

## Designing Executive Model of Market Orientation Effect on Performance Business Units

<sup>1</sup>Mohammad Taqi Amini and <sup>2</sup>Roozbeh Habibi

<sup>1</sup>Department of Business Administration and MBA, Payame Noor University, Tehran, Iran

<sup>2</sup>Business Management, Payame Noor University, Tehran, Iran

---

**Abstract:** The aim of this study is designing Executive Model of Market Orientation Effect on Performance Business Units, in order achieve success in a competitive market, business units need a structure, environment and market data monitoring with market orientation and evaluate their impact to the performance with market orientation. In this study, based on research literature and by Delphi method, has been designed comprehensive Model of Market Orientation Effect on Performance Business Units, factors of environmental perceptual uncertainty, top manager risk taking, market orientation strategy, structure and Performance of business units are investigated. Data have obtained the survey of 17 active companies in Tehran stock exchange' (food industry) top managers and have analyzed using SEM. First, using confirmatory factor analysis (CFA) have been tested the structural relationships of research, then by using SEM hypothesis have tested. The results show that several results such as there is a significant relationship between, the market orientation strategy and performance of business units, top managers risk taking and organizational structure and environmental perceived uncertainty have a significant relationship with market orientation and the environmental perceived uncertainty has the main impact to performance.

**Key words:** Performance • Market Orientation • Environment • Structure • Top management

---

### INTRODUCTION

Each organization to determine the appropriateness and quality of their operations, especially in complex and dynamic environments, have basic requirement to the market orientation system. On the other hand, the lack of a system to evaluate and control market orientation in a system is viewed as a Lack of communication with internal and external organizational environment. That results, senility and finally, death of the organization. Studies show, the lack of feedback obtaining system, it would be impossible the reforms necessary for growth, development and improvement of the organization's activities. The outcome of this phenomenon is organizational mortality [1]. Due to the variety of organizational tasks, obviously, elements and components of the market orientation should be varied and tailored to each organization. Providing harmonized and uniform criteria and organizations market orientation evaluation based on them, essentially cannot be brought to positive approaches. Therefore, it is essential that the components and criteria of the market orientation are based on the objectives, intentions, plans and tasks description and activities of each unit. It means that in the

organizational market orientation evaluation of each unit, it must be tailored to its specific organization approach [1]. Management for development of the company strategy should be aware of the external company environment and be ready to meet it. Because, the "environment-oriented of the company, is considered as a strategy to achieve competitive advantage". According to Mills and Covin (2000) [2], organization performance in environment is a solution to satisfy their stakeholders with market orientation and it is an important part of competitive strength that exacerbates the competitive strength [2]. The aim of the present study is designing the model and examining the relationship between the market orientation and performance. Because there must be exist some relationship between the dimensions of the environment and market orientation, structure, management, performance and strategies related to these dimensions. Under fierce competition conditions, management actions must be taken with the knowledge of company performance dimensions. The evidence of this claim that the business environment is very important is how to manage and run an organization by managers which this is largely influenced by the environment in which the organization is currently, works

(Hazylna and *et al.*, 2010). Furthermore, research has shown that the use of marketorientation systems, improve the quality and performance of the organization. Several studies in recent years have examined the role of marketorientation in the company's performance summarizing in this section. Hazylna and *et al.* (2010) looked at the relationship between merit entrepreneurial managers, marketorientation and commercial success with modulatory effect on the business environment in Malaysia. Hazylna and *et al.* (2010). Acceptance of market trends are the infrastructure of many strategic marketing projects [3, 4]. Therefore, market orientation is organizational culture forming behavior needed in most efficient and effective way to create the most value for the buyer and thereby leads to the best performance for business. Researchers have always emphasized the importance of considering the market trends, when studying the company strategy and performance [5]. (Please check the red letter references)

**External Environment: the Market Turbulence and Competitive Intensity:** Several variables have been introduced as moderating variables in the relationship between market orientation and performance, including the market turbulence, technological turbulence, competitive intensity, market growth and power of buyers. One of studies results related to the moderating variables was ambiguous and equivocal, meaning that they did not have any dominant Conclusion. Wren and *et al.* (2000) [6]. has studied all contemporary literature and finally concluded that moderating variables have little effect on relationship between company market orientation and performance. [7] were studied, 21 experimental investigation in which they had used the intervening variables in your research model. And came to the conclusion that in order to prove, the effecting of the market turbulence, technological turbulence and competitive intensity on the relationship between market orientation and practice organization, there is not sufficient empirical evidence. [8] states that in a stable environment requires small changes in the marketing mix and it requires the low level of market orientation. Furthermore, the intensity of competition is low; the greater chance that the company could be successful with a low level of market orientation. Market turbulence has been conceptualized in different ways by different researchers. [8, 9]. believe that the market turbulence associated with changes in the composition of customers and their preferences [10]. knows the market turbulence as a continuous improvement in marketing operation. From the perspective of [11], market turbulence means rapidly changing the preferences, needs and wishes of the

