**CHAPTER II**

**LITERATURE REVIEW**

**2.1 Introduction**

This chapter is a review on market orientation and it behaviour, which explains different views of market orientation by scholars, importance of innovation by company employees to deliver superior customer value, for better sustainability and growth development. Collection and use of information, and variation between internal and external market orientation are also discussed.

**2.2 Market orientation**

Market orientation is the business culture, and ethics that produces outstanding performance to create superior customer value, satisfaction, and loyalty (Slater and Narver 1990). It is a form of organizational culture where employees are committed to continuously create superior customer value, and as a sequence of marketing activities that lead to better performance (Gudlaugsson and Schalk 2009). Market orientation has better been conceptualized from behavioural and cultural perspectives together (Homburg and Pflesser 2000). The formal concentrate on organizational activities which are concerned with the generation of information, dissemination of such information from the market, and responsiveness to market intelligence (Kholi and Jaworski 1990). The latter perspectives focus on norms, and values that motivate behaviour that are consistent with market Orientation (Deshpandé, and Farley 1993; Narver and Slater 1990).The concept, as discussed by Kohli and Jaworski1990, has become prominent/distinguished on the basis of behaviour i.e. creating market information and the spreading of this information within the organization and processes (formation of the marketing plan to satisfy customer wishes), and in terms of cultural orientations known as competitor orientation, customer orientation, as well as inter-functional coordination as discussed again by Narver and Slater (1990).

**2.3 Market orientation behaviour**

Research has made it known that market orientation was first put forward by Drucker, the conceptual framework was established in the 1990s (Narver et al., 1998); it was also studied ethnographically and discussed (Arnould and Wallendorf, 1994), and then examined through different variable components in 2000s.There are three different approaches which were observed in the market orientation literature. In the first approach, Kohli and Jaworski (1990) structured the market orientation theory and placed it in the marketing concept. Having examined and peruse carefully on over 35 year old marketing literatures as well as other related literature in their studies, Kohli and Jaworski (1990) expressed that, with the fact that there is no explicit and clear definition regarding the concept of market orientation theory, no interest was shown in the assessment of the concept and there is no theory based on an empirical basis.



**Figure 2.1: Kholi and Jaworski’s view on market orientation**

Source: Kholi and Jaworski (1990)

In the second approach, Narver and Slater (1990) researched into the first functional computation regarding the concept and concluded that there was a positive correlation between market orientation, and profitability of the business. Both papers and approaches have pioneered those studies conducted in 1990, which exhibit the implication of market orientation on the outputs of enterprises. In the third approach, Becker and Homburg (1999) epistemologically studied the concept in terms of its managerial aspects through a system-based approach. In the literature, researchers put forward a variety of variables on market orientation. Kohli and Jaworski (1990), pioneers of the concept, based their research to three basic dimensions which are intelligence generation, intelligence dissemination, and responsiveness. Other pioneers like the prominence of Narver and Slater (1990), on the other hand, identified sub-dimensions of market orientation and based their research on customer orientation, competitor orientation, and inter functional coordination. In the studies of epistemology which has been conducted up to date, every researcher thus carry out their investigations on these two basic paths for better headways, while future restructuring of these studies concerning the concept are still under way (Lings 2004).



**Figure 2.2: Narver and Slater’s view on market orientation.**

Source: Narver and Slater (1990)

Empirical studies on relationship between market orientation and business performance which was conducted in 1990s was found insufficient (Greenly, 1995). While in most studies, there were findings indicating that market orientation increases organisational business performance positively and significantly (Peterson, 1989; Narver and Slater, 1990; Kohli and Jaworski, 1990; Meziou, 1991; Ruekert, 1992; Jaworski and Kohli, 1993; Deng and Dart, 1994; Fritz, 1996). Other studies also argued that there was no significant or direct relationship of that kind between the two variables (Greenley, 1995; Bhuian, 1997; Sargeant and Mohammad, 1999; Perry and Shao, 2002; Olavarrieta and Friedman, 2008). Even though it was believed that there was no significant relationship (Hart and Diamantopoulos, 1993) or that there was a composite relationship (Jaworski and Kohli, 1993; Greenley, 1995), some studies again have mentioned that market orientation, by means of some exterior factors and the regulatory impact, enhance business performance (Hart and Diamantopoulos, 1993; Slater and Narver, 1994; Greenley, 1995; Chang and Chen, 1998; Harris, 2001). One of the other conclusions reached was that the relationship between market orientation and business performance appeared to be positive and significant in studies carried out in the United States of America (U.S.A), while studies which were conducted in other countries found a diminished or no correlational relationship, and more so that it became ineffective (Kumar et al., 1998). Market orientation as the degree to which the business unit (1) obtains and uses information gathered from customers, (2) develops a strategy that will meet and satisfy customer needs, and (3) implements that strategy by being responsive to customers’ needs and wants for better satisfaction and business profitability (Reukert, 1992). This shouldn’t be surprising since a market orientation represents the foundation of high-quality marketing concept. However, as important as a market orientation is to the study and practice of marketing management, most marketers haven’t, yet integrated their conceptualizations and measures of a market orientation use.

