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Market orientation and service quality: opponents or colleagues

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Abstract

Purpose – This paper aims to investigate the effects of market orientation (MO) and service quality (SQ) logic on business performance. It is generally believed that MO and SQ are different philosophies, as the first, mainly, focuses on the “external orientation or market based considerations”, whereas the second mainly falls into the “internal orientation or resource based” of the firm. However, very little empirical evidence is provided to examine their relationships and comment on their role in achieving superior business performance.

Design/methodology/approach – Drawing evidence from 400 shipping firms, this study examines the role of these two concepts (MO and SQ) on shipping companies’ business performance and attempts to classify cases according to their score on those constructs.

Findings – Analysis revealed that despite what was thought by most managers inside and outside the maritime sector, all shipping firms are strongly market-oriented and that SQ and business performance are closely related to each other.

Originality/value – The present survey, using a sample of 700 maritime professionals from some 400 shipping companies in Greece, aimed at exploring the combined effects of marketing orientation and quality on their performance. It further discriminates among three types (states) of companies based on their MO and SQ scores.

Keywords Performance, Service quality, Market orientation, Shipping

Paper type Research paper

Introduction

The economic crisis of 2008 and the on-going eurozone crisis have vastly changed the world economy landscape either by acting as a catalyst of economic change or by setting new rules in market competition. More specifically, the recession of these last years in some of the world’s largest economies resulted in excess supply in many business sectors that fortified the already intense rivalry of previous years. In this turmoil of events, with an increasingly global economy and more and more choices for consumers, companies are now trying to apply new strategies to stay competitive and achieve better performance.

However, the two most profound pathways for companies to efficiently respond to customers’ needs are marketing and market orientation (MO), on the one hand, and quality of service, on the other. MO has been a cornerstone of the marketing discipline for many years, greatly influencing marketing theory and implementation strategies by relating performance differentials between firms to their degree of MO. It is defined as a business approach that focuses on identifying and meeting the stated or hidden needs or wants of customers and has heavily studied from marketing scholars and practitioners of various business sectors (Kohli and Jaworski, 1990; Narver and Slater, 1990). Empirical studies on the topic have so far shown that firms that embrace MO concepts develop increased



market-sensing and customer-linking capabilities that lead to superior business performance (Jaworski and Kohli, 1993; Kirca *et al.*, 2005; Kumar *et al.*, 2011).

On the other hand, recent research concerning MO extends from the conceptual domain of marketing into related areas, such as strategic management and total quality management (TQM). Numerous management researchers have considered quality orientation as a potential alternative to business orientation. For example, Gummesson (1998) suggested that quality management can be driven not only internally from the individual organization but also externally from the marketplace or customers. He further elaborates that the modern quality concept has contributed in closing the gap between customer requirements and technical specifications. Hence, the assumed synergistic relationships between quality and marketing concepts deserve our attention to analyze the linkage between both TQM and MO. Other scholars call for quality issues to be examined in relation to MO, either as a co-affecting (Raju and Lonial, 2001) or mediating factor (Sittimalakorn and Hurt, 2004) to performance and not as an alternative to it (Morgan and Piercy, 1998; Mohr-Jackson, 1998; Longbottom *et al.*, 2000).

Despite the evidence that MO and quality orientation both have an effect on business performance, some studies have argued that, in an era of scarce resources, the choice or the direct impacts of quality or marketing on business performance remain inconclusive (Han *et al.*, 1998; Fynes and Voss, 2001).

The main objective of this study was to fill this gap by investigating whether market-orientation concepts, theories and empirical outcomes are linked to quality concept and affect business performance. In the following, we describe, in detail, the hypotheses that we tested in our study, the methodology that we used to investigate these hypotheses and the main outcomes of this paper.

MO: theories, literature review and work motivation

MO originates from “the marketing concept” philosophy which has been a cornerstone of the marketing discipline since Drucker (1954) described marketing as “the whole business seen from the point of view of its final result, that is, from the customer’s point of view”, and argued that “[t]here is only one valid definition of business purpose: to create a customer”. Since then, the marketing concept has greatly influenced marketing theory and implementation strategies by relating performance differentials between firms to their degree of MO (Stoelhorst and Van Raaij, 2004; Akonkwa, 2009). The concept has appealed to generations of managers and has been one of marketing’s most influential ideas.

