

# Market-Orientation and Corporate Performance

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## *Abstract*

*Market-orientation is generally referred to the basic orientation that governs the relationship of a firm with its market and, more particularly, with its customers.*

*Now, in many firms, MO is treated like the marketing concept. This traditional view of MO has two main drawbacks: first of all it overlooks market actors other than customer (i.e. distributors, competitors and prescribers). Then, this functional perspective leads to confine the concept of MO to the activities generally conducted by the marketing function, underestimating the value creation potential of other functions.*

*This confusion about the scope of the MO concept is in part explained by the lack of clarity on the definition of the marketing concept which, especially in American literature, is treated as operational marketing: the 4 Ps. By converse, the concept of MO has three dimensions and that a distinction should be made between the MO as a management philosophy (culture), as a tool of strategic thinking (analysis) and as a commercial activity of the company (action).*

**Keywords:** Market-Orientation; Marketing Orientation; Corporate Performance; Manufacturers-Distributors Relationships; Market-Driven Management; Global Corporations; Global Markets

For several years the concept of market orientation has experienced a resurgence of interest not only in academia but also in firms, especially during the numerous corporate reorganisations driven by the globalisation of the economy (Shapiro, 1988, 1988 and Webster, 1994; Day, 1990; Kohli and Jaworski, 1990; Narver and Slater, 1990 and Ruekert, 1992; Lambin, 1988, 1994 et 1996, Rivera, 1995; Pitt, Caruana and Berthon, 1996; Lado, 1996; Fritz, 1996; Gray, Matear, Boshoff and Matheson, 1998, Deshpande and Farley, 1998; Morgan and Strong, 1998; Han, Kim and Srivastava, 1998; Day, 1999; Lambin and Chumpitaz, 2000).

This renewed interest can be attributed to three 'geopolitical' factors. First of all, the wave of privatization and deregulation that, in the whole world, liberalizes

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markets, dismantles state monopolies and forces parastatal companies to radically rethink their traditional business culture.

Then, in Western Europe, the process of economic integration that has been accelerated by the effect of creating the EMU and the introduction of the Euro, leading companies to review their strategic options in an expanded and more competitive market. Finally, the adoption of the market economic system by the communist bloc countries, like China and Vietnam, that tend to develop an original State-led road towards the market economy.

In this new context, it is fundamental for the firm to be market-oriented, fully understand this management philosophy and have reliable tools, not only to provide a diagnosis on the degree of integration of the concept in the firm, but also to identify the organization structure and the strategies that will mostly contribute to its future development.

This article aims to answer the following three questions:

1. what does market-orientation (MO) means? Several interpretations have been given in the literature about the concept of MO and very often market-orientation is assimilated to marketing orientation (Shapiro, 1988).
2. How is it measured the market-orientation degree of a company? Several measurement instruments have been developed and applied in many sectors and countries, but there are many methodological problems with the implementation of these instruments, still unsolved (Kohli, Jaworski and Kumar, 1993; Söderlund 1993; van Bruggen and Smidts 1995; Liffliandchik 1997; Lado, Olivares and Camino, 1996; Selnes, Jaworski and Kohli, 1996).
3. Is there a relationship between the degree of MO of a company and the level of its corporate performance? Several Authors have stated the correlation between MO and corporate performance (CP) (Narver and Slater, 1990 and Ruekert, 1992; Kolhi, Jaworski and Kumar, 1993; Pitt, Caruana and Berthon, 1996; Rivera 1995; Lado, 1996; Lambin, 1996; Langerak et al. 1997), but the empirical verification of the existence of a true causal relationship between MO and CP has not been conducted yet. To support the analysis of these three questions we will present the results of a study conducted in four European countries and based on a sample of 290 managers and executives of companies known for their good corporate performance.

## **1. Market-Orientation or Marketing Orientation?**

Market-orientation is generally referred to the basic orientation that governs the relationship of a firm with its market and, more particularly, with its customers. However, there is an open debate on the identification of the actors involved in the functioning of a market. Peter Drucker (1973) is considered as the father of the MO concept, expressed as follows: ... *the customer must be the focus of management thinking*. In Drucker's thought market-orientation is more than just a management function as production, finance and human resources, and it represents rather a management philosophy that should guide the overall organisation. Now, in many firms, MO is treated like the marketing concept (Kotler, 1967) and is seen as the

responsibility of the marketing function or area, that is responsible for coordinating the 4 P, focusing on customers orientation.

