European Journal of Business and Management
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol 4, No.10, 2012

Market Orientation and Firm Performance in the Manufacturing Sector in Kenya

Lagat Charles[1], Chepkwony Joel[2], Kotut Cheruiyot Samwel[3*]

1. School of Business and Economics, Department of Marketing & Management Science, Moi University, P.o Box 3900-30100 Eldoret, Email: lagatck@yahoo.com

2. School of Business and Economics, Department of Marketing & Management Science, Moi University, P.o Box 3900-30100 Eldoret, Email: Kemboi_joel@yahoo.com

3. School of Business and Economics, Department of Economics, Moi University, P.o Box 3900-30100 Eldoret, Tel +254722462522 or +254722775422 *Email: kotutmogo@yahoo.com

Abstract

The concept of market orientation has been a subject of research since it was introduced in the 1990s and it has been identified as an important theoretical construct. Previous studies have assessed the impact of market orientation, market positioning and innovation on firm performance. The objective of this study was on the process of market orientation and to empirically test the effect of the business environment on the relationship between market orientation and performance. The study used the resource based view approach and developed a framework for testing the theoretical relationships between the constructs. The study adopted a causal research design and it involved the use of a questionnaire-based survey of a random sample of 220 managers of Manufacturing Companies in Kenya. Descriptive statistics of the demographic characteristics of 147 respondents together with firm characteristics are presented. Exploratory factor analysis, scale reliabilities and confirmatory factor analysis are presented. Regression analysis was used to test the relationships between the constructs. The study confirms previous studies on the positive relationship between market orientation and performance (β_1= 0.180, ρ= 0.029). The business environment significantly (β_2= 0.250, p = 0.003) affects firm performance in presence of market orientation. The findings of the study add new understanding to the literature on market orientation, business environment and firm performance in influencing the success of firms in a developing country context.

Key words: Market orientation, customer, competitor, business environment, performance.

1.0 Introduction

Organizational success largely depends on determining the needs and wants of target markets and delivering satisfactions to those markets/consumers more effectively and efficiently than competitors do. Market orientation is a central tenet of marketing, its activities and behaviors are related to; a proactive search for marketplace opportunities; problem solving, and future positioning (Morgan & Strong, 1997). For several decades until now, market orientation has been the central idea of many published works in the marketing and strategic management literature. Market orientation has been identified as an important theoretical construct in marketing and it has stimulated much conceptual, empirical and executive attention.

Market orientation has been regarded as a source of competitive advantage and can be an important determinant of firm performance. Superior organizational performance can be achieved as a market oriented firm is able to satisfy customers through tracking and responding to customer needs and preferences (Jaworski & Kohli, 1993). Further, a market oriented organization performs better in the market since the firm develops an organizational culture in delivering superior value to customers (Narver & Slater, 1990; Slater & Narver, 1994b).

Jaworski and Kohli (1993) suggest that the relationship between a market orientation and performance appears to hold across a variety of contexts, and that it may support performance regardless of the firm's external circumstances. In their study Slater and Narver (1994) also found little support for the effect of competitive environment and suggest that a market oriented firm should be prepared to achieve and sustain competitive advantage in any environmental situation.

Firm performance has been a subject of interest to academics, managers and investors. The direct relationship between market orientation and firm performance is well-established (Kirca *et al.,* 2005; Lio *et al.,* 2010). Earlier authors had stated that the relationship had not been conclusive (Diamantopoulos & Hart, 1993; Greenley, 1995; Han *et al.,* 1998) however Lio et al (2010) in their survey, found that 36 out of 38 articles examined found a relationship between market orientation and performance. They state that market orientation affects performance in a number of ways, either by providing a customer oriented focus or reshaping an organization's culture for developing superior value for customers. Van Raaij and Stoelhorst (2008) argue that business processes is the central concern of being market oriented. That market orientation is seen as the ability of a firm to generate knowledge about markets and use the knowledge in its business processes for creation of superior customer value. This perspective is in line with studies that have shown processes of innovation and new product development to mediate the relationship between market orientation and performance Han *et al.,* 1998; Langerak, *et al.,* 2004).

The results from the moderator studies have been equivocal (Van Raaij and Stoelhorst, 2008) with some researchers concluding that moderators have little effect on the positive impact of market orientation on firm performance. It is anticipated that external factors do not affect the performance of market oriented firms. Hult, *et al*., (2004) confirmed innovativeness as an important determinant of business performance, regardless of the market turbulence in which the firm operates. A review of empirical studies by Kirca et al. (2005) also concluded that there is insufficient evidence supporting the view that market turbulence, technological turbulence or competitive intensity, moderate the market orientation – performance relationship. This study sought to test the effect of the business environment on organizational performance in a developing country, Kenya, context.

