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Market orientation profiles of Finnish companies

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The performance implications of market orientation remain a key research topic. This study replicates Narver and Slater's 1990 study in part to reflect on the performance links of different dimensions of marketing performance. First, factor analysis conducted on 1157 survey responses from top management in Finnish companies empirically verifies the three underlying dimensions to market orientation. Second, five distinct profiles of market orientation are identified by clustering respondents and characterized in comparison with both objective and subjective performance metrics and contextual factors. These profiles provide a platform for better understanding the state of market orientation from national and managerial perspectives.

Keywords: *market orientation, firm profile, Finland*

Track 9: *Marketing Strategy and Leadership*

1. Introduction

Market orientation and business performance remain top research priorities in the marketing discourse. Numerous studies have examined the links between market orientation and business performance (Ellis, 2006; Cano et al. 2004), but most studies are characterized by a largely Anglo-American focus and old or scant quantitative evidence. Moreover, the main interest within scholars into market orientation has been on the degree of organizational market orientation, while research into market orientation's form and different manifestations has remained scant. This study builds on the seminal work by Narver and Slater (1990) to empirically study the different dimensions of market orientation and the different market orientation profiles, and reflects on the differences in performance and contextual links across them.

With these starting points, we intend to show how market orientation among Finnish companies displays distinct profiles, based on empirical dimensions that closely resemble Narver and Slater's (1990) market orientation dimensions. Grouping companies based on the different dimensions of market orientation emphasised gives consistent results indicating that the performance effects of marketing orientation are contingent to its dimensions. In addition to links with relative and absolute measures of business performance, market orientation profiles were also found to correspond with contextual variables.

From an academic perspective, the purpose of this study is to assess Narver and Slater's original piece in light of contemporary Finnish data, further explore the implications of and properties associated with different dimensions of market orientation, and finally, assess the results of similar studies of market orientation in light of our substantial quantitative evidence. The managerial interest this study should stir is in deepening and concretizing the meaning of market orientation and implementing it, for example, in marketing metrics (Ambler, Kokkinaki, & Puntoni, 2004) and in marketing performance control systems (Morgan, Clark, & Gooner, 2002). A key goal is offering an up-to-date, broadly researched domestic perspective to market orientation and its relevance to managers in different contexts and business contingencies.

This paper begins with a literature review mapping relevant parts of the market orientation literature. The idea is then developed using factor analysis to extract dimensions behind market orientation on recent data from a survey targeted at the top management of Finnish companies. Empirical evidence on three dimensions to market orientation is used to demonstrate the existence of distinct profiles of market orientation, dependent on business contexts. Discussion of the implications of the study for management and further research follow.

2. Theoretical background

The concept of market orientation is an important part of contemporary marketing. It has been mainly conceptualized as an organizational culture (Narver & Slater, 1990) or organizational behaviour to market information (Kohli & Jaworski, 1990). In this study, we take Narver and Slater's cultural view as a theoretical basis. Accordingly, we consider market orientation as the degree to which company culture is geared towards meeting customer needs, overcoming competitors and improving cross-functional coordination (Narver & Slater, 1990). While we recognize the limitations of Narver and Slater's conceptualization of market orientation (1990) as being only one of many approaches to the theme, its wide use in studying the phenomenon provides a solid, tested platform for the study.

Since its inception as a concept, a key feature of research into market orientation has been the link with business performance. To date, numerous empirical studies have validated the link between market orientation and firm performance (for excellent meta-analyses, see Kirca et al., 2005; Cano et al. 2004). The positive link to several outcome variables, including growth in revenue, return on capital/assets, market share, success of new products/services, and profitability (e.g. Subramanian & Gopalakrishna, 2001; Pelham, 2000; Slater & Narver, 1994) has been evidenced. Distinctively, only the aggregated market orientation-performance relationship has typically been reported (e.g. Jaworski & Kohli, 1993; Hult & Ketchen, 2001), though several studies have gathered a multidimensional measure of market orientation.