This traditional view of MO has two main drawbacks: first of all it overlooks market actors other than customers, i.e. distributors, competitors and prescribers that may be important players.

Then, this functional perspective leads to confine the concept of MO to the activities generally conducted by the marketing function, underestimating the value creation potential of other functions.

**Table 1:** The Tree Dimensions of the Marketing Orientation Concept

Dimensions	Activity	Corporate Focus
<i>Analysis</i>	Strategic vision: market needs analysis and strategic options	Strategic marketing: strategic business units (SBU) responsibility
<i>Action</i>	Commercial activities: implementation of strategic options	Operational marketing: sales managers responsibility
<i>Culture</i>	Management philosophy that involves every corporate function	Market orientation: corporate culture diffused by top management

This confusion about the scope of the MO concept is in part explained by the lack of clarity on the definition of the marketing concept which, especially in American literature, is treated as operational marketing: the 4 Ps. For a review on the debate around this subject, see: Brady and Davis (1993), Freeling and Court (1994), Webster (1997). By converse, with others (see Lambin, 1986; McGee and Spiro 1988, 1988 and Webster, 1992) we consider that the concept of MO has three dimensions and that a distinction should be made between the MO as a management philosophy (culture), as a tool of strategic thinking (analysis) and as a commercial activity of the company (action). As shown in Table 1, firms adopting these three market orientation dimensions are involved at the level of general management, at the strategic business units (SBUs) level and at operational level.

## 2. Description of the MO Model

As shown in the left side of Figure 1, in general we define the concept of MO on one hand, referring to four players: customers, distributors, competitors, prescribers, on the other hand to three activities: analysis, action and culture. Culture is defined as a mediating variable (Baron & Kenney, 1986), that is with an inter-functional coordination role in the firm, designed to facilitate the involvement of all levels of the organization in creating a culture oriented towards the market. Finally, the macro-marketing environment is seen as a key moderator of the relationship between market orientation and corporate performance.

The MO model presented here is very similar to that already described by Kohli and Jaworski (1990) and by Narver and Slater (1990).

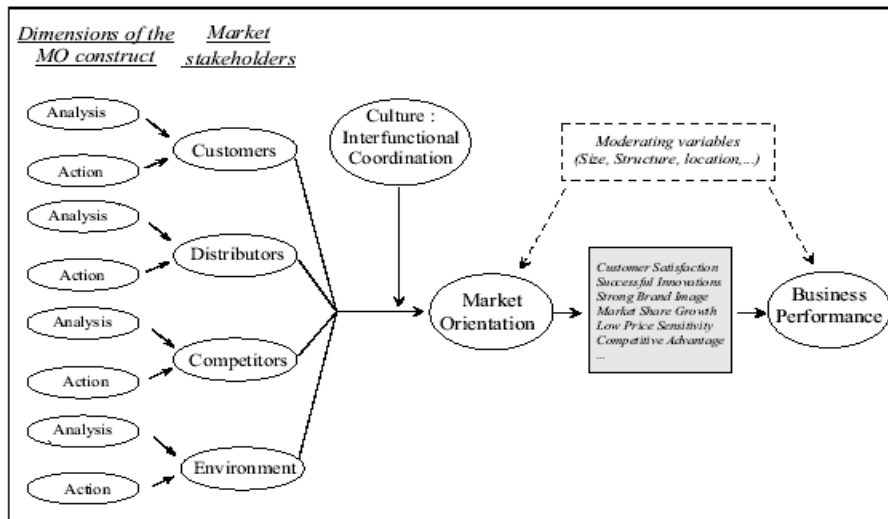
However, there are four main differences:

1. a broader definition of market players;

2. a distinction between the three dimensions of the MO concept;
3. a consideration of inter-functional coordination as a mediator variable that involves all business functions;
4. the analysis of the macro-marketing environment turbulence and its impact on the MO-CP relation.

We will review briefly the various components of this general model.

