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The Relationship between Market Orientation and Firm Performance

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Abstract
This independent conceptual study paper sought to examine the nature of the relationship between market orientation and firm performance. The study was done through a review of literature which indicated that the market orientation construct forms the foundation of marketing. The cultural and behavioral dimensions of market orientation have been discussed, including the antecedents, moderators and barriers to market orientation as well as the consequences of market orientation. The theoretical perspectives were based on the Resource Based Review, the Market Based view and the Contingency theory. The empirical studies reviewed provided findings that indicate that market orientation influences firm performance. The conclision made is that market orientation predicts firm performance and that as an antecedent to market orientation, the top management of a firm and the staff must be on the Frontline in supporting the market orientation. The consequences of a market orientation will be felt by customers, in the firms' innovativeness, as well as the employees of the firm. The conclusion has led to a suggestion to conduct a comprehensive study on the relationship between market orientation, firm characteristics, competitive strategy and firm performance in the context of a specific industry in order to fill the knowledge gaps identified in the study.
Keywords: Market orientation and Firm performance

1.0 Introduction
The current business environment is very dynamic and competitive and this has made it necessary for business firms to have a very good understanding of the market they are operating in (Jyoti & Sharma, 2012). One of the requirements for a business to gain a competitive advantage and superior firm performance in a competitive and dynamic market is to have a near-perfect understanding of the market (Maydeu-Olivares & Lado, 2003). Customers in the market place have also become more educated about their needs, wants and rights as well as the many firms in the market that provide superior value for customers. This has made it necessary for firms to be market oriented for them to increase market share and achieve superior performance. A business that adopts a market orientation performs better in terms of their relationship with customers and this enhances sales, market share and profits (Morgan & Hunt, 1994). There is a significant amount of literature to support a positive relationship between a market orientation and firm performance (Dauda & Akingbade, 2010; Njeru & Kibera, 2014; Njeru & Munyoki, 2014; Tajeddeni, Truman & Larsen, 2006). Achrol and Kotler (1999) posit that in a market place characterized by changing customer preferences, stiff competition and technological changes, the firms' ability to anticipate opportunities and threats is crucial. Baker and Sinkula (1999) also argue that a firm requires a strong market orientation in order to focus on the environmental forces that may influence its ability to provide value to customers relative to competitors.

1.1 Market Orientation
The marketing concept is the origin of market orientation and Van Raaij and Stoelhorst (2008) argue that this philosophy is the foundation of marketing. Market orientation is a business orientation which defines the marketing behavior or posture of a firm and it describes how a firm carries out its marketing activities (Otache & Mahmood, 2015). Narver and Slater (1990) define market orientation as "a business culture that most effectively and efficiently creates the necessary behavior for the creation of superior value for customers." Ruekert (1992) also defines market orientation as the degree to which the firm obtains and uses information from customers, develops a strategy to meet customer needs and implements that strategy in a way that is responsive to customer needs. Narver and Slater (1990) came up with a cultural dimension to market orientation and around the same time Kohli and Jaworski (1990) came up with a behavioural dimension to market orientation. In the Narver and Slater's (1990) cultural dimension, market orientation has three dimensions namely; customer orientation, competitor orientation and Inter-functional co-ordination. According to Narver and Slater (1990), customer orientation is the gathering of information about customer needs while competitor orientation is about collection of information about competitors in the industry. Inter-functional co-ordination requires all departments in the firm to provide superior value for customers.

