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Market Orientation and Corporate Success: Findings From Germany

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Abstract

The significance of the marketing concept for corporate management is the subject of a long-standing controversy. This empirical study conducted in Germany, the largest European market, shows that together with other basic dimensions of management, market orientation contributes substantially to corporate success. In addition, the results indicate that popular practical measures designed to implement the marketing concept within the organization may cause negative side effects on corporate success. These risks could be controlled by observing a number of strategies suggested in this article. But detecting these risks requires a holistic research approach to corporate management, of which market orientation represents only one basic dimension. An integrated perspective of research, such as the one presented in this paper, is still alien to the empirical research regarding the question of whether market orientation exerts an impact on corporate success.

1. Introduction

As a result of stagnating or shrinking demand more and more companies worldwide strive for greater closeness to markets and customers. In order to obtain this goal, many organizations have adopted marketing as a management principle (see Webster, 1988; 1991).

Nevertheless, there is considerable controversy among management practitioners regarding the marketing concept. Some critics (e.g. Gerken, 1990) have recommended that firms abandon marketing as a guiding principle. The rationale is that marketing is no longer able to keep up with erratic and dynamic demand and market developments. On the other hand, business leaders such as Jan Carlzon of SAS (1987) and Kenichi Ohmae of McKinsey Corp. (1991), strongly advocate the concept of customer and market oriented management as a safeguard of long-term international competitiveness.

This controversy has also entered academic discussion (see Varadarajan, 1983). Scholars in the Marketing field tend to assert the dominance of marketing, while those from other business disciplines often deny such claims. In particular, Bennett and Cooper (1979; 1981) and Hayes and Abernathy (1980) have argued that the focus on marketing can be detrimental to innovation and long-term success of a company, because it seduces businesses to being narrowly interested in short-term, immediate consumer needs. These writers have blamed marketing for the decline of entire sectors of U.S. economy.

Some of this criticism may be the result of misunderstandings of the modern marketing concept (see Anderson, 1982; Houston, 1986). However, it is argued here that academic marketing research itself is to blame for failing to produce convincing scientific evidence for the superiority of marketing as a corporate leadership concept for many years. Few empirical studies have investigated the extent to which companies actually use marketing as an institutional leadership concept and not merely as a secondary managerial function. In addition, little evidence has been produced that marketing in fact guarantees the success of the firm. Furthermore the few existing studies are restricted to the United States (cf. Kohli and Jaworski, 1990; Narver and Slater, 1990; Jaworski and Kohli, 1993).

Based on these considerations, the critical question arises if, under what circumstances, and to what extent marketing as an institutional leadership concept contributes to corporate success. In fact, the Marketing Science Institute (1990, p. 7) has given research priority for the 1990s to the analysis of conditions and impact of market-oriented management.

Jaworski and Kohli (1993, p. 53) claim that no study of the reasons why some organizations are more market-oriented than others had been previously conducted. The current paper presents research which was conducted in Germany prior to publication of Jaworski and Kohli´s findings (Fritz, 1990; 1992). This study complements the U.S. studies in that it analyzes responses of German executives from a sample of companies. It also employs a more comprehensive research approach as well as advanced techniques of multivariate data analysis, which generates additional insight.

As American companies are increasingly involved internationally, understanding the decision making by executives from other countries becomes essential. The current paper will provide a deeper understanding of companies´ market orientation and also validate earlier research findings based on a sample from the largest European market.

2. Research Goals and Hypotheses

Based on the questions emerging from the controversy surrounding the marketing concept, a study was conducted to address three key concerns:

1) The first goal was to empirically determine the significance of the marketing idea as part of the overall corporate management concept. In other words, what is the importance of market-oriented thinking for corporate management as a whole. Does market-oriented thinking have a subordinate role compared to other basic dimensions of corporate activity, such as production, cost, or employee orientation? There is no comprehensive and empirically verified model of corporate leadership explaining the significance of market oriented thinking - in particular in comparison with other basic guiding principles of corporate management.

   As a result, a partial goal was to develop and empirically test a multidimensional model of corporate management.

   Based on theoretical considerations originating from the coalition theory of the firm, the stakeholder approach, the St. Gallen Management Model (cf. Cyert and March, 1963; Freeman, 1984; Bleicher, 1991) as well as our own previous research, a six-dimensional model of corporate management was hypothesized (for details see Fritz, 1992, pp. 150-180). These six fundamental dimensions comprise elements of the normative level of management (basic values and goals) as well as the strategic management (corporate strategies). They are assumed to be:

   - Market orientation;
   - Production and cost orientation;
   - Financial orientation;
   - Technology and innovation orientation;
   - Employee orientation;
   - Environmental and social orientation.

   The conceptual model and the definition of these six dimensions is presented in Table [1].

