Market Orientation:  
A Theoretical Review of Literature

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ABSTRACT

This research paper presents a theoretical review of literature about the understanding of Market Orientation. It is a brief survey based of readings on “market orientation” and it tries to address related research topics, challenges ahead and possible applications. Lastly this research paper shows that market orientation is very powerful force in the Marketing field to acquire competitive advantage.

Keywords: Market Orientation, reactive and proactive market orientation, market intelligence.

1. INTRODUCTION

“The market is not what it used to be.” (Kotler, Keller, Koshy, and Jha, 2007). It is radically different as a result of various developments, sometimes interlinking societal forces that have created new behaviors, new opportunities and new challenges. Changing technologies, globalization, deregulation, privatization, customer empowerment, customization, heightened competition, disintermediation and retail transformation are fast changing the marketplace and also the factors that would determine the success of businesses.

According to the literature that emerged over the late 1980s and 1990s, market orientation represents superior skills in understanding and satisfying customers (Day, 1990). Its principle features include: a set of beliefs that puts the customers’ interest first (Deshpande, Farley, and Webster, 1993), ability of the organization to generate, disseminate, and use superior information about customers and competitors (Kohli and Jaworski, 1990), and the coordinated application of inter-functional resources to the creation of superior customer value (Narver and Slater 1990).

Market orientation is the organization’s culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for the buyer’s and, thus, continuous superior performance for the business. George Day (1994) sees market driven organizations as excelling in three distinctive capabilities: market sensing, customer linking, and channel bonding.
1.1. Significant of Study

Over the years the researchers have found that companies who embraced the marketing concept achieve superior performance (Kohli and Jaworski, 1990; Narver and Slater 1990, 1994). The companies have been known to practice reactive market orientation - understanding and meeting customers’ expressed need; or proactive marketing orientation - where the focus is on customer latent needs (Matsuno and Mentzer, 2000). The former exhibit low-level of innovation and the latter a high-level innovation. Companies that practice both the reactive and proactive market orientation are implementing a total market orientation and are likely to be most successful (Kotler, Keller, Koshy, and Jha, 2007).

A whole set of forces that appeared in the last decade call for new marketing and business practices. Companies need fresh thinking about how to operate and compete in a new marketing environment. Marketers are increasingly recognizing the need to have a more complete and cohesive approach that goes beyond traditional application of the marketing concept. The four components of holistic marketing that are evolving are: relationship marketing, internal marketing, integrated marketing, and social responsibility marketing (Kotler, Keller, Koshy, and Jha 2007). A holistic marketing orientation integrates the value exploration, value creation, and value delivery activities with the purpose of building long term mutually satisfying relationships and co-prosperity among key stakeholders (Kotler, Keller, Koshy, and Jha 2007). Thus holistic marketers succeed by managing a superior value chain.

1.2. Objective

The main objective of the study is to understand market orientation. The other objectives of the study are as under:

1. To gain an understanding of meaning and effect of market orientation,
2. To identify factors that moderates the impact of market orientation in firms.

2. LITERATURE REVIEW

The concept of market orientation is derived from the philosophical foundation underlying the marketing concept which is that organizations should be focused on meeting the wants and needs of their customers. Academics and researchers since the 1990s have begun to develop a body of literature on antecedents and performance consequences of “market orientation” (Jaworski and Kohli, 1993; Narver and Slater, 1990).

The role of market orientation in the actual implementation of the marketing concept (Kohli and Jaworski, 1990) is to provide an understanding of key constituencies in the organization's environment. This enables companies to modify their activities and behaviours in order to satisfy their customers’ needs (Kohli and Jaworski, 1990). In effect, market orientation is considered to be the organizational mechanism (Deshpande and Webster, 1989) that most effectively and efficiently leads to the creation of superior value (Narver and Slater, 1990).
Thus, achieving a market orientation is seen as a requisite for successful organizational implementation of the marketing concept. Recently, attempts have been made to provide a broader, more inclusive conceptualization of market orientation. While still retaining the needs of the ultimate customers’ central focus, current theory asserts the importance of incorporating additional elements of the environment (e.g., an organization’s channel members, suppliers, competitors and government regulators), as components of an organization’s market orientation (Kohli and Jaworski, 1990; Jaworski and Kohli, 1993; Kohli and Kumar, 1993). For example, Narver and Slater (1990) suggest that market orientation is comprised of multiple elements including: customer orientation (a target-buyer focus), competitor orientation (a focus on current and potential competitors), and inter-functional coordination (a coordinated utilization of company resources aimed at creating superior customer value). In short, the organization's market orientation must include an awareness of various environmental constituencies as part of its efforts to deliver superior levels of value to end product or service consumers.