1.2 Antecedents of Market Orientation
A market orientation will not happen on its own. Kohli and Jaworski (1990) argue that there are three organizational antecedents to a market orientation and that if these antecedents are not in place it will be very

difficult to increase the level of market orientation within the firm. These antecedents are senior management factors, inter-departmental dynamics and organizational structure and systems (Kohli & Jaworski, 1990). The senior management of a firm must whole heartedly be willing to increase the level of market orientation because they are the strategy developers and they have the power to infuse the market orientation concept in the mission statement and strategies of the firm. Inter-departmental factors relate to all the departments within an organization which need to be connected so that business intelligence can flow within the firm and therefore Kohli and Jaworski (1990) posited that inter-departmental dynamics represent the interactions and relationships between a firm's departments. The third set of antecedents proposed by Jaworski and Kohli (1993) is organizational structure and systems. The structural variables are formalization, centralization, and departmentalization. According to Hall, Haas and Johnson (1967) formalization is the degree to which rules define roles, authority relations, communications, norms, sanctions and procedures. Centralization refers to the inverse of the amount of delegation of decision making authority in the firm and the extent of participation of organizational members in decision making (Aiken & Hage, 1968). Departmentalization is the number of departments into which organizational activities are compartmentalized (Hall, Haas & Johnson. 1967).

1.3 Moderators and barriers to Market Orientation

Gudlaugsson and Schalk (2009) posit that the internal environment of a firm is an important moderator of market orientation. Gudlaugsson and Schalk (2009) argue that the firm's management and staff can create a barrier to market orientation because as a team, they are responsible for developing organizational values and culture. Gudlaugsson and Schalk (2009) further argue that organizational change can be a threat to firm performance since it affects employees' beliefs and how they feel about the firm. If employees are too concerned about changing their systems, processes and work place rules, they will not put emphasis on market oriented behavior (Gudlaugsson & Schalk, 2009). Day and Wensley (1988) argue that market orientation is less likely to affect performance especially in situations where there is a strong demand for the firm's products and in such an environment, firms can get away with not being market oriented at all. Similarly, in a market experiencing scarcity such that products are rationed to customers, a market orientation does not matter at all (Gudlaugsson & Schalk, 2009) Market turbulence and competition strengthens the relationship between market orientation and firm performance while technology turbulence will weaken this relationship (Kohli & Jaworski, 1990). In markets with a high level of turbulence, firms need a higher level of market orientation in order to perform well (Kumar, Subramanian & Yauger, 1998). This relationship works both ways and therefore Gudlaugsson and Schalk (2009) argue that in a market with little changes, the level of market orientation is irrelevant.

1.4 Consequences of Market Orientation

Jaworski and Kohli (1996) posit that the consequences of market orientation can be grouped into four categories namely organizational performance, customer consequences, innovation consequences and employee consequences. Organizational performance relates to cost-based performance measures that reflect organizational performance after accounting for the expenses of strategy implementation and revenue-based performance measures (Jaworski & Kohli, 1996). Customer consequences are concerned with the perceived quality of goods and services a firm provides, customer loyalty and satisfaction with the firm's products (Jaworski & Kohli, 1993, 1996). Innovation consequences relate to a firm's innovativeness which is the ability to create and develop new products, ideas, and processes (Hult & Ketchen, 2001). In relation to employee consequences, Kohli and Jaworski (1990) posit that by instilling a sense of pride and mutual trust among employees, a market orientation will enhance an employee's willingness to make sacrifices for the organization, employee team spirit, the motivation to satisfy customer needs and job satisfaction.

1.5 Firm Performance

According to Zammuto (1984) firm performance is the satisfaction of stakeholders. However satisfying all stakeholders may be difficult and therefore the firm may have to prioritize. Santos and Bito (2012) have argued that firm performance can be thought of in terms of several facets such as profitability, growth, market value, employee satisfaction, customer satisfaction and social performance. Olusula (2011) argues that firm performance can also be described as the ability to assess the level of success of a firm in terms of whether it is positive or negative. Sherriff, Peous and Ali (2010) also point out that firm performance can be seen from an objective perspective which is more about financial assessment in terms of Return on Assets (ROA), Return on Equity (ROE) and Sales growth. Firm performance can also be looked at from the monetary (financial) and the Non-monetary (Non-financial) measures according to Minai and Lucky (2011).