TABLE 1

The Basic Structure of the Conceptual Model of Corporate Management

Components / Basic dimensions	Normative management		Strategic management
	Basic values and attitudes	Corporate goals	Basic strategies
Market orientation	Customer, competitor and sales market orientated thinking ...	Customer satisfaction and loyalty; competitiveness; product quality; sales volume; market share ...	Market segmentation; differentiation; quality leadership; customer oriented product innovation ...
Production and cost orientation	Input-output thinking; optimization and experience curve philosophy ...	Productivity enhancement; capacity utilization; cost cutting; market share; profit ...	Cost leadership; standardization; rationalization; mass market strategies ...
Financial orientation	Monetary performance / pay off thinking ...	Liquidity; profit; return on investment; financial independence ...	Investment and disinvestment strategies; portfolio management ...
Technology and inno-vation orientation	Technological innovation, perfection and enthusiasm ...	Competitiveness; technological product and process quality; market share ...	Technological quality leadership; technological product and process innovation ...
Employee orientation	Employee oriented values, e.g. well-being and self actualization of employees ...	Employee satisfaction; social responsibility; maintainance of job sites ...	Employee participation; delegation of responsibility; codetermination; employee develop-ment ...
Environmental and social orientation	Public, social and environmentally oriented thinking ...	Societal welfare; corporate image and public opinion; environmental protection ...	Social sponsoring; dialogue with the general public; recycling ...

Marketers often assume that in the modern industrial world market orientation becomes the most important dimension of management, because the success of the whole corporation highly depends on the success of its products, typically within narrow markets (e.g. Kotler, 1991, p. 29). Therefore, it is hypothesized that:

H_1: Within corporate management, market orientation is emphasized to a higher degree than any other basic dimension of management.

2) A further goal of the study is the analysis of the effect of market orientation on corporate success. Contrary to earlier empirical research, the current approach takes into consideration the total concept of corporate management. This extended approach makes it possible to identify the relative contribution to corporate success of individual dimensions of management. This will answer the question if market orientation has a greater impact on corporate success than other basic managerial orientations. Surprisingly, earlier studies concerning the impact of market orientation on corporate success (cf. Kohli and Jaworski, 1990; Narver and Slater, 1990; Jaworski and Kohli, 1993) fail to raise this important question . But because these studies show a positive impact of market orientation on corporate success, and according to hypothesis 1, it is assumed that:

H_2: Market orientation contributes to corporate success to a greater degree than any other basic dimension of management.

3) A third goal is to investigate if popular measures, which are recommended to companies as means of anchoring and fully developing a market orientation, will actually contribute to success. This analysis of measures designed to implement marketing will lead to practical recommendations for management, which will be discussed as well.

Appropriate organizational conditions have to be created in order to help the market orientation evolve in a business. One such measure is to endow those employees and departments representing marketing with considerable influence within the corporation. Kotler (1991, p. 688) points out that marketing needs to be represented at the top of the corporate hierarchy, for instance by a board member. He also points out that the marketing department should not be isolated from other corporate sectors and departments.

Only a close cooperation between marketing and other departments can avoid basic conflicts between sectors, which inhibit the diffusion of the philosophy of marketing throughout the corporation (Kohli and Jaworski, 1990). Of special importance for responsiveness to customers and the success of product innovations is the close cooperation between marketing and production as well as R & D (Brockhoff, 1989; Cooper, 1985).

These considerations lead to the following hypotheses:

H3: The higher the position in the corporate hierarchy of the executive in charge of marketing, (1) the higher the market orientation and (2) the greater its contribution to corporate success.

H4: The stronger the institutional influence of the marketing sector, (1) the higher the market orientation and (2) the greater its contribution to corporate success.

H5: The closer the cooperation between marketing, production and R & D, (1) the higher the market orientation and (2) the greater its contribution to corporate success.

3. Method

A questionnaire was mailed to 417 German corporate executives in 1990, who were selected based on a stratified random sample of industrial firms in West Germany. Of the original sample, 144 companies (=34.5%) agreed to participate. Respondents did not differ significantly from nonrespondents and from the original sample with respect to company size or industry sector (Fritz, 1992). The sample can thus be considered representative (see Table [2]).