Performance effects of individual dimensions of the market orientation have, however, been studied to some extent. Deshpandé, Farley and Webster (1993), for example, found that customer orientation is a key determinant of business performance. This finding was later supported by Appiah-Adu and Singh (1998) in SME context, and more recently by Theoharakis and Hooley (2008). Positive relationships between customer and competitor orientation, and profitability were also identified by Pelham and Wilson (1996) among small companies, and by Langerak (2003). Noble et al. (2002), on the other hand, found that only the competitor orientation dimension was significantly related to performance, while interfunctional coordination was so only partially, and customer orientation not at all.

Few empirical studies to date have profiled companies in regard to their market orientation. Greenley (1995), nevertheless, provides one as he examines Narver and Slater's (1990) framework in the British context. He shows that different forms of market orientation are to be found, which empirically illustrates multidimensional nature of market orientation. Greenley (1995) identifies five market orientation profiles: 1) customer focus orientation, 2) undeveloped market orientation, 3) fragmented orientation, 4) comprehensive market orientation, and 5) competitive focus orientation. Companies in the comprehensive market orientation cluster account for as much as 36% of the whole company sample. Dobni and Luffman (2000) also contemplate different representations of market orientation. Having considered both behavioural and cultural conceptualizations to market orientation, they discover two clusters for market orientation, named as "high-spirited" and "ineffectual."

3. Empirical setting and measures

An empirical study was deployed to investigate the hypothesized relationships between different market orientation profiles, business context and business performance in Finnish companies. The data was collected by a web-based questionnaire as a part of a study examining the current state of marketing in Finnish companies in 2008. The pre-tested survey was addressed to top management in Finnish companies with more than five employees, sourced from a commercial, manually collected database. Services and goods companies from both business-to-consumer and business-to-business sector were included to the sample frame. The target population consisted of 6 867 companies with 15 941 named respondents. Extensive data of 1 157 responses were received from 1 099 different companies, adding up to the total response rate of 7.25% in terms of respondents and 16.00% on the firm level. The most frequent title of the respondent was CEO (38%). Considering the high positions of the respondents and the considerable breadth and depth of the questionnaire, the response rate was considered adequate.

4. Analysis and results

To conform to the assertions of Osborne and Costello (2005) concerning exploratory factor analysis, a common factor analysis method with principal component analysis as a factor extraction method was chosen. The factors were rotated using the orthogonal varimax method. The Kaiser-Meyer-Olkin measure of sampling adequacy reached a value of 0.91, exceeding greatly the recommended level of >0.5 (Hair et al., 2006). For all but three subsequently eliminated indicators, both final communalities and factor loadings exceeded the commonly used threshold of ±0.50 (Hair et al., 2006). After eliminations, three factors with eigenvalues above 1 were extracted, altogether accounting for 59 % of the total variance. The final factor loadings for each variable are presented in Table 1.

Table 1: Factor loadings for the final MOR items included in the study

Market orientation variable	Factor 1	Factor 2	Factor 3
1. Our salespeople regularly share information within our business concerning competitors' strategies.	0.08	0.11	0.85*
2. Our business objectives are driven primarily by customer satisfaction.	0.34	0.63*	0.26
3. We rapidly respond to competitive actions that threaten us.	0.25	0.45	0.54*
4. We constantly monitor our level of commitment an orientation to serving customers needs.	0.36	0.66*	0.25
6. We freely communicate information about our successful and unsuccessful customer experiences across all business functions.	0.67*	0.19	0.23
7. Our strategy for competitive advantage is based on our understanding of customers needs.	0.67*	0.46	-0.01
8. All of our business functions (e.g., marketing/sales, manufacturing, R&D, finance/accounting, etc.) are integrated in serving the needs of our target markets.	0.67*	0.27	0.21
9. Our business strategies are driven by our beliefs about how we can create greater value for our customers.	0.66*	0.46	-0.02
10. We measure customer satisfaction systematically and frequently.	0.02	0.71*	0.13
12. Top management regularly discusses competitors' strengths and strategies.	0.33	0.22	0.59*
13. All of our managers understand how everyone in our business can contribute to creating customer value.	0.63*	0.24	0.28
15. We share resources with other business units.	0.69*	-0.24	0.31

