# EFFECT OF THE BUSINESS ENVIRONMENT ON MARKET ORIENTATION AND PERFORMANCE IN AN EMERGING COUNTRY

# UTJECAJ POSLOVNOG OKRUŽENJA NA TRŽIŠNU ORIJENTACIJU I USPJEŠNOST U GOSPODARSTVU U NASTAJANJU



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*tržišna orijentacija, poslovno okruženje, gospodarstvo u nastajanju, uspješnost poslovanja*

**Key words**:
*market orientation, business environment, emerging economy, business performance*

## SAŽETAK

Istraživanjem smo ispitali odnos između tržišne orijentacije i uspješnosti te utjecaj poslovnog okruženja na ova dva čimbenika u gospodarstvu u nastajanju u Mađarskoj. U okviru istraživanja provedenog u 572 poduzeća utvrdili smo da i tržišna orijentacija i poslovno okruženje, iako na različite načine, imaju utjecaja na uspješnost poslovanja. Tri sastavnice konstrukta tržišne orijentacije (orijentacija na potrošače, orijentacija na konkurenciju i interfunkcionalna koordinacija) imaju pozitivan utjecaj na uspješnost. Za razliku od njih, utjecaj varijabla okruženja (tehnološke promjene, poremećaji na tržištu, intenzivna konkurencija, moć kupaca itd.) pokazao se

## ABSTRACT

In the paper the relationship between market orientation and performance, and the effect of the business environment on these two factors in an emerging economy, in Hungary, was investigated. In a research conducted at 572 firms we found that both market orientation and the business environment have an effect on business performance, albeit in a different manner. The three components of the market orientation construct (customer orientation, competitor orientation, interfunctional coordination) have a positive effect on performance. Contrary to that, environmental variables (technological turbulence, market turbulence, competitive intensity,

značajnim samo na financijske mjere uspješnosti poslovanja. Ovi rezultati pružaju jasne dokaze o tome da okruženje ima vrlo snažan utjecaj na tržišnu orijentaciju te upućuju na to da je ljestvica za mjerenje tržišne orijentacije koju su razvili Narver i Slater prikladan alat pomoću kojega se mogu opisati tranzicijski procesi u onim gospodarstvima u nastajanju koja imaju visoku razinu turbulencije.

buyer power etc.) proved to have a significant impact only on the finance-based performance measures. The results provide unambiguous evidence that the environment has a strong effect on market orientation, indicating that the market orientation scale developed by Narver and Slater is a proper tool to describe the transitional processes in an emerging economy characterized by high turbulence.

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# 1. INTRODUCTION

The *purpose* of our study was to examine the relationship between the conditions of business/economic environment as a whole and market orientation in general and, more specifically, the Narver-Slater[1] scale as a potential measuring instrument for the latter. It is a generally accepted view that market orientation plays a more important role in developing, transitional economies, where the use of marketing tools serves as a major driving force of economic growth. The confirmation or the rejection of this approach calls for both a reformulation of some theoretical concepts and for empirical evidence. Our research question is, consequently: What is the nature of the relationship that exists between business performance, market orientation and business environment? What are the antecedents and what are the consequences?

Modern *economic thought* suggests that the changes occurring in or to be made to the macroeconomic sphere actually affect the microsphere.[2] As a result, corporate management, and marketing management specifically, adjust to the external environment and to the market economy as part of the efforts that might lead to improved market performance.

A systematic review of market orientation literature was completed in three meta-analyses.[3] All the three studies focused on testing the outcomes of the market orientation to business performance relationship on an empirical basis. Cano, Carrillat and Jaramillo[4] specifically underlined the significance of the factors moderating the relationship between market orientation and performance, such as market growth, market turbulence and competitive intensity. Moreover, Cano et al.[5] draw researchers' attention to the importance of confirming the time-sequence of the relationship in question. Shoman, Rose and Kropp[6] also noted that, besides numerous papers on the consequences of market orientation, more research resources should be dedicated to exploring market orientation antecedents and to improving our understanding of the relationships between those antecedents and their impact on the consequences. Kirca, Jayachandran and Bearden[7] emphasize the need for examining those antecedents in different business, economic and cultural environments.