TABLE 2

Population and Sample Distributions of Company Size and Industry Sector of Firms in West Germany

Company size (number of employees)	Number of firms in population		Number of firms in sample	
50 - 99	8.132	(44,6 %)	61	(42,4 %)
100 - 499	8.238	(45,1 %)	66	(45,8 %)
500 - 999	1.045	(5,7 %)	8	(5,6 %)
> 1000	836	(4,6 %)	9	(6,2 %)
Total	N = 18.251	(100 %)	n = 144	(100 %)

$\chi^2 = 0{,}73$; df = 3; no significant difference ($p = 0{,}05$; $\chi^{2*} = 7{,}81$)

Industry sector (official statistics)	Number of firms in population		Number of firms in sample	
Primary products and producer goods	2.501	(13,7 %)	27	(18,8 %)
Capital goods	8.326	(45,6 %)	66	(45,8 %)
Consumer goods	5.588	(30,6 %)	38	(26,4 %)
Food, beverages and tobacco	1.836	(10,1 %)	13	(9,0 %)
Total	N = 18.251	(100 %)	n = 144	(100 %)

$\chi^2 = 3{,}34$; df = 3; no significant difference ($p = 0{,}05$; $\chi^{2*} = 7{,}81$)

(χ^{2*} = critical chi-square value)

Data were analyzed using LISREL 7 (Jöreskog and Sörbom, 1988). The resulting models were estimated using ULS and tested empirically. A total of eleven measures of fit were used. Besides four conventional criteria (GFI; AGFI; RMR; Chi-Square/df), measures of indicator and measurement model reliability, convergent and discriminant validity, and nomological validity were applied. All models discussed here were found to be empirically sound based on this elaborate procedure. (For detailed discussion see Fritz, 1992, pp. 121-149; 185-216; 259-273; 286-298).

4. Analyses and Results

4.1. Market Orientation as Basic Dimension of Corporate Management

As starting point of the empirical analysis, the management model with the following six dimensions was tested:

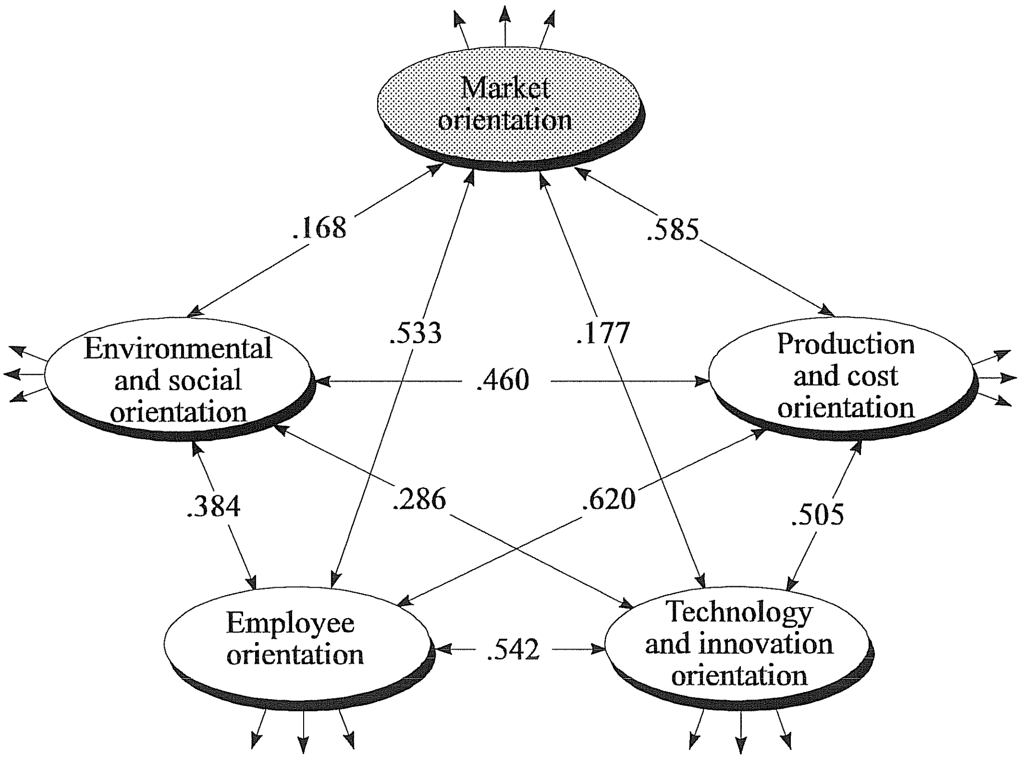
- Market orientation;
- Production and cost orientation;
- Financial orientation;
- Technology and innovation orientation;
- Employee orientation;
- Environmental and social orientation.

Although a six-dimensional model using 34 indicator variables is suitable, confirmatory factor analysis shows that a five-dimensional model using 17 indicator variables corresponds more closely to reality (see in detail Fritz, 1992, pp. 185-200). Financial orientation seems closely related to production and cost orientation, thus resulting in one common leadership dimension (production and cost orientation). The five dimensions are positively correlated. Figure [1] displays the basic structure of the model, Table [3] the operationalizations, the average indicator loading and the composite reliability of the indicators (see

Bagozzi, 1980, p. 128; Fornell and Larcker, 1981, p. 45). The measures of fit show that the model cannot be rejected.

