Effects of Market Orientation on Business Performance: Empirical Evidence from Iceland

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ABSTRACT

This paper studies the effects of market orientation on business performance in an Icelandic financial organization, with a specific focus on the shape of organizational culture. The research subject is one of Iceland’s commercial banks. The study objectives were to measure the shape of this bank’s organizational culture and the level of its market orientation. The measurement instrument is based on the Denison Model of Organizational Culture Survey (DOCS).

According to the results, the level of the bank’s organizational culture scores a 3.62 on a 5-point scale where 1 means “weak” and 5 means “strong”. The bank’s shape of organizational culture is strong in the sub-dimension “strategic direction and intent” but weak in the sub-dimension “coordination and integration”. The bank has a strong external focus combined with a focus on stability. The “adaptability” dimension (the measure of market orientation) scores a 3.57 on a 5-point scale and has a weak positive relation with five out of six performance indicators, and a moderately strong relation with employee satisfaction. The results further show that the bank is very profit-oriented, which might explain its low score on some dimensions. The results from this study are in line with the results from other Icelandic studies that have used DOCS to measure the shape of organizational culture.
INTRODUCTION

This paper studies the effects of market orientation on business performance in an Icelandic financial organization, with a specific focus on the shape of organizational culture. The research subject is one of Iceland’s commercial banks. The study objectives were to measure the shape of this bank’s organizational culture; the level of its market orientation; and to compare the results to the Denison database which include over 1,000 companies.

The Denison Model of Organizational Culture Survey (DOCS) that was used in the study measures characteristics of organizational culture with sixty statements categorized into four dimensions that are “mission”, “adaptability”, “involvement” and “consistency”. The adaptability dimension includes fifteen statements that are comparable to those found in the MARKOR questionnaire (defined by Kohli and Jaworski, 1990) that was specifically designed to measure the level of market orientation of a firm. Therefore, this study lays emphasis on the adaptability dimension because the statements that belong to that dimension are believed to have a positive relationship with market orientation.

One group of academics defines market orientation as a form of company culture whereas the other defines it as a sequence of market activities that lead to better performance. In this paper, market orientation is defined as a form of organizational culture where employees throughout the organization are systematically and entirely committed to the continuous creation of superior customer value. To achieve a high level of market orientation, companies are concerned with coordinated business intelligence generation, intelligence dissemination and responsiveness to market data and information for efficient and effective marketing management decisions. Scholars are not altogether agreeing on what market oriented culture entails, but it is generally viewed as a set of shared beliefs and values that are reflected in habits and traditions as well as in more tangible manifestations—stories, symbols, or even buildings, brands and products. The DOCS was send to 300 front-line employees and middle managers in 32 Icelandic branches of the bank and 153 responses were received back.

According to the results, the level of the banks organizational culture scores a 3.62 on a 5-point scale where 1 means “weak” and 5 means “strong”. The bank’s shape of organizational culture is strong in the sub-dimension “strategic direction and intent” but weak in the sub-dimension “coordination and integration”. The bank has a strong external focus combined with a focus on stability. The “adaptability” dimension (the measure of market orientation) scores a 3.57 on a 5-point scale and has a weak positive relation with five out of six performance indicators, and a moderately strong relation with employee satisfaction. The
results further show that the bank is very profit-oriented, which might explain its low score on some dimensions.

1 THE BACKGROUND

Market orientation can be defined as a form of organizational culture where employees are committed to continuously create superior customer value, or as a sequence of marketing activities that lead to better performance. Years of research have concluded that market oriented companies perform better than companies that are less market oriented. They focus on adapting their products and services to the needs and expectations of their customers instead of those who are product oriented and focus on developing a product or service that is then marketed and hopefully sold (Grönroos, 2006). To achieve this customer focus, a firm with a high degree of market orientation cultivates a set of shared values and beliefs about putting the customer first and reaps results in form of a defendable competitive advantage, decreased costs and increased profits (Desphandé, 1999). The market orientation concept focuses on coordinated business intelligence generation, dissemination and responsiveness to market information for efficient and effective decisions (Sundqvist, Puumalainen and Saminen, 2000; Kohli and Jaworski, 1990). The concept is also concerned with issues including organizational culture, innovation, human resource planning and organizational learning (Narver and Slater, 1990; Ruekert, 1992; Baker and Sinkula, 1999; Greenley, Cadogan and Fahy, 2005; Keskin, 2006, Hooley).