MO studies, in their majority, are using either Kohli and Jaworski’s (1990) or Narver and Slater’s (1990) definition. This resulted into the generation of two main perspectives on MO, a behavioral perspective based on Kohli and Jaworski’s definition of *the* organization-wide generation of market intelligence, dissemination of the intelligence across departments and organization-wide responsiveness to it and a cultural perspective based on Narver and Slater (1990) who consider MO as an organizational culture consisting of three behavioral components, namely:

- (1) customer orientation;
- (2) competitor orientation; and
- (3) inter-functional coordination.

Regardless, the way marketing orientation is perceived – behavioral or cultural – most studies on the subject seem to agree that MO contains elements of market intelligence

generation, dissemination and use and also present significant consequences and create value for customers (Lafferty and Hult, 2001). These consequences include the perceived quality of products or services that a firm provides, customer loyalty and customer satisfaction with the organization's products and services (Jaworski and Kohli, 1993, 1996). Moreover, MO proposes to enhance customer-perceived quality of the organization's products and services by helping create and maintain superior customer value (Brady and Cronin, 2001).

However, the implementation of marketing orientation has not been studied as intensively as its definition, measurement and modeling, and a growing number of different implementation approaches have been proposed over the past 20 years. Kohli and Jaworski propose a set of actions focusing on management and employees commitment, attitudes and behaviors, organization structure's changes and more market-based reward systems.

The authors also suggest that MARKOR method is suitable for an initial diagnosis of the current degree of MO and for post-intervention measurements of the degree to which MO has been improved (Kohli *et al.*, 1993). The MARKOR scale is a 20-item 5-point Likert scale, used to measure MO, deploying it in three components, namely, intelligence generation, intelligence dissemination and responsiveness (Jaworski and Kohli, 1993).

Modeling MO

Initially, researchers and business practitioners took the positive effect of MO on performance as granted. The large number of reports that were published in the following years by academic scholars and business practitioners that were empirically testing the relationship between the degree of MO and different aspects of business performance, in their vast majority, concluded that with minor "anomalies" (Appiah-Adu, 1998; Greenley, 1995a, 1995b; Langerak, 2003), MO has a positive effect on (financial) business performance. More specifically, the positive influence of marketing orientation was observed on sales, market share and profitability (Jaworski and Kohli, 1993; Kirca *et al.*, 2005; Pelham and Wilson, 1996; Slater and Narver, 1994). In a recent empirical study by Kumar *et al.* (2011), the authors reported that the positive effect of MO on business performance becomes larger for the early adopting firms and becomes smaller as more firms increase their level of MO. The empirical tests that have been published so far were conducted on large firms, small firms (Raju *et al.*, 2011), manufacturers, service suppliers, industrial firms, consumer goods companies, profit and not-for-profit organizations, industrialized economies and in transition economies.

MO and service quality links

Various surveys have been conducted in recent years so that researchers can determine the relationship between MO and service quality (SQ). MO has been initially studied in many sectors and has been linked to performance, organizational commitment (Jaworski and Kohli, 1993) and return on assets (Narver and Slater, 1990). On the other hand, SQ has been linked to customer satisfaction, customer loyalty, value and consumer behavioral intentions (Cronin *et al.*, 2000).

In the literature, several efforts are evident on connecting MO and SQ. For example Castro *et al.* (2005) linked MO to SQ. They measured MO using the MKTOR scale, which

was developed by Narver and Slater, and SQ using the SERVQUAL scale developed by Parasuraman *et al.* The empirical results of their study showed positive correlation between MO and perceived SQ. Chang and Zhu, in their research about customer orientation and SQ (2011), mentioned that customer orientation has a positive relationship with a firm's SQ. In another research about MO and quality orientation in TQM, the findings identified that in TQM, MO has a positive impact on quality orientation (Wang and Wei, 2005). In Wang and Wei's research about the relationship between MO and quality orientation, MO was measured with the nine-item MO scale of Appiah-Adu (1997) which was adopted because of its fit to small businesses. The quality orientation was measured with an instrument constructed by Forza and Filippini (1998), and it was conceptualized as organizational culture with emphasis on top management leadership on quality, continuous quality improvement and inter-functional design efforts for software products and services. (Wang and Wei, 2005). Finally, Webb *et al.* (2000); Voon (2006) and Lam *et al.* (2012) identified a strong and positive relationship between market or customer orientation and SQ.