FIGURE 1

A Multidimensional Model of Corporate Management



Confirmatory first-order factor analysis (LISREL).
Measurement model not drawn in.
Goodness of fit:
GFI = .968; AGFI = .955; RMR = .069; Chi^2 / df = 2,314

TABLE 3

Measures*

I. First-order model level		
Construct	Indicators	Composite reliability / average indicator loading
Market orientation	• The degree to which selling oriented thinking reflects corporate philosophy • The degree to which customer oriented thinking reflects corporate philosophy • The importance of customer satisfaction as a goal of corporate decisions	.662 / .727
Production and cost orientation	• The degree to which the orientation towards monetary results reflects corporate philosophy • The degree to which optimization thinking reflects corporate philosophy • The importance of return on investment as a goal of corporate decisions • The importance of productivity enhancement as a goal of corporate decisions • The importance of cost reduction as a goal of corporate decisions	.723 / .689
Technology and innovation orientation	• The degree to which technology oriented thinking reflects corporate philosophy • The degree to which technology leadership is pursued as corporate strategy • The degree to which technological product innovation is pursued as corporate strategy	.590 / .680
Employee orientation	• The importance of employee satisfaction as a goal of corporate decisions • The degree to which employee development is pursued as corporate strategy • The degree to which delegation of responsibility is pursued as corporate strategy	.646 / .727
Environmental and social orientation	• The degree to which environmental protection ideas reflect corporate philosophy • The importance of environmental protection as a goal of corporate decisions	.820 / .862
Corporate success	• The degree of reaching the goal competitiveness within the last 3 years • The degree of reaching the goal customer satisfaction within the last 3 years • The degree of reaching the long-term profit goal within the last 3 years • The degree of reaching the goal securing the continuance of the firm within the last 3 years	.673 / .705
II. Second-order model level		
Construct	Indicators (first-order factors)	Composite reliability/average indicator loading
Corporate management (overall)	• Market orientation • Production and cost orientation • Technology and innovation orientation • Employee orientation • Environmental and social orientation	.705 / .661

* This table refers to Figure [3]. There are only minor differences compared to the other models. All measures employ 7-point scals (1 = very low;...; 7 = very high).

Covergent validity : Given for each construct (see composite reliability).

Discriminant validity : Given for each construct (because composite reliability exeeds the largest squared correlation between constructs in each case. See Figure 1).

Based on this model, market orientation can be considered a separate basic dimension of corporate management, which is related to other basic management dimensions. It is constituted by only three indicator variables in the basic model (Sales orientation; Customer orientation; Goal: Customer satisfaction). These, in turn, correlate - in most cases significantly - with ten external criteria of market orientation, which indicates considerable criterion validity (see Table [4]).

