

# Advancing Market Orientation of Service Companies

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In this paper two important challenges regarding the market orientation of the service companies are addressed through literature review. Firstly, an overview of conceptual development regarding this construct is made. The challenge that results from this overview is based on finding, that initial conceptualizations largely neglect managerial and organizational issues related with implementation and enhancement of market orientation. Secondly, implications for conceptualizing and assessing the market orientation construct in a services companies are presented. As service context normally requires an adjusted managerial approach to marketing, key organizational areas requiring adjustments are pointed out and implications for market orientation conceptualization and measurement are discussed. On this basis, an alternative conceptual model separating strategic direction from the key organizational leverages of market orientation is proposed, which better suits the addressed challenges.

**Key words:** Market orientation, Marketing concept, Services marketing, Strategic management

Pričujoč članek na osnovi pregleda relevantne literature obravnava dva izziva, s katerima se sooča razvoj koncepta tržne naravnosti. Prvega predstavlja ugotovitev, da so prvotne opredelitve in študije tega koncepta v veliki meri prezrle različne managerske in organizacijske dejavnike, ki vplivajo na implementacijo in izboljševanje tržne naravnosti.

Drug izziv predstavlja razumevanje in vrednotenje tega konstrukta v storitvenem kontekstu. Zaradi specifične narave storitev so predstavljena ključna področja trženja storitev, ki narekujejo prilagoditve njihovega trženja, ta področja pa so obenem tudi osnova za prilagoditev koncepta tržne naravnosti in njegovega merjenja. Na osnovi ugotovljenih implikacij, predlagamo alternativni model tržne naravnosti, ki je glede na obravnavana izziva ustrežnejši od predhodnih.

**Ključne besede:** tržna naravnost, koncept trženja, trženje storitev, strateški management

## 1 Introduction

Since the beginning of the 90's the concept of market orientation has attracted immense attention from strategic marketing scholars and practitioners. This is not surprising because it is closely related to fundamentals of marketing theory, with implementation of marketing as an organizational-wide philosophy and with the notion that it positively impacts business performance (see recent meta-analyses of Ellis, 2006 and Cano et al., 2004). Kohli and Jaworski (1990) and Narver and Slater (1990) are often cited as founders of conceptualization and measurement instruments for assessing market orientation construct. In recent years however, improvements or alternative approaches have been suggested by different authors (Deng and Dart, 1994; Lado et al., 1998). Mason and Harris (2005) in addition found that managers often misinterpret their companies' market orientation levels and offered some suggestions for this problem. Yet, relatively few efforts were made to define common points or integrate suggested improvements. In fact, current stream of literature largely persists in exploring the "early issues", namely various antecedents and consequences of market

orientation construct – which is measured according to its original (early) conception. This especially holds for studies that investigate impact of market orientation on business performance (Kirca et al., 2005; Luo et al., 2005; Atuahene-Gima, 2005) and innovativeness (Zheng et al., 2005; Menguc and Auh, 2006). On the other hand, some important suggestions of original authors were largely neglected. Narver and Slater (1990) and Kohli et al. (1993) specifically proposed application of the questionnaire in different contexts; among them, in service contexts. Despite intense application of market orientation measurement across different sectors and markets (Jaworski and Kohli, 1993; Deng and Dart, 1994; Cano et al., 2004; Greenley, 1995; Hooley et al., 2000), no known attempts were made to test and adopt market orientation measurement for the services context. As the services sector generally requires a different market(ing) approach, we believe that this challenge should be addressed on conceptual level more thoroughly.

## 2 Development and implementation of market orientation

Kohli and Jaworski (1990) define market orientation as the organization-wide generation of market intelligence pertaining to current and future needs of customers, dissemination of intelligence within an organization and responsiveness to it. These authors therefore define this concept through three basic components (*processes*) that are dealing with marketing information: their generation, dissemination and responsiveness. A slightly different definition was proposed by Narver and Slater (1990). They define market orientation as the organizational culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and thus superior performance for business. These authors put more emphasis on *content (focuses)* of the construct, where basic components are: customer orientation, competitor orientation and inter-functional coordination. To the three basic components they also added two decision criteria: long-term focus and profitability. Both decision criteria were not included in the questionnaire because of their low levels of reliability.

