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Reflections on Market-Oriented Theory in the Behavior of Real Organizations

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Abstract - This paper presents market-oriented marketing concept which is reflected in the case study describing the behavior of existing organization. An initial theoretical section of the paper introduces the reader to the market-oriented theory throughout the literature review, which provides different scholastic approaches to this theory. The practical section focuses on the qualitative assessment of the real organization and its behavior. It starts with the description of the organization itself and it is subsequently expanded into the assessment of the organization's behavior in the light of the market-oriented theory. The goal of this assessment is to present benefits and challenges which market orientation imposes on the real business. The paper thus delivers an overview of the practical application of the market oriented theory in the workings of assessed organization.

Key words: marketing, market-orientation, assessment, behavior

Relevance to Marketing Educators, Researchers and/or Practitioners: Findings highlighted in the paper increase understanding of the market-oriented theory and the ways as how it can be applied in the real business. Based on the qualitative assessment it describes practical examples of this application. For practitioners, it can serve as a suggestion how to implement the market-oriented theory, and overview of its benefits and challenges.

Introduction

The market-oriented approach became a new direction for expanding marketing from the 1990s till today. Market orientation has grown into the synonym for proactive business strategy applied all over the world (Desphandé, 1999). The approach initially emerged from the marketing theory, and lately it was incorporated as a complex managerial approach throughout the entire corporate management structure.

However, some questions remained. What are the ways as to how the theory can be applied to the real business? What are the benefits of applying the market-oriented theory within an organization and what are the challenges? And, is it not an organization's market-oriented behavior rather than a simple reaction on actual market situations, instead of the implementation of any sophisticated theory? And, is it not a simple reaction on the actual market situations instead of implementation of any sophisticated theory?

The answers on these questions can be found in the assessment of the organization's actual behavior. This paper delivers a case study describing the behavior of existing organization and also its relationship to the market-oriented theory. The main goal is to introduce the reader to the way as to how the theory can be applied in business, what its limitations are and what benefits it can bring to the organization.

In the initial section of the paper it will be introduced the theory of market orientation in context to marketing theory from which it emerged. Then an introduction to the organization will continue in order to familiarize the reader with the company whose market orientation will be the subject of assessment. After that, the main section –an examination of the organization itself will follow. It will describe its behavior from the market-oriented point of view. Furthermore, it will also highlight benefits which the market-orientation approach delivers to the organization, and challenges that limited its implementation. All the findings will be summarized in the conclusion of the paper.