TABLE 4

The Correlation of Indicators and External Criteria of Market Orientation

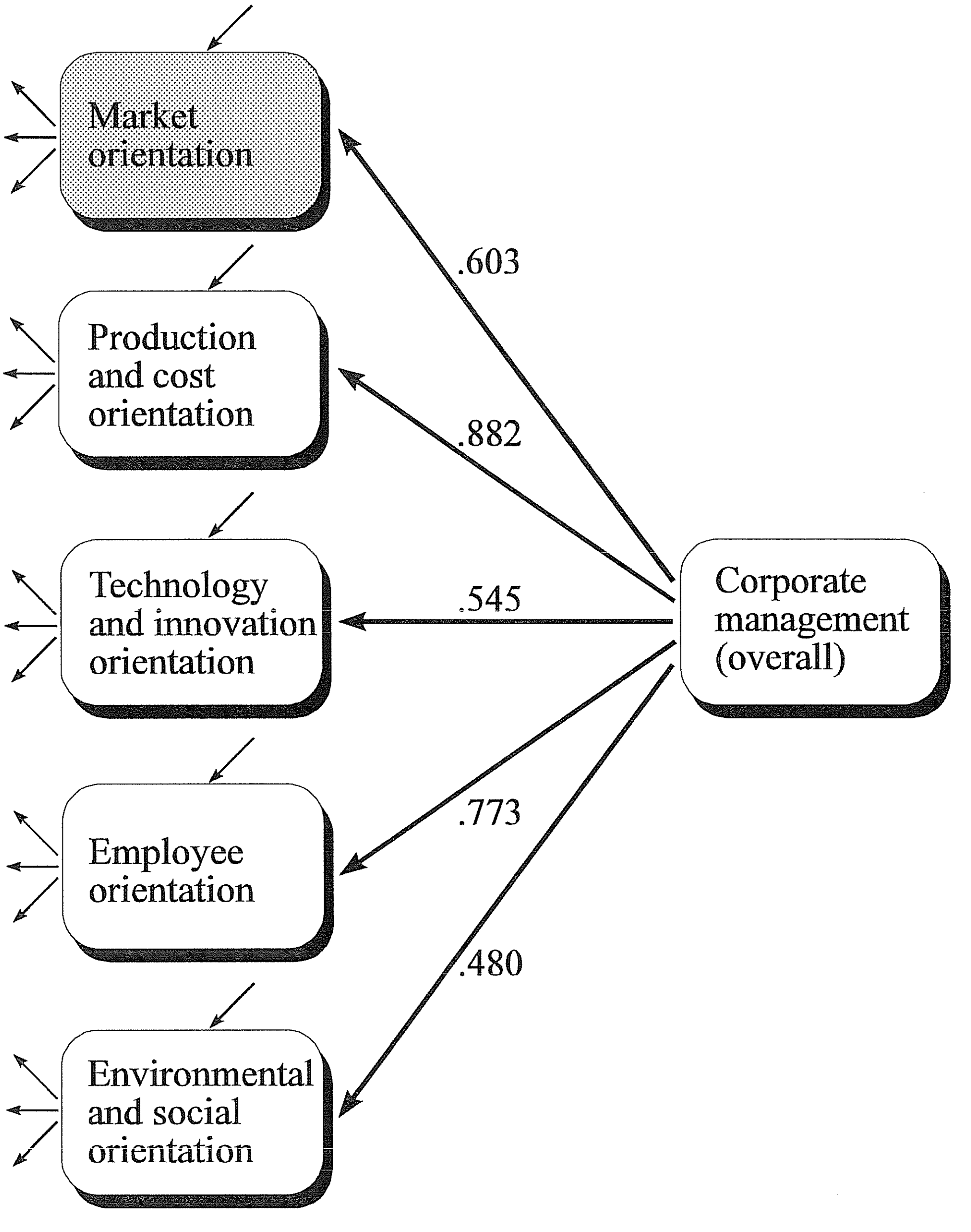
Indicators / External criteria	Selling oriented thinking	Customer oriented thinking	Goal: Customer satisfaction
a) Basic values/ attitudes and goals			
- Sales market oriented attitudes	.516**	.569**	.405**
- Goal = competitiveness	.436**	.417**	.579**
b) Strategies:			
- Market segmentation	.305**	.053	.210*
- Quality leadership	.257*	.201*	.423**
c) Market research:			
- Number of interviews with customers	.219*	.102	.093
- Number of competitor analyses	.254*	.009	.176*
- Expenses for market research	.140	-.013	.187*
d) Organization:			
- Influence of selling department	.333**	.162*	.158*
- Influence of marketing department	.414**	.229*	.282**
- Cooperation between marketing, production and R&D	.232*	.269**	.379**

Polychoric Correlations
* = p < .05; ** = p < .001

In order to test hypothesis H_1, a confirmatory second-order factor analysis was performed, which is a submodel of the general LISREL model (Jöreskog and Sörbom, 1988, pp. 10, 160). The results are shown in Figure [2], which indicates that market orientation is highly relevant for corporate leadership as a whole. It surpasses technology and innovation orientation as well as environmental and social orientation (.603 > .545; .480). However, production/cost and employee orientation carry more weight (.603 < .773; .882). Consequently, market orientation, along with production/cost and employee orientation can be considered an important key management dimension. But contrary to H_1, it cannot be considered the most important dimension in general. Thus, H_1 has to be rejected. Nevertheless, market orientation should be considered part of the "hard core" of corporate management, together with production/cost and employee orientation.

FIGURE 2

The Relevance of Market Orientation for the Overall Concept of Corporate Management



Confirmatory second-order factor analysis (LISREL).
Measurement model of first-order factors not drawn in.
Goodness of fit:
GFI = .961; AGFI = .947; RMR = .076; Chi^2 / df = 2,314