Market orientation is significantly important in enabling organizations to have a better rancour of understanding the market place and develop appropriate product and service strategies to meet customer needs, wants and, requirements (Liu et al, 2002). A market orientation assures a better customer focused strategy for market knowledge base generation, followed by coordinated strategy, inter-functional marketing efforts among other organizational department to achieve long term firm success. There have been significant advances in the development and opulence of a market orientation construct since the late 1980s and much analytical effort has been devoted to defining, conceptualization, and operationalization constructs of market orientation (Deng and Dart, 1994).

**2.4 Innovation and market orientation**

Organizations’ competency towards markets and innovations are discussed within the approach of strategic orientation towards management and it’s examined in terms of its relationship with various performance outputs of companies, such as their productivity, effectiveness and efficiency (Zhou et al., 2005). The basement and foundation of this approach are based on the discussion of the innovative concept in literature, usually as a part of organization strategies from past to present, and future (Capon et al., 1992). Innovation is a concept with an important bearing on economic performance which mostly concerned with the research and development of an organization. However, this is explained through three basic approaches at the firm’s level. In the first approach, innovation is the determinant of economic business performance; whereas in the second approach economic business performance is deemed fit to be a determinant for innovation activities. The third approach, on the other hand, discussed a two-directional flexible relationship between innovation and economic business performance (Cainelli et al., 2006).Drucker P, one of the leading pioneers of management to discuss and explain the philosophy related to the marketing concept in the specialization of business administration, predicted or foresee that organizations have two basic functions: which are marketing and innovation? In this context, while there was such an early likelihood and tendency towards discussing market orientation and innovation together (Olavarrieta and Friedmann, 2008), empirical studies in the literature concerning market orientation and innovation only began to be analysed and implemented towards the end of the 1990s(Berthon et al., 2004). Market orientation and innovation orientation are known to be two basic concepts related to strategic orientation. It was also explained further that these two concepts must definitely exist within an organization for the innovation, and better productivity outputs of such organization (Zhou et al., 2005). Pertinently, Market orientation requires innovative action in accordance with the market’s conditions, nature and expectations. Therefore, it is deemed fit as an innovative act and these two concepts are integrated together. These two items are of importance in terms of marketing and the organization as a whole, which is basically to satisfy customers’ needs, this in turn will be eased through innovative practices of new products and services. To assess and rate firm emphasis on innovation, a scale was adapted from Davis, Dibrell, and Janz (2002). This scale was selected as it focuses on organization overall strategic emphasis on innovation and did not delineate between product and process innovations. The intentions to develop a more encompassing rancour of organizational innovation and how it is integrated to other business processes.

**2.5 Collection and use of market information**

There has been increasing interest in the role of use of information extracted from the market for strategic purposes. Macro environmental factors such as competition, uncertainty, and needs are driving forces and impetus for strategic applications of market information (Choe, 2003). Collection and use of information from the market, with the support of information systems is broadly considered to be a competitive force to cope with uncertain, broad and dynamic environments. Organizations can deal with, and reduce uncertainty by increasing their information processing capabilities and by creating inter-organizational links and relationship between customers and suppliers. Knowledge-based resources and gathering of information includes specific technical skills, creative skills as well as integrative and coordinative skills (Mata et al, 1995). When customers tastes and rivals’ strategies are dynamic, there is need to redesign or adapt the product. Organizational innovativeness described by the development and marketing of innovations is likely to involve market, technology and competitor uncertainty. This emphasis on the need for new information, technical changes and new organizational programs and procedures. It is of importance that top managers are committed to the concept and usefulness of market orientation and fully understand the impact of market information and a very effective intelligence system. Strategy formulation and implementation implore the active participation and staff commitment throughout an organization (Clark, 2000). Companies need intelligence-gathering capabilities so as to keep up with technological trends and development, including both formal processes and information systems and informal systems that involve employees and top managers to have their responsibility to the company to collect information from the market, disseminate it to the appropriate channels, and interpret technological information (Tyler, 2001). The more informed individuals and elites are engaged, the more the problem solves discussions that create significant number of inventions and innovation which is associated with the ability to access knowledge from outside the boundaries of the organization and the ability to integrate knowledge across departmental boundaries within the organization.

