Original Paper

Testing the Applicability of Narver and Slater’s Market Orientation Concept and Firm Performance in Botswana Companies

Olumide Jaiyeoba* and Donatus Amanze

1 Department of Marketing, University of Botswana, Gaborone, Botswana

* Olumide Jaiyeoba, E-mail: olujaiyeoba@yahoo.com

Abstract

In existing Market orientation research, the components of the market orientation construct are generally theorized to follow the conceptualizations of either Kholi and Jaworski (1990) or Narver and Slater (1990). This study looks into the nature of the correlational relationship between market orientation and firm performance using sample data from firms in Botswana. How Narver and Slater’s scale for measuring the extent of market orientation is investigated, tested, and used for Botswana Context. Two symmetric component measures of market orientation (customer orientation and Competitor orientation) are developed, tested in a cross-sectional questionnaire survey. Result show a positive correlation between market orientation and business performance, and Narver and Slater’s scale was discovered to be better suited for Botswana context, when focusing on the symmetric component measures of customer orientation and competitor orientation. Academicians are thus provided with insights with respect to the content and symmetry of component measures of market orientation construct and their relation to Botswana’s firm Performance.

Keywords

market orientation, customer orientation, competitor orientation, firm performance, Botswana

1. Introduction

Research in the area of market orientation, has exploded in the decade of the 1990s. This growth is due in large part to the seminal work of Narver and Slater (1990) who developed scales to measure the components of market orientation. Narver and Slater (1990) concluded that market orientation consists of three behavioral components-customer orientation, competitor orientation, and interfunctional coordination, and two decision criteria (long-term focus and profit emphasis). They conceptualized an organization’s degree of market orientation as the sum total of its emphasis on these five components. The growing body of research that has followed, has provided unequivocal support for the relationship
between market orientation and performance (e.g., Greenley, 1995; Kumar, Subramanian & Yauger, 1998; Kohli and Jaworski, 1990). Many studies have been carried out on market orientation, defined as the degree to which marketing concept has been adopted by an organization (McCarthy & Perrault Jr., 1993; Trustrum, 1989). Previous studies have also indicated the important role of market orientation in influencing organizational performance (Jaworski & Kholi, 1993; Langerak, 2003; Narver & Slater, 1990; Sandvik & Sandvik, 2003). Furthermore, market orientation has been regarded as a source of competitive advantage (Day, 1994; Slater & Narver, 1994). However, despite the evidence and claim, most of the studies have been concentrated on developed countries, particularly the United States and European Countries. There is limited research that has been conducted in developing countries. It is noted in the literature that the positive association between market orientation and business performance does not necessarily hold true in developing countries (Appiah-Adu, 1998; Bhuian, 1997; Osuagwu, 2006). Factors that contributed to organizational performance between developed and developing countries were subjected to differences in relations to the economic structure, regulation aspect, competitive environment, cultural and the people elements, which is unique to a particular country. The need for market orientation investigations in the developing countries is still inadequate and ignored by many studies. According to Bathgate, Omar, Nwankwo, and Zhang (2006), although market orientation delivers superior performance in the western economies, the implementation of market orientation in other economies still leaves some gaps in both theory and practice of marketing. Building on the initial research by, Kholi and Jaworski (1990) and Narver and Slater (1990), significant progress has been made in the conceptualization and measurement of market orientation and also in evaluating its impact upon business performance. Although, studies of the impacts of market orientation have demonstrated a significant and positive relationship between market orientation and business performance in developed economies. A number of studies, however, mainly in non-United States contexts, have suggested that the relationship is context specific. Market orientation is often considered to be marketing’s contribution to business strategy (Hunt and Lambe, 2000), and its salient dimensions, competitor and customer orientation, are considered important strategic orientations (Gatignon and Xuereb, 1997; Zhou et al, 2005; Slater and Narver, 1994; Day and Wensley, 1983, 1988).

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 Botswana context, and secondly to determine the relationship between market orientation and firm performance.

2. Conceptual Framework
In 1990 two influential articles were published in the *Journal of Marketing* reporting evidence in support of a relationship between Market Orientation (MO) and Business Performance. In the first of
these articles, MO was explicated in terms of the generation and dissemination of market intelligence throughout the firm leading to an appropriate, market oriented, response (Kholi & Jaworski, 1990). In the second articles, MO was defined as the combination of three factors, namely, a customer orientation, a competitor orientation, and the interfunctional coordination of marketing activities (Narver & Slater, 1990). The vast majority of MO studies published since 1990 have adopted either one or the other of these two seminal MO definitions. For example, studies in the Kholi Jaworski tradition include: Baker & Sinkula (1999), Bhuian (1993), Homberg & Pflesser (2000), Kwon & Yu (2000). In contrast, studies based on Narver and Slater’s definition include: Chan & Ellis (1998), Fahy et al.2000, Farrell (2000), Pelham & Wilson (1996) and Tse et al (2003).