Scholars such as Ittner and Lacker (2003) prefer subjective measures of firm performance such as customer satisfaction and social performance which help the managers of the firm to determine the level of success of the business. From the stakeholder's viewpoint, Berger and Patti (2006) argue that when evaluating a firm financially, ratios derived from the firm's financial statements such as the income statement and the balance

sheet as well as the stock market prices can be used to determine the firm's performance. Since a firm has many stakeholders, measuring firm performance using financial measures only may not satisfy all stakeholders. Therefore, firm performance should be evaluated by both financial and non-financial measures (Berger & Patti, 2006). Tickman and McCormack (2009) argue that firm performance is a central issue for business firms and that measuring performance is necessary because it serves as a yardstick for achieving significant improvement in the overall firm activities. The balanced scorecard is considered to be one of the leading instruments of evaluating firm performance using both financial and non-financial measures which can reveal the results of the actions already taken by the firm (Kaplan & Norton, 1992).

2.0 Literature review

2.1 Theoretical perspectives

2.2.1 The Resource-Based View

The Resource Based View of the firm (RBV) focuses on a firm's internal environment as a key driver for competitive advantage and the resources that firms have developed to compete with others in the environment. The term "Resource Based View" was coined by Wernerfelt (1984) who viewed the firm as a bundle of assets or resources which are tied semi-permanently to the firm. Barney (1991) argues that the resources of a firm are its primary source of competitive advantage. Resources of a firm can be classified into categories such as property based and knowledge based resources (Miller & Shamsie, 1996). Other than the general resources of a firm, there are additional resources such as physical capital, human capital and organizational capital resources (Barney, 1991). Later, Barney and Wright (1998) added human resource management-related resources to this list of additional resources of a firm.

The resources of a firm can be tangible or intangible (Ray et al., 2004). Resources might also be tied semi-permanently to the firm (Wernerfelt, 1984). In a similar argument, Barney (1991) drew attention to all assets, capabilities, organizational processes, firm attributes, information and knowledge controlled by a firm that enables the firm to conceive and implement strategies that improve its efficiency and effectiveness. Ultimately, firms that are able to leverage resources to implement a "value creating strategy" not simultaneously being implemented by any current or potential competitor can achieve competitive advantage. Scholars subscribing to the RBV argue that only strategically important and useful resources and competencies should be viewed as sources of competitive advantage. Scholars have used terms such as core competencies (Barney, 1991; Prahalad & Hamel, 1994); distinctive competencies (Papp & Luftman, 1995) and strategic assets (Amit & Shoemaker, 1993; Mancides & Williamson, 1996) to indicate the strategically important resources and competencies which provide a firm with potential competitive advantage.

2.2.2 The Market-Based View

The Market-Based view (MBV) is the market perspective of a firm's strategy looking at the market requirements side. It argues that industry factors and external market orientation are the primary determinants of firm performance (Bain, 1968; Porter, 1980; 1985, 1996). The market Based view includes the positioning school of theories of strategies and theories developed in the industrial organizations economics phase of strategic thinking (Hockinsson et al, 1991; Mintzberg et al. 1998; Porter, 1980). In formulating strategy, firms commonly assess the external environment based on the five forces model (Porter, 1985). According to Porter (1980), an industry's attractiveness is determined by five forces namely; threat of new entrants, threat of substitute products, bargaining power of buyers, bargaining power of suppliers and the intensity of rivalry among the established firms in the industry. The stronger the five forces are collectively, the more the intense the competition and the lower the attractiveness of the industry.

Porter (1985) argues further that a firm must strive to capture a profitable and sustainable position within the industry in order to protect itself from industry competition.

