Market orientation and innovation: A review of literature

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Abstract: A detailed literature review on market orientation was performed. The study reviews key antecedents and consequences of market orientation. The findings of our study suggest that there is an important role of market orientation for the successful implementation of innovation and business performance. Additionally, our study is valuable as it assisted in developing and further elaborating the science of market orientation, particularly customer and competitor orientation and interfunctional coordination, and the influence on innovation and other organizational outcomes. The contribution of this research was also to develop a conceptual and theoretical understanding on market orientation in the effort to improve innovation and performance. The practical implication of this study is the insight and the knowledge required for implementing the concept of market orientation in order to generate market orientation and consequently impact innovation and performance.

Key words: market orientation, customer orientation, competitor orientation, interfunctional orientation, market orientation antecedents

1. INTRODUCTION

In a time characterized by increasingly rapid change in consumer preferences, even faster technological progress, and growing competitive rivalry, it becomes essential for companies to develop mechanisms within their organizations to generate market information, analyze it, and respond accordingly. The set of activities developed by companies permanently to monitor, analyze and respond to these market changes is referred to in the Marketing literature as market orientation. Over the last decade there has been a growing interest in the construct of market orientation (Webster, 1994; Day, 1992) and its usefulness in increasing companies’ economic performance (Narver and Slater, 1990; Ruekert, 1992; Jaworski and Kohli, 1993; Lambin, 1996; Deng and Dart, 1994). However, it is still not well understood why there is such an effect and particularly how it operates. Terms such as market-oriented, market-driven and customer-focused have become synonymous with proactive business strategy in organizations all over the world.

The notion that the customer needs to be at the origin of business planning processes seems a very contemporary one, as is the idea of organizing the firm’s activities around a thorough understanding of customer needs and demands (Desphandé, 1999). Many management theorists cite Peter Ducker’s statement from 1954 that marketing is not a specialized functional activity but rather “the whole business seen from the point of view of its final result, that is, from the customer’s point of view.” More specifically, market orientation involves generation and dissemination of market intelligence that is composed of information about the external environment confronting an organization, sharing of this information among all functions in an organization and rapid managerial action in response to this information. An organization that is market oriented also possesses a strong long-term orientation to ensure that preferences of current and potential customers are identified, as also the ability of current and potential competitors to satisfy these preferences. Finally, a market-oriented organization also exhibits a determined orientation toward profitability to ensure that the resources necessary to support the information collection, dissemination, and organizational response activities are available (Kohli and
Jaworski, 1990; Narver and Slater, 1990). Businesses aim to maximize their profit to shareholders by creating a sustainable competitive advantage over rivals on the market. But where competitive advantage was once based on structural characteristics such as market power, economies of scale, or a broad product line, the emphasis today has shifted to capabilities that enable a business to consistently deliver superior value to its customers. After all, this is the meaning of competitive advantage (Gummesson, 1991). Research shows that a market-oriented culture provides a solid foundation for these value-creating capabilities. Day (1991) stated that organizations that are well educated about their markets, in other words market oriented organizations, stand out in their ability to rapidly sense and act on events in volatile and fragmenting markets.

More research is clearly needed in this area (Deshpandé et al., 1993, Deshpandé and Farley, 1998). Therefore we conduct a detailed review of the literature focusing on market orientation. First we define the concept of market orientation and present two main approaches on market orientation. Next, a detailed review of three main aspects of market orientation are presented. In the third section antecedents and consequences of market orientation are reviewed and critically evaluated followed by the conclusion.

2. DEFINING THE CONCEPT OF MARKET ORIENTATION

Market orientation, still an intriguing concept for man carries the pledge of superior company performance through the satisfaction of customer's needs. However, the way that marketing orientation is conceptualized tends to differ. For instance, while Hooley, Lynch, and Shepherd conceptualized market orientation a set of specific beliefs that form a certain company attitude/culture, Narver and Slater , as well as Kohli and Jaworski, explained the concept as a certain behavior. Furthermore, most of the available empirical investigations of the association between marketing orientation and company performance tend to draw general conclusions about this association as no effort has been made to examine the nature and the importance of this association in specific market environments (e.g., industrial markets vs consumer markets). Market orientation is an important element of the organizational structure. Kohli and Jaworski (1990) define market orientation as "the organization-wide generation of market intelligence, dissemination of its intelligence across departments, and organization-wide responsiveness to it." In the long run, a market-oriented firm is expected to produce higher profits through superior quality, which, in turn, leads to higher productivity and stronger customer loyalty (Zeithan, Parasuraman, and Berry, 1990). A market-oriented organization matches its customers' needs with its capability. Understanding what customers want and do not want can result in greater efficiency, reduce waste in management and manufacturing, and enhance competitive advantages.