Deshpande et al. (1993) challenged both conceptions. They see market orientation as being synonymous with customer orientation, being distinguishable from competitor orientation. Putting customer interests first is the central part of their definition of customer orientation and they argue that competitor orientation can be almost antithetical to customer orientation when the focus is more on the strengths of the competitor than on the unmet needs of the customer. This view is consistent with several other authors from the marketing and strategic management field. They emphasize a need for a strategic focus which should be on the customer (Ruekert, 1992; Christopher et al., 1991; Karloef, 1993; Day, 1994; Doyle and Wong, 1996).

Critical discussion stimulated different improvement efforts in conceptualizing and measuring market orientation. Deng and Dart (1994) developed a four-factor instrument, consisting of the three factors of Narver and Slater (1990), to which they add (actually, put back) *profit orientation* as a fourth substantive dimension. Gray et al. (1998) proposed a five-factor instrument which combines the Kohli and Jaworski (1990) and Narver and Slater (1990) dimensions. The dimensions of their instrument are inter-functional co-ordination, profit emphasis, competitor orientation, customer orientation and responsiveness. Gray et al. (1998) added distributor orientation and environmental orientation to the concept, and proposed a nine-component model which encompass two stages of the market orientation process: analysis and strategic actions (each consisting of four components), plus an additional component, intra-functional coordination. More recently, Lafferty and Hult (2001) made an overview of marketing orientation perspectives and they found five different approaches to the conception of market orientation:

1. Organizational decision making perspective
2. Market intelligence perspective
3. Culturally based behavioural perspective
4. The strategic focus perspective

### 5. The customer orientation perspective

Each perspective proved to be an interesting venue for study and further development of the market orientation concept. Contrary to the information and decision making perspectives, a culturally based perspective puts more emphasis on informal, deeply rooted elements of organizational culture: values, norms, artefacts and behaviours (Deshpande et al., 1993; Homburg and Pflesser, 2000); Lafferty and Hult (2001) also proposed a synthesis of those perspectives which resulted in four meta-dimensions: customer orientation, importance of information, inter-functional coordination, and taking action.

While the dimensions discussed in the previous sections are interesting, they add little new to the Kohli and Jaworski (1990) and Narver and Slater (1990) dimensions. They however are not particularly helpful at understanding which (discrete) organizational entities should be addressed in order that market orientation is implemented and improved. Deshpande et al., (1993) points out that the field of marketing implementation issues received little attention. Essentially, all structural elements in an organization that are important in enabling, facilitating or blocking market orientation should be considered here. Harris (2002), on the basis of extensive literature review discusses different management approaches to the development of market orientation. One important stream of literature in this field addressed barriers (factors) to market orientation. Harris (2002) identified two types of barriers: managerial and organizational. Kohli (1993) determined that managers' attitudes toward risk aversion and conflicts are such obstacles. Harris and Piercy (1999) additionally found that formalized and uncommunicative management also restrict development of market orientation. Day (1994) in addition suggests that a top-down direction meaning a visible commitment by senior management to put the customer first, exercised through a strategy development process, is necessary for enhancing market orientation. Dunn et al. (1994) also confirms that organizational goals and values impact marketing effectiveness and suggests that a supportive environment is needed for marketing-oriented strategies. When successful implementation of market orientation is in question another very practical issue is the amount of power available to accomplish this aim. This is one of the important questions of marketing concept implementation and the importance of sufficient political power is often emphasized (Harris, 2000; Piercy, 1998).

Organizational characteristics represent the second layer of barriers to and factors in the development of market orientation. Kohli and Jaworski (1993) found that structural connectedness and centralization both act as obstacles for market orientation. Harris (2000) found that integration devices (internal communication systems, organizational integration and coordination systems) are important for market orientation. Homburg et al. (2000) also stress the importance of organizational structure for customer orientation. Workman et al. (1998) discussed another organizational element impacting marketing performance: location of the marketing department, cross-functional dispersion of marketing activities and power of the marketing subunit. Such managerial and organizational factors could improve our understanding of how market

orientation can be achieved as they represent more discrete organizational entities on which management could focus.