**Figure 1:** The Market Orientation Concept: The General Case



## 2.1 The Market Actors

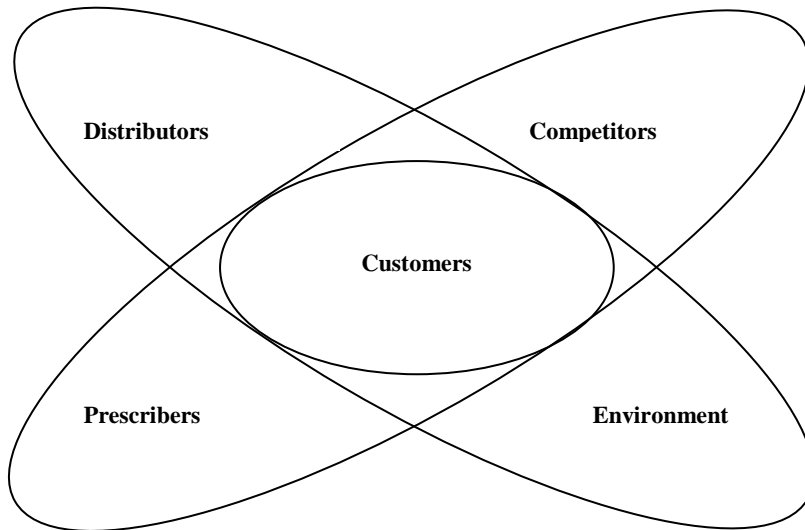
In general we can identify four key players involved in the functioning of the market: customers, distributors, competitors and prescribers.

*The customer orientation (CO).* Meeting needs of end users or customers is clearly the heart of the MO concept and it coincides with the traditional marketing concept. A company that has adopted a customer orientation is a firm that has the skills and willingness to meet the needs and expectations of its direct and indirect customers and '... to design and promote the value solutions to the problems of population and/or organizations'. In this definition the word 'to design' refers to strategic marketing and the word 'to promote' refers to operational marketing. In the customer orientation, the product (or service) is viewed from the standpoint of the customer, i.e. as a 'solution to a problem'. The customers are analysed in three different roles: decision maker, user and buyer (Sheth et al. 1999).

*The distributor orientation (DO).* Distributors (industrial distributors, wholesalers or retailers) are key-players in many sectors and in particular in the fast moving consumer goods businesses, for the diffusion of private label strategies and, more generally, for the growing power of large retailers. Today, the manufacturers brands increasingly need the cooperation of retailers rather than the opposite, although e-commerce development tends to change this situation (Lambin, 2000). To avoid being excluded from retailers' shelves, manufacturers are obliged to adopt a distributor orientation and to develop marketing programs tailored to the distributors needs, working on: how can we reduce the cost of our distributors, how can we reduce their stocks, how can we improve their cash flows, how can we

support their retailing strategies? Manufacturers hope to manage their distributors as partners, while distributors are more interested in maintaining their relationships with key-suppliers in terms of competition. Trade-marketing, therefore, implies the application of the market-orientation concept focused on distributors that must be considered and managed as customers.

**Figure 2: Market Key-Actors**



As shown in Table 2, competitive or cooperative relations between manufacturers and distributors depend on the degree of concentration observed in a market, which determines the market power held by different actors. With the exception of the situation in which the concentration ratio of manufacturers and distributors is limited (Box 3, Table 2), there is the problem of developing a relational strategy.

In the European food industry, the concentration degree of large retailers is very high in many countries and the situation is exactly the one described in Box 1 (Table 2), where a distributor orientation is required. Also in other sectors we can observe a distributor orientation. For example, Lambin (1996) and Lado (1997) observed that in the insurance sector, particularly in Belgium and Spain, the companies were more oriented to distributors (agents) than customers.

**Table 2: Market Structure Impact on Manufacturers-Distributors Relationships**

<b>Distributors Concentration</b>	<b>Manufacturers Concentration</b>	
	<i>Low</i>	<i>High</i>
<i>High</i>	Distributors Dominance (1)	Mutual Interdependency (2)
<i>Low</i>	Relative Independency (3)	Manufacturers Dominance (4)

*The competitors orientation (RO).* The competitors, whether direct or indirect rivals, are key-players in many markets and, in choosing a development strategy, it is important to take into account their actions and reactions. The firm' autonomy is

affected by two factors: the competitive structure of the market, measured by the number of competitors; and the intensity of products and services perceived differentiation. Table 3 compares these two factors, each one with two levels of intensity. With the exception of the perfect competition situation (Box 4) we can see that in the most commonly observed competitive situations it is required to take into account the position and behaviour of competitors. The competitors orientation implies the establishment of a monitoring system of the most dangerous competitors, and the choice of a strategy based on a defensible competitive advantage.