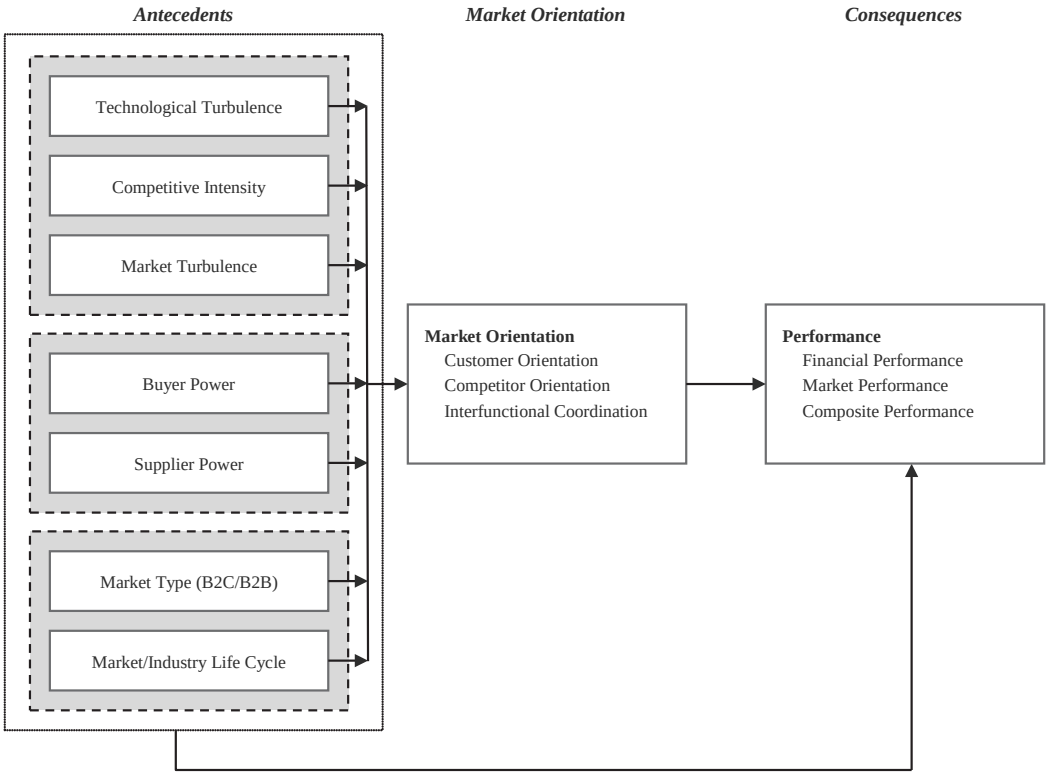
According to the recommendations of the aforementioned meta-analyses and to the instructions by Burgess-Steenkamp[8] on conducting studies in emerging countries, the conceptual model shown in the figure below was developed to provide the theoretical framework for our empirical analysis. In Figure 1 we provide a brief overview of major model elements.

*Business environment* is depicted as the *antecedent* of market orientation; yet, according to our reasoning above, it might also be a direct antecedent of business performance (continuous line in the model). The effects of the environment were evaluated along three groups of factors. The first group comprises three moderators (*technological turbulence, competitive intensity* and *market turbulence*), which had the same role in the work of Jaworski-Kohli[9] as well. According to Kirca, Jayachandran and Bearden,[10] this construct has already been applied by a number of researchers, for example by Slater and Narver,[11] who presented some elements of the environment (market growth, buyer power etc.) as direct antecedents of market orientation in their paper on the moderating effect of the competitive environment. The second group of factors includes *buyer power* and *supplier power*, as based on Porter's[12] model of competition. These two factors played an important role in the study of Slater and Narver[13] too. The third group of factors might also be called control factors. *Market type* distinguishes between corporations in organizational markets vs. those in consumer markets. *Market / industry life cycles* are used to track how each stage of the life cycle affects business performance and market orientation. *Market orientation* was measured by the construct of Narver-Slater,[14] the three basic components of which are