Consequences of MO and quality to performance

The consequences of MO on business performance have been heavily studied, both conceptually and empirically (Jaworski and Kohli, 1996; Slater and Narver, 2000). They are organized into four main categories: organizational performance, customer consequences, innovation consequences and employee consequences (Jaworski and Kohli, 1996). Marketing strategy literature states that firms that embrace MO concepts develop increased market-sensing and customer-linking capabilities that include the perceived quality of products or services that a firm provides, customer loyalty satisfaction with the organization's products and services (Jaworski and Kohli, 1993, 1996), create superior customer value (Brady and Cronin, 2001) and lead to superior organizational performance (Day, 1994a; Day, 1994b; Day, 1999; Hult and Ketchen, 2001; Dadfar *et al.*, 2013). According to Chang and Chen (1998) a direct indication of the level of effectiveness in the service industry is the level of SQ delivered. They also mentioned that in the link between MO and performance, SQ has an indirect effect on this relationship. Finally, Chang and Chen (1998) indicated that MO has a positive and significant effect on SQ as well as on business performance. SQ has a positive and significant effect on business performance too.

Research hypotheses

Following the above, two research hypotheses have been formed:

- H1.* The greater the quality of the service offered by a company, the higher its business performance is.
- H2.* The greater the MO of an organization, the higher its business performance is.

Questionnaire

Our study on the above hypotheses followed the already established path of marketing scholars and practitioners, which included the definition of the MO components and the use of empirical data that would access these factors. The required input data for this study were collected from a research team of well-trained interviewers at the end of 2011. This survey was based on scales of marketing orientation that were introduced in the

empirical study of [Jaworski and Kohli \(1993\)](#) and SERVQUAL, as introduced by [Parasuraman et al. \(1992\)](#) and adapted to the shipping sector by [Pantouvakis \(2010\)](#).

Business performance was measured using judgmental measure. This measure asked informants for their assessment of the overall performance of the business and its overall performance relative to major competitors, rated on a 7-point scale ranging from “poor” to “excellent”.

Data collection

More than 700 managers from approximately 400 shipping firms based in Piraeus/ Greece participated in that study. [Figure 1](#) shows the percentage of the firms of the research sample based on their total number of employees. The companies covered a broad size range with larger companies, with > 500 employees being the group that contributes more.

Moreover, [Figure 2](#) shows the percentage of the type of shipping firms of the research sample. The largest group of companies were ship management firms, with a percentage of nearly 30 per cent, followed by bulk carrier firms and broker/agents with a percentage of 15 per cent each.

Data refinement

Each of the scales that were described in the previous paragraph was refined according to the procedure described by [Jaworski and Kohli \(1993\)](#) for the same scales. In more detail, the reliability of each scale was estimated by computing its alpha coefficient. Items that exhibited low inter-item correlations were eliminated to improve the internal consistency of the scales. Moreover, items that were designed to be negatively rated and exhibited negative