The objective of this study was to examine the effect of market orientation and performance in manufacturing firms in Kenya. This research endeavored to address the alternative hypothesis that there is a positive relationship between market orientation and performance in manufacturing industry.

2.0 Literature Review

The concept of market orientation has been given various definitions and descriptions but a degree of consensus exist among researchers (Bigne *et al.,* 2000) as to affirm the initial contributions of the concept to Kohli and Jawoski (1990, 1993), Narver and Slater (1990), and of Slater &and Narver (1994). Narver and Slater (1990) defined market orientation as "the business culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for customers"; that it is a concept *"consisting of three behavioral components– customer orientation, competitor orientation, and interfunctional coordination, and two decision criteria - a long-term focus and profitability"*.(p.21). This study adopted this definition.

Most studies agree that implementing market orientation leads to better organizational performance (Deshpande and Farley, 1998; Jawoski and Kohli, 1993; Slater and Narver, 1994). The positive role of market orientation in the firm is also widely supported, (Jaworski and Kohli, 1993; Chang and Chen, 1998). It is reported to have both financial and non-financial consequences for the firm (Langerak, 2003). Market orientation has been shown to have positive consequences for the profitability of the firm (Matear et al., 2002; Langerak, 2001). Market orientation has also been shown to be related to employees' attitudes and behaviors (Ruekert, 1992; Jaworski and Kohli, 1993). Grinstein (2008) states that, most empirical studies have focused on establishing the market orientation and business performance relationship in various environmental and organizational conditions.

The firm's primary objective is superior financial performance and it pursues this under conditions of imperfect information about customers and competitors (Hunt and Morgan, 1995). There are no doubt other objectives, such as contributing to social causes, but these other objectives are enabled by achieving superior financial performance. Hunt and Morgan (1995) also note that the roles of both consumers and managers of firms are motivated by constrained self-interest seeking. The measurement of a firm's competitive position can be assessed in the form of financial performance as indicated by measures such as profit and return on investment or by customer satisfaction and loyalty (Day and Wensley 1988). Hence, consequences of market orientation are organized into four categories; organizational performance, customer consequences, innovation consequences and employee consequences (Kirca, et al., 2005).

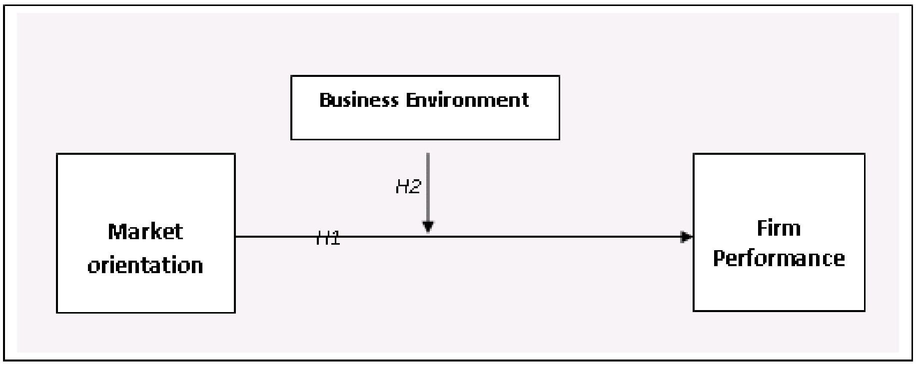
Researchers have suggested that managerial decisions may be influenced by the moderating effect of the external business environment. Some potential moderators of market orientation include market turbulence, technological turbulence, competitive intensity, market growth, and buyer power. Previous researchers have acknowledged that environmental turbulence can moderate the extent market orientation affects firm performance (Han *et al.*, 1998; Greenley, 1995; Kohli and Jaworski, 1990).

Market turbulence refers to the number of customers and the stability of their preferences (Slater and Narver, 1994a; Kohli and Jaworski, 1990). Competitive intensity refers to the level of competition faced by an organization (Jaworski and Kohli, 1993), which could be both current as well as potential competition that is typically a result of fading industry boundaries. Technological turbulence refers to the rate of technological change (Kohli and Jaworski, 1990). Technological turbulence causes changes in products and product processes while market turbulence brings about heterogeneity in consumer preferences. Competitor intensity also alters the structure of competition and provides consumers with choices of products or services.

