
<i>Defend position</i>	20%	6%
<i>Pursue steady growth</i>	20%	70%
<i>Pursue aggressive growth</i>	---	24%
<i>Dominate market</i>	---	---

The author found that 94% of strongly market oriented companies pursued growth strategies, while only 20% of weak firms did. This provides tentative support for the hypothesis in relation to risk aversion i.e. that market oriented companies are inclined to be more aggressive.

Market Orientation and Business Performance

A t - test of net operating profit margin by degree of market orientation indicated that strong firms performed significantly better than weak firms on this variable. Strong firms averaged profit margins of between 21 - 25%, while weak companies only averaged between 6 - 15%. The author can say with 95% confidence that strongly market oriented print firms enjoy greater profitability than firms with a weak market orientation.

This supports findings by Narver and Slater (1990) and Deshpande, (1993), who also found a positive link between strong market orientation and profitability. This is an interesting finding as very few empirical studies have examined this, much spoken about, relationship.

Market Orientation and Top Management Support

The author found top management support of 'marketing' to be present in the majority (82%) of firms, regardless of their degree of market orientation. There was no significant difference found between weak and strong firms on this variable. The author feels this is because the measurement scales used in this study measure lip service rather than true management support. The scales used were as follows:

- 1. Top managers repeatedly tell employees that this business and its survival depends on its adapting to market trends.**
2. Top managers often tell employees to be sensitive to the activities of our competitors.
- 3. Top managers keep telling people around here that they must gear up now to meet customers future needs.**
4. According to top managers here, serving customers is the most important thing our business unit does.

An investigation of the relationship between top management support and market orientation would require that the scales measure actual top management support i.e. actions as well as words (Day, 1990).

Summary

Irish firms have shown similar results to those previously found i.e. interdepartmental connectedness and a positive attitude toward risk appear to be pre - requisites of a strong market orientation. Additionally this study has demonstrated that the number of marketing personnel employed is not related to the degree of market orientation and that market oriented firms are more inclined to pursue aggressive growth strategies. Finally these findings support the proposition that market orientation is positively related to superior profitability.

Research Agenda

This research highlights some research topics which need to be addressed including:

1. Investigation of organisations that have successfully managed the transition from marketing department to market orientation.
2. Identification of the key capabilities/ skills required to develop a market orientation.
3. Development of tools / formulae to enable employees to become empowered to make marketing decisions.

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Appendices

Research Instrument

Section A Company Overview

1. Please indicate which of the following best describes your business
(Please tick one only)

- | | |
|--|---|
| <input type="checkbox"/> Security / Form printing | <input type="checkbox"/> Screen printing |
| <input type="checkbox"/> Magazines / Journals | <input type="checkbox"/> Computer manuals |
| <input type="checkbox"/> Greeting / View cards | <input type="checkbox"/> Book printing |
| <input type="checkbox"/> Instant / Demand printing | <input type="checkbox"/> General printing |
| <input type="checkbox"/> Pharmaceutical printing | |

2. Current employment _____

3. Current turnover

- | | |
|--|--|
| <input type="checkbox"/> Less than £ 100,000 | <input type="checkbox"/> £500,000 -£2m |
| <input type="checkbox"/> £100,000 - £250,000 | <input type="checkbox"/> £2m - £5m |
| <input type="checkbox"/> £250,000 - £500,000 | <input type="checkbox"/> Over £5m |

4. Which of the following best describes your company's current objective?
(Please tick one only)

- Generate good short-term profits
- Defend position
- Generate steady growth
- Pursue aggressive growth
- Dominate market

Section B-Gathering Intelligence

Please indicate how strongly each of the following statements reflect your business

(1= strongly agree 3= Neutral/Don't Know 5= Strongly disagree)

We meet with customers at least once a year to find out

-What products they will need in the future.	1	2	3	4	5
-We conduct a lot of in-house market research.	1	2	3	4	5
-We conduct on going customer satisfaction surveys	1	2	3	4	5

-Individuals from our manufacturing department interact directly with customers to learn how to servethem better.	1	2	3	4	5	
-We collect industry information via informal means (e.g. lunch with industry friends).	1	2	3	4	5	
-We have a formalised system for collection of data on competitors.	1	2	3	4	5	
-We are slow to detect fundamental shifts in our industry.			1	2	3	4

Section C - Dissemination of intelligence

-A lot of casual talk concerns our competitor's strategies.	1	2	3	4	5
-We have interdepartmental meetings at least once a quarter to discuss market trends and developments.	1	2	3	4	5
-Data on customer satisfaction are disseminated at all levels in the business on a regular basis.	1	2	3	4	5
-There is minimal communication between marketing and manufacturing departments concerning market development.	1	2	3	4	5

Section D-Responsiveness to Intelligence

-For one reason or another we tend not to respond to changes in customers needs (<i>e.g. lower prices, new products/services</i>)	1	2	3	4	5
- Departments get together to plan responses to changes taking place in the marketplace.	1	2	3	4	5
-Our business plans are driven more by production capability than by market research.	1	2	3	4	5

We annually produce a written marketing plan.	1	2	3	4	5
When we come up with a great marketing plan we have difficulty implementing it in a timely fashion.	1	2	3	4	5
Niche marketing drives new product development.	1	2	3	4	5

We review our new product development plans on an on-going basis	1	2	3	4	5
We are quick to respond to significant changes in our competitors pricing structures.	1	2	3	4	5
If a major competitor were to launch an intensive campaign targeted at our customers we would implement a response immediately.	1	2	3	4	5

Section E- Antecedents of Market Orientation

Top managers repeatedly tell employees that the business & its survival depends on its adapting to market trends. 1 2 3 4 5
 Top management feel serving customers is the most important thing the business does. 1 2 3 4 5

Top managers encourage the development of innovative marketing plans knowing well that some will fail. 1 2 3 4 5
 Top managers implement plans only if they are very certain they will work. 1 2 3 4 5
 Top managers accept occasional new product failures as normal 1 2 3 4 5

Most departments get along well with each other 1 2 3 4 5
 Protecting one's departmental turf is considered a way of life in this business. 1 2 3 4 5
 The objectives pursued by the marketing department are often incompatible with those of the manufacturing department. 1 2 3 4 5
 The marketing department has equal standing with the production department. 1 2 3 4 5
 Managers discourage employees from discussing work related matters with those who are not their immediate superior /subordinate 1 2 3 4 5
 Employees from different departments feel comfortable calling each other when the need arises. 1 2 3 4 5

Sales people s monetary compensation is based almost entirely on sales volume. 1 2 3 4 5
 Customer satisfaction assessments influence senior managers pay in this business. 1 2 3 4 5

Section F

Do you feel you supply more or less the same products / services as your main competitors?

- Yes No

Can your new products be easily be imitated by competitors ?

- Yes No

Please indicate which of the following best-described company performance in 1994

Sales Growth	-20%	-10%	0%	+10%	+20%	20%+
Op.Profit Margin	0-5%	6-10%	11-15%	16-20	21-25%	26%+

How many (if any) full time marketing personnel do you employ (not including sales people)

- None One Two Three or more

THANK YOU FOR YOUR CO OPERATION