However, every firm can influence each of the five forces through competitive strategy in its favour (Porter, 1996). Similarly, the strength of each of the five forces can vary across industries and change over time as the industry grows and not all of the five forces are equally important for different industries (Porter, 1998). In the Market-Based view, a firm's sources of market power can explain its relative performance. According to Grant (1991), three sources of power are frequently highlighted as Monopoly, barriers to entry and bargaining power. When a firm enjoys a monopoly status, it has a strong market position and therefore performs better (Peteraff, 1993). High barriers to entry for new firms in an industry leads to reduced competition and hence better performance. Higher bargaining power within the industry relative to suppliers and customers can also lead to better performance (Grant, 1991). However, some scholars have criticized the Porter's five forces model arguing that it offers a limited perspective to environmental analysis. Bensako et al., (2007) argues that the five forces approach ignores changes in firm's strategies and changes in consumer income and preferences. The government's influence in the industry has also not been captured by the model and Bensako et al., (2007) have argued that the government as a regulator can affect the profitability of an industry yet it is not captured by porter's model

2.2.3 Contingency Theory

The Contingency theory is an approach to the study of the behavior of business organizations and it explains how forces such as organizational culture and the external environment influence the design and function of the organizations. According to Galbraith (1973) the idea behind the contingency theory is that depending on a given situation, some approaches are better at explaining the functioning of an organization than others. Wright and Ashill (1996) posit that in the contingency theory, there is no best way for a firm to strategize and that solutions to a given problem are dependent on the situation and environmental conditions. Zeithaml et al., (1988) posited that the contingency theory has three variables which are the contingency variables, response variables and performance variables. They further explained that contingency variables would include the level of industry competition, technological changes and political-legal forces. These are external environmental forces over which a business usually has limited influence (Donaldson, 2001). The response variables include the structure of the marketing function in terms of the interdepartmental co-ordination within the firm while performance variables would include the growth rate of the firm, the market share and customer loyalty (Zeithaml et al., 1988). The effectiveness of an organization in achieving its objectives is dependent on the firm's ability to match the contingency variables with specific organizational designs that allow the firm to respond appropriately to environmental changes (Donaldson, 2001). According to Venkatraman and Camillus (1984) the strategies of a firm are meant to respond to environmental contingencies in a way that achieves better performance and they represent the effective selection of the appropriate strategies when a firm is faced with environmental changes. Zeithaml et al., (1988) assert that the contingency theory highlights the importance of situational influences on the management of business organizations. The fit between a firm and its external environment will influence the firm's performance (Calantone, Garcia & Droge, 2003).

2.2 Market Orientation and Firm Performance

Market orientation is regarded as a source of competitive advantage and can be an important determinant of firm performance (Mokhtar, Yusoff & Arshad, 2009). Superior firm performance can be achieved as market oriented firms are able to satisfy customers through tracking and responding to customer needs and wants (Jaworski & Kohli, 1993). A market oriented firm performs better in the market since it develops an organizational culture that helps in delivering superior value to customers (Narver & Slater, 1990; Pelham & Wilson, 1996; Slater & Narver, 1994b). A market orientation consists of three interrelated behavioral components; customer orientation, competitor orientation and inter-functional co-ordination (Narver & Slater, 1990). The orientation of a business is external such that it continuously collects and internally disseminates information about customers' competitors and other business stakeholders (Khamwon & Speece, 2005).

Market oriented firms draw on all functional areas to create competitive advantage and as such, market orientation is regarded as an important determinant of business performance (Day, 1994). Scholars such as Narver and Slater (1990), Jaworski and Kohli (1993), Slater and Narver (1994a), Popwaka (1996), Appiah-Adu and Rachnod (1998), Pelham (1999) and Kumar et al (1997) have empirically found a positive link between the extent of market orientation and firm performance. Thus, a business that increases its market orientation will improve its performance as argued by Khamwon and Speece (2005). Strengthening a firm's market orientation should result in favorable shifts in a firm's demand and cost curves. However other scholars have questioned the relationship between market orientation and firm performance. Caldor (1971) posited that the marketing concept is an inadequate prescription of marketing strategy because customers do not always know what they need.

Gerken (1990) is another critic who pointed out that it is unrealistic to be market oriented since firms are no longer able to keep up with the erratic and constantly changing market developments. Bennet and Cooper (1979) have also noted that the ability of customers to verbalize what they need is limited by their knowledge and hence firms sometimes need to anticipate future needs and wants of customers. According to Hayes and Abernathy (1980) and Bennet and Cooper (1979), market orientation induces firms to be interested in short term and intermediate customer needs which can be detrimental to innovation and the long term success of a company.