customer orientation, competitor orientation and interfunctional coordination. Performance was evaluated by using financial and market indices, and the impact of market orientation on composite corporate performance, compared to both the primary competitor and previous year's scores, was also assessed.

tal factors on market orientation performance demonstrated low reliability. They emphasized that, while market orientation affects companies' operations only in the long run, environmental conditions often tend to be of a temporary nature. Thus, the primary message of the study was that being market-oriented is a cost-

**Figure 1:** Conceptual model




## 2. LITERATURE REVIEW

Slater and Narver[15] studied the extent to which the competitive environment affects the relationship between market orientation and business performance. The authors also looked at how environmental factors influence corporations' attitude with respect to the external environment (customer orientation vs. competitor orientation) at a given level of market orientation. Findings about the effect of environmen-

effective solution even if the short-term moderating effect of environmental factors is taken into account.

The article by Greenley[16] further elaborated on the research line concerned with the market orientation to performance relationship, extending results with the addition of one more country-specific approach, namely, a study completed in the United Kingdom. In this examination of the relationship between market orientation and business performance the moderating effect

of environmental factors was also considered. These factors were: market turbulence, buyer power and technological turbulence. Greenley[17] asserted that there might be a time lag between the introduction of market orientation and performance improvement, supposing that the management is able to overcome an overly common desire to surrender to short-tem business interests and make profit by all means. If they succeed, the market-oriented company's being externally oriented and innovation-centered may very well be of aid in achieving a favorable market position.

Appiah-Adu[18] studied whether the market orientation to performance relationship found in large corporations applies to small-scale businesses too. The influence of market growth rate, competitive intensity and market and technological turbulence on this relationship was also assessed. The author concluded that it is especially advisable for small businesses to be market-oriented as they do not usually hold additional resources for improving profitability, such as research and development, some source of competitive advantage, low production costs, a talented workforce or efficient strategies.

Kumar, Subramanian and Yauger[19] explored the moderating and control variables of the market orientation to performance relationship in the hospital industry. Kumar et al. evaluated the moderating effect of three environmental variables with regard to the relationship between market orientation and performance: competitive hostility, market turbulence and buyer power. The authors investigated both the primary effect of environmental variables on performance indicators and their moderating effect on the market orientation to performance relationship. One of the most important findings of Kumar et al. was that a high level of market orientation results in improved sales performance irrespective of any environmental characteristics. This is in line with the findings of Slater-Narver[20] and Jaworski and Kohli.[21]

The study of Gray, Greenley, Matear and Matheson[22] amongst New Zealand companies also support the idea that environmental factors may have a moderating effect on the relationship between market orientation and business performance. The methodology of this very project calls for special attention, as the authors did not simply strive to determine the direction of such moderating effects but also to find out whether these effects demonstrate a monotonic behavior as a function of environmental factor intensity. Basically, the article of Gray et al.[23] suggests that market-oriented companies grow as a result of turbulence, at least as long as the degree of uncertainty or competition does not become too high. It might also be concluded that, in a turbulent market environment, the performance of corporations characterized by a higher level of market orientation typically improves in comparison to their less market-oriented competitors.

Appiah-Adu[24] tested the impact of market orientation and business performance in developing (transitional) economies. The focus was on the relationship between market orientation and business performance, along with the influence of market turbulence, competitive intensity and the market growth rate on business performance. Results showed that even though market orientation does not directly affect the sales volume and return on investment (ROI), the competitive environment does still influence the relationship between market orientation and performance. The author put forward the view that the positive effect of market orientation on the sales volume expansion is more significant if there is a medium or high level of competitive intensity. Furthermore, market orientation positively affects return on investment in less dynamic markets.