**2.6 Internal and external market orientation**

Approaches to market orientation in Europe have included some recognition of the need for internal orientations to subdue the external market orientation. Greenley and Foxall (1996a) identify five market orientations in UK companies, two of which are internal market orientations. These five market orientations are competitor orientation, shareholder orientation, customer orientation, employee orientation and union orientation. Consumer orientation was found to envisage employee and competitor orientations indicating the interrelationship between internal and external market orientations. Greenley and Foxall (1995) posited that, of the predictive nature of consumer orientation on employee orientation and behaviour, that “satisfying consumers leads to demands on the part of the company, which results in employment opportunities for new personnel to be recruited.” So organisations that are consumers oriented will also focus on the needs of employees and develop plans and procedures to address such needs. Greenley and Foxall (1996a) also asserted that employee orientation is associated with new product success at high levels of market turbulence and competition, suggesting pathways that employees become relatively more important in meeting the needs of the customers when those needs are rapidly and consequently changing. Fritz (1996) also asserted the need for an employee orientation which includes market and employee orientation. It also includes one other internal orientation known as ‘production and cost orientation (effectiveness and efficiency orientation), and an additional external orientation known as technology and innovation orientation. Despite this focus on employees in the stakeholder orientation literature, most empirical knowledge has concentrated primarily on the extent to which firms focus on their employees rather than the nature of the employee orientation. Greenley and Foxall (1997) have however express employee orientation as the following:

1. The pertinent of formal research to understand the vested interests of employees.
2. The importance of managerial judgement to have a better rancour of the interests of employees.
3. How well is the strategy planned to address the interests of employees.
4. The extent of open managerial discuss about employees when addressing corporate culture, ethics, norms, and values.
5. The importance of employees in the corporate mission and decision making relative to other stakeholder groups.

In comparison to Greenley and Foxall’s (1997)conceptualization which focuses on the philosophy and fundamental knowledge of an employee orientation, Fritz (1996) presents a three (3) factor operationalization of employee orientation which is based on the implementation of an employee orientation which are;

1. The importance of satisfying employee as a goal of corporate decisions making.
2. The degree and extent to which employee development is pursued at the corporate level of the firm’s strategy.
3. The degree and extent to which delegation of authority and responsibility is pursued as a corporate strategy of the firm.

**Intelligence acquisition**

**Intelligence dissemination**

Co-ordinated information processing

**Fig 2.3: Ian Lings (1999) on internal and external market orientation**

Source: Ian Lings (1999).

This diagram illustrate how information about the external environment is acquired, collected and disseminated throughout the organisation as explained by Kohli and Jaworski (1990). Interpretations of this dispersed information are co-ordinated and used to know and identify threats and opportunities that exist outside the organizational environment (external environment). In essence, this is the intelligence acquisition and dispersion of information as part of the existing proceeds of market orientation which has been discussed earlier in this literature. Synonymous to this process of acquiring and disseminating market intelligence relating to the external environment is also a process of collection and dissemination of market intelligence relating to the employees of the organization or the internal environment. This information on the human resources of the organization provides an indication of the absorptive capabilities that those human resources bestow on the organization; such capabilities represent strengths and limitations of the organization ability to take advantage of opportunities and avoid or reduce threats apparent in the external market. Organizational employees and market intelligence can now be compared together in an appropriate response to the market that can be designed.

As explained and identified earlier by Kohli and Jaworski (1990),response design is just an aspects relating to a successful response to the external environment, the other aspect being response implementation, which is totally depending on the responsiveness, motivation and behaviour of company employees, especially in the service industry context. It is therefore ostensibly pertinent to identify mechanisms through which both the implementation and design of the company response can be actualised. It is apparent therefore that for employee orientation to have some utility developing a more integrative approach to strategy development, it must provide intelligence about company resource strengths and weakness arising from employees which can be compared with external environmental opportunities and threats clearly from intelligence generated from the external marketing environment. These resource strengths and weakness include not only the ability of employees to implement the desired response but also their intrinsic and extrinsic motives to do so, with the delivery processes that will be used to implement responses.