Recent research has found market orientation to be positively related to organizational performance across a wide range of industry types. Adding to their 1990 research, which found a significant positive relationship between the presence of a market orientation, and management’s subjective assessment of performance, as measured by return on assets, Slater and Narver (1994) found this relationship to hold true in both commodity and non-commodity businesses and to not be significantly affected by variations in environmental conditions. Their conclusion that, "...being market oriented can never be a negative" (1994, p. 54) would seem to imply that market orientation should always enhance performance. In summary, prior theory and research on market orientation seems to suggest that market orientation: (i) is universally beneficial; (ii) exerts a direct, positive effect on business performance (specifically profitability); and (iii) implies a multi-dimensional but balanced focus on key environmental constituencies such as ultimate customers, channel members, suppliers, competitors, and relevant governmental agencies.

Kohli and Jaworski, (1990) brought additional constituents such as buying and non-buying channel intermediaries and future potential customers into the market orientation domain. As articulated by Narver and Slater (1990), the concept of market orientation, to some extent, incorporates knowledge about other members (e.g., suppliers, competitors) of the industry's value chain. The concept of industry value chains is largely derived from the discipline of industrial economics, where the notion of value-added chains was developed to clarify the business use in constructing competitive advantages within an industry (Porter, 1980, 1985). Porter (1985) suggests that each organization value chain "is embedded in a larger stream of activities" that he calls the "value system" (1985). Porter's value system is consistent with general theories of marketing. In all instances, value creation is the ability of the components of the value system or chain to work together as a cohesive whole in determining the level of value provided to the ultimate consumer. Not only must the organization be focused on the various components of its market as articulated by Narver and Slater (1990), it must be focused on these components in the proper manner given specific...
environmental circumstances (e.g., industry value chain position).

Researchers and scholars have made attempts over the decades to gauze into specific business practices through which the marketing concept can be implemented. A significant work in this direction has been undertaken by Kohli and Jaworski (1990) who define market orientation as “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.” The three core constructs proposed by Kohli and Jaworski are: market intelligence generation, market intelligence dissemination, and responsiveness.

**Intelligence Generation:** The act of intelligence generation is concerned not only with collecting information about customers in the target market, but also about the present and potential competitors and exogenous market forces such as government regulations, technology, and other environmental factors. While identifying customer needs, both the current and potential customers’ needs and requirements are to be considered. The emphasis was also that market intelligence generation should not be viewed as the sole responsibility of marketing department or market research. In fact the whole organization needed to be sensitive to customer needs and competitor reactions.

**Intelligence Dissemination:** Responding effectively to a market need requires the participation of all the departments in the organization which is possible only if market intelligence is communicated, disseminated, and sold to relevant departments or individuals in the organization.

**Responsiveness:** Responsiveness of the organization includes both planning and implementation aspects. Planning a response is a response design that includes selecting a target market, setting up structures and systems, product planning etc. Execution of the planned response is the implementation aspect of responsiveness which includes production, offer and distribution of products along with provision of after sales service and handling customer grievances. Responsiveness is also an organization-wide phenomenon.

Kohli and Jaworski (1993) further identified three antecedents to market orientation, viz., senior management factors (communication-action gap of top management, risk aversion of top management, upward mobility and education of top management, top management attitude towards change, and marketing managers ability to earn trust of non marketing managers); inter departmental dynamics (interdepartmental conflict, interdepartmental connectedness, and concern for ideas of other departments); organizational systems (departmentalization, formalization, centralization, market based reward system, and acceptance of political behavior).

Kohli and Jaworski’s research suggested that market orientation leads to the following consequences: (i) a cohesive product focus, clear leadership, better coordination, of sales activities, (ii) provision of psychological and social benefits to employees, and (iii) satisfaction among consumers who spread positive word of mouth and keep coming back to the organization.
They also suggested certain environmental moderators of the market orientation-business performance linkage such as market turbulence, technological turbulence, competitive intensity, and state of the economy.