client, continues entering and existing of buyer to the market and emphasizing the new product supply. Intensity of competition notes to the situation due to the large number of competitors in the market and lack of growth opportunities, the competition is very high [12]. If there is no or little competition, the organization may be having a good performance, since customers may be forced to use the company products. While conditions of severe competition, customers have many choices consequently, intense competition have substantial impact on firm performance and organization that is not able to analyze competitors shall leave the field to the competitors [13].

**Internal Environment: Organizational Structure and Management Risk Aversion:** If the firm is able to accurately detect and analyze competition intensity, development of marketing capabilities and strengthening market-oriented culture, will be able to obtain and maintain a sustainable competitive advantage only In case of inter-organizational have coordination procedures related to how to deal with competitive forces [13]. In a turbulent competitive environment, high coordination between functional units within the organization play an effective role in increasing sales, market share and customer satisfaction. In other words, the formation of the coordination means the effectiveness of all marketing activities and capabilities within a firm [13, 14]. propose eight requirements: The top management emphasis on market orientation, top management risk aversion, level of formality, level of concentration, conflicts between the parts, division level of the organization to units, the connection and Correlation of inter sectoral, reliance on market-oriented factors for employee evaluations and rewards. In the study of [13]. was not confirmed all these experimental hypothesis and it was found that factors of the top management emphasis on market orientation, conflicts between part the connection and Correlation of inter sectoral and reward systems are important prerequisites. Meta-analytic study of [7]. confirmed the importance of these requirements and it was observed that the negative effects of recognition and focus on the market orientation are poor. It seems that the strategies, as Pelham and Wilson [15] refer to it act as the requisite with special role because the strategy does not make it possible such behavior but such specific strategy involve such behaviors In this case, strategies act as external requirements that need to increases accepting the greater market orientation behaviors. [13] found the preliminary evidence that the top management emphasis on market orientation will lead to achieve the higher levels and it has been proved the

relationship between management emphasis and component orientation. The role of management directly affects the company performance so it is important the management team continue to update their marketing knowledge and to participate in educational programs.

**Market Orientation Strategy:** Market orientation is organizational-wide intelligence in relation to the current and future needs of customers and distribution of this type of intelligence among members of the organization and the organization-wide responsiveness to meet the current and future needs of customers [8]. Kohli and Jaworski (1990) [8], provide a formal definition for the market orientation has been established from the three key elements of intelligence generation, intelligence distribution and responsiveness. This study was widely used by other researchers. According to Kohli and Jaworski, starting point of market orientation is the market intelligence means it can be identified the needs and wants of the customer quickly in comparison with competitors. Therefore, market intelligence, including investigating the actions of competitors and recognition of their effort in identification of customer needs and investigating the external environment such as government regulations, technology. Kohli and Jaworski, not viewed the market intelligence only include the Identifying the current needs but also have the special attention future needs of their customers. Accordingly, organizations identify the needs and expectations of customers at first and then they produce the products to be able to satisfy those needs.

**Performance of Business Units:** Performance has two-dimensional structure including the objective function measured by financial criteria such as market share profitability, capacity utilization and other structure is subjective performance or judgment expressed based on customer and staff. Such as service quality, customer satisfaction, employee satisfaction, according to some researchers, the main goal of market oriented companies is create and maintain customer's satisfaction [16, 17]. Companies achieve the maximum performance should be able to create and maintain mutual interaction between the company and customers in the long term. Basically, in the of marketing concept, the subjective performance (judgmental) is superior and it is excellence Prerequisite in objective performance. In fact, Jaworski and Kohli (1993) [13] studied the relationship between subjective and objective performance measures and they found that the market orientation is not related to objective performance criteria but it has positive correlation with

subjective performance criteria. This model suggests that the market orientation associated with innovation is mental and physical performance. Organizational performance scale can be objective, quantifiable and practical indicators or subjective criteria and in comparison with competitors [18]. A number of empirical studies have examined the impact of market orientation on performance. Researches have achieved the mixed results about relationship between market orientation and performance. Some researchers have found that market orientation increases the market orientation [19, 20], and some other have had no direct important effect between market orientation and performance [21, 22], and some studies were included objective criteria, but these studies did not reveal generally the direct effect of market orientation on performance and when the researchers use the objective measures of performance is not found important market orientation effect on performance but researches that have used subjective criteria have shown a positive relationship between market orientation and performance. Researchers of market orientation generally, trust the subjective criteria and conceptual orientation due to their ease of use.