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. 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 (Deshpande, 1999).

Market orientation theorists such as Kholi 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 on overall business strategy. The marketing concept is concerned with customer orientation, competitor 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 marketing concept, as an organizational culture, or a mix of the two (Greenly, 1995; Han & Srivastava, 1998). Other scholars argued that market oriented behaviour leads to better performance, has positive effects on customer satisfaction, loyalty, innovation, employee satisfaction and cooperation (Gatignon & Xuereb, 1997; Deshpande, Farley, and Webster, 1993; Rapp & Wei Hao, 2008).

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 oriented. Hence, for this study, customer and competitor orientation are seen as an integral part of market orientation.

3. Literature Review and Hypotheses Development

A number of researchers have examined the link between market orientation and performance. Although several studies have supported an association between market orientation and profitability, the link between market orientation and innovation appears to be more complex (Narver & Slater, 2000). Several conceptual writings suggest that the importance of market orientation for organizational performance depend on environmental conditions (Narver & Slater, 1990). A strong market orientation is required to focus the organization on those environmental events that are likely to influence their
ability to increase customer satisfaction relative to competitors (Baker & Sinkula, 1999).

Market orientation is often considered to be marketing’s contribution to business strategy (Hunt & Lambe, 2000), and its salient dimensions, competitor and customer orientation, are considered important strategic orientations (Gatignon & Xuereb, 1997; Zhou et al., 2005; Slater & Narver, 1994; Day & Wensley, 1983, 1988). Meta-analysis of empirical research on market orientation document the positive effects of a firm’s overall market orientation on firm’s performance (Kirca et al., 2005; Baker & Sinkula, 2005; Cano et al., 2004; Langerak, 2003). Less systematic attention has been given to the effect customer orientation and, especially, competitor orientation, has on firm performance; some exceptions are Gatignon Xuereb, (1997), Im & Workman (2004), and Olson et al. (2005). Jaworski et al. (2002) found that there is little research on how firms efficiently generate competitor intelligence, in contrast to the generation of customer intelligence, which has been widely researched. Despite its importance, the competitive aspect of a firm’s market orientation is neglected in the theoretical and empirical market orientation literature. Consequently, little empirical insight is available about these potentially more nuanced drivers of market orientation, in terms of explaining firm performance. For this reason, the present paper focuses on customer orientation and competitor orientation as salient dimensions of market orientation.

Although, a firm’s ability to retain existing customers is increasingly seen as central to successful performance, the effect of market orientation on customer outcomes such as satisfaction and retention has received scant attention. A market-oriented firm continuously monitors customers’ changing needs and attempts to satisfy those needs by modifying its total offerings. Given that customer’s satisfaction may to a large extent depend on the competitive offerings, it seems reasonable to expect that market orientation will have a stronger impact on customer satisfaction when the level of market orientation at the industry level is low. Consistent with the marketing concept, customers have traditionally been considered to be the primary focus of a market orientation (Deshpande and Webster 1989, Payne, 1988). Other researchers, however, have begun to embrace a broader perspective on the market orientation construct by including exogenous factors that influence customer needs, such as competitors and even government regulation (Kholi and Jaworski, 1990; Slater and Narver, 1994). Consequently, despite the academic emphasis on customer orientation, practitioners may actually be influenced to operate with a strong focus on competitors. With such disparity in focus, it is evident that the broad term, “market orientation”, may actually encompass several different approaches to the strategic alignment of the organization with the external environment. According to Slater and Narver (1994), a competitor-focus entails gathering intelligence on three main questions (1) Who are the competitors? (2) What technologies do they offer? And (3) Do they represent an attractive alternative from the perspective of the target customers? Using target rivals as a frame of reference, competitor-focused firms seek to identify their own strengths and weaknesses and to keep pace with or stay ahead of the rest of the field (Han, Kim, & Srivastava, 1998). Ideally, firms should seek to understand both customers and competitors and to incorporate such knowledge in their strategic planning efforts.
A number of empirical studies test the relationship of market orientation and firms’ performance. Some studies find that market orientation associate positively with business performance (Jaworski and Kholi, 1993; Loubser, 2000; Pelham, 1997; Pelham and Wilson, 1996; Pitt, Caruana, & Berthon, 1996; Pulendran, Speed & Widing, 2000; Ruekert, 1992). On the other hand, several studies do not find significant direct effect or weak relationships between market orientation and business performance (Diamantopolous & Hart, 1993; Greenly, 1995; Han, Kim & Srivastava, 1998). The inconclusive findings in previous studies indicate that more test need to be carried out examining the impact of market orientation on performance across countries and cultures. 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. It will thus be hypothesized that:

**H0:** There is no significant relationship between market orientation and firm performance.

**H1:** There is a significant relationship between customer orientation and firm performance.

**H0:** There is no significant relationship between customer orientation and competitor components of market orientation.