**2.7 Measuring market orientation (MARKOR and MKTOR)**

Kohli and Jaworski's (1990) definition of market orientation suggests that the measures of this theory only need to assess the degree to which an organization is market oriented, i.e., generation of intelligence, intelligence dissemination, and responsiveness based on the information generated from the external environment. Some researchers have also suggested the behavioural framework view of the organization (Deshpande and Farley, 1999). According to Narver and Slater (1990) on the other hand, offer a seemingly different approach by including competitor orientation, and inter-functional co-ordination in the domain of their operationalization of market orientation. This researchers’ definition asserted that a market oriented company will exhibit three behavioural components: customer orientation, competitor orientation, and inter-functional coordination bearing in mind two decision criteria; long-term focus and business profitability. In the following sections, I’ll be presenting the main measurement scales of market orientation.

**2.7.1 MARKOR SCALE**

Kohli and Jaworski (1990), created a view of market orientation, where an organization includes;

i) All departments engaging in activities aimed toward developing an understanding of customers’ current needs, future needs and the factors affecting them.

ii) Sharing of this understanding across organizational departments.

iii) Every departments engaging in activities designed to meet selected customer present and future needs.

 Some years later, Kohli et al. (1993) developed a 20-item scale. The concept and model of factors affecting market orientation was previously established by Kohli and Jaworski (1990). They expostulated that the unit of analysis appears to be the strategic business unit (SBU), rather than the whole parties to corporate, since different strategic business units are likely to postulate different degrees of market orientation.

1. **Intelligence generation**

Most marketers’ key strategic weapon is knowledge of understanding their customers and their changing definition of value (Webster, 1994). Intelligence generation goes beyond interacting to know customer needs and includes analysis of external environmental factors influencing needs, choice, and preferences such as competition, government regulations, political gimmicks, social-cultural factors, and technological change (Harts and Diamantopoulous, 1993). The beginning of a market orientation is market intelligence. Market intelligence generation is defined as the collection and assessment of customer needs, preferences and other environmental forces that shapes their offering (Kohli et al, 1993). According to Webster(1994), the hub question that should guide all information gathering is, How do customers define value and how well are we providing it, so as to satisfy them? Whereas, Kohli and Jaworski (1990) defined it as a broader concept than customers’ verbalize needs, and preferences in that it includes an analysis of macro-environmental factors that motivate customers’ needs, choices, and scale of preferences.

1. **Intelligence dissemination**

Intelligence dissemination is defined as the process and extent of market information are exchange, communicated within an organization (Kohli et al, 1993). Effective dissemination of information from the market is important because it provides a shared basement for concerted actions by different departments of a given organization (Kohli and Jaworski, 1990). Dispersion of information and communication horizontally can play an important role in the intelligence dissemination process within and between departments of an organization i.e. bottom-up information dissemination rather than top-down information dissemination, this invariably is called a learning organization. A flexible and bottom-up organizational structure could increase the flow of the information and thrust the decision making to a place where changes will be made. Empirical research has shown the correlational effects of decentralization on information processing and sharing (Nakata and Sivakumar, 2001). Furthermore, Nakata and Sivakumar (2001) point out that sharing information may apparently require a lower level of individuals. For effective information dispersion, an organization should recognize that information can come from multiple sources, both internal and external. They concluded that the lower the level of individualism, the greater is the market intelligence dissemination to the attribution of the organization.

1. **Responsiveness to intelligence**

Responsiveness is defined as the action taken in response to intelligence that is being generated and disseminated to the organization. These proceeds can take the form of identifying and selecting target markets, designing and offering products or services that meet customers’ current and anticipated needs and, producing, pricing, distributing, and promoting the products in a way that elicits favourable and better customer response (Kohli and Jaworski, 1990). The source of market intelligence acquired and the very nature of dissemination may affect its responsiveness and utilization. Individuals in an organization are likely to be more responsive to intelligence generated by individuals who are regarded as expatriate and trustworthiness in gathering information for the organization (Kohli and Jaworski, 1990).Several other factors can affect the level of responsiveness to market intelligence. Nakata and Sivakumar (2001) concluded that the lower the degree of individualism in a company, the greater is the market intelligence utilization, dissemination and, responsiveness. They further argued that higher uncertainty and avoidance inhibits the use of information from the market. Managers have more confidence in using market information that is consistent over time because it has no surprises i.e. if such information’s are used, individuals in organization can scale the outcome of the information (Hu, 1986). Resistance to the information may be unavoidable if this information are critical to managers, not to agree with their expectations values, experience, and actively threatens their world views. Therefore, the lower the level of uncertainty avoidance, the greater is market intelligence utilization, and responsiveness (Nakata and Sivakumar, 2001).