#### **Hypotheses:**

- H<sub>1</sub>:** Perceptual uncertainty of market environment has a significant and positive effect on market orientation strategy.
- H<sub>2</sub>:** Organizational structure has a significant and positive effect on the perceptual uncertainty of market environment.
- H<sub>3</sub>:** Perceptual uncertainty of market environment has a significant and positive effect on strategic performance of business units.
- H<sub>4</sub>:** Market-oriented strategy has a significant and positive effect on the organization of organizational structure.
- H<sub>5</sub>:** Market orientation strategy has a significant positive effect on strategic performance of business unit.
- H<sub>6</sub>:** Perceptual uncertainty of market environment has a significant and positive effect on the top manager risk aversion.
- H<sub>7</sub>:** Top manager risk aversion has a significant and positive effect on market orientation strategy.
- H<sub>8</sub>:** Top manager risk aversion has a significant and positive effect on the organization of the organizational structures.
- H<sub>9</sub>:** Organizational structure has a significant and positive effect on strategic performance of the business units.

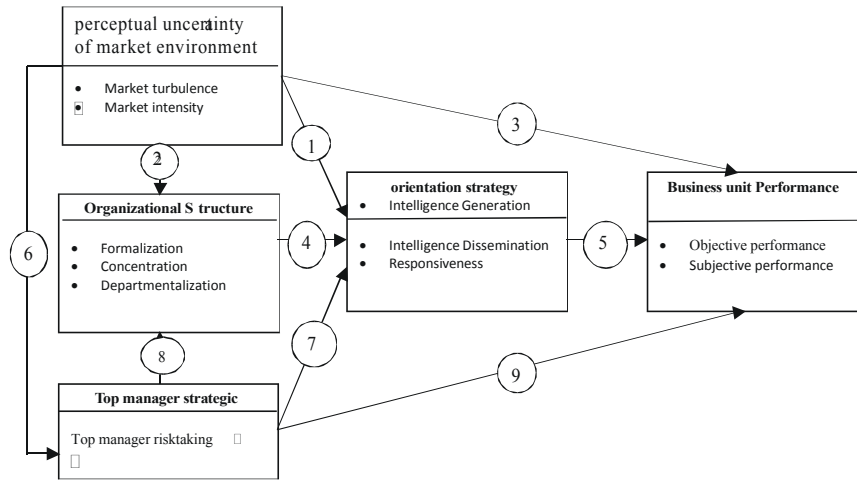


Fig. 1: Conceptual model

Table 1: Resources supporting research model variable

Component	Supporting resources
Perceptual uncertainty of market environment	Narver and Slater (1990); Kohli and Jaworski (1990); Rose and Shoham (2002); Voss and Voss (2000); Slater and Narver (2000); Matsuno, Mentzer and Rentz (2002)
Top manager	Kohli and Jaworski (1990); Ruekert, R. (1992); Pelham, and Wilson (1996); O' Cass A, Weerwardena (2010)
Market orientation	Narver and Slater (1990); Kohli, Jaworski and Kumar (1993); Slater and Narver (1993); Slater and Narver (1994); Slater and Narver (1995); Matsuno and Mentzer (2000); Matsuno, Mentzer and O' zsomer (2002);
Organizational structure	Kohli and Jaworski (1990); Gatignon and Xuareb (1997);
Strategic performance of business unit	Deshpande, Farley and Webster (1993); Slater and Narver (1993); Slater and Narver (1994); Pelham (1997a); Gatignon and Xuareb (1997); Deshpande and Farley, (1998); Matsuno and Mentzer (2000); Slater and Narver (2000); Matsuno, Mentzer and O' zsomer (2002);

**MATERIALS AND METHOD**

This study is descriptive-survey, the data has obtained from the survey. In this research, the questionnaires have been sent for the 17 companies accepted in Tehran Stock Exchange (food industry) and finally have been returned 346 acceptable questionnaires so, the questionnaire return rate is equal to 41%. In this study, high level organization manager have been questioned (Managing directors, board members, administrative and financial managers and marketing managers, etc).

**Analyze:** LISREL software provides final model after reviewing the proposed model and obtaining the data related to the variables. The final model includes much of the analysis. Figure 2 shows the structural model of research to confirm hypotheses.

Next, based on the result of conducted Path analysis tests, are tested the research hypotheses. Table 2 shows the results of hypothesis testing.

