Adjusted Narver and Slater’s Market Orientation Concept and Firm Performance in Nigerian Companies

By Olalekan Asikhia

Covenant University, Ota, Canaan land

Abstracts - Market orientation as a business philosophy in which understanding and satisfying the customers is essential has been suggested to be a vital variable for a successful business operation. To test this assertion empirically, this study looks into the nature of the correlational relationship between market orientation and firm performance using sample data from firms in Nigeria. How Narver and Slater’s scale for measuring the extent of market orientation is investigated, tested, adjusted and used for Nigerian context. The results show that there is a significant positive correlation between market orientation and business performance. i.e the performance of the firms understudy have been greatly enhanced by their adoption of market orientation, and the Narver and Slater’s scale was discovered to be better suited for Nigerian context when seen as comprising of competitor and customer orientation.

Keywords: Market orientation, Customer orientation, Competitor orientation, Firm performance, Nigeria.

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Strictly as per the compliance and regulations of:
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Abstract - Market orientation as a business philosophy in which understanding and satisfying the customers is essential has been suggested to be a vital variable for a successful business operation. To test this assertion empirically, this study looks into the nature of the correlational relationship between market orientation and firm performance using sample data from firms in Nigeria. How Narver and Slater’s scale for measuring the extent of market orientation is investigated, tested, adjusted and used for Nigerian context. The results show that there is a significant positive correlation between market orientation and business performance, i.e., the performance of the firms understudy have been greatly enhanced by their adoption of market orientation, and the Narver and Slater’s scale was discovered to be better suited for Nigerian context when seen as comprising of competitor and customer orientation.

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I. INTRODUCTION

The different definitions of market orientation reveal a central focus on tracking and marketing customers’ need profitably. The definitions of Kohli and Jaworski (1990) and Gerhardt, Carpenter & Sherry Jr. (2006) are in the same vein as Deshpande, Farley and Webster (1993) who view it as the organization’s belief that see it as a business philosophy in which understanding and satisfying the customers is essential. And it is expected that a satisfied customer would always make a repeat purchase (Gray, Matcar, Boshoff, & Matheson, 1998), and hence an enhanced performance would be witnessed (for example, Ellis, 2006; Gebhardt, et al, 2006; Zhou, Gao, Yang & Zhou, 2005; Webster 1992). Subsequently, a number of empirical studies have attempted to assess the association of market orientation with profitability (for example, Gebhardt, et al, 2006; Bhuian, 1998; Pelham & Wilson, 1996; Greenley, 1995; Raju, Lonial & Gupt, 1995). Although the body of research related to market orientation is flourishing, most of the past studies on market orientation and firm performance have been undertaken in the context of western countries like the US. Virtually little or no serious study has attempted to investigate the relationship between market orientation and firm performance in Nigeria context.

More specifically, this study has two objectives each designed to contribute to the emerging body of empirical literature on effect of market-orientation on firm performance relationship. The first objective is to examine the psychometric properties of the Narver and Slater scale as a measuring instrument for market orientation in the Nigerian context, and secondly to determine the relationship between market orientation and firm performance.

II. CONCEPTUAL FRAMEWORK

Two groups of authors provided different concepts for market orientation. Kohli and Jaworski (1990) conceptualize an organization’s market orientation as implementation of the marketing concept.

McKitterick (1957), Felton (1959), and Keith (1960) define marketing concept as a corporate state of mind that insists on the integration and coordination of all the marketing functions that, in turn are melded with all other corporate functions, for the sole purpose of producing maximum long-range corporate profits.

McNamara (1972) regards the marketing concept as a business philosophy, an idea or a policy statement. Houston (1986) defines the concept as a willingness to recognize and understand consumers' needs and wants, and a willingness to adjust any of the marketing mix elements to satisfy those needs and wants. All these show that the marketing concept defines a distinct organizational process that puts the customers in the centre of the firm’s thinking about strategy and operations (Deshpande and Webster, 1989; Deshpande, Farley & Webster, 1993; and Tse, Sin, Yau, Lee & Chow, 2003). And this process is seen as one that permeates every aspect of an organization’s operation (Houston, 1986; Wong and Saunders, 1993; Baker, Black & Hart,1994; Hunt and Morgan, 1995; Zhou et al., 2005; Ellis 2006) So Kohli and Jaworski (1990) conceive market orientation as an organizational process, and state that this process involves:

- market intelligence generation
- dissemination
- responsiveness to such intelligence across departments’
A different conceptualization was offered by Narver and Slater (1990:21) who defined market orientation “as organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and thus continuous superior performance for business”. And they see organizational culture as a driver of behaviors, and that the organization is weak if the culture lacks commitments to superior value for customers. They conceived such culture as focusing on:
- Customers (that is customer orientation)
- Competitors (that is competitor orientation)
- Marketing information sharing.

This paper adapts the conceptualization of Narver and Slater, namely that a market orientation includes both a customer and competitor orientation but believing that information sharing within an organization should be beyond market information only and as such inherent in the organizational framework already for it to be customer and competitor centered. Hence, it is presumed that orientation involves the total participation of the whole organization in activities that see the customers as kings and satisfy them better than the competitors and these activities must have included sharing of vital and relevant information to achieve these objectives. So for this study customer and competitor orientation are seen as the integral aspects of market orientation.

III. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Many researchers in other countries of the world have established that there is a positive relationship between market orientation and firm performance; for example, Narver and Slater, 1990; Ruekert, 1992; Jaworski and Kohli, 1993; Slater and Narver 1994; Raju et al., 1995; Pelham and Wilson, 1996; Pelham, 1997; Kumar, Subramanian & Yauger, 1998; Ellis, 2006. In the US established a positive relationship between market orientation and firm performance (for example sales growth, return on assets, profitability, organizational commitment, new product success, financial performance, market/product development, internal quality, product quality, firm effectiveness, growth in revenue, return on capital, success of new services/facilities, success in retaining patients, success in and controlling expenses are used as indicators for firm performance) while using different number of firms ranging from 113 small business units (SBU) to 160 manufacturing firms.


A number of authors have however questioned the link between market orientation and firm performance. For example Kaldor (1971) suggest that customers do not always know what is needed. And Gerken (1990) points out that it is unrealistic to be market oriented because firms are no longer able to keep up with erratic and constantly changing demand and market developments. Also Bennett and Cooper (1979) also suggest that few, if any, of the really significant product innovations that have been placed on the market to date are developed because the inventor sensed that a latent pool of needs are waiting to be satisfied. Also, that the ability of the customers to verbalize what they need is limited by their knowledge, and that when they suggest modifications, they take into account the limits of technology. Consequently a market oriented firm may be preoccupied with line extension and product proliferation (Tse et al., 2003).

Bennett and Cooper (1979) and Hayes and Avbernathy (1980) argue that market orientation induces businesses into being interested in short-term and intermediate customer needs, which can be detrimental to innovation and long term success of a companion.

Jaworski and Kohli (1993) also established that market orientation has no relationship with market share of 222 SBUs of 102 companies in the US, Pelham and Wilson (1996)’s finding is consistent with this, as they also found out that 68 small firms in US have a no relationship between their market orientation and sales growth/market share. Deshpande et al (1993) studying 50 quadrads from public firms and their customers in Japan established a no relationship of market orientation with overall performance based on managers’ assessment. Diamontopoulos and Hart (1993) studied 87 manufacturing firms in UK and established a weak relationship of market orientation and return on investment, new product success rate, sales growth and market success.

It is obvious that there is a mixed result and notion of the relationship of market orientation with different performance criteria in other parts of the world, these underscore the relevance of this study. It will thus be hypothesized that:

**Ho**: There is no significant relationship between market orientation and firm performance.

**Ha**: There is a significant relationship between customer orientation and firm performance.

**Ho**: There is no significant relationship between
customer orientation and competitor orientation components of market orientation.

Hb: There is significant relationship between customer orientation and competitor orientation components of market orientation.