The Market-Oriented Theory in the Scope of Marketing

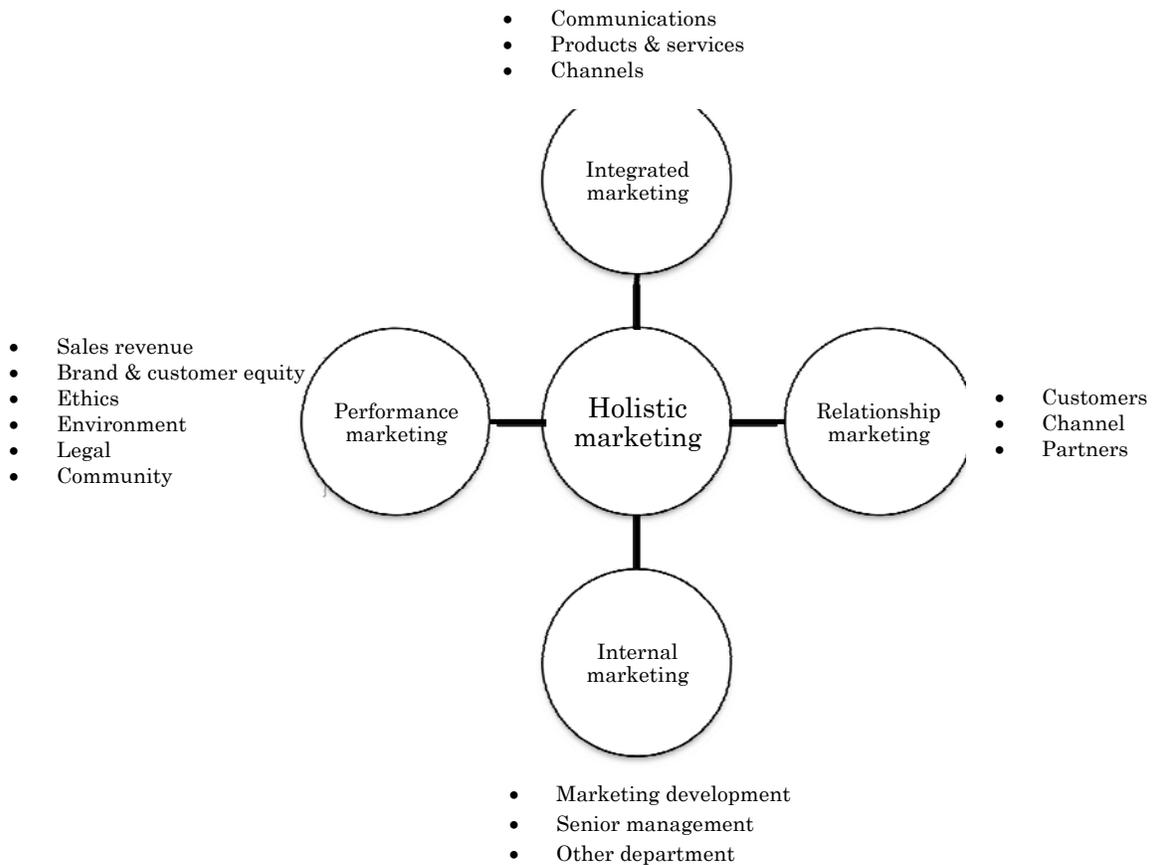
The term market-orientation originally emerged from the theory of marketing. Therefore, before focusing on the market orientation itself, it is crucial to embed this term into the whole marketing concept and clarify the understanding of the basic marketing terms.

In spite of the term 'marketing' being used all over the world, there is no single definition which would be generally considered as the proper and ultimate one. If anyone was asked for the definition of marketing, they would surely give a different answer, more or less appropriate and sufficient.

Marketing includes more activities than any questioned person would be able to completely describe. The definition varies as to whether it is defined from academic, research or applied business point of view (Pride and Ferrell, 1989). To provide a definition, Kotler and Keller (2012) as like as Berkowitz et al. (2000) refer to the latest definition of the American Marketing Association (2008): "Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."

Within the marketing theory, several marketing orientations towards the marketplace have been developed during the marketing evolution. These

orientations are expressed as concepts, namely "production, product, selling, marketing and holistic marketing concept" (Kotler and Keller, 2012: 40). Similar insights are shared by Berkowitz et al. (2000: 21) who display marketing evolution in eras – production era, sales era, marketing concept era and market orientation era. The Berkowitz's (2000) market orientation is very close to the Kotler and Keller's (2012) holistic marketing concept which is structured into the internal, integrated, performance and relationship marketing. From Kotler and Keller's (2012) findings, these are the areas that should be incorporated into the company's marketing activities.



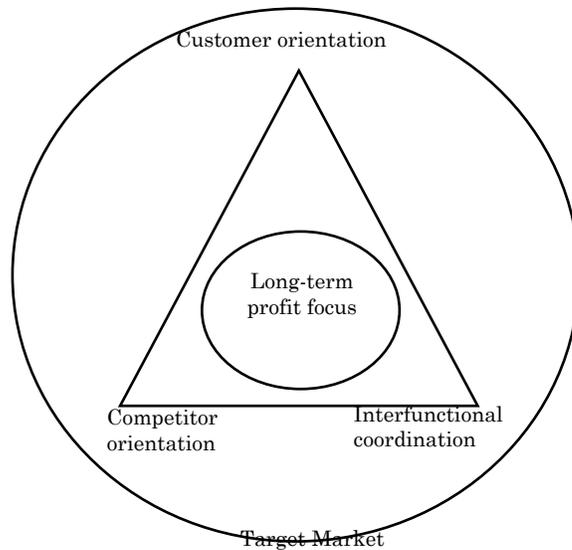
Source: Kotler and Keller, 2012: 41

Figure 1. Holistic marketing concept

On the other hand, Berkowitz's (2000) market orientation is defined as a focus on collecting information about customers which are shared across departments in order to create a value for customer. Similar definition offered also Kohli and Jaworski (1990: 6): "Market orientation is the organization wide generation of market intelligence pertaining to current and future customer

needs, dissemination of the intelligence across departments, and organization wide responsiveness to it.”