**CONCLUSION**

It is proposed to the commercial units in order to improve their performance in the field of activities, consider increasing market orientation as an important goal and priority and use the model presented in this study, which was approved by the local authorities. With regard to the relationship confirmed in this model, the commercial businesses of the country must use this relationship to improve their performance and to increase their level of market orientation. The first element in the creation and production of market orientation, obtain through formal and informal mechanisms such as customer searching, meetings and talks with customers and business partners, sales analysis reports, formal market research. It is proposed information Creation and production in the market should not limited to the marketing but all departments and agencies of the organization should be smart to market, customer and information obtaining from market. It is proposed, formal and informal mechanisms, the information development is

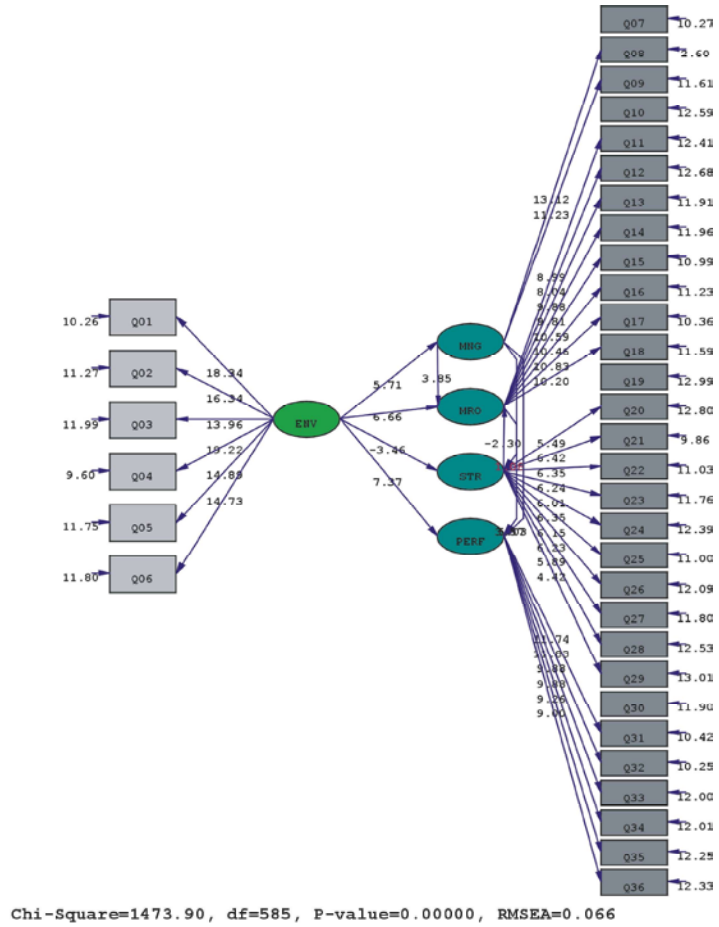


Fig. 2: The structural model

Table 2: Results of hypotheses test using path analysis

Hypothesizes	Path		Standard estimation	Significance of parameters	Test result
	-----				
1	ENV	MRO	0.46	6.66	Confirmation
2	ENV	STR	-0.26	-3.46	Confirmation
3	ENV	PERF	0.49	7.37	Confirmation
4	STR	MRO	-0.13	-2.30	Confirmation
5	MRO	PERF	0.22	3.57	Confirmation
6	ENV	MNG	0.36	5.71	Confirmation
7	MNG	MOR	0.22	3.85	Confirmation
8	MNG	STR	0.07	1.08	Rejection
9	MNG	PERF	0.27	5.03	Confirmation

Table 3: Results of model fitness

RMSEA	0.076
$\chi^2/df$	2.509
SRMR	0.085
NNFI	0.92
CFI	0.92
GFI	0.55
Hoelter's Critical N	248

Table 4: Ranking the element that effect to performance

Total	Indirect factor	Direct factor	Priority of factor
0.712	0.663	0.49	perceptual uncertainty of market environment
0.224	0.046	0.27	Top manager strategic
0.148	0.00	0.22	orientation strategy
0.028-	-0.28	0.00	Organizational Structure

done by market orientation approach so that this structural defect is not caused weakness in obtaining information. Companies in order to improve their business performance design and organize the organizational structure based on environmental needs and inter organizational capabilities so that, they can be better and more effective in competitive conditions of the stock market. Other factors affecting the performance of business units within the organization are top management emphasis on market orientation and top management risk taking. The top management emphasis on market orientation is lead to higher levels of it and it has been proved the relationship between management emphasis and market orientation components. Management role, directly affect the company performance so it is important that the management team continually update their marketing knowledge and to participate in educational programs. The main limitations of this study were the poor collaboration of company managers and Tehran Stock Exchange Company employees to answer to a questionnaire and a longer duration of activity and their lack of research and scientific oriented view of them about the subject. Other limitations in this study are as follows: Any standardized tested questionnaire is not available to measure the variables. Tools in this study, is based on questionnaire and models has been applied by others, after the credit test. Other variables may also have been effect on the marketorientation and business performance unit that is not covered in this study.