In general, the phrase market orientation is a marketing term, whereas market-oriented is typically an economics term. Market orientation means a company operates with a market- or customer-first approach. Market oriented is used in marketing, but it more typically describes a free enterprise economy where businesses and consumers are able to buy and sell freely. When a company has a market orientation, it makes meeting the needs or wants of its target customers its primary business motivation. This includes responding to stated consumer needs by developing new products, improving on exist products or improving services. Companies with especially strong market orientation may even detect consumer needs before the general market is aware of them. These companies are usually cutting-edge innovators that try to give customers what they want faster than competitors.

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Kohli and Jaworski (1990) define market orientation, as the organization-wide generation of market intelligence that sees to current and future customer needs, is responsible for dissemination of intelligence across departments, and organization-wide responsiveness. According to Kohli and Jaworski, market orientation does not qualify as an aspect of culture although, although they do cite some of the literature that links organizational norms and values to the marketing concept. Kohli and Jaworski (1990) refer to the action component of market orientation as organization-wide responsiveness to market information. According to Slater and Narver “because a market orientation essentially involves doing something new or different in response to market conditions, it may be viewed as a form of innovative behavior”.

Market orientation may also be an important determinant of innovation in the services sector. According to Atuahene-Gima (1996) in services like the insurance and banking industries, innovation success depends on the firm's market orientation, especially on its customer orientation. Being in touch with your clients wants and needs, and being able to respond appropriately to them is a key to innovation success in the service sector. Furthermore, the market environment in the service sector is likely to be more competitive in terms of product innovation than in other industries. Innovation in services is more easily and quickly imitated (Tufano, 1992) and more difficult to protect by means of patenting.

Innovation has been and continues to be an important topic of study for a number of different disciplines, including economics, business, engineering, science, and sociology. Innovation is about developing growth. According to Drucker (1988), innovation can be viewed as a purposeful and focused effort to achieve change in (an organization’s) economic or social potential. Growth can occur in a number of ways, such as better service quality and shorter lead times in nonprofit organizations and cost reduction, cost avoidance, and increased turnover in profit-focused organizations. Product innovation refers to the process of developing and releasing a new or intrinsically altered version of a product or service into a market. While the term may seem to imply new physical products, this term can also be used to refer to new or expanded services. (Al-Zahrani 2009). Product innovation is of major importance for many companies, especially those involved with electronics, computers, or software. Product innovation can also occur with reference to an existing product, however, or a product that is similar to others available in the market. This type of innovation can include anything from how the product is manufactured, including both methods and materials used, to the actual product or service. (Damanpour, Gopalakrishnan 1999). When a company introduces a new mobile phone, for example, it is releasing a product that is, to some extent, already available to the public and consumers. Product innovation in such a field, therefore, requires that a business develop new ways to produce such phones or to release a phone with features and technology not otherwise available. (Al-Zahrani 2009).

It is widely acknowledged that successful organizations need to have a customer-oriented business culture (e.g., Athanassopoulos 2000; Deshpandé, Farley, and Webster1993; Houston1986; Parasuraman1987; Shapiro 1988; F. E. Webster 1988). In fact, during the four decades since the introduction of the marketing concept, a customer orientation1 has been identified as a cornerstone of the theory and practice of marketing management (Jaworski and Kohli 1993). In large part, this attention is a result of the explicit assumption that customer-oriented firms outperform competitors by anticipating the developing needs of consumers (i.e., by learning) and responding with goods and services to which superior value and greater satisfaction are consistently attributed. Thus, it is implied that a customer orientation is the basis for organizational learning that results in superior value attribution and greater customer satisfaction (Sinkula, Baker, and Noordewier 1997; Slater and Narver 1995). That is, being customer oriented allows firms to acquire and assimilate the information necessary to design and execute marketing strategies that result in more favorable customer outcomes. However, although theory and some empirical research (e.g., Jaworski and Kohli 1993; Narver and Slater 1990; Van Egeren and O’Connor 1998) support the assumed or implied relationship between a customer orientation and business performance, the fundamental question as to how a customer orientation influences perceived performance from a customer's perspective has yet to be addressed. That is, the question as to how a customer-oriented service firm benefits from its customer focus, either directly or indirectly (through its impact on mediating variables), remains unknown. This is a critical gap in the literature if managers and researchers are to understand the benefits gained from implementing customer-oriented strategies. Since its introduction in the early 1950s, the marketing concept has represented a fundamental tenet of marketing thought. As the philosophical foundation of a market orientation (Jaworski and Kohli 1993), the marketing concept serves as the primary justification for the
preeminent role of customers in the planning and execution of market strategies. To be customer oriented implies that a firm is actively engaged in the organization-wide generation, dissemination of, and responsiveness to, market intelligence (Kohli and Jaworski 1990). Usually, this term is described as an organizational culture that stresses the customer as the focal point of strategic planning and execution (Deshpandé, Farley, and Webster 1993; Jaworski, Kohli, and Sahay 2000; Steinman, Deshpandé, and Farley 2000). This culture should be pervasive throughout the company such that employees consistently exhibit customer-oriented behaviors, and consumers thereby become accustomed to this philosophy (Dobni, Ritchie, and Zerbe 2000).