In stagnant or mature markets, competitiveness tends to be more aggressive, as an advantage of a part is a loss for the other. A key goal for corporations is then to oppose the actions of competitors or even destroy them. However, the risk of a wild marketing strategy, following Ries and Trout (1988), is devoting too much energy and resources to fight competitors losing sight of the main objective which remains customer satisfaction. Maintaining a good balance between competitors orientation and customer orientation is important as it is presented in this paper.

*The prescribers orientation (PO).* In many markets, in addition to the traditional players - customers, distributors, competitors - other individuals or organizations can have an important role in advising, recommending or prescribing brands or services to end customers or distributors. The most obvious example of this type of market is pharmaceutical products, where doctors have a decisive influence on the success or failure of a new pharmaceutical product. In effect, doctors are perceived by the pharmaceutical companies as the most important intermediate customers, even if they are neither decision makers nor users nor buyers.

□ *A similar role is played by architects in the construction industry, where they recommend to customers building materials such as flooring, windows, heating systems, etc. A similar role is also played by designers in the furniture and fashion markets.*

In business-to-business (B2B) markets the prescribing function is often performed by consulting or engineering firms that recommend or grant conformity certificates for materials or equipment. To be chosen as potential suppliers and simply appear on the short list, this kind of acceptance by prescribers is essential. This is the common practice especially for public bids.

A firm oriented to prescribers identifies them as major opinion leaders and sources of influence. For this reason the firm must assess prescribers role in the purchase process and set up communication programs to inform, motivate and encourage them to grant support.

## **2.2 Mediating and Moderating Effects**

As shown in Figure 1, the relation between market-orientation (MO) and corporate performance (CP) is not simple. Other two factors or group of factors must be taken into consideration: first, the moderating effect due to the turbulence of macro-marketing environment and subsequently the mediating effect of the internal organization.

*Environment Turbulence.* In each market, environment turbulence – technological, economic, social and ecologic etc. - affects corporate performance. These external factors are opportunities or limits, that can severely narrow the



potential development of the firm. A market-oriented firm must develop a surveillance system of the environment in order to anticipate these changes and to accelerate the adoption of necessary corrective actions.

If technological environment in the market changes rapidly, firms will become more receptive to technological innovation. Similarly, if the market is under ecological pressures, firms will be incentivized to find solutions to ecological issues and to develop green products. Environmental turbulence has therefore a moderating effect that can stimulate or inhibit the intensity of the relation between MO and CP.

*Inter-Functional Coordination (IFC).* Inter-functional coordination is seen as an organizational factor that will facilitate the involvement of all the levels of the organization in order to create a market-oriented culture. Inter-functional coordination allows communication and exchanges between functions that are related or opposed to one or more of the four market player described above. The main idea is that market-orientation relates to all corporate functions and not only to marketing. Masiello (1988) suggests four reasons that can explain why many firms don't have a spontaneous market-orientation:

1. market-orientation is often misunderstood by all other functions;
2. personnel, in performing its functional responsibility, doesn't know how to adopt a customer orientation or a market-orientation;
3. in most cases, managers of a function misunderstand the role of the other ones;
4. personnel in each function is not stimulated in the market-orientation elaboration (Masiello, 1988).

In addition to organizational barriers, Webster (1992) highlights other two factors. First, managers of other functions have their own customers, which are different from corporate ones (shareholders, suppliers, personnel, scientific community) that must be served and satisfied and there could be clashes or compromises between them. Then, managers of other functions could believe that, to work in the sake of their own customers, they have to focus primarily on internal imperatives of operations and refuse to be guided by information provided by the marketing function.

Market-orientation can be spread within the organization, disseminating market information, both formally and informally, through decisions taken by inter-functional groups, the coordination of activities and the regular contact with customers.

The different components of MO have therefore not only a direct impact on the general level of MO, but also an indirect impact through inter-functional coordination.

Generally, the four players in Figure 2 are active actors and firm must take them into consideration during the elaboration of its marketing strategy. As shown in Table 6, there can be situations less complicated, in which only two or three are actual actors. In some markets, for example, distributors have had a passive role and are not real player. Similarly, markets don't depend on prescribers.