Market orientation theorists such as Kohli and Jaworski (1990), Narver and Slater (1990), Ruekert (1992), Gainer and Pandanyi (2005), Carr and Lopez (2007) have argued that market orientation traces its origins from the market concept and has consequences to overall business strategy. The market(ing) concept is concerned with customer-orientation, competition-orientation, innovation and profit as an inducement for creating satisfied customers (Narver and Slater, 1994; Hunt and Morgan, 1995). Market orientation has been widely accepted by scholars as the implementation of the market(ing) concept, as an organizational culture, or as a mix of those two (Greenley, 1995; Han, Kom and Srivastave, 1998). Others scholars argued that market oriented behavior in marketing new solutions leads to better performance, has positive effects on customer satisfaction and loyalty as well as innovation, employee satisfaction and cooperation (Twaites and Lynch, 1992, Deshpandé, Farely and Webster, 1993; Gatignon and Xuereb, 1997; Rapp, Schillewaert and Wei Hao, 2008)
1.1 DIFFERENT VIEWS ON MARKET ORIENTATION

It is fair to say that two papers have established the concept of market orientation into the academic of business research. The first paper, by Kohli and Jaworski (1990), viewed market orientation as the implementation of the marketing concept. The model they propose emphasizes the collection of marketing data, dissemination of this data across functions within the organization and the action that is taken based on this intelligence. The model was built on the results of interviews with 62 managers in both marketing- and non-marketing positions in US companies. A main finding was that profitability is a consequence of market orientation but not a component of it. Later Jaworski and Kohli (1993) published another paper where the goal was to review and measure the antecedents that lead to market orientation and the consequences of it for the company.

Figure 1 shows the interaction between intelligence generation, dissemination and responsiveness. Intelligence gathering is just what the name implies, gathering intelligence about customers, competitors and the market place.

![Figure 1: Kohli and Jaworski’s view on market orientation. Source: Kohli and Jaworski (1990).](image-url)
Responsiveness only happens if the formalized process for sharing business intelligence in not too burdensome. If management emphasized sharing, and if the organizational system’s reward system provides an incentive to do so or there is no penalty for doing so. In other words, a department, manager or employee is only willing to share information if it implies no cost.

The second paper by Narver and Slater (1990), defined market orientation as three behavioral components, customer orientation, competitor orientation, and inter-functional coordination, and two decision criteria, long-term focus and profitability. They interviewed managers in 113 strategic business units in one corporation and they viewed market orientation as an organization culture. Narver and Slater argued that market-oriented firms focus not only customers but equally much on competitors. Additionally, they place emphasis on inter-functional coordination that is meant to create unison between all functions in the organization and become part of the organizational culture.

Figure 2 shows the interaction between the three behavioral components; customer orientation, competitor orientation and inter-functional coordination.

![Figure 2: Narver and Slater’s view on market orientation. Source: Narver and Slater (1990).](image)

According to Narver and Slater, continuous innovation is implicit in each of these components. If there is no innovation and continuous data generation, employees will not
have the right prerequisites to offer that extra service to the customer. The two decision criteria shown in the figure are a long term profit focus and profitability. It is through the continuous creation of superior customer value that a business creates its long-run profit performance. A short period marketing campaign or sales action might boost sales, but the organizational image and generation of repeat-customers only evolves over time along with reputation and word of mouth.

The two views on market orientation are quite similar and complementary and very useful to anyone seeking knowledge on market orientation. Both papers view market orientation as a concept that leads to a greater competitive advantage and both agree that business intelligence about customers and competitors is a key prerequisite to build market orientation. They both conclude that all managers and staff members need to participate in creating and maintaining the market and that market orientation is a construct with three equally important components. However, the two views have important differences. Kohli and Jaworski put more emphasize on customers than Narver and Slater, which focuses on human role and explain market orientation as a corporate culture which leads to certain customer/competitor oriented behavior throughout the organization creating specific atmosphere that leads to better performance.