### REFERENCES

1. Tzeng, G.H., C.H. Chiang and C.W. Li, 2006. Evaluating intertwined effects in e-leaving programs: a novel hybrid MCDM model based on factor analysis and DEMATEI. *Expert Systems with Applications*, 31: 772-785.
2. Miles, M.P. and J.G. Covin, 2000. Environmental marketing A source of reputational, competitive and financial Advantage. *Journal of Business Ethics*, 23(3): 299-311.
3. Drummond, G., J. Ensor, A. Laing and N. Richardson, 2000. Market orientation applied to police service strategies, *The International Journal of Public Sector Management*, 13: 571-587.
4. Palmer, R. and J. Pels, 2005. Marketing practice and market orientation An exploratory international study. *Journal of Euromarketing*, 14: 59-86.
5. Wilkins, A. and W. Ouchi, 1983. Efficient cultures: Exploring the relationship between culture and organizational performance, *Administrative Science Quarterly*, 28: 468-481.
6. Wren, B.M., W.M.E. Souder and D. Berkowitz, 2000. Market orientation and new product development in global industrial firms. *Industrial Marketing Management*, 29: 601-611.
7. Kirca, A.H., S. Jayachandran and W.O. Bearden, 2005. Market Orientation A Meta-Analytic Review and Assessment of its Antecedents and Impact on Performance. *Journal of Marketing*, pp: 24-41.
8. Kohli, A.K. and B.J. Jaworski, 1990. Market orientation The construct, research propositions and managerial implications. *Journal of Marketing*, 54: 1-18.
9. Slater, S.F. and J.C. Narver, 1994 January. Does competitive environment moderate the market orientation performance relationship? *Journal of Marketing*, 58: 46-55.
10. Greenley, G.E., 1995. Market orientation and company performance: Empirical evidence from UK companies. *British Journal of Management*, 6: 1-13.
11. Hult, G.T.M., R.F. Hurley and G.A. Knight, 2004. Innovativeness: its antecedents and impact on business performance. *Industrial Marketing Management*, 33(5): 429-438.
12. Auh, S., Mengue and B. Balancing, 2005. exploration and exploitation The moderating role of competitive intensity. *Journal of Business Research*, 58: 1652-1661.
13. Jaworski, B.J. and A.K. Kohli, 1993 July. Market orientation: Antecedents and consequences. *Journal of Marketing*, 57: 53-70.

14. O Cass, A. and J. Weerwardena, 2010. The effects of perceived industry competitive intensity and market-related capabilities: Drivers of superior brand performance. *Industrial Marketing Management*, 39(4): 571-581.
15. Pelham, A.M. and D.T. Wilson, 1996. A longitudinal study of the impact of market structure, firm structure, strategy and market orientation culture on dimensions of small-firm performance. *Journal of the Academy of Marketing Science*, 24(1): 27-43.
16. Day, G., 1994. The capabilities of market-driven organizations. *Journal of Marketing*, 58(4): 37-52.
17. Hooley, G.J., G. Greenley, J.W. Cadogan and J. Fahy, 2005. The performance impact of marketing resources. *Journal of Business Research*, 58(1): 18-27.
18. Dawes, J. 1999. The relationship between subjective and objective company performance measures in market orientation research: Further empirical evidence. *Marketing Bulletin*, 10: 65-75.
19. Narver, J.C. and S.F. Slater, 1990. The effect of a market orientation on business profitability. *Journal of Marketing*, 54: 20-35.
20. Chang, T.Z.Y. and S.J. Chen, 1998. Market orientation, service quality and business profitability: A conceptual model and empirical evidence. *The Journal of Services Marketing*, 12(4): 246-264.
21. Han, J.K., N. Kim and R.K. Srivastava, 1998. October. Market orientation and organizational performance Is innovation a missing link?. *Journal of Marketing*, 62: 30-45.
22. Siguaw, J.A., P.M. Simpson and T.L. Baker, 1998. Effects of supplier market orientation and the channel relationship: The distributor perspective. *Journal of Marketing*, 62: 99-111.