In conclusion, we define as market-oriented a firm that adopt the four orientation - customers, distributors, competitors, prescribers - and maintains a good balance among these different viewpoints acting inter-functional coordination.

### **2.3 Market-Orientation and Corporate Performance**

The marketing theory postulates the hypothesis of existence of a relation between the intensity of market-orientation and corporate performance: a firm that increases its market-orientation, as a consequence, improves its corporate performance. Many theoretical and empirical considerations support this claim. A market-oriented firm:

1. has in general a large number of satisfied customers and a high retention rate (Lash, 1990 and Goderis, 1997) and lower transaction and protection costs (Dwyer et al., 1987);
2. responds to needs and environment changes, developing new or improved products which renew the product portfolio and contribute to maintain a good balance between growth and profitability goals (Cooper, 1993);
3. is able to identify and choose a defensible competitive advantage that allows it to defend and/or increase its market share (Porter, 1985);
4. develops products that lead to purchasers higher value than the market average, thus reducing price sensitivity and increasing the maximum price level accepted by the market (Nagle, 1987) and profitability.

These conditions, when met, directly or indirectly contribute to corporate performance. Several performance metrics can be used: the return on investment rate, the sales growth rate or market share growth, the success rate of new products, etc.

### **3. Experimental Check of MO Model**

To test the empirical value of the proposed model of MO, as well as the existence of a relation between MO and CP, a research on a sample of firms, known for their corporate performance, has been conducted in several European countries. As usual in this kind of studies, a questionnaire completed by middle and senior managers of some selected firms has been used as tool of measure.

#### **3.1 The Problem of Self-Evaluation**

The use of expert advice is a common practice in market research. This practice, however, poses questions about the reliability of the measurement process, in particular when it comes to get assessments on practice management from respondents. In many researches, significant differences of opinion on the degree of market-orientation have been actually observed within the same company. These differences are especially based on the hierarchical levels and functions involved. In a study, significant differences have been observed between the views expressed by the marketers and the opinion by managers of other functions, as marketing executives were more likely to express positive evaluations in relation to the degree of market-orientation of their firm. Similarly, members of general management tend to have less positive opinions than operational one. Similar observations have also emerged for judgments related to the corporate performance.

In order to avoid this kind of distortions, it is important to have, for each firm, more respondents situated at different hierarchical levels and from different



corporate functions, not only belonging to the marketing one. The availability of more respondents allows to verify the degree of convergence of rating points among functions, hierarchical levels, seniority in the firm, etc. This implies, obviously, that the questionnaire is accordingly designed, and that the questions are broad enough to involve all corporate functions without referring solely to marketing one.

### 3.2 The Target Population

In the development of a research conducted in several countries, it is important to accurately define the profile of the target population in order to allow comparison and interpretation of results obtained by each national research.

This implies that the target population and sampling procedure are the same in each country. The sampling method used here is the pro quota one. This method has been applied in two steps: first, in each country 10 firms have been selected on their responsiveness to specific criteria; then within the selected firms, it has been interviewed a minimum number of 10 middle or senior managers, also chosen on the basis of clearly defined criteria. The criteria used for the selection of the firms were the following.

□ *Medium and large enterprises belonging to the manufacturing sector, with headquarters (HQ) in the country, operating in consumer or industrial markets, with independent distributors, and recognized for their good corporate performance.*

This definition of the target population excludes small firms (< than 50 employees), subsidiaries of large multinational companies, service companies, firms with a direct distribution network, and firms with bad performance. In this study prescribers, as actors in the market, are not explicitly included in the sample, given their minority presence in the manufacturing sectors covered by the research.

The criteria for selection of respondents within each selected firm were defined as follows.

□ *At least ten respondents per firm, half of which of senior management (typically functional managers), the other half choosed among operational managers of the different functions: Research and Development, Finance, Logistics, Human Resources, Sales and Marketing, so that the Director General is always included in the sample. The main corporate functions must be represented by at least two respondents. The middle managers with little seniority within the firm should not be included in the sample.*

The questionnaire is short and consists of 35 questions. The questionnaire takes at most half an hour and its administration is done face to face, under the direction of a person with experience in conducting researches through a questionnaire. To facilitate the data collection, whenever possible, the questionnaire has been completed by respondents during two plenary sessions, one dedicated to senior executives (typically during a committee chaired by the Director General), the other for operational managers during a similar meeting. In each meeting, the

responsible of the research was present and provided the necessary clarifications. The respondents filled out the questionnaire independently from each other and they were not allowed to exchange comments.