2.1Conceptual and Theoretical Framework

While existing literature had addressed the consequences of market orientation and the effects of various factors affecting firm performance, this study sought to establish the effect of business environment on the market orientation – firm performance relationship. This study developed a conceptual framework to incorporate this three constructs (figure 1).

Figure 2.1: *Market Orientation-Environment-Performance Framework*



Source: Authors compilation (2012)

The rational for the study framework was that market–oriented organizations have a knowledge advantage over their competitors, and that this helps them to adjust to different business environments and hence achieve superior firm performance. The conceptual framework is supported by the resource based view. The resource-based view theory of the firm (Penrose, 1959) described the firm as a bundle of resources and that the growth of the firm is both facilitated and limited by management search for the best usage of available resources.

3. Research Methodology

The study adopted a causal research design and it involved the use of a questionnaire-based survey of a random sample from a target population of 572 managers of Manufacturing Companies in Kenya. A sample size of 220 companies was computed and approached for data collection. Data was collected from the Managers of manufacturing companies listed as members of the Kenya Association of Manufacturers (KAM Directory, 2010). A person in charge of the marketing function or a manager at a senior management level in each company was identified. The respondent was expected to have knowledge of the company's market orientations and their performance in the market. The use of a knowledgeable source assisted in limiting measurement errors. The use of one manager as a key informant is consistent with prior studies (Kumar, Stern and Anderson 1993; Han *et al.*, 1998). The unit of analysis in the study was the company or strategic business unit.

Research instruments were developed using measures from previous literature. For market orientation, given the preferred conceptualization of Narver and Slater (1990) in the study, their measures were used to capture the firm's level of market orientation and positioning. The complete (15-item) Narver and Slater (1990) scale (MKTOR) was adopted. Respondents were asked the extent to which they agree/disagree with a series of statements, closely describing their firm anchored by "Strongly Disagree" (1) – "Strongly Agree" (7). The scale has been tested under different settings and context for generalizability, reliability, internal and external validity and found to be a robust measure (Deshpande and Farley, 1998). Different sets of questions were used to measure the three sub-constructs, customer orientation, competitor orientation and inter-functional coordination.

The most common measures of firm performance used in research are ROI, profit levels, sales growth and market share. To assess firm performance, the economic measures were adopted from Matsumo et al., (2005) and used. Respondents were asked the extent to which they agree/disagree with a series of statements about overall performance in their firm on a 7 – point likert scale.

4. Findings of the study

Two hundred and twenty questioners were sent out. One hundred and fifty three (153) questionnaires were returned, however six of them were incomplete and therefore not usable in the analysis. Thus 147 questionnaires were used in the analysis giving a response rate of 67%. In terms of sectors five sectors were represented; building, mining and construction 3%, metal and allied sector 10%, energy, electricity and electronics 7%, chemical and allied 14%, food and beverage 24%, timber, board and paper 16% and pharmaceutical and medical 3%. The distribution of the respondents gave a good representation of the study population.

With regards to the current position held, majority of the respondents were marketing managers (51.7%), followed with general managers (14.3%) and human resource managers (11.6%). The least number of respondents were public relations officers (6.8%). The majority of the managers indicated their field of specialization as general business management and a further 32.7% indicated marketing. This implied that they had a fairly good understanding of the study questions and organizational strategy. The sample of managers who participated in the study is therefore a representation of the study population.

Market orientation scale was sub-divided into three scales namely customer orientation, competitor orientation and inter-functional coordination. The respondents were asked to provide information concerning their perception towards customer orientation practices in their firm. The descriptive results show that the respondent judged customer orientation as acceptable (M=5.50, SD=1.53). These results suggest that most firms in the study sample have orientation towards customers. By having their objectives driven by customer satisfaction, most of the firms frequently gauge customer satisfaction with a view of paying close attention to customer service. This in essence provides competitive advantages based on proper understanding of customer needs.

Four items were used to measure the perception of the firms' level of competitor orientation. The results shown in Table 1 indicate that on average, the respondents tended to somehow agree with the level of competitor orientation in the firms (M=5.11, SD=1.63). This shows that the firms do realise that competition is the nature of business. Consequently, firms are usually on the lookout for competitive actions and opportunities to edge out this competition. The respondents on average indicated some agreement with aspects of inter-functional coordination (M=5.20, SD=1.66). This clearly shows that the firms appreciate cross-cutting relationships between functions of various sections. By accepting the value of customers, firms go out of their way to coordinate and integrate business functions in order to serve target market needs.