IV. JUSTIFICATION OF THE STUDY

Although some authors have studied the link between market orientation and firm performance in other parts of the world, additional studies on the topic can be justified on the following grounds. First of all, few or no study on the market orientation – performance relationship exists in Nigerian context. Secondly, this study intends to look at the components issue as it is in all firms. i.e. both service and manufacturing. Finally, more importantly this study hopes to test the validity of the scales used for measuring market orientation in the Nigerian context. Thus far, no serious attempt has been made to validate the asserted link between market orientation and business performance. Hence, the objectives of this study are two folds. The first objective is to collect data in a Nigerian context to determine if the adjusted Narver and Slater’s scale can be extended to a Nigerian cultural context, and if the scale is found to be valid and reliable, the hypothesized positive association between market orientation and performance can be tested. In addition to the contribution of validating the scale in a Nigerian context, this study provides results of testing the asserted relationship between market orientation and business performance in another culture and organization settings. The need for this kind of replicate work was emphasized by Kohli et al (1993) to be a fundamental requirement of the science of marketing.

V. METHODOLOGY

Market orientation was hypothesized as a one-dimensional construct consisting of two components customer orientation and competitor orientation. The inter-functional coordination of Narver and Slater was supposed to have been subsumed into the two earlier variables i.e. customer orientation and competitor orientation in this study. So altogether, 15 items were developed from the Narver and Slater (1990).

The sample of 100 firms in both service and manufacturing sector of the economy was randomly drawn from a database of the Corporate Affairs Commission.

A questionnaire titled “Business practice survey” with a cover letter explaining the purpose of the survey was given to the marketing manager/chief executive officer of the selected firms.

The questionnaire contained questions on the following areas:

i. Customer orientation (11 items)
ii. Competitor orientation (4 items)

iii. Sales growth (5 items)
iv. Company background (8 items)

Respondents were assured of their anonymity. A total of eighty nine (89) firms returned the questionnaires and fifty-two were found to be duly completed and thus useable, giving a response rate of 52%. Then multiple regression and correlational analysis were applied to the data so collected.

VI. RESULT AND DISCUSSION

With the 52 responses from the survey, reliability analysis was conducted. The scale reliability values (coefficient) and item-to-total correlations are reported in table 1; reliability for the scales exceeds 0.70 the threshold Nunnally (1994) recommended for exploratory research.
Table 1: Scale description for Market Orientation

<table>
<thead>
<tr>
<th>Item</th>
<th>Cronbach Alpha</th>
<th>Item-to-total correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer orientation</td>
<td>0.84</td>
<td></td>
</tr>
<tr>
<td>Review of the likely effect of changes in our business environment (e.g. technology or regulation changes) on customers.</td>
<td></td>
<td>.70</td>
</tr>
<tr>
<td>The firm analyses data on customer satisfaction</td>
<td></td>
<td>.71</td>
</tr>
<tr>
<td>The firm makes use of information that states customer preferences</td>
<td></td>
<td>.72</td>
</tr>
<tr>
<td>The firm has a structured program that obtains the feedback necessary to fully understand customers</td>
<td></td>
<td>.69</td>
</tr>
<tr>
<td>The firm studies underlying trends or patterns in its customers dispositions</td>
<td></td>
<td>.75</td>
</tr>
<tr>
<td>A major strength of this firm is effective and efficient customer analysis</td>
<td></td>
<td>.77</td>
</tr>
<tr>
<td>The firm responds to negative customer satisfaction information.</td>
<td></td>
<td>.79</td>
</tr>
<tr>
<td>The firm responds to changing customer requirements.</td>
<td></td>
<td>.82</td>
</tr>
<tr>
<td>If customers complain, changes are made.</td>
<td></td>
<td>.83</td>
</tr>
<tr>
<td>A high priority is placed on implementing changes to increase future customer satisfaction</td>
<td></td>
<td>.81</td>
</tr>
<tr>
<td>Competitor orientation</td>
<td>0.79</td>
<td></td>
</tr>
<tr>
<td>The top management team discuss competitor’s strengths and weaknesses</td>
<td></td>
<td>.70</td>
</tr>
<tr>
<td>We target customer and customer groups where we have, or can develop, a competitive advantage</td>
<td></td>
<td>.78</td>
</tr>
<tr>
<td>Sales growth</td>
<td>.71</td>
<td></td>
</tr>
<tr>
<td>Our sales have witnessed unstable growth in the last five years.</td>
<td></td>
<td>.69</td>
</tr>
<tr>
<td>We have not made significant growth in sales relative to the market leader in our industry</td>
<td></td>
<td>.72</td>
</tr>
<tr>
<td>Our sales growth is better than our competitors generally</td>
<td></td>
<td>.70</td>
</tr>
<tr>
<td>Our sales growth has changed our market share of the industry in the last three years.</td>
<td></td>
<td>.72</td>
</tr>
</tbody>
</table>

Table 1 shows that the question items for each of the construct correlated well with the constructs with cronbach alpha ranging from .71 to .84 and the item to item correlation ranges from .69 to .83.