3.0 Empirical Review

3.1 Empirical Studies

Empirically, scholars have studied the market orientation and firm performance relationship (Blankson & Cheng 2005; Mahmoud, 2010) but the findings on the nature of the relationship are mixed (Mahmoud 2010). Haryanto and Haryono (2015) and did a study on the influence of market orientation, innovation type and enterprise performance in the furniture industry in Indonesia and found that market orientation and innovation type influences the enterprise performance. Langerak, Hultink and Robben (2004) did a study in Netherlands on market orientation product advantage and launch proficiency on new product performance and organizational performance. The results of the study by Langerak, Hultink and Robben (2004) provided the evidence that market orientation is related positively to; product advantage and launch tactics but found that market orientation has no direct relationship to new product performance and organizational performance.

3.2 Summary of Empirical Review and Knowledge Gaps

The empirical literature reviewed a number of studies on the market orientation and firm performance relationship, their findings and knowledge gaps which were identified and summarized in the table next page:

Table 3.1 Summary of Empirical Review and Knowledge Gaps

Study	Focus of the study	Findings	Knowledge Gap
Owino and Kibera (2015)	The influence of Organizational culture and Market orientation on performance of microfinance institutions in Kenya.	Organizational culture significantly and positively influence performance. Influence of organizational culture and market orientation on performance is more plausible for mature industries.	Study limited to micro-finance institutions Firm characteristics and competitive strategy not studied.
Haryanto and Haryono (2015)	The influence of market orientation on innovation type and enterprise performance	Proactive market orientation has a positive influence on innovation. Responsive market orientation impact on organization and marketing innovation	Study limited to Indonesia Firm characteristics and competitive strategy not studied
Shehu and Mahmood (2014)	The relationship between market orientation and business performance of Nigerian SMEs: The Role of organizational culture.	A good relationship between market orientation, organization culture and business performances. No relationship between market orientation and SME performance.	Study limited to Nigeria Firm competitive strategy not studied.
Njeru and Munyoki (2014)	Market Orientation External environment and performance of Tour firms in Kenya	There is a significant positive correlation between market orientation and tour firm performance The relationship is moderated by the external environment	Study limited to Tour firms Competitive strategy and firm characteristics not studied.
Ogbonna and Ogwo (2013)	Market Orientation and cooperate performance of insurance firms in Nigeria	There is a Positive relationship between market orientation and corporate performance Age of the firm and market information systems weakly moderate the relationship	Study limited to Nigeria Study limited to insurance firms Competitive strategy not studied
Mokhtar et al (2013)	The effect of Market orientation and international experience on performance with regard to mediating role of global marketing strategy	There is a significant relationship between market orientation and company performance	Study limited to Iran Firm characteristics not studied
Langat, Chepkwony and Kotut (2012)	Market orientation and firm performance in the manufacturing sector in Kenya.	There is a positive relationship between market orientation and firm performance. The Business environment significantly affects firm performance	Study limited to manufacturing sector. Firm characteristics and competitive strategy not studied
Mahmood (2011)	Market orientation and Business performances among SMEs in Ghana	Development of a market orientation rests upon the attitude of owners Market orientation leads to Super performance under ceaseless competitive conditions	Study limited to Ghana Competitive strategy not studied.
Gloria and Ding (2005)	Market orientation, competitive strategy and firm performance: An empirical study of Chinese firms	Customer orientation has a significantly positive impact on firm performance. Competitor orientation has a significantly negative effect on market performance. Inter-functional coordination has an insignificant impact. Customer oriented firms choose different strategies to satisfy customers in different markets	Study limited to China Firm characteristics not studied.
Langerak et al (2004)	The impact of market orientation, product advantage and launch proficiency on new product performance & organizational performance	There is a Positive relationship between market orientation and product advantage. Market orientation has no direct relationship to new product performance & organizational performance	Study limited to Netherlands Firm characteristics and competitive strategy not studied

Source: Empirical Literature Review (2016).