Narver and Slater (1990) in their study too developed a measure of market orientation. Their measure closely parallels Kohli and Jaworski’s scale. According to them, market orientation consists of three behavioral components: customer orientation, competitor orientation, and interfunctional coordination; and two decision criteria: long-term focus and profitability. Customer orientation requires that a seller understand a buyer’s entire value chain not only as it is today but also, as it will evolve over time subject to internal and market dynamics. Competitor orientation means that the seller understands the short-term strength and weaknesses and long-term capabilities and strategies of both the key current and potential competitors. Inter-functional coordination is the coordinated utilization of company’s resources in creating superior value for target customers. Marketing’s interdependencies with other business functions must be systematically incorporated in the businesses marketing strategy.

Heiens (2000) in his article suggested that firms could decide to focus on either the competitors or customers as the situation dictates or attempt the difficult task of simultaneously monitoring both with equal emphasis. The four distinct approaches of market orientation according to him are: “customer preoccupied,” “marketing warriors,” “strategically integrated,” and strategically inept”. Firms that emphasize customer focused intelligence activities at the expense of competitor information are classified as “customer preoccupied”. Firms that emphasize competitors in their external market analysis are called “market warriors”. Firms characterized as “strategically integrated” assign equal emphasis to collection and dissemination and use of both customer and competitor intelligence. Firms that fail to orient their strategic decision making to their market environment are called “strategically inept”.

According to Narver and Slater (1994) a customer focus is most important when market is growing and when the market is fragmented and the buyer power is low. They further suggest that lesser the degree of competitive hostility, the greater the positive impact of competitor emphasis on performance (Narver and Slater 1994). Slater and Narver (1994) have finally suggested that a balance between the two perspectives is most desirable and firms should be flexible to shift resources between customer and competitor emphasis as market condition change.

Brettel, Engelen, Heinemann, and Vadhasindhu (2008) examined the effect of national culture on the relationship between market orientation and selected managerial antecedents. They developed and tested a theoretical framework with samples from Germany, Thailand, and Indonesia. The findings suggest that national culture have an impact on the effects of antecedents in some cases, whereas in other situations, culture-independent relationships emerge.

Grinstein (2008) conducted a research to study the independent effects of market orientation components (customer orientation, competitor orientation, interfunctional...
coordination) on innovation consequences. The study found that market orientation components positively affect innovation consequences, but the competitor orientation’s effect depends on a minimum level of customer orientation. The study also suggests that the relationship between market orientation and innovation consequences is stronger in highly competitive environments but weaker in technology turbulent ones. Finally, findings suggest that the relationship is stronger in large firms, service companies, and in countries characterized by high individualism.

In a study examining the importance of the relationship between market orientation and alternative strategic orientations, Grinstein (2008) identified the orientations that are more likely to be combined with market orientation. Findings suggested that market orientation is strongly correlated with learning, entrepreneurial, and employee orientations, and that it has a moderate positive relationship with innovation orientation.

Langerak, Hultink and Robben (2007) studied the mediating effects of the proficiency in new product development activities and new product performance on the relationship between market orientation and organizational performance. The results from a sample of 126 manufacturing firms present evidence for the mediating roles of the proficiency in commercialization activities and new product performance. The study found that the mediating roles are consistent for three moderator variables: technological turbulence, market turbulence and innovation strategy. Together, their findings provide a better understanding of how a market-oriented culture leads to superior organizational performance.

Nicovich, Dibrell, and Davis examined issues surrounding the linkage between market orientation and organizational performance. At the conceptual level, the paper expands the concept of "market orientation," emphasizing the contingent effects played by the organization’s positioning along its industry’s value chain. Differences in organizational performance are hypothesized to be a joint function of an organization’s market orientation and the strategy by which the organization competes. They divided industry’s supply chain into two halves: “upstream and downstream”. Business units at the upstream do not sell to ultimate consumer but to other organizations that use their goods as inputs to produce a final product. Downstream competitors are closer to customers. Marketers upstream are likely to focus on overall low cost (Porter, 1980), whereas downstream firms likely to focus on differentiation (Porter, 1980). A survey of key informants indicated that market orientation was associated with an organization’s value chain position and competitive strategy, but not with organizational performance. Upstream firms pursuing an overall low cost strategy have a supplier based market orientation. For downstream organizations a strong linkage was found between supplier and competitive based market orientation.