### 3 Market orientation and marketing in service companies

Here we discuss key characteristics and implications of contemporary services marketing management that are interesting for development of market orientation. Laing et al. (2002) suggests that two elements may be regarded as critical foundations of services marketing and its development. These are management of the service delivery process and the nature of the interaction between consumers and suppliers. In this interaction the concept of the service encounter is the focal point of marketing activity, representing a dyadic interaction between the customer and the provider firm. Customer experiences in these encounters are critical, because they represent the point at which a customer evaluates services quality and gets an impression of the organization (Zeithaml and Bitner, 1996). Service encounters are therefore the point at which customers actually *experience* marketing orientation. One of such experiences for instance is the degree to which service is customized to individual customer preferences. The nature of services requires customer involvement in the production and delivery process, is difficult to mass produce and difficult to standardize yet is especially suitable for customization strategies (Zeithaml et al., 1985).

Another issue connected with service encounter evaluation is performance – expectation gaps, which are essential part at defining services quality (Zeithaml and Bitner, 1996). Guo (2002) suggests that market orientation in service context impact business performance through these service gaps. This implies a very important notion for market orientation, as it could actually be operationalised and measured as the gap (match) between customer expectations and provided marketing outputs. These gaps could be minimized by managing customer information, setting and delivering adequate service standards, matching given promises, but also through management of customer expectations themselves (Zeithaml and Bitner, 1996). In any case organizational factors of service quality and market orientation seems tightly related and should be simultaneously considered.

As service operations are often very complex, a process approach is often suggested for managing this complexity. A process view represents a useful approach to quality improvement though defining, mapping (flowcharting) and improving service core processes or sub-processes (Bateson, 1995). A more explicit emphasis on value adding processes for customers, instead of emphasis on merely coordinating departments could therefore also be advisable for market orientation development. An additional important issue that is tightly connected with quality, but also with general services marketing management is the importance of social elements and employees, often addressed under the internal marketing concept. Literally all authors from the service-marketing field emphasize the critical role of employees for desirable marketing results. Employees are seen as a

key productivity and quality force (Zeithaml and Bitner, 1996), valuable to the organisation, internal customers and “emotional labour” (Lovelock and Wright, 1999) or a part of the product (Bateson, 1995).

From a services marketing perspective, two important sources of development propositions could be extracted for a market orientation concept. The first source is an encounter/interaction emphasis which focuses on direct contacts with customers. This dimension is largely neglected in the market orientation concept and should be systematically incorporated through different elements of customer interface design (social, emotional, environmental, technological), or a holistic and long term view of relations with customers. The second source represents the in/tangibility dimension of service marketing. On one side, intangible (soft) quality elements should be more explicitly included in a market orientation construct (i.e. employee attitudes), while on the other side, hard approaches and systems that will ensure a high and constant level of services quality (flowcharting processes, setting service level standards, automation) and quality of information (customer databases) are also crucial for implementation of the market orientation concept.

### 4 An alternative model proposal

The “implementational” view to the market orientation and services marketing approach suggests some important implications for development of this construct in a services context. In order to incorporate them key conceptual issues will be considered firstly and secondly, a six-component model for assessing market orientation will be proposed. For this purpose a (strategic) focus of market orientation should be more clearly defined in the first place. Market orientation is often understood as the “all-encompassing” strategic orientation that raises the probability of market performance. According to different authors (Narver and Slater, 1990; Deng and Dart, 1994; Lado et al., 1998) it should encompass customer, competitor, intra-functional, profit, distributor and environmental orientation. However, Nobel et al. (2002) argue that market orientation is not the only viable strategic orientation and therefore that different alternatives are possible and potentially successful. Precise definition of market orientation therefore requires a clear distinction from other strategic orientations. It should provide answers to the questions “Towards what precisely does being market oriented mean?” and “Which orientations are directed toward the market and which are not?” In light of this questions we argue that traditional definitions imply too broad focus, thus a more precise strategic focus would be more adequate as has been well established (Deshpande et al., 1993; Ruekert, 1992; Day, 1994: 38; Doyle and Wong, 1996).

For operationalization of the construct, clear notions of *how*, *where* and *what* exactly we should measure are also needed. According to traditional definitions, different managerial activities, cultural/behavioural characteristics or organizational abilities should be measured. As these are quite different organizational entities, decisions regarding



which one to assess must be done and it is not an easy decision. Additionally, terms such as "organization-wide responsiveness" and organizational culture are very general constructs and their content should be more precisely defined in the form of *specific/discrete* manifestations of market orientation. Defining one general concept (market orientation) as another one (organizational culture - as proposed by Narver and Slater (1990) specifically is not sensible.