Factor analysis of firm responses to the standard MOR items by Narver and Slater (1990) revealed three factors, which correspond closely with the original dimensions put forth by the authors. Essentially, this gives empirical support for the existence of the three distinct, theoretical dimensions of MOR among the companies in our data set. The three dimensions identified are defined in Table 2.

Table 2: Dimensions of market orientation

Dimension	N&S (1990) dimension description	Factor characteristics
Strategic coordination (Interfunctional coordination)	Coordinated utilization of company resources in creating superior value for target customers	Integrated customer focus and communication across all business functions. Strategies based on understanding and serving customer needs.
Customer orientation	Sufficient understanding of one's target buyers to be able to create superior value for them continuously	Customer focused business objectives and measures of performance.
Competitor orientation	Understanding of the short-term strengths and weaknesses and long-term capabilities and strategies of both the key current and the key potential competitors	Reactivity to competitors' actions.

Based on the factors identified, cluster analysis was next conducted to discover different configurations of the three dimensions as differing market orientation profiles among respondents. Because of the relatively large data set exceeding 1 000 observations, the clustering was conducted using non-hierarchical k-means algorithm with Euclidean distance as the measure (Hair et al., 2006). The final number of clusters was set at five, based on findings from a preliminary hierarchical clustering conducted using Ward's method. Cluster centroids derived from the final analysis are presented in Table 3.

Table 3: Cluster means

Dimensions of MOR	Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5
Factor 1: Strategic coordination	-1.33	0.38	-0.22	0.30	1.18
Factor 2: Customer orientation	1.29	1.92	-0.27	-0.74	0.95
Factor 3: Competitor orientation	0.93	-2.66	-0.45	1.17	0.15

Based on these three dimensions, five different profiles of market orientation were identified. In order to establish criterion validity and to characterize the companies comprising each cluster, the characteristics of each cluster were further explored by examining several key contextual dimensions, including company size in terms of the annual turnover, branch, life span of the market and the individual firm's position in it, as well as performance related factors, comprising items assessing both subjective and objective performance. The statistical significance of differences between the clusters in all cross tabulations was verified using Chi square test. The clusters were named and characterized as follows:

- *Cluster 1: Customer and competitor orientation (n=96; 8% of respondents).* Companies in this cluster place emphasis on factors indicating both competitor orientation and, especially, customer orientation. However, strategic coordination factor here receives a negative score, indicating no coordination between functions. Respondents are concentrated on B2B industry sectors such as raw materials, R&D and sanitation. The companies typically operate in new, developing markets, representing either only companies in the market or market challengers. Despite the lowest average market share, according to subjective indicators of performance, companies in this cluster are associated with a relatively high level of performance.
- *Cluster 2: Customer orientation (n=15; 1% of respondents).* Companies emphasize customer orientation putting focus on serving customer needs, but are not at all oriented towards competitor's actions. This small cluster consists of companies representing most often only companies in markets or market leaders, with the highest market share on average.
- *Cluster 3: No market orientation (n=674; 58% of respondents).* Companies in this cluster do not place emphasis on any of the dimensions of market orientation, but have a negative score on each of the dimensions. The companies represent rather traditional branches, located in the early phases of value chains, such as agriculture, hunting, and forestry, mining and quarrying, textile & paper industries, and wholesale and commission trades. These companies are characterized by rather high turnovers, typically representing market leaders or challengers in growing markets.
- *Cluster 4: Competitor orientation (n=192; 17% of respondents).* Emphasis is on competitor orientation; companies in this cluster follow competitor's actions closely. Strategic actions are rather responses to competition than driven by customer needs. Companies focused on industries related to improving or maintaining a certain standard of living. These companies, with typically a relatively high turnover, include

industries such as utilities, construction, and recreational activities, and are relatively often market leaders or followers operating in mature or declining markets.