Firm performance was postulated to comprise of business performance and financial performance. Business performance was measured using four items. As shown in Table 3, most of the firms' business performance was judged as averagely high. Three items reflecting on the level of financial performance were used to measure the perceived level of firm performance. The measurements were made regarding return on sales (ROS), return on assets (ROA) and return on investments (ROI) which again pointed to averagely high performance in financial terms.

Before testing the hypothesis the correlations matrix for the composite scales of the constructs was examined. The correlations were carried out to test the theoretical propositions regarding relationships among the variables. The relationships among the three variables; market orientation, business environment and firm performance are conceptually related. The bivariate correlation results appear to be consistent with the hypothesized relationships (Tables 4). There is also variability in measures of the constructs, as reflected by the means and standard deviations.

Regression analysis was conducted to test hypothesis H_1 and H_2. Hierarchical regression was used to evaluate the relationship between the set of independent variables and the dependent variable, controlling for the impact of the firm characteristics. Market orientation was hypothesized to predicting firm performance. A simple linear regression model was conducted with market orientation predicting performance. The hypothesized regression equation used was

$$Y = \beta_0 + \beta_1 X + \varepsilon$$

Where Y stands for firm performance and X stands for market orientation, Table 5 shows that market orientation (β_1= 0.179, ρ= 0.030) is a significant predictor of firm performance.

In order to test whether the business environment moderates the relationship between market orientation and firm performance, the interaction between market orientation and the proposed moderator (business environment) was tested. A hierarchical regression was used by first entering market orientation and firm performance in step 1 followed business environment in step 2. The regression results indicate that in step 1 the effect of market orientation is significant ($p = 0.030$), while in step 2 its effect is not significant ($p = 0.227$). In step 1 market orientation explains 32% of firm performance while in step 2 the business environment explains an additional 56 % of the effect on performance (R square = 0.88, $p = 0.003$). The summary results of this regression are presented in Table 6.

5. Discussion and Conclusions

The findings of this study confirm the relationship between market orientation and organizational performance. The study also establishes the effect of the business environment on the relationship between market orientation and performance in Kenya. It therefore calls for marketing managers to pay very close attention to their business environments. This implies that companies which are market oriented need to put into action the information that is collected relating to their customers and competitors.

The findings of the study add new understanding to the literature on market orientation, business environment and firm performance in the developing country context. The sample of this study is confined to the manufacturing sector and therefore future studies should examine whether the relationships reported here differ across industries. The results of this study provide valuable information for managerial decision making.

REFERENCES

Bigne', E., Vila-Lopez, N. and Kuster-Boluda, 2000, "Competitive Positioning and Market orientation", Journal of Innovation Management, Vol. e, No. 4, 190-198.

Day, G. S., & Wensley, R. (1988). Assessing advantage: a framework for diagnosing competitive superiority. Journal of Marketing, 52, 1–20.

Deshpande, R., and J. Farley (1998). "Measuring Market Orientation: Generalization and Synthesis," Journal of Market Focused Management 2, 213– 232.

Greenley, G.E. (1995), "Market orientation and company performance: empirical evidence from UK companies", British Journal of Management, Vol. 6 No. 1, pp. 1-13.

Han, J.K., Kim, N. and Srivastava, K. (1998), "Market orientation and organizational performance: is innovation a missing link?", Journal of Marketing, Vol. 62 No. 4, pp. 30-45.

Hult, G. T., and D. J. Ketchen (2001). "Does Market Orientation Matter?: A Test of the Relationship Between Positional Advantage and Performance," Strategic Management Journal 26, 899–906.

Hunt, S.D. and Morgan, R.M. (1995), "The comparative advantage theory of competition", Journal of Marketing, Vol. 59, April, pp. 1-15.

Jaworski, B. and Kohli, A. (1993), "Market orientation: antecedents and consequences", Journal of Marketing, Vol. 57 No. 3, pp. 53-70.

Kirca, A.H., Jayachandran, S. and Bearden, W.O. (2005), "Market orientation: a meta-analytical review and assessment of its antecedents and impact on performance", Journal of Marketing, Vol. 69, April, pp. 24-41.

Kohli, A. and Jaworski, B. (1990), "Market orientation: the construct, research propositions and managerial implications", Journal of Marketing, Vol. 54 No. 2, pp. 1-18.

Kohli, A., Jaworski, B. and Kumar, A. (1993), "MARKOR: a measure of market orientation", Journal of Marketing Research, Vol. 30 No. 4, pp. 467-77.