**H1:** There is significant relationship between customer orientation and competitor orientation components of market orientation.

### 4. Justification of the Study

Meta-analyses of empirical research on market orientation document the positive effects of a firm’s overall market orientation on firm’s performance (Kirca et al, 2005; Baker & Sinkula, 2005; Cano et al, 2004; Langerak, 2003). Less systematic attention has been given to the effect customer orientation and, especially, competitor orientation, has on firm performance, some exceptions are Gatignon and Xuereb (1997), Im and Workman (2004), and Olson et al (2005). Jaworski et al (2002) found that there is little research on how firms efficiently generate competitor intelligence, in contrast to the generation of customer intelligence, which has been widely researched. Despite its importance, the competitive aspect of a firm’s market orientation is neglected in the theoretical and empirical market orientation literature. Consequently, little empirical insight is available about these potentially more nuanced drivers of market orientation, in terms of explaining firm performance. This study hopes to test the validity of the scales used for measuring market orientation in the Botswana context. Hence, the first objective of this study, is to collect data in a Botswana Context, to determine, if Narver and Slater’s Scale can be extended to a Botswana 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. This study also provided the result of the relationship between market orientation and business performance in another culture and organization settings.

The salient actors of the market are customers and competitors. Customers are pivotal to all definitions of market orientation, but debate on the role and relevance of competitors in market orientation is dividing contemporary market orientation research. A narrow focus on customers has, however, proven...
to have negative consequences for firms (Christensen & Bower, 1996).

5. Methodology
A priori content validity of the measures was established by a panel of marketing academicians and business practitioners from the target sample. Market orientation was hypothesized as one dimensional construct consisting of two components –customer orientation and competitor orientation. 15 items were developed from 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 Botswana Confederation of Commerce Industry and Manpower (BOCCIM). The questionnaires were addressed to CEOs and marketing managers of selected firms. The questionnaire contained questions on the customer orientation (11 items), Competitor orientation (4 items), Sales growth (5 items), Company background (8 items). Respondents were assured of their anonymity. A total of 87 firms returned the questionnaires and 61 were found to be duly completed and thus usable, giving a response rate of 61%. Multiple regression and correlational analysis were applied to the data collected.

6. Result and Discussion
With the 61 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>
<thead>
<tr>
<th>Table 1. Scale Description for Market Orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Item</strong></td>
</tr>
<tr>
<td>Customer Orientation</td>
</tr>
<tr>
<td>Review of the likely effect of changes in our business environment (e.g. technology or regulation changes) on customers.</td>
</tr>
<tr>
<td>The firm analyses data on customer satisfaction</td>
</tr>
<tr>
<td>The firm makes use of information that states customer preferences</td>
</tr>
<tr>
<td>The firm has a structured program that obtains the feedback necessary to fully understand customers</td>
</tr>
<tr>
<td>The firm studies underlying trends or patterns in its customers dispositions</td>
</tr>
<tr>
<td>A major strength of this firm is effective and efficient customer analysis</td>
</tr>
<tr>
<td>The firm responds to negative customer satisfaction information</td>
</tr>
<tr>
<td>The firm responds to changing customer</td>
</tr>
</tbody>
</table>
requirements

If customers complain, changes are made 0.79
A high priority is placed on implementing changes to increase future customer satisfaction

**Competitor orientation** 0.76
The top management team discuss competitor’s strengths and weaknesses 0.70
We target customer and customer groups where we have, or can develop, a competitive advantage.

**Sales growth** 0.73
Our sales have witnessed unstable growth in the last five years 0.72
We have not made significant growth in sales relative to the market leader in our industry 0.70
Our sales growth is better than our competitors generally 0.69
Our sales growth has changed our market share of the industry in the last three years 0.71

**Source: Authors**

Table 1 shows that the question items for each of the construct correlated well with the constructs with Cronbach Alpha ranging from 0.73 to 0.83 and the item to item correlation ranges from 0.68 to 0.81.