- *Cluster 5: Market orientation (n=180; 16% of respondents).* Companies in this cluster manifest all three dimensions of MOR. Companies are characterized by highest average turnover and a relatively high subjective performance. The companies represent industries concentrated on public services, often regulated by the government, including health care; education; public administration and defense; compulsory social security; construction; utilities; and manufacturing. The companies most often serve as challengers in mature markets.

5. Discussion

On a general level, our results strongly support Narver & Slater’s 1990 dimensions to market orientation as evident in our sample population. Two items from the original MKTOR set were, however, transferred from the original customer orientation dimension to our coordination dimension, and three items dropped altogether in the course of factor analysis. Our study confirms the previous finding of Greenley (1995) that there is quite a wide range of forms of market orientation. This is in line with Slater and Narver (1994) who suggest that trade-offs between, for example, customer and competitor focus must be made due to limited organizational resources. Consequently, it may be misleading to measure market orientation only as an aggregate, linear-additive function.

Analysis indicates that the companies in our population are readily divided into five clusters, with substantial internal cohesion in contextual attributes also. Our study confirms past studies regarding market orientation and market orientation profiles (e.g. Greenley 1995) in the Finnish context. An interesting national-level finding is the strong presence of non-market-oriented companies, representing more than half the population. This may mirror other qualitative and quantitative concerns over the role of market and customer thinking among Finnish companies and managers (Tikkanen & Vassinen 2009; Jaakkola, Parvinen, & Möller, 2007).

The profiles that we have identified may help managers better relate to market orientation by contextualizing a general phenomenon, specifically in the Finnish context where an underdeveloped market orientation often dominates practice. According to Greenley (1995), the different dimensions represent different ways in which management focuses on market-related phenomena. The dimensions share many characteristics besides the market orientation emphasis, and thus for profiles that can readily be related to by mangers wishing to reflect on how others in similar contexts approach market-related phenomena.

6. Limitations and further research

Besides the obvious national scope of data and findings, one weakness of our study lies in the cross-sectional nature of the data; in common with the clear majority of similar studies, a longitudinal aspect is not present. Following the changes in situations for a similar or identical pool of companies would allow greatly stronger explanatory power and reliability to findings. Drawing clear causal inferences is difficult if not impossible with the current data set. It is projected that a second survey round planned for early 2010 will alleviate these concerns and further our understanding of MOR dynamics in the population. Concurrently, external objective performance data is being added to the data set to give stronger basis for conclusions on the performance implications of market orientation.

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Appendix A Survey items used to measure constructs and scaling

Market Orientation[1]	1. Our salespeople regularly share information within our business concerning competitors' strategies.
	2. Our business objectives are driven primarily by customer satisfaction.
	3. We rapidly respond to competitive actions that threaten us.
	4. We constantly monitor our level of commitment an orientation to serving customers needs.
	5. Our top managers from every function regularly visit our current and prospective customers.[2]
	6. We freely communicate information about our successful and unsuccessful customer experiences across all business functions.
	7. Our strategy for competitive advantage is based on our understanding of customers needs.
	8. All of our business functions (e.g., marketing/sales, manufacturing, R&D, finance/accounting, etc.) are integrated in serving the needs of our target markets.
	9. Our business strategies are driven by our beliefs about how we can create greater value for our customers.
	10. We measure customer satisfaction systematically and frequently.
	11. We give close attention to after-sales service.[2]
	12. Top management regularly discusses competitors' strengths and strategies.
	13. All of our managers understand how everyone in our business can contribute to creating customer value.
	14. We target customers where we have an opportunity for competitive advantage.[2]
	15. We share resources with other business units.

[1] The response options ranged from 1, "strongly disagree," to 7, "strongly agree."
[2] Item was eliminated due to final communality < 0.5