Rose and Shoham[25] assessed the influence of market orientation on export performance, and the moderating effect of the competitive, technological and market environment on that relationship. The effect of market orienta-

tion on export performance turned out to be significant for three factors: (1) change in the quantity of export sales, (2) profit from export sales and (3) change in the profit from export sales. The influence of market orientation on the absolute value of export sales and on the change in the profit from export sales proved to be stronger in a technologically turbulent environment.

Cadogan, Cui and Li[26] looked at the extent to which export market-oriented behavior affects the export ability improvement. Based on a questionnaire survey among Hong Kong-based export manufacturers, they concluded that export market-oriented behavior is an important determinant of certain dimensions of the export ability improvement. This kind of behavior was also confirmed to be of specific importance to the export companies which operate in a highly turbulent market environment. The relationship between export market-oriented behavior and export performance was usually positive and characterized by a rather high value. In less turbulent markets, however, the costs of developing and maintaining an export market-oriented type of attitude might exceed the potential gains from adopting such a culture.

## 3. DATA COLLECTION AND SAMPLING

The first version of the questionnaire on which data collection was based, exploring various aspects of the marketing approach, strategy and performance, had been developed and tested in four Central European countries (Bulgaria, Poland, Hungary and Slovenia) in 1996. In this two-stage research project, the questions to be included in the questionnaire were formulated and refined qualitatively in a series of in-depth interviews and case studies. The scales and items used in Western literature were adapted to local economic conditions and to linguistic and cultural differences in a multiple-feedback process. During the second stage, the scales developed as a result of the qualitative surveys were used to conduct a survey on a national representative sample, including topics far beyond the limits of this paper. The validity and reliability of the market orientation scale employed was tested by Hooley et al. according to the instructions by Churchill.[27] The survey methodology applied in the present study is just the same as it was in the previous research. The majority of the questions were taken over from the 1996 study too. The survey was conducted in the fall of 2000 amongst companies with more than 20 employees, with the support of the Hungarian Scientific Research Fund (OTKA). From amongst the 15,000 Hungarian firms a sample of 3,000 companies, representative of the population in terms of industry classification and corporate size, was selected. The questionnaires were delivered by standard post, in three phases. Altogether, 572 completed questionnaires were returned, being approximately representative of the population by industry classification. Considering the corporate size, however, the sample was somewhat biased in favor of large corporations, even though some companies with fewer than 20 employees were included as well.

### 3.1. Description of the scales

As detailed earlier, the scales used to measure the chosen constructs were adopted from international literature, and they had previously been adapted to local economic conditions and cultural differences.[28] The table below show the scales used to measure each item.

**Table 1:** Scales used in the study

| Group of items | No. of items | Source | Scale type |
|---|---|---|---|
| Market orientation | 15 | Narver-Slater (1990) | 1 = strongly disagree, 7 = strongly agree |
| Financial-based performance measures | 2 | Narver-Slater (1990), Slater-Narver (1994) | 1 = strongly disagree, 5 = strongly agree |
| Market-based performance measures | 2 | Jaworski és Kohli (1993) | 1 = strongly disagree, 5 = strongly agree |
| Multi-item performance measures | 1 | (Churchill, 1979) | 1 = strongly disagree, 5 = strongly agree |
| Technological turbulence | 4 | Jaworski-Kohli (1993) | 1 = strongly disagree, 5 = strongly agree |
| Competitive intensity | 5 | Jaworski-Kohli (1993) | 1 = strongly disagree, 5 = strongly agree |
| Market turbulence | 4 | Jaworski-Kohli (1993) | 1 = strongly disagree, 5 = strongly agree |
| Buyer power, Supplier power | 1-1 | Narver-Slater (1990) | 1 = strongly disagree, 5 = strongly agree |
| Market type | 2 | Own | 1 = strongly disagree, 5 = strongly agree |
| Market/Industry life cycle | 4 | Own | 1 = strongly disagree, 5 = strongly agree |