Langerak, F., Hultink, E.J. and Robben, H.S.J. (2004), "The impact of market orientation, product advantage, and launch proficiency on new product performance and organizational performance", Journal of Product Innovation Management, Vol. 21 No. 2, pp. 79-94.

Lio, S., Chang, W., Wu, C., and Katrichis, J. M. (2010), "A survey of market orientation research (1995-2008)", Journal of Industrial Marketing, pp.4.

Matear, S.,Gray, B. J. and Garrett, T. 2004, "Market orientation, brand investment, new service development, market position and performance for service organizations", International Journal of Service Industry, Vol. 15, No. 3, 284-301.

Matsuno, K., J. T. Mentzer, and A. Ozsomer (2002). "The Effects of Entrepreneurial Proclivity and Market Orientation on Business Performance," Journal of Marketing 66(3), 18–33.

Morgan, R.E. and Strong, C.A. (1998) Market orientation and dimensions of strategic orientation European Journal of Marketing Vol. 32 (11/12) 1051-1073.

Narver, J.C. and Slater, S.R. (1990), "The effect of a market orientation on business profitability", Journal of Marketing, Vol. 54 No. 4, pp. 20-35.

Ruekert, R. W., 1992, Developing a market orientation: An organizational strategy perspective, International Journal of Research in Marketing, 9, 225-245.

Slater, S. and Narver, J.C. (1994) Does competitive environment moderate the market-orientation-performance relationship? Journal of Marketing, 58, 46-55.

Slater, S.F. and Narver, J.C. (1995), "Market orientation and the learning organization", Journal of Marketing, Vol. 59 No. 3, pp. 63-74.

Van Raaij, E. M. and Stoelhorst, J. W., 2008, "The Implementation of market orientation", European Journal of Marketing, Vol. 42 Nos 11/12, pp. 1265.1293.

Table 1: Respondents perception of firms' level of market orientation.

Item (N=147)	M	SD
Customer orientation	5.50	1.53
We frequently measure customer satisfaction.	5.33	1.55
Our business objectives are driven by customer satisfaction.	5.39	1.56
We pay close attention to after-sales service	5.44	1.61
We closely monitor and assess our level of commitment in serving customers' needs.	5.45	1.48
Business strategies are driven by the goal of increasing customer value.	5.71	1.40
Our competitive advantage is based on understanding customers' needs.	5.69	1.55
Competitor orientation	5.11	1.63
Top management regularly discuss competitors strength and weaknesses.	4.97	1.70
In our organization, our sales people share information about competitor information	5.04	1.61
We respond promptly to competitive actions.	5.27	1.49
Customers are targeted when we have an opportunity for competitive advantage.	5.18	1.71
Interfunctional coordination	5.20	1.66
Our top managers from each business function regularly visit customers	5.03	1.62
Business functions within are integrated to serve the target market needs.	5.62	1.47
Our managers understand how employees can contribute to value of customers.	5.41	1.66
Information about customers is freely communicated throughout our organization.	5.10	1.75
We share resources with other business units.	4.81	1.79

***Source**: Research Data (2012).*

Table 3: Firms' perceived performance.

Item (N= 147)	M	SD
Percentage of sales generated by new products last year relative to major competitors was	4.90	1.35
Our business unit's sales growth relative to major competitors last year was	5.12	1.27
Our business unit's market share growth in our primary market last year was	5.19	1.36
Our business unit's overall performance relative to major competitors last year was	5.16	1.42
Our business unit's return on sales (ROS) relative to major competitors last year was	5.07	1.40
Our business unit's return on assets (ROA) relative to major competitors last year was	5.06	1.54
Our business unit's return on investment (ROI) relative to major competitors last year was	5.36	1.55

***Source**: Researchers computation (2012).*

Table 4: Pearson Correlation for market orientation, business environment & performance

	Market orientation	Business Environment	Firm Performance
Market orientation	1		
Firm performance	.179*	.281**	1
**. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed).			

Table 5: Regression Results for Market orientation predicting firm performance

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	27.373	3.908		7.003	.000
	Market orientation	.106	.048	.179	2.191	.030
a. Dependent Variable: Performance $R = .179$, $R^2 = 0.32$						

Source: *Research Data (2012).*

Table 6: Regression Model Summary market orientation and performance

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	27.373	3.908		7.003	.000
	Market orientation	.106	.048	.179	2.191	.030
a. Dependent Variable: Performance						

Source: *Researchers computation (2012).*