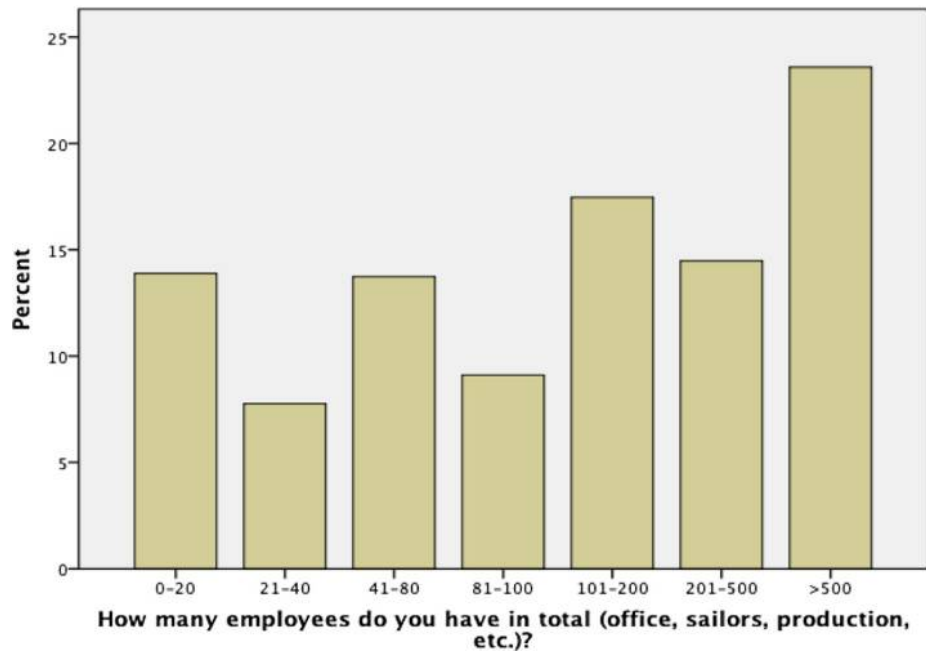


Figure 1.
Shipping companies
percentage by size

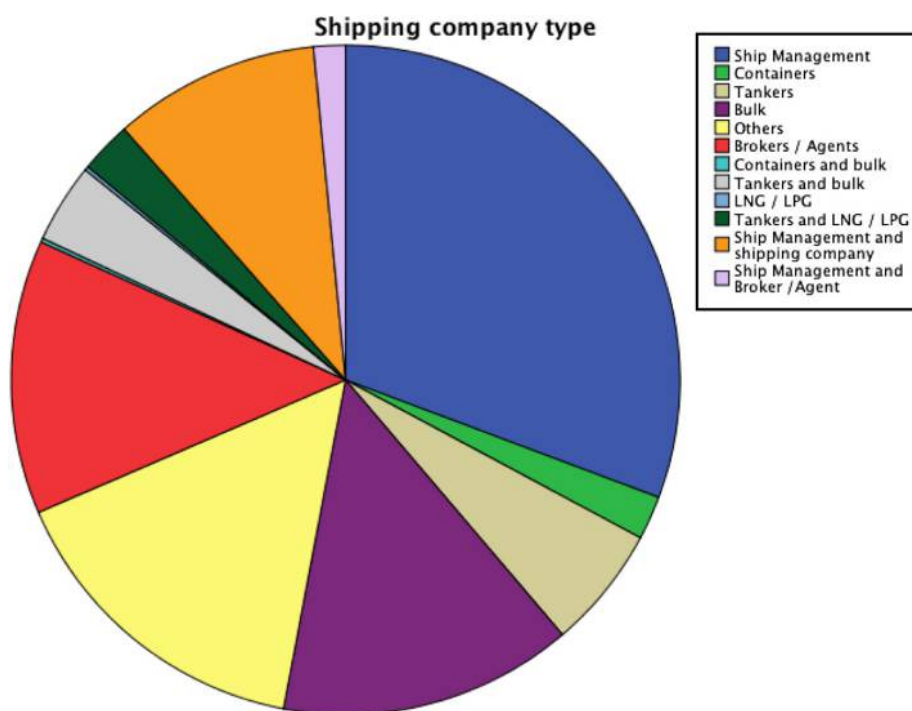


Figure 2.
Shipping companies by type

correlations with all other items had their values reversed to be consistent with the overall scoring system. The reliability coefficient of each scale, along with the final items that we used in our study, are shown in the following tables (Tables I and II).

It can be seen from the above scales that the redefined scales generally had a good-to-high reliability coefficient.

Discussion

The main parameter that we investigated in our study was the status of MO, SQ and performance of firms active in the shipping business sector. Following the same approach, as with the previously presented parameters, we equally weighted and added the scores of all marketing orientation items after we had first reversed the values of negative-score questions. The mean score of MO was 158.76, with an SD of 20.74 and a range of 70-196 out of a possible range of 28-196. Furthermore, the correlation between marketing orientation and its three components was measured as well as the correlations of all components with each other. The correlation between the generation and dissemination component was 0.651, between dissemination and responsiveness 0.526 and between responsiveness and generation 0.563. The correlations between the overall MO and the generation, dissemination and responsiveness components were 0.873, 0.817 and 0.847, respectively. We further added all SERVQUAL dimensions to form one – ServQual – dimension. The mean score of all 22 ServQual items was 135.99, with an SD of 12.67 ranging from 76 to 162. Finally, to test the hypotheses stated previously, we first had to record the overall performance of the shipping sector. In a similar method to the previous paragraphs, we equally weighted and

Scale	Items	Coefficient alpha
Intelligence generation	<p>We meet with our clients, at least once a year, to find out what services they will need in the future</p> <p>Our staff interacts directly with our customers to learn how we can serve them better</p> <p>In our company, we perform (internally) a continuous market research</p> <p>We are “slow” to detect changes in the preferences of our customers on our services</p> <p>We often investigate (at least once a year) the opinions of our customers on the quality of the services we offer</p> <p>We often talk or communicate with those who can influence our end-customers (brokers, carriers, etc.)</p> <p>We also collect market information from unofficial sources (e.g. conversation or dinner with members of the market and participation in special events)</p> <p>In our company all departments are involved in the generation of ‘knowledge’ and gather information about our competitors</p> <p>We are “slow” to detect major changes in our industry (e.g. changes in competition, technology, regulations and legislation)</p> <p>We periodically review the possible effects of the changes of the broader business environment to our customers (e.g. changes in financial condition and changes in legislation)</p>	0.754
Intelligence dissemination	<p>A lot of informal discussions take place within the company for the tactics and strategies of our competitors</p> <p>We often (at least every quarter) organize interdepartmental meetings to discuss market trends and latest developments</p> <p>A large amount of time is dedicated to update all parts of the company for future needs of our customers and markets</p> <p>Very often reports and newsletters with information about the market (specialized reports, gazettes, special forms, etc.) are distributed within our company</p> <p>When something important happens to one of our major customers or in our market, all the departments of our company will be informed in a very short time</p> <p>Data regarding the services we offer to our clients are available on a regular basis in all the departments of the company</p>	0.752