Table 2: Psychometric properties of the scale

<table>
<thead>
<tr>
<th>Measurement Model</th>
<th>Range of Standard Factor Headings</th>
<th>Cronbach(α)</th>
<th>NFI</th>
<th>IF</th>
<th>SRMR</th>
<th>RMSEA</th>
<th>$X^2$(d.f,P-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Orientation</td>
<td>0.69-0.83</td>
<td>0.92</td>
<td>0.84</td>
<td>0.87</td>
<td>0.10</td>
<td>0.09</td>
<td>89.72(89, p &lt; .01)</td>
</tr>
<tr>
<td>Customer Orientation</td>
<td>0.69-0.83</td>
<td>0.90</td>
<td>0.82</td>
<td>0.85</td>
<td>0.08</td>
<td>0.10</td>
<td>81.14(89, p &lt; .01)</td>
</tr>
<tr>
<td>Competitor Orientation</td>
<td>0.70-0.79</td>
<td>0.88</td>
<td>0.85</td>
<td>0.87</td>
<td>0.09</td>
<td>0.11</td>
<td>7.04(89, p &lt; .01)</td>
</tr>
<tr>
<td>Sale Growth</td>
<td>0.67-0.83</td>
<td>0.71</td>
<td>0.93</td>
<td>0.94</td>
<td>0.07</td>
<td>0.10</td>
<td>21.53(89, p &lt; .01)</td>
</tr>
</tbody>
</table>
The range of standardized factor loading was highest in market orientation, customer orientation and sales growth while competitor orientation was lowest and yet within the acceptable range of 0.70, and the chi-square ranges from 7.04 to 89.72, the Non-Normed Factor Index (NNFI) ranges from .82 to 0.93, Confirmatory Factor Index (CFI)= 0.85 to 0.94.

Table 3: Correlation between the components of Market Orientation

<table>
<thead>
<tr>
<th></th>
<th>U</th>
<th>CO</th>
</tr>
</thead>
<tbody>
<tr>
<td>CU</td>
<td>.00</td>
<td>.82</td>
</tr>
<tr>
<td>CO</td>
<td>.82</td>
<td>1.00</td>
</tr>
</tbody>
</table>

All correlations are statistically significant at 0.01 and 0.05 level

CU- Customer Orientation
CO- Competitor Orientation

Table 3 shows that there is a positive strong correlation between the customer orientation and the competitor orientation, that is as firms become more customer conscious they are inadvertently taking care of competition.

Table 4: The relationship between Market Orientation and Firm Performance

<table>
<thead>
<tr>
<th>R</th>
<th>Adjusted $R^2$</th>
<th>F</th>
<th>$H_0$</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.565**</td>
<td>0.310</td>
<td>36.859</td>
<td>Reject</td>
</tr>
</tbody>
</table>

*P<0.01, **P<0.05

Table 5: The Discriminant validity result for the Market Orientation scale

<table>
<thead>
<tr>
<th>X</th>
<th>Df</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.65</td>
<td>2</td>
<td>5%</td>
</tr>
</tbody>
</table>

Standardized Root Mean Square Error (SRMR) and Root Mean Square Error of Approximation (RMSEA) are within the acceptable range of 0.60 to 0.11, (As shown in table 2) these result shows there is internal consistency of the overall homogeneity among items and that the model fits the data with items loading high on the hypothesized constructs.