Marketing researchers regard competitor orientation as an important part of market orientation (e.g. Han et al., 1998; Gray et al., 1998). Competitor orientation comes along with an organization’s broader understanding of market operating characteristics. An exclusive customer focus may result in incomplete business strategy and action (Han et al., 1998). Day and Wensley (1988) suggest a balance of an organization’s customer and competitor focus. Competitor orientation entails sourcing information on competitors, competitors’ activities and offerings, and market potentials. Along with Narver and Slater (1990) competitor orientation can be understood as company understandings of strengths, weaknesses, capabilities and strategies of key and key potential competitors.

Customer orientation and competitor orientation are each defined symmetrically to market orientation, incorporating the components of generation and dissemination of intelligence and action. Customer orientation and competitor orientation are frequently referred to as being part of a firm’s strategic orientation (Gatignon and Xuereb, 1997; Zhou et al., 2005; see also Day and Wensley, 1983). A strategic orientation reflects the set of broad strategic choices implemented in the pursuit of sustainable superior performance, and is a predisposition for creating the proper employee, manager, and overall firm activities for achieving superior performance (Gatignon and Xuereb, 1997). The general purpose of a customer orientation is to provide a solid basis of intelligence pertaining to current and future customers for executive actions. A customer orientation provides sufficient understanding of a firm’s target buyers, so that the firm can continuously create superior value for them (Narver and Slater, 1990).

The term interfunctional coordination appeared, from the perspective of external marketing, as one of the three components of market orientation concept. Narver and Slater (1990) inferred from previous literature three behavioral components of market orientation: customer orientation, competitor orientation, and inter functional coordination orientation. The purpose was to point out that, besides the understanding of customer and competitor information, marketing requires inter-departmental cooperation and sharing of information and resources. Interfunctional coordination was defined as the coordinated utilization of company resources in creating superior value for target customers (Narver and Slater, 1990). Then there was the concept of interdepartmental dynamics, which consists of two dimensions: interdepartmental conflict and interdepartmental connectedness (Kohli and Jaworski, 1990; Jaworski and Kohli, 1993). Based on the examination of its measurements, interdepartmental connectedness can be viewed as similar to interfunctional coordination. Tay and Tay (2007) referred to inter functional coordination as the degree of cooperation between the different functions/departments within the organization.

3. ANTECEDENTS OF MARKET ORIENTATION

According to Borch (1957) and McKitterick (1957) the philosophical concept and foundation of market orientation is an essential element of marketing. and, because has been widely recognized, it is astounding how there is not sufficient research conducted on the subject. it is remarkable how little research has focused on the subject, except for a small number of articles offering some idea of the concept(e.g.. Felton 1959: Stampfl 1978; Webster 1988), along with the minr number of empirical empirical studies conducted on the subject primarily concern the extent to which organizations have adopted the marketing concept, rather than the elaboration of antecedents or consequences of a market orientation (e.g.. Barksdale and Darden 1971; Hise 1965; Lusch, Udell, and Laczniak 1976; McNamara 1972).

Furthermore, the definition of Kohli and Jaworski (1990) implies that market orientation is composed of three sets of activities: 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 responsiveness component consists of, response design and response implementation, all in the means of facilitating operationalizing of the market orientation construct, with this group of antecedents pertaining to an organization's top management sector, and with top managers playing a key role in shaping an orientation of a certain organization (Felton 1959; Hambrick and Mason 1984; Webster 1988). The central theme in these writings is that unless an organization gets clear signals from top managers about the importance of being responsive to customer needs, the organization is not likely to be market-oriented (see Levitt 1969, p. 244; Webster 1988, p. 37). The bottom line of the first set of antecedents is, the greater the top management emphasis on a market orientation, the greater the market intelligence dissemination, intelligence generation, and organization responsiveness.

According to Kohli and Jaworski (1990), responsiveness is key when trying to change market needs and expectations. Depending on how top management acts, i.e., if they take risks and accept occasional organizational failures as something normal, will have a strong impact on how junior management reacts to these occurrences. Will they offer new ideas in response to changes in customer needs or remain inactive to new proposals. Therefore, it can be determined that the greater the risk aversion of top management, the lower the market intelligence generation, intelligence dissemination, and (3) responsiveness of the organization.

Next we have interdepartmental dynamics, which implies tension among departments which surfaces because of incompatibility of actual or desired responses (cf. Gaski 1984; Raven and Kruglanski 1970, p. 70), sometimes seen as an inhibitor of a market orientation (Levitt 1969; Lusch, Udell and Laczniak 1976; Felton 1959). Depending on the extent to which employees are networked across, to more they are likely to transfer market intelligence amongst themselves (Kohli and Jaworski 1990).