**Box 1: Methodological Issues**

The measure of the relation between market-orientation and corporate performance through survey evidences complex methodological issues. In the literature, we find many studies that have verified the existence of the MO-CP relation, using subjective and objective performance measures. A positive and statistically significant relation between some subjective measures of MO-CP relation was observed by Narver and Slater (1990), Kohli and Jaworski (1990), Golden et al. (1995), Pitt, Caruana and Berthon (1996), and van Bruggen Smidts (1995) and Langerak (1997). The use of objective measures of corporate performance has led to less clear results. Despite Ruekert (1992) has noted the presence of differences in corporate performance of strategic business units weakly or strongly market-oriented, Jaworski and Kohli (1993) did not observe any relation between MO and market share. Lambin (1996), Lado (1996) and Lambin and de Moreau (1997) have shown the presence of moderate but significant correlations between MO and objective measures of corporate performance. As pointed out by van Bruggen and Smidts (1996, p. 13), on the basis of these results, we might conclude that there is a stronger relationship between MO and subjective measures of performance. An explanation could be provided by the fact that managers tend to have a better opinion on the degree of market-orientation of their firm when it reaches good economic results. If this were the case, there would be a danger of an inversion of the cause-effect relation. In the validation process of the MO-CP relation, time is another problem (Lifliandschik, 1997). All the comments available on the existence of this relations come out from studies in inter-sections, which rely on correlations between current measures of MO, on current measures of CP (subjective data) and on previous measurements (objective data). If, as postulated by the theory, MO is the cause and CP is the consequence, correlating current measures of MO with current or previous measures of CP (Reukert 1992, Pitt 1996, Lambin 1996, Lado 1996), implies necessarily an hypothesis of stability of both the management practices of involved firms, and of moderating environmental factors. This hypothesis of stability, however, is difficult to accept, considering the environmental turbulence. To have a strong experimental design, it is obviously necessary that the cause precedes the effect. In this perspective two experimental plans can be identified: (a) a current measurement of MO could be correlated with a future measure of CP, now unknown, or (b) a current measurement of the CP (subjective or objective) might be put in relation with previous subjective measures of MO, for example, the culture of MO of the last two or three years. The experimental plan involves a longitudinal study covering several periods, since a change in corporate culture is reflected in the results only after some years. This would be an expensive and difficult to achieve research plan. The second plan could be used in an inter-sections study if the time frame is clearly presented to respondents: the previous MO culture (the last two or three years) in connection with the contemporary corporate performance (subjective or objective).

At present, we have a sample of 290 respondents between managers and executives, from 30 strategic business units (SBUs) of firms operating in 4 countries: Belgium (7), France (2), Hungary (11) and Poland (10). We have a number of respondents between 7 and 10 for each SBU. Among them, 65% belongs to the B2B sector and 35% to the sector of consumer goods, 47% is made up of senior management (typically heads of function) and 53% of operational

managers. We have to underline that only 26% of respondents consists of marketers.

### **3.3 Questionnaire Set-Up**

To measure the MO and CP variables, they have been developed multi-criteria measurement scales, referred to works carried out previously in this field in America and Europe. In the selected measurement tool, each component of MO is identified by 3 or 4 sentences. These statements describe how a market-oriented firm should act according to the MO model. The sentences are totally 12 for the 3 main actors (prescribers are not included), 4 for inter-functional coordination (IFC) and 4 for macro-marketing environment. Each proposition has been evaluated on a 11-point scale, ranging from 0 to 10, where 0 means that the respondent thinks that the firm does not apply 'in any way' the behavior described, and where 10 has the opposite meaning; intermediate values then allow the respondent to grade his own opinion. Similarly, five subjective measures of performance are proposed in relation to competition, in this case evaluated by a 5-point scale, ranging from 1 (very lower than ...) to 5 (very higher than ...). The five measures used are: global performance, revenue growth, market share growth, profitability, and success rate of innovations. Furthermore, 5 indicators measure the intensity of external turbulences in the technological, economic, environmental, competitive and distributive areas, using a 5-point scale ranging from 'very weak' to 'very strong'. The questionnaire also collects certain information about the respondents (hierarchical position and function) and the business where the firm operates (B2C or B2B). The name of respondents, however, never appears in the questionnaire. Propositions have been first formulated in English and later translated into French, Polish and Hungarian by specialized translators, and then translated back into English under control of independent experts. In the questionnaires, both English and translated sentences have been kept in order to minimize the risk of misinterpretation.