## 3.2. Research steps and regression equations

The data collected during the survey was processed in three steps. *First,* we wanted to find out the extent to which each sub-element of the 15-item and 21-item composite scales used to describe market orientation and the business environment, respectively, meet theoretical expectations. Thus, a separate *exploratory factor analysis* was completed for each concept. The resulting factors explained 55.85 percent (KMO = 0.906) of the variance in the components of the market orientation construct and 54.87 percent (KMO = 0.764) of the variance in environmental variables. When assessing multicollinearity, the Kolmogorov–Smirnov test yielded 0.844, which rejects the hypothesis asserting the existence of multicollinearity between the factors. Comparing the resulting factors and the contents of the components in the Narver-Slater[29] construct, we see that 9 out of the 15 items measuring the construct remained where they had been classified originally. Nevertheless, these items dominated the factors to an extent which permits us to leave their original denominations unchanged.[30] Once again, we were faced with the classifications which differ somewhat from our theoretical expectations when analyzing the items describing the environment. Out of 21 items altogether, 15 were found to belong to the group we had expected. Principal component analysis yielded 6 individual factors, reducing the original number of groups by one. When naming the factors, both theoretical considerations and the results of the classifying process were taken into account. Thus the resulting factors were named: Group 1 – technological turbulence, competitive intensity, market turbulence; Group 2 – buyer power, supplier power; Group 3 – market type (B2C/B2B), market / industry life cycle. In the *sec-*

*ond phase* of our research, the relationships between the three primary elements of our theoretical model (Figure 1) were tested using regression analysis. Regressions were run on both the factors produced by the principal component analysis and the variables calculated by proportionally weighting the items in the Narver-Slater scale and those describing the environment. Further regression calculations were done by using the principal component regression equations. The following effect directions were examined in the regression analysis: (M1) performance – market orientation, (M2) performance – environment, (M3) performance – market orientation – environment. Our regression equations and the variables included in the tests were:

$$M1: Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3$$

$$M2: Y = \beta_0 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9$$

$$M3: Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9,$$

where: $X_1$ = customer orientation, $X_2$ = competitor orientation, $X_3$ = interfunctional coordination, $X_4$ = technological turbulence, $X_5$ = competitive intensity, $X_6$ = buyer power, $X_7$ = market turbulence, $X_8$ = market type (B2C/B2B), $X_9$ = supplier power.

In the *third step,* the cross-table analyses between the 6+3 factors in the conceptual model and the 3 performance indicators were conducted. This yielded a kind of a morphological picture about the direction, the sign and the dynamics of the effects in question. Below, we present the empirical findings about the effect of environmental factors on the components of market orientation.

Environmental variables explain various components of market orientation to differing extents. As evidenced by Table 2, *interfunctional coordination* yielded the highest number of significant relationships while customer orientation had the fewest. It is worth mentioning that the coefficient of market turbulence turned out to be negative while that of technological turbulence was positive, which contradict the findings of Slater and Narver.[31]

**Table 2:** Relationship between the components of market orientation and environmental variables[a]

| | Customer Orientation | Competitor Orientation | Interfunctional Coordination |
|---|---|---|---|
| **Predictor variables** | **β[a] (t-Value)** | **β[a] (t-Value)** | **β[a] (t-Value)** |
| **Environmental variables** | | | |
| Technological Turbulence | 0.044 (0.930) | 0.154 (3.353)** | 0.220 (4.920)*** |
| Competitive Intensity | 0.126 (2.675)** | 0.215 (4.678)*** | 0.059 (1.324) |
| Buyer Power | 0.16 (3.379)** | –0.021 (–0.463) | 0.184 (4.106)*** |
| Market Turbulence | 0.018 (0.375) | 0.127 (2.770)** | –0.163 (–3.650)*** |
| Market Type (B2C/B2B) | –0.032 (–0.668) | –0.059 (–1.279) | 0.118 (2.636)** |
| Supplier Power | –0.003 (–0.056) | –0.091 (–1.978)* | 0.123 (2.749)** |
| | | | |
| F-statistic | 3.338** | 7.759*** | 11.776*** |
| $R^2$ | 0.045 | 0.098 | 0.142 |