According to Narver and Slater (1990), market orientation approach can be displayed as a triangle with three behavioral components: customer orientation, competitor orientation and interfunctional coordination; in supposing that the company’s goal is long term profit. To ensure long-term profit, company has to focus on generating high value for its customers through the aiming or focus at customers, competitors and interfunctional coordination.



Source: Narver and Slater, 1990: 23

Figure 2. Market Orientation

After the brief introduction of marketing and the market orientation theory, let us present the organization whose market orientation behavior will be the subject of the case study.

Introduction of the Assessed Organization

The Assessed Organization is an international company operating in the chemical industry with location in Europe. Its history goes back to the end of 19th century and it currently employs about 1,100 people. In order for confidentiality, the exact name will not be disclosed. For the purposes of this paper we will label it as X-Chemical.

Yearly turnover of X-Chemical exceeded EUR 200m in 2011 with net profit on the level of EUR 10m. In comparison to the year 2010 it had an increase in turnover of 14 % and in comparison to the crisis year 2009, the increase reached even 58 %. Could the market-orientation of the company be a contributor to such

a rapid growth in sales? We will discuss this question in next sections of this paper.

Table 1. Turnover Overview

(m EUR)	2011	2010	2009
Turnover	205	180	130
Y/Y change	14 %	38 %	-

Source: Author

Going from the financial to the marketing activities of X-Chemical, it being a large producer of about 200 different chemical products which are sold for further processing, we find it runs a business-to-business (B2B) type of marketing activities. B2B is also labeled as business marketing which, compared to the consumer-goods marketing, differs by the intended use of the product and by the intended consumer. In fact, the B2B marketing can be more precisely targeted to the concrete needs of individual corporate customers; on the other hand, sales volumes are also exposed to risks arising from losing some of the main customers. Therefore, even though X-Chemical's products for individual customers are identical, a different marketing approach is necessary in order to reach corporate customers (Hutt and Speh, 2007). Another advantage of B2B lies in the fact that despite the company delivering its products to customers in more than 40 countries all over the world; it is able to manage all its marketing and sales activities with only 20 people.

Method of Assessment

The company's market-oriented behavior will be assessed throughout the case study which will discuss the company's activities and their reflection in the light of market-oriented theory. The process of this assessment will be structured according to Narver and Slater's (1990) three components of market orientation - customer orientation, competitor orientation and interfunctional coordination.

The data for assessment has been gathered through discussions with marketing and sales employees of the company and also by observing of their day-to-day operations which took place in 2011. All the findings were assessed in line with academic findings and author's expert judgment and experience. The case study thus uses qualitative assessment of the company's activities instead of any quantitative scaling.

Nevertheless, this qualitative approach which has been used has also its limitation in the fact that author's assessments can be subjectively influenced. Quantitative approach could mitigate this restriction through market-orientation measurement, for example Kohli's et al. (1993) MARKOR measure, or by the Narver and Slater's (1990) construct. Both these approaches are able to stratify companies according to the implementation of market-orientation or fulfillment of

specified market-oriented activities. Quantitative research results could be compared to Hooley's et al. (2000) market oriented scaling of some companies in Europe. However, the comparison of X-Chemical with this or other similar research would be impossible because of industry, country and time discrepancies. Already McKenna (1991) has claimed that marketing is the primary outcome of qualitative studies and assessment over quantitative research. Therefore, the goal of this paper is not to measure the volume of market orientation of the selected company, but highlight and discuss implementation, benefits and challenges of market-orientation in order to serve a better understanding of how market orientation can contribute to a company's sales growth.