Until recently, scholars either followed Narver and Slater’s view, or Kohli and Jaworski’s view on market orientation leading to rather imperfect studies. With the new millennium came a new awareness that the two concepts view are not exclusive but rather complementary. Evidence shows that both the market concept view and culture view are equally important pillars when building a market orientation (Hurley and Hult, 1998). Cervere, Molla and Sanchez (2002) agree to this and state that the two views are not mutually exclusive and in fact show different facets of the same concept. When combining the Kohli and Jaworski framework with that proposed by Narver and Slater, a two-dimensional model appears. Figure 3 visualizes this model.
As shown in the outer circle of the model, customer orientation, competitor orientation and integrated marketing must exist in all company operations. To empower management and staff with business intelligence, companies must also have systems in place for intelligence generation, disseminations and distribution of this information. This is shown in the inner circle of the model. Obviously, management and staff must act upon the intelligence that they have access to. The task of top management is to install the market oriented culture through strategy making and implementation on all levels. The integrated model therefore suit the definition that a market orientation is the implementation of the marketing concept based on some form of organizational culture.
1.2 ORGANIZATIONAL CULTURE AND MARKET ORIENTATION

Organizational culture is a concept that is hard to describe. One could say that organizational culture is the personality of the organization (Shein, 2004) and Deal and Kennedy (2000) define organizational culture as a collective understanding, a shared and integrated set of perceptions, memories, values, attitudes and definitions that have been learned over time and that determine expectations of behavior that are taught to new members in their socialization into the organization. The concept of organizational culture has been summarized comprehensively by Ott (1998) who summarized definitions from 58 books. He defined the core of organizational culture to build norms, beliefs, opinions, feelings and other intangible items that together create the behavioral pattern that members of the culture follow. Similar definitions appear in studies by other scholars (Kotter and Heskett, 1992; Silvester, Anderson and Patterson, 1999; Despandé, 1999).

There is evidence that links organizational culture with market orientation (Denison, 1990; Kotter and Heskett, 1992; Sörensen, 2002; Denison, Haaland and Goelzer, 2004; Gainer and Pandanyi, 2005; Laforet, 2008). Denison and his colleagues (Denison, 1990; Denison and Mishra, 1995) developed and empirically supported a theory of organizational culture and effectiveness that identifies four cultural traits that are positively related to organizational performance. There are several ways to measure the level of market orientation. It can be measured as a set of activities or behavior relating to market intelligence gathering, market intelligence dissemination cross-functionally within a firm, and the action responses based on this intelligence (Desphandé, 1999; Kohli and Jaworski, 1990). It can also be measured as an organizational culture (Narver and Slater, 1990; Shepstone Currie, 2008; Hafer and Gresham, 2008) and there have been efforts to integrate the marketing- and culture perspectives into one framework (Carr and Lopez, 2007; Hafer and Gresham, 2008).

Denison (1984) proposed a model to evaluate the shape of organizational culture and an instrument to measure it, called DOCS (Denison Organizational Culture Survey). Initially, Denison studied 34 companies and found that results were significantly different depending on behavioral issues. Denison and Mishra (1995) expanded the database to 756 companies and now this database includes results of over 1500 companies of different sizes (Mobley, Wang and Fang, 2005). When using DOCS the data are normalized and compare to those companies within the database. The figure for each dimensions indicate the proportion of the companies in the database who have lower score. The dimensions are involvement, consistency, adaptability and mission. The DOCS has proven to be a reliable instrument to
measure company culture and it has been used in various countries with different circumstances (cf. Denison, Haaland, Goelze, 2003; Denison, Haaland and Goelze, 2004; Fey and Denison, 2003; Mobley, Wang and Fang, 2005). The dimension used to measure market orientation, is adaptability. It is divided into three sub-dimension; customer focus, organizational learning and creating change, each measured by five questions on five point Likert-Scale. When compared to MARKOR there is high similarities between the fifteen questions from the adaptability dimension in DOCS and MARKOR and therefore adaptability can be used to measure market oriented behavior.
2 MARKET ORIENTATION IN BANKING

The main goal of this paper is to investigate the practice of market orientation in an Icelandic financial organization with a specific focus on the shape of organizational culture. The research subject was one of Iceland’s former commercial banks, but as one might know the banking industry in Iceland collapsed in October 2008. The study objective was to measure the shape of this bank’s organizational culture and compare the results with Denison Organization Database. Also measure the level of its market oriented behavior by using adaptability as measurements on such behavior. Market orientation can be measured in different ways. The first scholars to develop a dedicated research instrument to measure market orientation were Narver and Slater (1990). The 14-item scale measures an organization’s focus on customer orientation, competitor orientation, and interfunctional coordination. The research instrument was named MKTOR and has been widely used to measure market orientation level (Dawes, 1999).