## **4. Analysis of Results**

Once eliminated the surveys with missing data, they remain for the four countries 263 surveys out of the 290 completed by the respondents. In Table 5 it is shown a summary of the obtained scores. From this result, we can notice that there are no significant differences in the evaluation of the market-orientation level among the various markets, between executive management and operational management, between marketing management and others function ones. It is also important to see that respondents used all the available values in the measurement scale.

Before examining the MO-CP relation, several preliminary tests has been conducted to verify the reliability and the validity of measurement scales and results.

### **4.1 Reliability and Validity of Measurement Scales**

The objective of the first phase of this analysis is to verify the multidimensional character of MO, with regard to the existence of its three components. For this

purpose we conducted an exploratory factor analysis (with Varimax rotation) who permitted to reduce the 12 indicators of the MO to only 3 factors which can explain the 71,2% of the total variance. The results are shown in Table 6. As we expected, the three factors (latent variables) are respectively customers orientation (26,5%), distributors orientation (23,6%) and competitors orientation (21,0%). From the analysis of Table 6, it emerges however that many indicators are correlated with various factors; this suggest a greater complexity of causal structure, considering that the three factors are not completely independent among them.

After, a confirmatory factor analysis based on LISREL 8.3 has been conduct to compare two models of MO: a model with one factor that use a MO index and a model with three factors which represents the customers, distributors and competitors orientations. Comparison of results, shown in Figure 3, underlines that the three-factors-model is largely better than the single factor one from a statistical point of view, empowering the hypothesis of the multidimensional character of MO.

It emerges however that the three components of MO are not completely independent among them, as shown by correlation seen in Figure 3. In order to verify that the components are really different, we used the procedure of discriminant validity of Fornell and Larcker (1981). The results of this test (not presented here) confirmed that the components are actually correlated but distinct.

Moreover, we tested the reliability of multi criteria scale used to identify each component of MO and to measure the inter-functional coordination variable (IFC). Chronbach's alpha coefficients obtained for each scale are superior than the critic level (Nunnally, 1978), confirming the internal coherence: indicators of the three scale are measuring the same content. The same test applied to performance scale resulted inconclusive, showing two different dimensions of performance: the first one about the three operational measures of CP (total performance, turnover and market share), the second one includes the criteria of profitability and the success of innovation. Given the large number of missing data for these last two measures of performance, it was decided to keep only the first three measures of CP.

These results confirm, on one hand the multidimensional character of MO and, on the other hand, the one-dimensional character of each of its components. We can therefore reasonably proceed to the analysis of the relation MO-CP using these variables as explanatory factors.

#### **4.2 Analysis of the Relationship between Market-Orientation and Corporate Performance**

To verify the causal structure of the MO-CP relation and the role of inter-functional coordination as a mediator variable, we used a structural equation model (LISREL 8.3). It is interesting to note that the identified structure, even though different from the initially postulated one, confirm the hypothesis of the model (Figure 1).

The main aim of this study was to verify the existence of a positive and significant relation among the three components of MO and corporate performance. Overall, the result confirm this hypothesis: market-orientation, with its multidimensional structure, is actually an explicatory factor of corporate performance. This first conclusion is based on different indicators and on LISREL

program test, which measure the quality of statistical adjustment. This can be verified also at a result analysis level, for each components of MO.

Results analysis is indeed useful to understand ‘how’ this MO-CP relation is developed and to find existing links among the different components of MO.

The main observations are the following:

- customers orientation (CO) is the variable with the greatest effect on MO level, both direct (0,27) and indirect (through the mediator variable of IFC). This is not surprising;
- the second variable with a direct connection (0,22) with MO is inter-functional coordination (IFC), which affects also the three components of MO;
- the third factor with a direct connection (0,18) with MO is distributors orientation (DO);
- DO variable has not only a direct connection with MO, but also a positive impact on customers orientation level and competitors’ one and also those affect positively MO through IFC variable;
- competitors orientation (RO), stimulated by DO variable, has an indirect influence on MO through the inter-functional coordination (IFC).