Description of X-Chemical's Market-Oriented Activities

Describing X-Chemical's market orientation behavior, it will be approached according to Narver and Slater's (1990) classification. The description will be split into three areas, description of customer orientation, competitor orientation and interfunctional coordination. All these are under Narver and Slater's (1990) key assumption that the company's main goal is a long term profit.

Competitor Orientation

Competitor orientation is mostly driven by the particular characteristics of the industry in which the company operates. The chemical industry is specified by a low number of producers, due to necessity to secure a high volume of fixed capital; therefore there are only a few market players. Moreover, the competitor orientation of X-Chemical is greatly influenced by the fact that X-Chemical's customers can be at the same place as its suppliers. For the company it is therefore crucial to keep close and good relationships with its competitors, because, through this approach it also maintains relationships with its suppliers. In other words, current competitors cannot be seen as an enemy but more as a trading partner. In marketing theory it is this move that is stated as a new marketing paradigm shift towards Relationship marketing (Gummesson, 1997). Within the chemical industry, the building of positive relationships is simplified by employees who (due to highly specialized and limited character of chemical industry) often rotate between particular chemical employers across the whole of Europe.

Customer Orientation

As already mentioned, customer orientation at X-Chemical is driven by the B2B character of its business. It means that instead of wide public campaigns, the company focuses to narrow and directly oriented marketing approach. In practice, in lieu of billboards or TV advertisement, it spends its resources for direct relationships with current or prospective customers.

Customer markets (B2C) are characterized by hundreds, thousands or even millions of units, each of which contributes a minor portion. Contrary to this, non-customer markets (B2B) represent only low numbers of customers. As such, the decision of each one can have a significant impact on the company's business (Blythe and Zimmerman, 2005).

X-Chemical focused on the building of worthwhile relationships with customers through the frequent communication of sales representatives as well as of top management which has been approached in two ways. The first one focused directly on individual customers, and the second one in a form of complex focus on the whole chemical industry segment through the participation at international chemical fairs and shows. It is obvious that such activities, despite oriented to a few customers, cannot be run by a few people. Sales departments consists of about 20 people whose mutual communication, cooperation and knowledge sharing is crucial for the ability of a company to proactively react to market changes. Nevertheless, this matter already belongs to the third behavior component – interfunctional coordination.

Interfunctional coordination

Intefunctional coordination at X-Chemical can be seen from two perspectives – horizontal and vertical. The horizontal perspective means the necessity to communicate within the sales department. Twenty employees have to share knowledge, ideas and views on the market development as well as changes that they observe about their customers. However, in X-Chemical the knowledge is shared on an ad-hoc basis and usually very informally. The company does not initiate any regular sessions where the knowledge of individual employees would be disseminated across the entire sales department. Based on this, it has to be admitted that X-Chemical has some limitations in providing sufficient time for in-department knowledge sharing.

On the other hand, in the vertical perspective, the company heavily endeavors to share knowledge between individual departments. Confirmation of such efforts is visible in the number and structure of meetings occurring on a regular basis. Every day, a short 15-minute meeting between representatives of sales, production and finance takes place; every week, a 3-hour meeting of all directors occurs. During the short one, operational issues are solved; at a weekly meeting, all tactical/strategic issues are discussed. The main goal of both meetings is to share the latest news and disseminate knowledge across relevant departments within the company. In conclusion, X-Chemical devotes its effort to vertical information sharing but it forgets the horizontal information dissemination within the sales department.

In the light of the statement “learning and development remained a strong predictor of innovativeness” (Hurley and Hult, 1998: 50), the company does not fully utilize its knowledge sources. Utilizing both perspectives of information

sharing and dissemination – the vertical and the horizontal, it would lead to higher innovativeness in the company.

Perfect market intelligence of customers and competitors require high volumes of resources. Nevertheless, every business operates with limited resources, therefore there has to be some level of trade-off between focus on competitors and customers (Slater and Narver, 1994). Due to limited resources, companies frequently stress a one way of market monitoring at the expense of the other way. This leads to the specific orientation of market profiles. By the combination of 2 external variables – customers and competitors and two level of focus – high and low, a four-cell market orientation matrix has emerged (Heiens, 2000).