**Table 2. Psychometric Properties of the Scale**

<table>
<thead>
<tr>
<th>Measurement</th>
<th>Range of Standardized Factor Loadings</th>
<th>Cronbach Alpha</th>
<th>Non-Normed Factor Index(NNFI)</th>
<th>Confirmatory Factor Index(CFI)</th>
<th>Standardized Root Mean Square Error(SRMR)</th>
<th>RMSEA</th>
<th>X²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market</td>
<td>0.68-0.81</td>
<td>0.91</td>
<td>0.83</td>
<td>0.86</td>
<td>0.10</td>
<td>0.09</td>
<td>87.1</td>
</tr>
<tr>
<td>Customer</td>
<td>0.68-0.81</td>
<td>0.90</td>
<td>0.81</td>
<td>0.85</td>
<td>0.08</td>
<td>0.10</td>
<td>81</td>
</tr>
<tr>
<td>Competitor</td>
<td>0.70-0.75</td>
<td>0.87</td>
<td>0.84</td>
<td>0.84</td>
<td>0.09</td>
<td>0.11</td>
<td>7.06</td>
</tr>
<tr>
<td>Sales Growth</td>
<td>0.69-0.73</td>
<td>0.73</td>
<td>0.90</td>
<td>0.92</td>
<td>0.07</td>
<td>0.10</td>
<td>22.4</td>
</tr>
</tbody>
</table>

**Source: Authors**

The range of standardized factor loading was highest in market orientation, customer orientation, competitor orientation, while sales growth was lowest and yet within the acceptable range of 0.70, and chi-square ranges from 7.06 to 87.1, the Non-Normed Factor Index(NNFI) ranges from 0.81 to
0.90, Confirmatory factor index (CFI) = 0.84 to 0.92.

Table 3. Correlation between the Components of Market Orientation

<table>
<thead>
<tr>
<th></th>
<th>Customer Orientation</th>
<th>Competitor Orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Orientation</td>
<td>1.00</td>
<td>0.85</td>
</tr>
<tr>
<td>Competitor Orientation</td>
<td>0.85</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Source: Authors

All correlations are statistically significant at 0.01 and 0.05 level.

Table 3 shows that there is a positive strong correlation between customer orientation and competitor orientation.

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>0.568**</td>
<td>0.36</td>
<td>38.67</td>
<td>Reject</td>
</tr>
</tbody>
</table>

*P<0.01, **P<0.05

Source: Authors

Standardized Root Mean Square Error (SRMR) and Root Mean Square Error of Approximation (RMSEA) are within the acceptable range of 0.07 to 0.11 (as shown in Table 2). These results show that there is internal consistency of the overall homogeneity among items and that the model fits the data with items loading high on the hypothesized construct.

The chi-square difference values for constrained and unconstrained model was found to be 14.23 with 2df which is significant at 5% level. Result shows that the market orientation scale developed in this study has acceptable discriminant validity.

Result also supports the correlational relationship between market orientation and business performance with R=0.568 significant at 0.01 and 0.05 levels of significance. Market Orientation also contributes 36% variations in Firm performance. Evidence provided in this study further corroborates earlier studies of the relationship between market orientation and Business performance in developed and developing Economies.

7. Policy implication and conclusion

Customer versus competitor orientation appears to be contingent on a firm’s competitive environment, which indicates that market orientation and its components are not necessarily equally relevant for firms with different strategies and in different environments. 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. Academicians are thus provided with insights with respect to the content and symmetry of component measures of the market orientation construct and their relation to firm performance. As argued above, this study builds on improved component measures of market orientation that tap better into the competitive aspects of market orientation. Although previous research finds little empirical support for the possible influence of a firm’s environment on the relative importance of customer orientation and competitor orientation, the new measurement approach developed in this study invites further investigation of the phenomenon. This study contributes to the growing body of marketing research investigating the relationship between a firm’s customer orientation and competitor orientation and firm performance.

8. Limitation and Further Research
The study advocates moving beyond global measures of market orientation and focusing on symmetric component measures of customer orientation and competitor orientation when investigating a firm’s performance differentials. The study’s cross-sectional setting limits inference about causality among the constructs. 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. The theoretical models have, however, sufficiently adequate levels of model-fit indices, suggesting that they are sound representations of the underlying data. Nonetheless, the low levels of variance explained may also limit the generalization of the results of the study. Beside replication in different contexts, the marketing literature would benefit from more research investigating additional financial and, particularly non-financial dimensions of performance.

References


European Evidence. *International Marketing Review, 13*(1), 5.