Two of these statements require a comment. First it is needed to highlight the key role of distributors (seen as independent firms in this study) that not only directly determine the level of market orientation, but also appear as a source of information about customers and competitors. This consideration is interesting because it confirms the active role of distributors in markets that are part of our sample.

Thus it emerges the strategic impact of the IFC variable on the causal structure identified, which highlights the mediation function for each of the components of the MO. This observation emphasizes the importance of an organizational structure that contributes to the spread of market culture within the firm. As an additional verification of this mediating role of the IFC variable, we applied the method proposed by Baron and Kenny (1986). The test, then applied to each components of MO, confirmed the mediator role of IFC. Comparisons between countries have been difficult because of the small size of samples. Despite this difficulty, the same model has been used in Hungary and Poland. In comparison with the aggregate model, an important difference has been observed in the Hungarian market (N = 110), where the variable IFC is never statistically significant. This observation suggests that the cultural component of MO is probably less frequent in firms that are part of this sample. Consequently, in Hungary market-orientation is confused with customers orientation and the relationship MO-CP is not significant. The sample size was too small also in Belgium (N = 58) and France (N = 22) to allow a separate analysis for each country.

#### **4.3 The Moderating Effects of Environmental Turbulence**

In the MO model presented in Figure 1, we assume that the macro-marketing environment play a moderating role in the MO-CP relation. To verify this hypothesis, we used information on the strength of the five types of external turbulence included in the survey. Using dummy variables (0,1), we estimated the MO-CP relation for each type of turbulence, using MO and each of its component

separately as an explanatory variable for CP. The results obtained are the following:

- when the concept of MO is used as an explanatory variable of the CP, none of the five variables of turbulence has significant impact on CP;
- when, instead of the MO concept, only the variable of customers orientation (CO) is used, the competitive turbulence variable has a negative impact on the relationship MO-CP;
- when it is used only the distributors orientation variable (DO), the macro-economic turbulence variable has a negative and significant relationship on the MO-CP;
- when using only the competitors orientation variable (RO), the technological turbulence variable has a negative and significant impact on the relation MO-CP;
- the ecological turbulence variable never appears as significant.

These results confirm the superiority of the complete concept of market-orientation (MO) over all other forms of orientation characterized by a partial view of the market, whether it's customers, distributors or competitors'. The lack of market-orientation has a negative effect on firm performance. The result is that the best way to protect a firm against environmental turbulence is to adopt the concept of MO as a whole.

## 5. Conclusions

The observed results provide a strong experimental confirmation to the validity of the MO model presented in this article. The main conclusions are the following:

1. the MO model actually includes three components: customers, distributors and competitors;
2. these three components are interdependent and distributors have a direct impact on customers and competitors orientation degree;
3. the level of market-orientation positively affects the level of corporate performance in operational terms;
4. each component of the MO influences, directly or indirectly, corporate performance;
5. the inter-functional coordination has an important mediator impact on the organization and helps to spread the MO culture within the firm;
6. when a firm is not fully orientated to the market, environmental turbulences have a negative impact on corporate performance;
7. on the Hungarian market, the inter-functional coordination variable never appears as significant, which suggests that the culture of MO model is less spread in the firms of this sample.

These results provide further confirmation of the conclusions reached in similar studies concerning the relationship between MO and CP, although it is desirable a validation on a larger sample. In comparison to the previous studies, we should emphasize three important differences: a broader definition of the concept of MO, a more demanding methodological approach and very robust empirical results.



## 6. Implications for Business Management

It is possible to make some recommendations based on the results of this study on how to create or reinforce a corporate culture that deals with the concept of MO.

- Avoid functional organizational structures that tend to confine the culture of MO only in the marketing function.
- Promote the use of inter-functional teams with the responsibility to synchronize and coordinate all activities and decisions related to the target segments.
- Analyze all activities within the value chain to identify the factors which may be a source of competitive advantage.
- Create an information system to identify and analyze the performance of competitors and to monitor changes in technological environment.
- Spread information about the market in all functions and at all levels of the organization.
- Include every function in the preparation and processing of strategic marketing plan.
- Organize contacts with customers and distributors at all levels and functions of the organization.
- Examine the compatibility of corporate strategy with the strategic objectives of key distributors.

Management has the task of spreading the message that the value creation for the market is everyone's responsibility.