In light of the above considerations we argue that development of the market orientation concept requires firstly that a broader set of organizational entities is encompassed in the construct domain, secondly, that a clear direction (strategic focus) of market orientation is defined and thirdly, that selected organizational entities are more precisely operationalized in order to provide measurement of *specific/discrete* manifestations of market orientation. As we are looking for organizational entities that are crucial for implementation, instead of the term *entities*, we propose the term *leverages* of market orientation. The prevailing conceptions of Kohli and Jaworski (1990) and Narver and Slater (1990) are therefore too vaguely (imprecisely) defined, inconsistently operationalized and measured through statements that are too general. As a basis for a conceptual model that will overcome these weaknesses we propose the following definition of market orientation: *Market orientation is the extent to which customer focus is implemented in key organizational leverages.* We understand customer focus as a focus on customer needs; providing and continuously improving perceived value, quality and satisfaction within a long-term time horizon with a view to achieving superior market performance.

The proposed model consists of six dimensions representing key organizational leverages - through which customer focus is implemented. Market (customer) orientation is therefore not a separate dimension, but is reflected in all organizational leverages. The first proposed dimension of the model is *strategic deployment*. Discrete strategic leverage is important if organization-wide orientation is in question because it concerns top management factors (barriers), the strategy building process and necessary resources. These are vital strategic factors for implementation of market orientation (Day, 1994; Harris, 2000; Piercy, 1998). Otherwise the marketing function lacks the influence to drive strategic orientation toward the market and as a consequence business strategy is not aligned with corporate strategy and backed with sufficient resources. Consequently, we propose strategic deployment as a first leverage. Through this leverage, market orientation should be manifested as a visible senior management commitment, as the presence of it in the company's mission, as alignment with business strategy and as provision of adequate resources.

The second dimension of the model is *internal integration* leverage. The need for focus on internal environment is often emphasized, most frequently under the term intra-functional coordination (Gray et al., 1998; Deng and Dart, 1994; Narver and Slater, 1990) Under this dimension Narver and Slater (1990) understood coordinated utilization of company (capital and human) resources and full departmental alignment. In accordance

with services and internal marketing implications we suggest that the focus of this dimension is on *employees* (rather than departments), intangible resources (rather than tangible) and on balancing internal orientation with external (rather than an exclusive internal or external focus). Internal integration leverage is implemented through activities leading to efficient and satisfied employees such as teaching, training, internal communications, empowering, motivating, rewarding, but also through internal quality management and efficient inter-departmental cooperation (Zeithaml nad Bitner, 1996; Lovelock and Wright, 1999; Groenroos, 2000).

The third proposed dimension of the model is *market knowledge management*. There appears to be a consensus that assurance of market information is a core of market orientation (Kohli and Jaworski, 1990; Narver and Slater, 1990; Dart and Deng, 1994; Gray et al., 1998). However, as it seems that too much emphasis is just on information *handling* (analysis, generating, disseminating), we suggest a broader focus and hence propose market knowledge management as a second leverage of market orientation. Its emphasis should be on holistic management of knowledge which will include additional activities like *interpretation* and *use* of marketing knowledge (Deshpande, 2001). This dimension should also be more focused on *learning* as a form of information generating (Narver et al., 1998). It covers all important information for marketing decisions, including information about internal marketing elements, but also feedback about balanced metrics of market performance.

As the fourth dimension of the model, an *organizational infrastructure* is proposed. Different organizational elements and systems such as organizational structure (Homburg et al., 2000; Workman et al., 1998), organizational connectedness and centralization (Kohli and Jaworski, 1993), information technology and communication systems (Harris, 2000; Groenroos, 1996) are often emphasized as important factors of market orientation. Despite this, organizational structures and systems are absent in any conceptualization of market orientation. As their specific design and characteristics are important for implementing any strategic orientation and they represent a relatively independent organizational entity, we propose organizational infrastructure as a fourth key leverage of market orientation.

The fifth distinctive dimension of the model is *customer interface* design. In implementation of market orientation the importance of direct contacts with customers should not be underestimated. In service encounters customers get impressions of the whole organization (Zeithaml and Bitner, 1996), thus they are a visible component or marketing orientation. The importance of the interaction with the customers also lies in the fact that a customer's value is largely produced during their interaction with employees, other customers and organizational systems (Gumesson, 1999). Therefore, frontline communication and interaction points with customers should be managed as a coherent whole (Groenroos, 2000). Market orientation for this leverage could be operationalized as the extent of customization, fulfilment of expectations, management of emotional, social, technological and environmental elements of interaction, but also through long term, relationship impacting activities.