**2.7.2 MKTOR SCALE**

Narver and Slater (1990) contended and proposed three components of market orientation which are customer orientation, competitor orientation, and inter-functional coordination. These components interact and help companies of better understanding customer needs, wants and competitive offerings so that there is an organizational focus on providing and delivering superior value to customers. Hunt and Morgan (1995) opined that having a market orientation requires companies to consider both customers and competitors since both appear in the marketplace. Narver and Slater (1990) developed a framework of a 15-item scale (MKTOR). The scale was tested on different samples from over 370 self-administrated questionnaires from organisation top management of over 140 SBUs of a single business corporation. The scale was widely used and examined by other research. Some years later, the same researchers surveyed a total of over 80 strategic business units (SBUs) in manufacturing corporations and concluded that there is clear evidence that those businesses that are market driven achieve a better and higher relative profitability, sales growth, and new product success (Slater and Narver, 1994a). However, these authors found no evidence that the competitive and market milieu had any effect on either the strength, or nature of this relationship.

1. **Customer orientation**

Customer orientation evolved from the marketing concept. Saxe and Weitz (1982) suggest that customer oriented selling is a behavioural concept that refers to the level to which salespeople practice the marketing concept by trying to help their customers make purchase decisions that will satisfy customer needs, sometimes either through cross-selling and up-selling strategy. Narverand Slater (1990) described customer orientation as the sufficient understanding of a company’s target customers to be able to create superior value for them continuously. It requires that marketers understand a buyer's entire value chain (Day and Wensley, 1988). This dimension has received a good deal of attention in the research literature (Deng and Dart, 1994).Kohli and Jaworski (1990) found in their interviews with company managers that a customer focus is a critical element in determining market orientation.

1. **Competitor orientation**

To be better informed of new trends and market oriented, company must consider not only how well its products suit and satisfy customer needs but how well it performs better relatively to its competitors (Hsieh et al.,2008). Organization must gather market intelligence on the short and long-term strengths, weaknesses, absorptive capabilities and strategies of both the current and the potential competitors (Hsieh et al., 2008; Narver and Slater, 1990).The analysis of competitors' long-term absorptive capabilities, strengths and weaknesses is a key factor in determining market orientation and culture of an organization (Harrison and Shaw, 2004). Employees from every function in a market oriented organization share information about their competitors because such information can be used to build a competitive advantage in the industry it operates.

1. **Inter-functional coordination**

This is defined as the co-ordinated utilization of organizational resources in creating superior customer value for the target segment. Organizational resources often have conflicting priorities, different perspectives, and strategies (Nakata and Sivakumar, 2001). Academics and practitioners have long contended that synergy among company members is needed. Inadvertently, customers value is continuously created (Jaworski and Kohli, 1990). A culture of integrating all departments towards better and continuous creation of customer value should lead to a market orientation within the company and successful implementation of the marketing concept (Harrison and Shaw, 2004).

**2.8 Different views on market orientation**

Consistently, the literature suggests that information about customers and competitors is important for a market orientation. The second line is in terms of what companies do with the information. Again, there is consistency in the literature suggesting that the information is acquired, shared, interpreted, and used by a firm in its strategic planning and action (Kholi and Jarwoski 1990). Another finding was that profitability is a consequence of market orientation but not a component of it. Narver and Slater (1990) argued that market oriented firms focus not only on 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. Continuous innovation is also 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. Gudlaugsson and Schalk P (2009) posited that, 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). Other millennium scholars also 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’s framework with that proposed by Narver and Slater, a two-dimensional model appears;

Competitor

orientation

Customer

orientation

Integrated

marketing

**Figure 2.4: A two dimensional approach to market orientation.**

Source: Gudlaugsson and Schalk (2009), on effect of market orientation on business performance.

From this 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, Gudlaugsson and Schalk (2009).

**2.9 Conclusion**

This chapter has discussed different views of market orientation widely accepted by popular scholars in which Kholi and Jaworski opined that intelligence generation, dissemination of information and responsiveness are empirical for market orientation, Narver and Slater are also of the view that for companies to achieve long term profit, customer orientation, inter-functional department (internal marketing), and competitors orientation to company employees will help them to hit their target market. Company employees need to be more innovative so as to deliver superior customer value and retain loyalty. Information collected from outside source should be carefully scrutinized as this may affect the strategy formulation of the company. More so, organization learning should also be imbibed by company to allow lower managers to share their ideas for better implementation of the formulated strategy. Internal orientation helps employees to develop new ways and measures of satisfying and delivering superior customer value. External orientation about competitors, gathering and dissemination of information is of paramount importance to the firm. Invariably, opportunities and impounding threats should be known to the firm. The next chapter will look at the contextual factors relating to Northern Cyprus demography, banking in Northern Cyprus and Near East Bank.