4.0 Summary and Conclusion

4.1 Summary

Market orientation has been defined as the business culture that most effectively and efficiently creates the necessary behavior for the creation of superior value for customers (Narver & Slater, 1990) and it consists of three behavioral components which are customer orientation, competitor orientation and inter-functional co-ordination. This independent conceptual study paper adopted this definition. A market orientation will not happen on its own. Kohli and Jaworski (1990) argue that there are three organizational antecedents to a market orientation and that if these antecedents are not in place it will be very difficult to increase the level of market orientation within the firm. These antecedents are senior management factors, inter-departmental dynamics and organizational structure and systems (Kohli & Jaworski, 1990). Jaworski and Kohli (1996) posit that the consequences of market orientation can be grouped into four categories namely organizational performance, customer consequences, innovation consequences and employee consequences. Organizational performance relates to cost-based performance measures that reflect organizational performance after accounting for the expenses of strategy implementation and revenue-based performance measures which exclude the expenses of implementing a strategy for example market share (Jaworski & Kohli, 1996). Customer consequences are concerned with the perceived quality of goods and services a firm provides, customer loyalty and satisfaction with the firm's products (Jaworski & Kohli, 1993, 1996). Innovation consequences relate to a firm's innovativeness which is the ability to create and develop new products, ideas, and processes (Hult & Ketchen, 2001). In relation to employee consequences, Kohli and Jaworski (1990) posit that by instilling a sense of pride and mutual trust among employees, a market orientation will enhance an employee's willingness to make sacrifices for the organization, employee team spirit, the motivation to satisfy customer needs and job satisfaction.

Based on the literature review, most researchers agree that implementing a market orientation in a business leads to better firm performance (Jaworski & Kohli, 1993; Slater & Narver, 1994; Deshpande & Farley, 1998). The positive role of a market orientation is supported by Chang and Chen (1998). Langerak (2001) argues that the market orientation construct has been shown to have positive consequences for the profitability of the firm and it is also related to employee attitudes and behavior (Ruekert, 1992). A market oriented firm performs better in the market since it develops an organizational culture in delivering superior value to customers (Narver & Slater, 1990; Pelham & Wilson, 1996; Slater & Narver, 1994 b). A market orientation consists of three interrelated behavioral components; customer orientation, competitor orientation and inter-functional co-ordination (Narver & Slater, 1990). The orientation of a business is external such that it continuously collects and internally disseminates information about customers, competitors and other business stakeholders (Khamwon & Speece, 2005). Market oriented firms draw on all functional areas to create competitive advantage and as such, market orientation is regarded as an important determinant of business performance (Day, 1994).

4.2 Conclusion

From the literature review, this study concludes that market orientation predicts firm performance and that market orientation is robust across industry and country boundaries and this conclusion is consistent with conclusions of past researchers. For firms to succeed in a highly competitive environment, they should be responsive to customer needs and wants and this requires them to be market oriented in terms of customer focus, competitor orientation and inter-functional co-ordination among the firm's internal departments. The internal environment of firms is an important moderator of the market orientation – firm performance relationship and therefore the study concludes that the management of a firm and its employees can create a barrier to market orientation if the organizational culture is not customer oriented. Therefore the top management of a firm and the various departments should be supporting the market orientation as part of the antecedents to a market orientation

The effect of a market orientation in a very turbulent environment will enable firms to detect and respond to market changes better since a high level of market turbulence requires a higher level of market orientation for a firm to perform well. Similarly the consequences of a market orientation or the lack of it will be felt by customers, the firm in terms of its innovativeness as well as employees in terms of their motivation and team spirit. Overall empirical studies show that market oriented firms record superior performance while those that are not market oriented experience low performance. This study agrees with findings of previous researchers that customer orientation, competitor orientation and inter-functional co-ordination within business firms can drive their performance.

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