Table 2. Market Orientation Matrix

		Customer Focus	
		High	Low
Competitor focus	High	Strategically Integrated	Marketing Warriors
	Low	Customer Preoccupied	Strategically Inept

Source: Heiens, 2000: 2

According to this Market Orientation Matrix, X-Chemical can be placed into the high-high position as a strategically integrated company which spreads its resources equally to both, customer and competitor focus. This effectiveness is leveraged by the fact that customer and competitor can actually be one subject. As mentioned above, the only significant fault thus lies in insufficient horizontal dissemination of internal knowledge.

According to the Kohli and Jaworski’s (1990: 6) definition of market orientation which include “...dissemination of the intelligence across departments...” we could declare that the company is market oriented; however with deficiencies in the dissemination of intelligence within sales departments. It is obvious that the definition does not ponder over inter-department knowledge sharing, which should be a base for vertical level knowledge sharing across company departments.

Describing X-Chemical’s activities according to Narvel and Slater’s (1990) behavioral components which are customer orientation, competitor orientation and interfunctional coordination, we did not cover the entire marketing activities carried out by X-Chemical. Having introduced competitors, customers and internal communication, there is one aspect which in Narvel and Slater’s (1990) dissemination omitted. These are stakeholders who we can also treat as external non-business partners.

Every chemical producer has a smaller or greater impact on the living environment. There are many strict regulations set by municipalities, local government or the European Union. At the final stage, stakeholders as employees, citizens, government, etc. decide about matters which highly influence X-Chemical business. For this reason, companies make huge efforts to act as socially responsible companies in line with the Holistic marketing concept which is described by Kotler and Keller (2012: 40) as a “marketing that recognizes that everything matters in marketing“. X-Chemical is fully aware of this fact; therefore it presented a new, unique production process which is environmentally friendly. Due to this, the company also presented itself with a new logo using the color green.. Within the community, the company participated in the organization of international sport contests, or, arranged functions for the local community. All these activities are driven by marketing goals; despite the fact that they are not directed only to business partners, but to all stakeholders.

Challenges of Being a Market Oriented Company

As mentioned above, company’s customer orientation is affected by the B2B characteristic of its business. X-Chemical’s products are homogenous and applied in a wide range of industries. The company is thus not able to deal directly with the final consumer, and so it cannot directly focus its activities on this consumer to shape his demand. The most significant challenge to the company’s market orientation thus lies in the near impossibility in influencing the final consumer. Hence, the company can only endeavor to identify subsequent subjects in the supply chain in order to reveal and understand the final consumer. X-Chemical thus has to closely cooperate with its customers in analyzing of final consumer’s preferences. The results of X-Chemical are in line with the Kohli and Jaworski (1990) finding that producers, who deliver its products to final consumers through middlemen (e.g. retailers), can and in fact they even have to influence both groups.

X-Chemical supplies two kinds of products – specialties and commodities. Specialties are unique products delivered in small quantities on special orders and hence able to generate higher margins. On the other hand, commodities are homogeneous products characterized by lower margins but high sales volumes. As such, they generate most of X-Chemical’s sales volume. Commodities are standardized products; design, functionality or persistence, neither of these aspects can influence the decision of a customer. The only feature for a consumer’s decision is the price accompanied by the delivery terms. The impossibility to utilize all marketing tools to realize commodities can be seen as another challenge for the company’s complex market-oriented approach.

Another obstacle is visible in the non-objective decision of customers, often driven by ‘nonmarket’ influence. Because of the low number of decision makers in each company, the decisions can be impacted by personal feelings or even by

corruption, which can result in a significantly negative effect on the X-Chemical's sales.

A further challenge, which in the case of X-Chemical we can even call a failure, is the insufficient horizontal communication within the company (as described in previous section). This barrier is caused by the omission of inter-department communication; the company is focused only on cross-department communication which is, at the moment, on a high level. Kohli and Jaworski (1993) argue that one of the important determinants of market orientation is the continual reminding of employees of the importance of being sensitive and responsive to market changes. Despite this X-Chemical's focus is in line with this statement, as the dissemination of acquired information within the company is very limited.