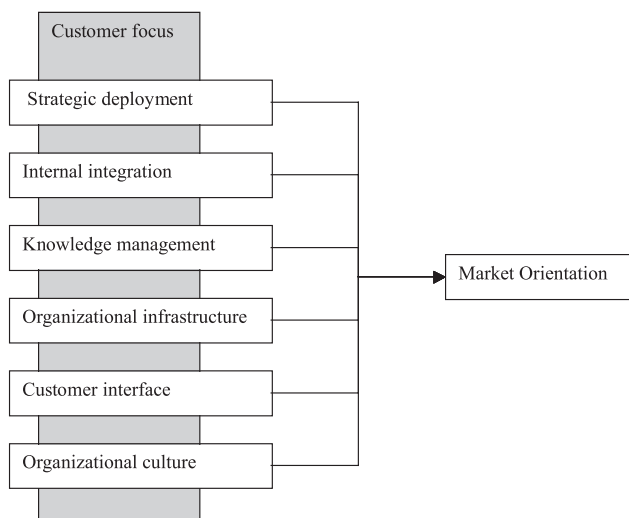


Figure 1: Alternative model of market orientation for services context

Finally, *organizational culture* is proposed as the sixth dimension of the model. Organizational culture is an important factor of implementation of market orientation since it encompasses tangible elements such as behaviours and artefacts, and intangible elements, such as values, beliefs and norms. Cultural elements are present at the strategic, but also at the tactical (encounter) level of any organization. Deshpande et al. (1993), defines customer orientation (according to him this is synonymous with market orientation) as a set of *beliefs* which puts customer interests first. Many authors addressed organizational culture as a separate construct, or as an alternative approach to market orientation conception (Homburg and Pflesser, 2000; Deshpande et al., 1993; Webster, 1993). But, as organizational culture predominantly addresses contextual and informal organizational elements (Lafferty and Hult, 2001) it is a sensible counterpart to more formal leverages (strategic planning, organizational structure) of market orientation. To be efficient at this aim, organizational culture should retain all its important components: values, beliefs, norms, behaviours (“our way of doing things”) and artefacts.

## 5 Discussion

In the present paper an attempt to further development of market orientation was made from two perspectives. The first was an overview of contemporary developments and factors of implementation of this concept and second was a discussion about the implications of developments in the service marketing field for conceptualizing this construct. On this basis an improved conceptual model was proposed. In these efforts a critical approach was used to traditional conceptualization of market orientation as in Sigauw and Diamantopoulos (1995). Instead of staying inside existing definitions and dimensions, these were put under scrutiny, questioned, re-assessed and combined with new elements

and dimensions. The purpose of the proposed definition and model was to clarify the confusion around different meanings of the term market orientation and to add consistency to its operationalization. With this purpose a clear distinction between a *focus* (direction) of orientation and *leverages* (organizational entities) which enable and reflect this orientation, was made. At this point some interesting issues regarding the conceptual background and practical (managerial and methodological) implications of the model emerged. As the need for setting a precise strategic focus was established, co-existence of different orientations became apparent. This raises questions about their relative superiority regarding their impact on business performance (Nobel et al., 2002), but also about relations between different strategic orientations (Morgan and Strong, 1998).

Another important issue in defining a construct domain is the definition of its antecedents and consequences. This issue is comprehensively covered in the literature, yet there are still some ambiguities and inconsistencies. Kohli and Jaworski (1990) proposed all three components (intelligence generation, dissemination and responsiveness) as *organizational* dimensions of the construct. Narver and Slater (1990) on the other hand proposed inter-functional coordination as the only organizational dimension (the other two dimensions being two different *orientations* - not organizational entities). We argue that intelligence management and inter-functional coordination are however just two of the key organizational leverages. To be consistent, several other leverages should be included in the construct, as proposed in our model. In another article Kohli and Jaworski (1993) discuss top management factors, interdepartmental dynamics and organizational systems as *antecedents* of the construct. Again inconsistency appears, as inter-functional coordination is defined as a *component* of a construct (Narver and Slater, 1990) and at the same time a similar concept of inter-departmental dynamics is defined as an *antecedent* of it (Kohli and Jaworski, 1993). An even larger inconsistency is evident if we confront the Kohli and Jaworski (1990) dimensions of the construct (intelligence generation and dissemination) and Slater and Narver (1993) notion that market orientation is a component of a learning organization. In this case a *tautological* conclusion results where intelligence generation and dissemination are components of the market orientation construct, while market orientation is a component of a learning organization.