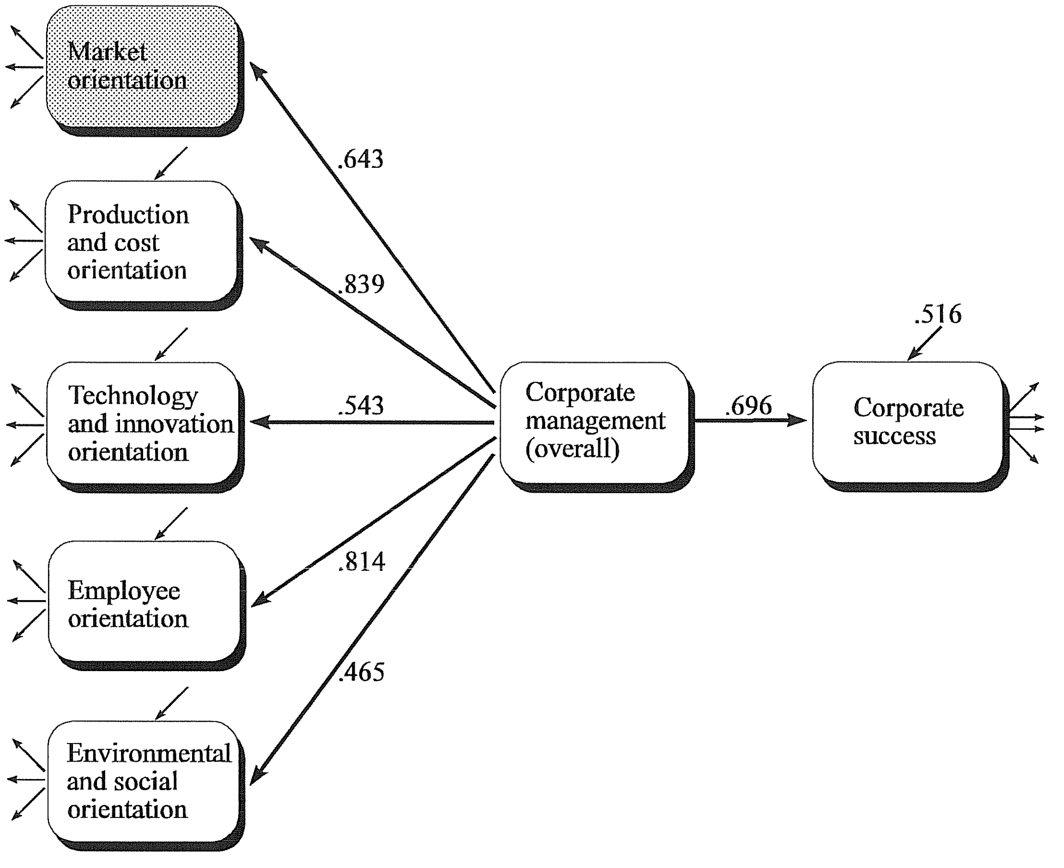
4.2. Market Orientation as a Success Factor

Corporate success is defined to refer to the degree to which the corporate goals of 'competitiveness,' 'customer satisfaction,' 'securing the continuance of the firm' and 'long-term profitability' are achieved. Several tests of validity and reliability have supported the model based on these four criteria as robust and pertinent (see Fritz, 1992, pp. 230-240). The composite reliability and the average loading of these indicators for corporate success are sufficient (see Table [3]).

The study used several approaches to investigate the impact of market orientation on corporate leadership. In order to avoid a problem of multicollinearity, a confirmatory second-order factor analysis seemed to be appropriate (Bagozzi, 1981, p. 338). The corresponding model is presented in Figure [3]. According to the goodness of fit criteria, the modell cannot be rejected empirically. Figure [3] indicates the overall strong effect of the leadership concept on corporate success (.696); i.e. 48.4% of the variance of corporate success are explained by the institutional leadership concept. Market orientation plays a critical role in this context, surpassed only by production/cost orientation (.839) and employee orientation (.814). The other two dimensions contribute positively, as well. All five dimensions of corporate leadership can be considered success factors. But market orientation plays a key role in business success, together with production/cost and employee orientation.

FIGURE 3

Market Orientation as Success Factor



Confirmatory second-order factor analysis (LISREL). Measurement model of first-order factors not drawn in. Goodness of fit: GFI = .954; AGFI = .943; RMR = .079; Chi^2 / df = 2,45

A contingency analysis was used to assess those circumstances under which market orientation is of special importance for corporate leadership and success. Details of the analysis cannot be presented here (see Fritz, 1992, p. 273-440). Instead, key findings are summarized:

- The importance of market orientation for corporate leadership and success is relatively great particularly under the following conditions:
  - Close cooperation between the departments of marketing, production and R & D.
  - Limited owner control, i.e. high management control.
  - Sales market as the main bottleneck to be overcome.
  - Within consumer goods industry to a higher degree than within industrial goods sector.
  - Considerable delegation of decision making to lower levels of hierarchy.
  - High cost of market entry for potential competitors.
  - A very dynamic macroeconomic environment.
- Under each of these conditions, market orientation contributes to corporate success. But under the conditions of a low owner control within firms of the consumer goods industry facing the sales market as the main bottleneck and high entry barriers for new competitors, the contribution of market orientation to corporate success even surpasses that of other management dimensions. In that case, market orientation is the dominant success factor. In other words, firms producing consumer goods lead by non-owner executives facing considerable sales market constraints, but having little to worry about the market entry of potential competitors because of high cost of market entry, are the kind of corporations that would benefit greatly from market orientation. However, the other dimensions of business leadership also have a positive, but lesser impact (see Fritz, 1992).