Table I.
Market-orientation scales

(Continued)

Scale	Items	Coefficient alpha
Responsiveness (Response design)	It takes us forever to decide how to respond to our competitors' price changes The division of the shipping market to customer segments and the development of the proper per segment specialization acts as a "guide" to the development of our new services and the acquisition of productive resources For various reasons we tend to ignore changes in our customers' needs We frequently review the development efforts of our services to ensure that they are in line with our customers' needs Our business plans are driven more by technological developments than by market research All our departments work together regularly to plan a response to changes occurring in the market	0.739
Responsiveness (Response implementation)	If one of our competitors launches a new strategy to attract customers, then we will respond immediately The activities of different departments in the business (operations, chartering, etc.) are well coordinated We do not pay much attention to our customer complaints We immediately respond to significant pricing changes of our competitors When we realize that our customers are unhappy with the quality of services we offer, we will take immediate corrective actions When we realize that our customers want us to change the way we provide a service, we make efforts towards that direction	

Table I.

added the scores of all performance items after we had first reversed the values of negative-score questions. The mean score was 21.38, with an SD of 4.891 and a range of 4-28 out of a possible range of 4-28.

A segmentation task, following the analysis previously presented, was implemented as a latter stage of the analysis. The variables used as grouping criteria were the three variables, those of marketing orientation, SQ and performance, as emerged through adding-up scales. After initial implementation of hierarchical cluster analysis (SPSS 17.0), using average linkage method and Euclidean distance as similarity method, the k-means procedure was employed based on hierarchical clusters' centroids with the option of identifying three to seven clusters. A clear three-cluster solution was finally selected (Pearson correlation between hierarchical and k-means procedures 0.789, $p < 0.01$) and justified through discriminant analysis (Wilk's Lamda 0.533 [ServQual], 0.225 [MO] and 0.844 [performance], chi-square = 358.6, $p < 0.01$, 88.3 per cent of original grouped cases correctly classified, Figure). Statistically significant differences among the three clusters were established using chi-square and one-way Duncan and Scheffe post-hoc ANOVA tests (Table III).

Table II.
Overall performance scale

Scale	Items	Coefficient alpha
Overall performance	The last 3-5 years we managed to increase even by little our market share (e.g. buying a new ship, we increased the total charter days and we achieved better prices) Compared to our major competitors, in the last three years, we think we did better Compared to our major competitors, we think we manage our ships better Compared to our major competitors, we think we have better return on investment (faster depreciation of assets)	0.830

Table III.
Final cluster centers

Dimensions	1	Cluster 2	3
ServQual_total	143.45	132.32	113.34
Market_orientation	192.15	168.33	139.72
Overall_performance	23.48	21.12	19.28

Conclusions and managerial implications

The present survey, using a sample of 700 maritime professionals from some 400 shipping companies in Greece, aimed at exploring the combined effects of marketing orientation and quality on their performance. It further discriminates among three types (states) of companies based on their MO and SQ scores.

Indeed, in relation to the main objective of the survey, cluster analysis identified the existence of three distinct company types, justifying thus our hypotheses: Cluster 3 exhibits the lowest scores on all variables under examination. Companies that are members of this cluster are less market-oriented, provide the minimum of SQ and achieve rather disappointing results. Cluster 2 exhibits the second highest scores in all variables, whereas Cluster 1 shows more enthusiasm in all issues and obtains the best results. Thus, our main task to profile distinct clusters is successful in not only creating homogeneous groupings of companies based on their MO and SQ perceptions but also found that those clusters form unique segments having practical significance. First, they offer a taxonomy of observations that justifies the triad SQ–MO–performance, allowing, thus, for better data handling and relationships identification within every cluster. Alternative marketing and quality perspectives of companies tend to merge and prove that an MO company is a quality company as well, and, if so, it achieves the best results.

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