**p < 0.10 **p < 0.05 ***p < 0.001*

[a]Standardized coefficients

UDK: 658.114.011:339.13>(439)


**Table 3:** Relationship between performance, environment and market orientation – composite market performance index[a]

| | M1 | M2 | M3 |
|---|---|---|---|
| **Predictor variables** | **β[b] (t-Value)** | **β[b] (t-Value)** | **β[b] (t-Value)** |
| **Market orientation** | | | |
| Competitor Orientation | 0.172 (4.268)*** | – | 0.179 (3.859)*** |
| Interfunctional Coordination | 0.161 (3.982)*** | – | 0.177 (3.704)*** |
| Customer Orientation | 0.174 (4.309)*** | – | 0.119 (2.635)** |
| | | | |
| **Environmental variables** | | | |
| Technological Turbulence | – | 0.074 (1.624) | 0.002 (0.046) |
| Competitive Intensity | – | –0.012 (–0.256) | –0.076 (–1.657) |
| Buyer Power | – | 0.308 (6.674)*** | 0.260 (5.719)*** |
| Market Turbulence | – | 0.073 (1.602) | 0.077 (1.707)* |
| Market Type (B2C/B2B) | – | –0.031 (–0.687) | –0.038 (–0.851) |
| Supplier Power | – | –0.086 (–1.885)* | –0.091 (–2.040)** |
| | | | |
| F-statistic | 16.995*** | 9.175*** | 10.141*** |
| $R^2$ | 0.083 | 0.114 | 0.177 |

*$p < 0.10$ **$p < 0.05$ ***$p < 0.001$

[a] Financial performance measure is the average of realized profit and return on assets (ROA)

[b] Standardized coefficients

The indirect effect of environmental variables on corporate performance as transmitted by market orientation (Table 3) was the strongest in the case of the composite corporate performance index ($F = 10.141$; $R^2 = 0.177$). The following environmental factors contributed significantly to the explanation of variance in corporate performance: buyer power ($\beta_6 = 0.260$), market turbulence ($\beta_7 = 0.077$), supplier power ($\beta_9 = -0.091$).

## 4. CONCLUSIONS AND FURTHER RESEARCH

Based on the meta-analyses of market orientation, we developed a conceptual model focused on the business environment and aimed at exploring the relationships characteristic for emerging economies. The findings of our empirical research studies lead us to the following conclusions.

First of all, we managed to build a coherent system, connecting the business environment, market orientation and corporate performance. It was verified that the *concept of market orientation* as a category is robust enough to be reasonably interpreted in an emerging country, namely Hungary, as well. Each element of the relationship between environment and market orientation proved to be significant. Considering performance, however, financial indicators were almost the only ones to show a strong relationship.

Second, it was confirmed that the *business environment* is an extremely complex concept

in a transitional economy, comprising several factors acting in opposite directions. This is the reason why it is much more difficult to find clear relationships here. Market turbulence and technological turbulence have opposite effects on both business performance and market orientation. Thus, the concept needs to be further refined whereas the reliability of the scales and the number of items to be considered needs to be improved by taking macroeconomic characteristics into account.

Third, we need to draw attention to the fact that *emerging, transitional economies* are in a process of transformation right now, in terms of both their institutional system and economic development. Consequently, empirical generalizations should actually only be based on longitudinal analyses. Both the EU accession in 2004 and the economic recession unfolding in 2008 call for a new research project. The present paper was intended to serve as a starting point for such a study as well.

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