VII. Discriminant Validity

Discriminant validity concerns the degree to which measures of conceptually distinct constructs differ. Conventionally, it has been assessed by the pattern of correlation across versus within traits in the multi-trait – multi method matrix (Campbell and Fiske, 1959). More recently, like convergent validity, it has been assessed by analyzing the co-variance structure of the data. A modified version of the procedure recommended by Burnkrant and Page (1982) was used to assess discriminant validity. This is done by comparing the goodness of fit statistics for two measurement models, one modeling the two related dimensions of market orientation-CU and CO as perfectly correlated and the other with a constraint. The unconstrained model improves over the constrained model would indicate whether the two dimensions achieve discriminant validity. The chi square difference values for the constrained and unconstrained model was found to be 13.46 with 2 df which is significant at the 5% level as shown in table 5. This finding implies that the unconstrained model has a significantly better fit than the constrained model. Conclusively therefore, the result shows that the market orientation scale developed in this study has acceptable discriminant validity.

The following are noted:

- The findings suggest that Narver and Slater’s scale with slight modification is a reliable and valid scale that can be used in a Nigerian business environment. Although the scale was originally developed in the US at the Strategic Business Unit (SBU) level, the finding of this study suggests that the scale appears to capture the construct of market orientation in a Nigerian cultural context.

- Results of this research support the asserted correlational relationship between market orientation and company performance with $R=0.565$ significant at both 0.01 and 0.05 levels of significant. And Market orientation contributes 31% variations in firm performance as shown in table 4. The evidence provided by this study further strengthens the positive link between market orientation and firm performance, a result obtained by previous studies of the same nature in the US and some other countries (e.g. Narver and Slater, 1990; Ruekert, 1992; Jaworski and Kohli, 1993; Slater and Narver 1994; Raju et al., 1995; Pelham and Wilson, 1996; Pelham, 1997; Kumar et al., 1998; Ellis, 2006 in the US; Deshpande et al., 1993; in Japan), Diamontopoulos and Hart,1993; Greenley,1995; Pitt et al.,1996; Appiah-Adu,1997; Appiah-Adu and Raryhod,1998; Greenley and Foxall 1998; Tse et al., (2003) all in UK, Deng and Dart,1994; in Canada, Au and Tse,1995; Chan and Ellis,1998; Zhou et al.,2005 in Hong Kong, Gray et al.,1998; in New Zealand, Bhuiyan, 1997;1998 in Saudi Arabia, Atuahene-Gima,1995/1996; in Taiwan, Hooley et al.,1999; in Hungry, Poland and Slovenia).

VIII. Policy Implication And Conclusion

This section elaborates on the potential implication of the research. Customers today are highly
informed and more demanding. Responsiveness to customers’ needs and changing market conditions become important for the success of firms and this calls for the introduction of market-oriented products and services, and re-orientation of firms operating in the economy to be market oriented in their processes, routines, and outputs.

It is important that firms enhance their efforts to assemble market-oriented resources which are especially important to firms that want to gain competitive advantage. The findings suggested that market-orientation could lead to a firm’s ability to continually satisfy his customers in the face of changing market conditions and thus increase firm performance. These results apart from its relevance to the academicians also help foreign marketing practitioners engaging in Nigeria trade, in collaborating or competing against Nigerian enterprises. Market orientation is a critical success factor for companies operating in Nigeria. Highly market-oriented firms in a Nigerian business environment would outperform those with low level of market orientation. It is paramount for managers to study and continuously scan their environment to know the degree of dynamism in the tastes and fashion of their consumers so as to continue to satisfy them profitable and ensure their continuous existence in the business environment.

IX. LIMITATION AND FUTURE RESEARCH

It is important to note that this study is not without limitations though it has provided relevant and interesting insights to the understanding of the impacts of market orientation on firm performance. The cross sectional data used in this research has the disadvantage of not being able to allow the time sequence of the relationship between market orientation and firm performance to be determined unambiguously. The result therefore, might not be interpreted as proof of a causal relationship, but rather as lending support for a prior causal scheme. The development of a time-series database and testing of the market orientation relationship with firm performance in a longitudinal framework would provide more insight into probable causation.

Future research may dwell on how the extent of market orientation would be affected by antecedent factors such as company attributes and attributes of top management personnel, and factors that moderate the relationship between market orientation and business performance – factors like market turbulence, technological turbulence, and degree of competition.

Also, data for this study were collected by the key single informant approach although the data so collected are reliable and valid, future research should attempt to use the multiple informants approach.

REFERENCES

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