4.3. The Effect of Marketing Implementation Measures

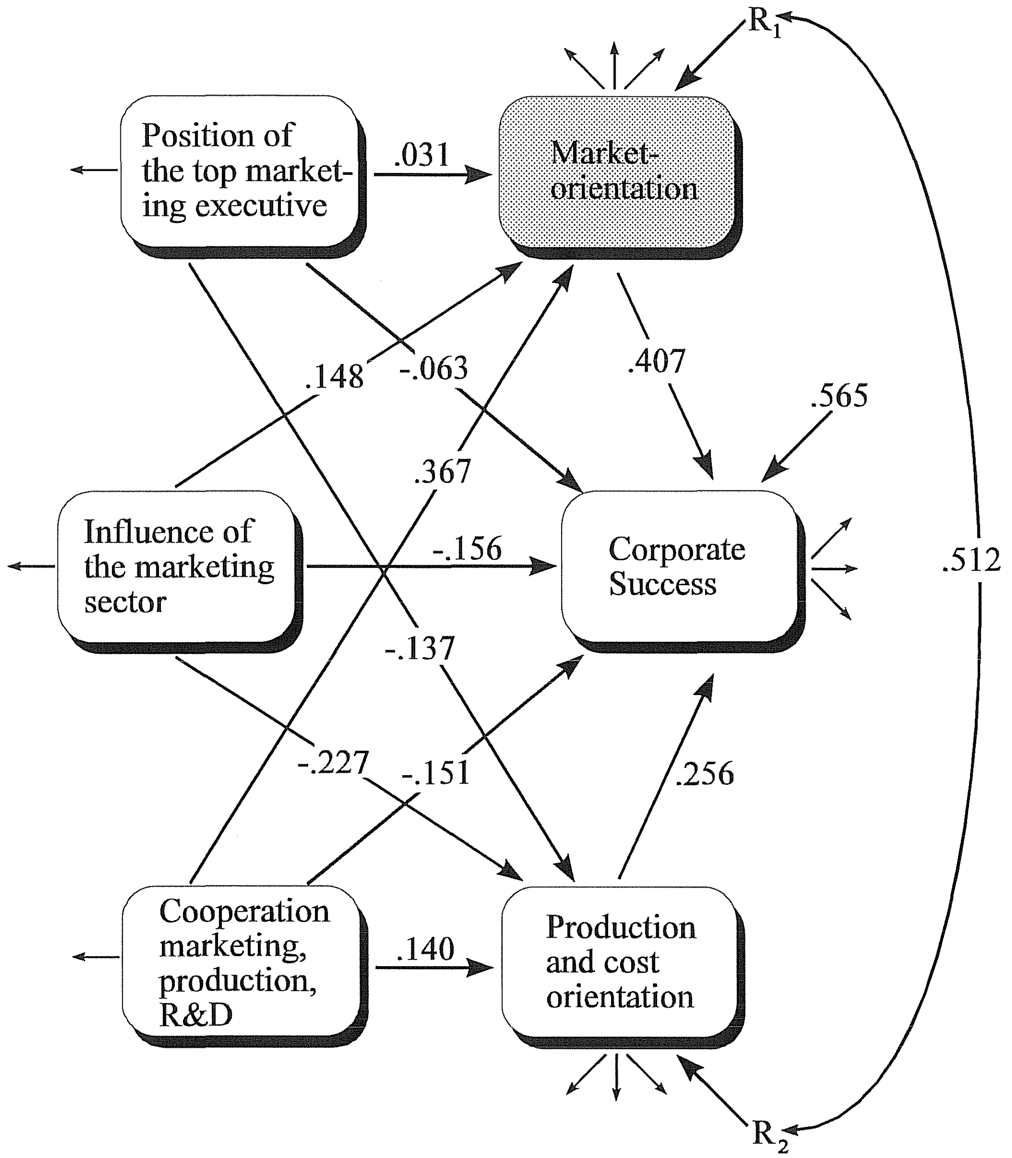
Hypotheses 3, 4 and 5 appear to lead to recommendations of specific measures for marketing implementation: a high position in the corporate hierarchy for the executive in charge of marketing; strong institutional influence of the marketing sector; close cooperation with production and R & D. However, Figure [4] and Table [5] caution that these marketing implementation mesaures are only partly beneficial for corporate success. Although hypotheses 3, 4 and 5 are empirically supported because the causal model shows sufficient goodness of fit, some detrimental effects may result.

Figure [4] shows that a high position for the marketing director, strong institutional influence of the marketing sector, and close cooperation with production and R & D have a positive, if partly weak impact on marketing orientation (.031, .148, .367). This, in turn, has a positive impact on corporate success, which increases along with market orientation (.407).

While these relationships are as expected, two aspects of this implementation appear to have negative side effects, demonstrated in this model with regard to production/cost orientation. Independent of their positive influence on market orientation, the high position of the marketing executive and the great influence of the marketing sector are negatively related to corporate success (-.063 and -.156). These two aspects of implementation also negatively affect the production and cost orientation (-.137 and -.227), which in turn has a negative indirect impact on corporate success. Only cooperation between marketing, R & D, and production has a clearly positive impact on corporate success.