Summarizing the discussed challenges, the most important ones are impacted by the characteristics of the chemical industry which ranks X-Chemical at the same position as its competitors. Elimination of those that are specific only to X-Chemical would increase market-orientation of the company.

Benefits Resulting from Being a Market Oriented Company

Generally, being market oriented brings benefits to every subject involved in the process. Customers benefit from the new products tailored to their wishes and producers benefit from increased sales. This occurs regardless on the type of business or industry. For example, Tesco, a well-known B2C representative in retail grocery industry, is able to better understand consumers' preferences thanks to the usage of consumer loyalty cards. Not too different is the opportunity that X-Chemical has in operating a B2B market. Close relationships with its customers, in order to understand their wishes and all subjects following in the supply chain, can deliver high competitive advantage to the whole supply chain. As such, it confirms the paradigm shift that "individual businesses no longer compete as solely autonomous entities, but rather as supply chains" (Lambert and Cooper, 2000: 65).

Hurley and Hult (1998: 50) described that "both, participative decision making and learning and development are related to innovativeness." This statement can be assessed by X-Chemical's behavior in the area of research and development. Together with its customer, as an important global player, it developed a new generation of technology in household appliances. After the finalization of the R&D program and launch of the production run, it will mean a new market for X-Chemical as well as for its customer. The Hurley and Hult (1998) finding could be re-paraphrased in the way that "X-Chemical used participative decision making and learning (common R&D) to enhance innovativeness (new market for products)". Nevertheless, it needs to be added that in line with Narver and Slater's (1990) interfunctional coordination, X-Chemical achieved its results also through the good relationships with customer.

The term “interfunctional coordination” thus does not have to mean only internal, but in this case rather as an external cooperation. This is furthermore consistent with the statement “no single individual can achieve organizational goals without the help of others” (Harris and Ogbonna, 2001: 758). Nevertheless, to reach such cooperation with trading partners, it requires a full attention to relationship development and also the internal and external information dissemination and sharing.

X-Chemical’s deep relationship with this customer¹ resulted in innovativeness and new market opportunity in line with Helfert, Ritter and Walter (2002: 1133) finding that “market orientation matters on the relationship level”. However, instead of having deep relationship with all the customers, the company focused only on the most important business partners. This approach is driven by the company’s limited resources. Perceiving the company as a complex unit, there has to be a certain level of trade-off between focus on competitor groups as well as on groups of customers in order to gain a higher level of market orientation (Slater and Narver, 1994). In the case of X-Chemical, this trade-off is simplified by the fact that in the chemical industry the customer and competitor can be one subject.

Conclusion

This paper introduced the real organization and its behavior, which has been confronted with the theory of market orientation. We had an opportunity to perceive how the management of a real company can be in line with the market orientation theory and on the other hand, how the theory could be modified according to what happens in the real business.

To understand how market orientation can be implemented, what are the benefits and challenges; we decided to provide qualitative assessment through case study and not analytical quantitative scaling of market orientation of the company.

Having an opportunity to see the application of market-orientation theory in real business, it is evident that the assessed company adopted certain levels of market-oriented behavior which brought it concrete benefits mainly in form of sales growth. The case study thus confirmed that the market-oriented approach is able to deliver competitive advantage to the company. However, Kohli and Jaworski (1996, cited in Hurley and Hult, 1998) have declared that the quality of market-oriented behavior may differ, so the value of innovations may differ too. Therefore, the volume of contribution is driven by the quality of market orientation implementation in the company.

The company’s adoption of the market-oriented ideas was evidently forced by the market situations and requirements that place current world problems and

¹ Note: the company endeavor to keep deep relationship also with other important customers.

crises on the companies. It opens up a space for questions in the area of adopting the market orientation theory. What portion of companies adopted these ideas as a reaction to changes in the world which surrounds them and how many of those that developed new ideas which have subsequently changed the world?

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