Furthermore, the following group of antecedents, formalization, centralization, and departmentalization, must be taken into account, which represent how rules define roles, authority relations, communications, norms and sanctions, and procedures (Hall, Haas, and Johnson 1967). According to Webster (1988, p. 38), "The key to developing a market-driven, customer-oriented business lies in how managers are evaluated and rewarded.", thus emphasizing the importance of the measurement and reward system, defined as being crucial among employees. He observes that this will more readily generate market intelligence and responsiveness to market needs.

4. CONSEQUENCES OF MARKET ORIENTATION

Several studies have found a consistent positive relationship between businesses’ degree of market orientation and their economic performance (Deng and Dart, 1994; Fritz, 1996; Greenley, 1995; Greenley and Foxall, 1997, 1998; Jaworski and Kohli, 1993; Narver and Slater, 1990; Pelham and Wilson, 1997; Pitt et al., 1996; Ruekert, 1992; Selnes et al., 1996; Slater and Narver, 1994.

A market orientation is frequently conceived to improve business performance. The argument is that organizations that are market-oriented, i.e., those that track and respond to customer needs and preferences can better satisfy customers and, hence, perform at higher levels. The study by Lusch and Laczniak (1987) provides some support for this relationship. A more recent study by Narver and Slater (1990) also offers empirical support for the relationship conceived between market orientation and business performance. The next set of consequences examined in the study focus on organizational employees. The research reported by Kohli and Jaworski (1990) suggests that a market orientation affords a number of psychological and social benefits to employees. Specifically, a market orientation is argued to lead to a sense of pride in belonging to an organization in which all departments and individuals work toward the common goal of satisfying customers. Accomplishment of this objective is posited to result in employees sharing a feeling of worthwhile contribution, a sense of belongingness, and, therefore, commitment to the organization.

One of the consequences of market orientation can is commitment. Kohli and Jaworski (1990) argue that market orientation enhances organizational commitment, employee-team spirit and customer
orientation, and also, committed employees are more likely to go beyond required norms to contribute to the attainment of organizational goals, less likely to be absent from work or to resign from their firms, and always willing to put more effort into the well-being of the organization.

Market orientation should be associated with business performance because according to previous studies firms manage their relationship with the environment in order to maximize their performance (Aiken, M., and Hage, J., 1971). A positive relationship between market orientation and business performances is evident because market orientation helps firms to improve their resources and is a market differential, the investments on this strategy should result in superior performance (Deshpandé and Farley, 1998; Kohli and Jaworski, 1990).

Customer needs are essential for market orientation, which include firm’s commitment, positive word-of-mouth, higher product quality and loyalty.(Jaworski and Kohli, 1993) Customers are not the only point of focus of market orientation but they are an essential element, where market orientation enhances customer satisfaction and loyalty because firms are well positioned to anticipate customer needs and offer goods and services to satisfy those needs (Slater and Narver, 1994b).

There is a positive relationship between innovation and market orientation, which includes the firms’ innovativeness and the ability to create and implement new ideas, products and processes (Kotter, 2008). New products are generated because of the fact customers always generate and require different needs, resulting in the fabrication of new and innovative products. Market orientation enhances an organization’s innovativeness and new product performance is inclined toward meeting customer needs.

Learning should be mentioned as the acquisition, interpretation and dissemination of the organizational information inside firms’ culture (Slater and Narver, 1995). The connection between market orientation and learning is evident because numerous previous studies point out the relationship of these two elements and define learning as a cultural feature an organization that deals with marketing and customer demands (Kumar et al. 2006; Kohli and Jaworski 1990).

5. CONCLUSION

There is a growing interest in the concept of market orientation, as empirical evidence shows that firms with a higher market orientation obtain better market performance, thus optimizing their economic and commercial results. When a company tries to expand and deepen current customer relationships and the orientation that specific firm has to take when developing new customer relationships, has the potential to significantly impact overall firm performance (Kumar et al. 2006; Morgan and Hunt 1994; Palmatier et al. 2006). During a long period of time market orientation has become more and more important for the performance of firms. Market orientation has mainly been characterized to be focused on three main components: customer orientation, competitor orientation and interfunctional coordination. According to Narver and Slater (1990), the three major components of market orientation, customer orientation, competitor orientation, and interfunctional coordination are long-term in vision and profit-driven. In the reviewed literature, market orientation has been analyzed using theories that have proven successful in explaining various organizational outcomes in past studies. Despite the fact that the importance of market orientation factors has been recognized in the existing literature, still inter-factor relationships and interaction was not identified and analyzed, a limitation which our study addressed by building a superior market orientation-marketing framework.

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