Kohli, Jaworski and Kumar (1993) developed another questionnaire based on their model that is called MARKOR. The MARKOR 32-item scale measures an organization’s focus on intelligence generation, intelligence dissemination, and responsiveness. Oczkowski and Farell (1998) suggest that MKTOR, in general, is superior to MARKOR in explaining variations in measures of business performance. On the other hand Kumar, Stern, and Anderson (1993) prefer the MARKOR questionnaire as it has a massive set of questions that measures the concept of customer orientation. Both dimensions of market orientation, the cultural dimension and the organizational/process dimension, have a positive relationship with the adaptability dimension in the Denison model (Adalsteinsson and Gudlaugsson, 2007). This can be seen in figure 4.
It can be argued that the adaptability dimension with its fifteen statements does not suffice as a measure for market orientation, even though it matches with all those five questions in MARKOR that were specifically designed to measure the concept. Even so, the Denison Organizational Culture Survey is believed to be a suitable tool for measuring the level of market orientation of the Icelandic bank that is subject of study in this paper.

The sampling frame used for this study was obtained from the human resources system of the bank that served as study object for this research. The sample consisted of managers and front-line personnel in all the 32 Icelandic branches. This approach fits the bottom-up approach to measure the level of marketing orientation of the bank. In total, 300 respondents received e-mail survey. 51 e-mails did not reach recipients by reason of fault, out of office and maternity leave. Therefore, 249 people had the opportunity to answer the survey. 153 did answer the questionnaire giving a response rate of little over 61%. Considerably more women than men responded to the survey. However, over 70% of the employees in the 32 branches are female so the results are in line with the gender dispersion.

The banks shape of organizational culture or “profile” was evaluated by plotting the 12 sub-dimensions of the Denison model into a radar chart. The sixty Denison statements together create a shape around the center of this radar chart, alongside the 12 grid-lines that
reflect the twelve sub-dimensions of the model. Figure 5 shows the bank's profile on the radar chart.

The mean score were categorized into three intervals. The first interval ranging from 4.20 – 5.0 (score 84-100) indicates the company’s strengths in the organizational profile. The second interval ranging from 3.70-4.10 (score 74-83) indicates an acceptable level of organizational culture. The third interval ranging from 1.00-3.69 (score 20-73) indicates weaknesses in the cultural profile, and is therefore called the “action interval”. The dimensions that score in this interval are in need of attention (Grönfeldt and Strother, 2006). Note that this categorizing is derived from Fey and Denison (1993) and follows an international standard for categorizing mean scores. It is not specifically a part of DOCS.

The organization profile of the bank could do better according to the outcomes of the Denison survey. Of the twelve sub-dimensions, only four score 74 points or higher. Eight sub-dimensions score under 74 points indicating that the bank’s management must take action. Of those measuring market orientation behavior two score lower than 3.50, Creating change and Customer focus, consider to be great weaknesses, and one score higher than 3.75, Organizational Learning, consider being acceptable. From this findings and how the scores
are calculated and analyzed, one could argue that the market orientation behavior level at this bank is low.
3 LIMITATION AND FURTHER RESEARCH

The limitations of this study concern potential bias in the sample population and sample size, research design, methodology, and the measures used. The limitations of this study should be kept in mind when interpreting the findings. Also, they should be considered when planning future research in the field of market orientation with the Denison instrument. The Denison instrument has been used to measure the concept of market orientation in several studies. However, it is still questionable if the instrument can indeed substitute specialized questionnaires such as MARKOR and MKTOR that were designed to measure market orientation. There were 153 respondents to the survey. Although this sample size is adequate, larger sample will provide confidence in the results and option to use more sophisticated data analysis techniques such as structural equation modeling. Another limitation of this study is that it was self-administered via e-mail. Respondents could give “wrong” answers without anyone noticing.

The categorizations of results are disputable. Fey and Denison (1993) say that scores below 3.69 indicates a weak organizational profile. At the same time, Denison et.al (2006) publish benchmark scores from the Denison database including over 1,000 companies that appear to be considerably lower than the acceptable and strong scores defined originally by Fay and Denison from DOCS. One might want to change these categories and e.g. say that all scores below 3 indicate a weak organizational culture; scores between 3 and 4 are acceptable; and scores above 4 indicate a strong organizational culture. On the other hand one must have in mind that strength or weaknesses are always in some kind of comparison with others.

Despite the limitations, this study has given an overview of the shape of organizational culture of the bank, as well as its level of market orientation. Therefore we can conclude that this study contributes to the literature of market orientation by adding empirical evidence from very turbulent market.
REFERENCES