On the other hand, market orientation consequences are also often in dispute. Deng and Dart (1994) for instance treat profit orientation as an element of the construct, while business performance is generally treated as its consequence (Jaworski and Kohli, 1993; Deshpande et al., 1993; Homburg and Pflesser, 2000; Guo, 2002). Narver and Slater (1990) point out this inconsistency and suggest a compromise position – that profitability is a business objective and hence separated from the three behavioural components of the construct. Similarly Deng and Dart (1994) separate profits as an end point (accounting construct) from profit as *orientation* (inherent practice in business operations).

Since antecedent/consequences dilemmas also result from confusing market orientation(s) with organizational

entities, this confirms the need for separating focus and organizational leverages of market orientation. With an aim to provide a more complete conceptualization and more consistent operationalization of the construct we argue that a broader set of market orientation dimensions is needed and that its antecedents and consequences should be re-assessed. Consequently some factors that are considered as antecedents (i.e. interdepartmental issues and organizational systems) should be treated as constituent parts of the construct, while profitability and other marketing outputs should be treated as consequences of the construct.

## 6 Implications for management and research

Managerial relevance of market orientation assessment is often emphasized (Gray et al., 1998). Therefore, the present paper is predominantly concerned with distinctive organizational leverages of a market orientation concept. In order to respond to business needs, a model is proposed that is more complete in covering key organizational leverages of implementation than traditional approaches. From a management standpoint this provides a comprehensive, yet specific enough starting point to assessment and management of organization-wide market orientation. This enables management more precise detection of organizational areas in which firms distinguish themselves or need improvements, hence the model could be useful as a framework for action program design. As improvement of market orientation is a very complex issue, discussion about *obstacles* impeding such improvements, about *approaches* to implementation efforts and about *antecedents* and *consequences* of market orientation could also be very useful for management decisions.

Also, the proposed model of market orientation is managerially interesting because it incorporates a services marketing perspective. The importance of this perspective is twofold. Firstly, it is helpful in re-defining strategic focus and key organizational leverages. According to service marketing implications, market orientation should put more emphasis on intangible and human elements, but also on service quality and long-term relationships with customers. As encounter interaction is one of the key areas of successful services marketing, we added it as a separate dimension in the model, meaning that managers should consider it in market orientation improvements. Secondly, a services marketing approach provides a comprehensive and profound view on the future of marketing (Vargo and Lusch, 2004) and could therefore provide an adequate approach for future developments of a market orientation in any type of company.

If management wants to fully realize the potentials of market orientation concept, this requires further research endeavours too. An interesting issue to start with, is for instance exploration of *process* of market orientation, especially its key stages – analysis and strategic actions (Gray et al., 1998). As services marketing strongly emphasize importance of short-term interactions (often called moments of truth) and long-term relationships

with customers, this suggests that time perspective should be an important element of market orientation research in services context. Growing importance of customer relationship perspective in addition suggests, that in the future impact of market orientation on following elements and outcomes should be more thoroughly analysed:

- loyalty effects and customers profitability,
- customers trust and commitment,
- post-purchase activities and rewards,
- risks during the buying and consumption process,
- reliability, availability and other quality elements and
- emotional, social and structural bonds with customers.

Another issue that require researchers attention is the assessment methodology. The most common approach used in the majority of market orientation studies is self-assessment by managers, who often misinterpret their companies' market orientation levels (see Mason and Harris, 2005). Since, when evaluating marketing concepts, customer perception is decisive, we strongly advise that future studies consider and option that customers evaluate the market orientation construct. For this purpose the notion of expectation-performance gaps can be used. These gaps are namely a possible indicator of how successful an organization is in market orientation improvement efforts (Guo, 2002). Customers are however not the only stakeholder of interest. As suggested by Gray et al. (1998), company's orientation toward distributors, competitors and even environment is also part of its market orientation. Unfortunately this can complicate research of market orientation, since it becomes unclear what entities represent "the market", toward which a company is oriented. For this purpose it would be interesting to investigate which market entity or stakeholder (customer, competitor, employees, etc.) represent the focus of the *best* market-performing companies.

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