Narver, Slater and MacLachlan (2004) in a study extended the measurement of market orientation to measure both responsive market orientation and proactive market orientation. Using data from a sample of technologically diverse businesses, the study findings imply that for any business to create and to sustain new-product success, a responsive market orientation is not sufficient and, thus, that a proactive market orientation
plays a very important positive role in a business's new-product success.

Despite recent efforts to clearly explain the concept of market orientation, it remains an appealing strategy, which both scholars and practitioners alike have yet to fully understand or utilize. The purpose of this study is to develop and enhance understanding of market orientation and its antecedents and consequences among business firms in India.

India has a growing customer base and seen as a potential market for a large number of international players. Given the opportunity that exists along with the economy becoming globalized, India is likely to see intensive competition in any industry. Further, firms will experience the impact of changing expectations and aspirations of consumers. Such dynamism in the socio-political, legal, economic, technological, and international environments is likely to pose fresh challenges to the marketers. Does market orientation make a firm better prepared to face such challenges?

Along with the opportunities the challenges faced by the firms are also on the rise. The pressures of buyer power, supplier power, ease of entry of new competition, rate of technological change, varying growth rates in different markets are all leading firms to innovate strategies to lower costs or differentiate or pursue both simultaneously. Does market orientation help organization to build a sustainable competitive advantage?

3. RESEARCH METHODOLOGY

This section deals with the methodological steps adopted in the present study. The research procedures which we had followed have been described under the following headlines.

Secondary sources of information have been used in this study. Previous studies have been reviewed in order to develop a conceptual framework underlying Market Orientation. Articles published in leading journals, economic dailies, business magazines, newspapers, books, committee reports worldwide including India, empirical studies published in the professional and academic journals and websites have been consulted for developing the theoretical framework for the study. The aim of this article encompasses a description of the market orientation from a theoretical perspective.

4. FINDING

Market Orientation has been a subject matter of much research in contemporary marketing literature. Results have suggested that having a market oriented corporate strategy is valuable to firms, it is an attitude or outlook that gives them an advantage at the marketplace especially if it is highly competitive. Market orientation as a construct refers to firm-wide generation of market intelligence with the aid of Decision Support Systems (DSS), Marketing Information Systems (MIS), Strategic Information Systems (SIS), and Market Research Activities and its effective dissemination throughout the firm. By gathering such information or intelligence and acting upon it, firms are assisted or encouraged to be more responsive to the changes taking place in their marketing environment. Researches conducted have produced a high degree of congruency in their results suggesting that market orientation
approach on part of a firm can be regarded as an indication of its implementation of ‘modern marketing concepts’ and as reflection of its commitment to a strategy of providing or delivering superior value to its customers.

5. CONCLUSION

The essence of the argument is that a firm must identify its customers’ needs and adapt its operation to their needs if it wants to be successful. Marketing scholars agree that in usual circumstances there is a positive relationship between market orientation and better business performance (Narver and Slater, 1990, 1993; Jaworski and Kohli 1993). The argument behind this relationship is that market orientation helps a firm collect and use market information and coordinate its resources to a competitive advantage for itself.

The research in this area is becoming progressively more complex and wide-ranging. Researchers are making efforts to understand why and how firms respond strategically to consumer behavior and how society at large benefits from firms having market orientation. Despite many studies in this area, there have been very few studies of market orientation as a construct in the developing countries especially India (Jain, 1998; Jain and Bhatia, 1995, 2004). It is the aim of the current proposed research to fill this gap.

Although there have been recent increase in studies on market orientation, there still remains a need for replications in which a cross-section of organizations are compared to advance the theory in this area. In particular, there is a need to investigate the extent of market orientation of firms in developing countries where the process of economic diversification is taking place rather rapidly.

5.1. Limitations

• The research study is to be based in Delhi and NCR region only therefore limitation may exist in its overall application to firms operating in India.
• Though care would be taken to collect data from a meaningfully representative sample, yet the convenience sampling method may have its limitations.

It is clear that much additional research needs to be undertaken.

REFERENCES