FIGURE 4

The Impact of Marketing Implementation Measures on Corporate Success*



Causal analysis (LISREL).
Measurement model and exogenous correlation not drawn in.
Goodness of fit:
GFI = .967; AGFI = .944; RMR = .070; Chi^2 / df = 2,649

*The **position of the top marketing executive** was measured by a direct question concerning the hierarchy level (highest, second highest, third highest, subordinated). The **influence of the marketing sector** was measured by an index that reflects the relative influence compared to the influence of six other sectors. The **cooperation between marketing, production and R&D** was operationalized as the degree of collaboration in the development of new products.

The correlation between the residuals R_1 and R_2 takes into account the close relationships between market and production/cost orientation and the three other basic dimensions of corporate management not explicitely analyzed here.

Table [5] shows the total effect of implementation measures on corporate success. The overall indirect impact of the three dimensions of implementation is positive as a result of increased market orientation (.222). This positive effect is diminished by negative direct effects of a high position of the marketing executive and the institutional influence of marketing on corporate success (-.068) and negative indirect effects via production and cost orientation (-.057). These negative side effects reduce the positive contribution of implementation measures (.222) by more than half (.097). Taken by themselves, the total contributions of the position of the marketing executive (-.085) and the influence of the marketing department (-.154) are even negative.

These results show that organizational measures designed to increase corporate market orientation can have negative side effects and imply enterpreneurial risks. These side effects have apparently been overlooked in the empirical research. Such measures can thus only be recommended if simultaneous precautions to reduce this risk are taken, which are discussed below.

TABLE 5

The Effects of Marketing Implementation Measures on Corporate Success

Implementation aspects / Effects on corporate success	Direct effect	Indirect effect via market orientation	Indirect effect via production/ cost orientation	Total effect
- Position of the top marketing executive	-.063	.013	-.035	-.085
- Influence of the marketing sector	-.156	.060	-.058	-.154
- Cooperation marketing, production and R&D	.151	.149	.036	.336
total	-.068	.222	-.057	.097

4.4. Main Results

The following are main findings of this study:

1) Market orientation is one of the key dimensions of corporate management, along with production/cost orientation and employee orientation.

2) Market orientation is a most important critical factor for corporate success. "Goodbye Marketing" (Gerken, 1990) would thus be a serious mistake.

3) Certain measures of marketing implementation lead to undesired negative side effects and are thus risky. Consequently it is essential to control these side effects to achieve the desired success of marketing implementation.

5. Selected Practical Consequences of this Study

This study has identified marketing as one of the key dimensions of corporate management, and as critical for corporate success. This result is contrary to two widespread preconceptions: (a) that marketing is a cause of corporate failure, which should be abandoned by corporate practitioners, and (b) that marketing is the one and only factor in corporate success. Production/cost orientation and employee orientation are at least equally important dimensions of corporate leadership. Consequently, successful corporate leadership should be 'holistic.' Leadership concepts which are limited to individual dimensions fall short and should be replaced by a unified and multidimensional concept, which includes marketing as one key dimension.

Practical consequences are mainly derived from the potential for negative side effects resulting from the marketing implementation. Measures designed to improve market orientation could lead to neglect of production and cost orientation and thus have a negative effect on corporate success.

Such measures are often isolated from the overall context of corporate management. However, changes in the market orientation typically will also affect the other leadership dimensions. Planning and implementing such changes thus should consider the overall context of the total leadership concept. This requires integrated thinking and acting, which is still an alien concept to the management of many corporations.

One element of such integrated thinking and acting is the early and comprehensive assessment of the consequences of planned measures of marketing implementation. If undesired side effects e.g. on production/cost or employee orientation are to be expected, corrective steps, such as discussion groups or workshops should be taken by a coordinating body. Employees from the affected sectors should be included in such efforts. This can lead to two benefits: First, a joint value and knowledge base could be created that leads to an improved communication and to a common awareness and definition of the problem. Second, a joint motivation to solve the problem and in particular to develop and realize proposals in order to correct the deeper causes of the unwanted side effects may emerge.

The consequences of this study are not limited to the area of marketing practice, because they are of importance for the marketing science as well. This study shows that an integrated analysis of market orientation within the overall concept of corporate management is required to adequately assess the significance of market orientation for corporate success. But such an integrated approach is still alien to most empirical studies of market orientation.

Viewing the impact of market orientation on corporate success as isolated from the other dimensions of management (e.g. production/cost orientation) may lead to errors in judgment, because the possible unwanted side effects of market oriented measures demonstrated in this article are overlooked.

The lack of adequate scientific approaches in marketing, which are able to identify such phenomena is remarkable, because, according to Popper (1963, p. 336), the detection of unwanted side effects of deliberate human action represents one major tasks of social research.

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