The impact of market orientation on the financial performance of MSMES (micro, small and medium enterprises) in Bogotá

Impacto de la Orientación al Mercado sobre el desempeño financiero de Mipymes (Micro, Pequeñas y Medianas Empresas) en Bogotá

L´impact de l´orientation marché sur la performance des PME à Bogota

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Abstract

This paper presents a study of the Market Orientation (MO) concept and its relationship with Financial Performance (FP) in Bogotá-based MSMEs. The primary source of information was collected using the MARKOR (Kohli & Jaworski, 1990) scale, adapting it to the SMEs' context in Bogotá. The findings were processed with a set of simple linear regressions that aimed to evaluate each dimension of Market Orientation's impact on the MSMEs' financial performance. Subsequently, each of these dimensions (intelligence generation; intelligence dissemination; response planning; and response implementation) were taken as independent variables. Furthermore, Net Sales and Operating Profit, and their ratio to assets, along with performance managers' financial perception, were used as dependent variables. Finally, the results revealed that all five tested models were not statistically strong enough to conclude that Financial Performance is directly impacted by the Market Orientation construct, given that the former results did not show an adjusted R value greater than 75 percent.

Keywords: market orientation, small and medium enterprises, financial performance.

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Resumen

Este artículo presenta un estudio de la relación del nivel de orientación al mercado (OM) y el desempeño financiero (DF) de Mipymes de Bogotá. La fuente primaria de información fue la escala MARKOR adaptada al contexto de las Mipymes en Bogotá. Los resultados fueron procesados con un conjunto de regresiones lineales simples que ayudaron a evaluar el impacto de cada dimensión de la OM en el DF. A continuación, cada una de las dimensiones de la OM (Generación de Información, Diseminación de la información, Planeación e Implementación de la Respuesta) fueron tomadas como variables independientes. Además, las Ventas Netas y la Utilidad Operacional, y sus relaciones con los activos; fueron usadas como variables dependientes. Finalmente, los resultados revelaron que ninguno de los 5 modelos probados fueron estadísticamente suficientes para concluir que el DF de las organizaciones es directamente impactado por la OM, dado que ninguno de los resultados anteriores mostró al menos un valor R ajustado superior al 75%.

Palabras clave: orientación al mercado, pequeñas y medianas empresas, desempeño financiero.

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Résumée

Cet article présente une étude sur le concept d´Orientation Marché OM et sa relation avec la Performance Financière PF dans les PME de Bogotá. La source primaire de l´information provient de l´escale MARKOR (Kohli / Jaworski 1990) adaptée au contexte de PME localisées à Bogotá. Les résultats ont été traités à l´aide de simples régressions linéaires, qui ont permis l´évaluation de chaque dimension de l´impact de l´orientation marché sur la performance financière de PME. Chacune des dimensions (génération d´intelligence, dissémination de l´intelligence, plan de réponse, et implémentation des réponses) a été considérée comme une variable indépendante. En plus, les ventes nettes et les bénéfices opérationnels ont été utilisés comme des variables dépendantes en accord avec la perception de la performance des managers financiers. Finalement, les résultats on révélé que les cinq modèles testés ne sont pas suffisamment forts statistiquement pour conclure que la performance financière est directement impactée par l´orientation du marché, vue que les résultats n´ont pas montré un ajustement de la valeur R supérieur au 75%.

Mots clef: orientation du marché, PME, performance financière.

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1. Introduction

Marketing Management aims for the creation of long-term links with customers in order to obtain their fidelity, loyalty, and profitability (Anderson, Fornell, & Mazvancheryl, 2004). This objective has led companies to direct more resources towards their marketing activities (Kumar & Basu, 2008 and Stewart, 2008), but it also requires them to justify these investments (Ambler, Kokkinaki, & Puntoni, 2004; Ward, 2003 and Wills & Webb, 2007).

Managers and academics are tasked with demonstrating how marketing increases the financial capital of firms (Jagpal, 2008; McDonald, 2006 and Ryals, Dias, & Berger, 2007). In this context, Return on Marketing Investment (ROMI) has been proposed as a management philosophy to transform companies´ commercial actions into financial results (Cook & Talluri, 2004 and Klein & Swartzendruber, 2003). One strategy is to measure the level of the application of ROMI in a company and then to compare it to the company's financial performance. There are two models mainly used when testing ROMI, both of which were proposed in the 1990´s: Kohli and Jaworski´s MARKOR (1990), and Narver and Slater´s MKTOR (1990). The relationship between marketing and finance has become one of the most important research areas for the Marketing Science Institute (MSI) (Barwise & Farley, 2004; Gruca & Rego, 2005; Lehmann, 2004; Moorman & Lehmann, 2004 and Rust & Others, 2004).

2. Market Orientation Models

2.1. Kohli and Jaworski´s MARKOR

In this model, the marketing concept is defined as "a business *philosophy,* an ideal or a policy statement" (Kohli & Jaworski, 1990, p. 1). With this is mind, Kohli and Jaworski designed a model in order to estimate the level of application of this marketing concept in an organization, which they named "Market Orientation."

In this approach, information management is the core element and Market Orientation is defined as "the organization-wide *generation* of market intelligence pertaining to current and future customer needs, *dissemination* of the intelligence across departments, and organization-wide *responsiveness* to it" (Kohli & Jaworski, 1990, p. 6). They specify two activities which are related to the responsiveness of market intelligence, which are planning and the implementation of the response (Kohli, Jaworski, & Kumar, 1993). This model is shown in Figure 1 (Jaworski & Kohli, 1993, p. 55), which is further explained in the following paragraphs.

The antecedents to Market Orientation:

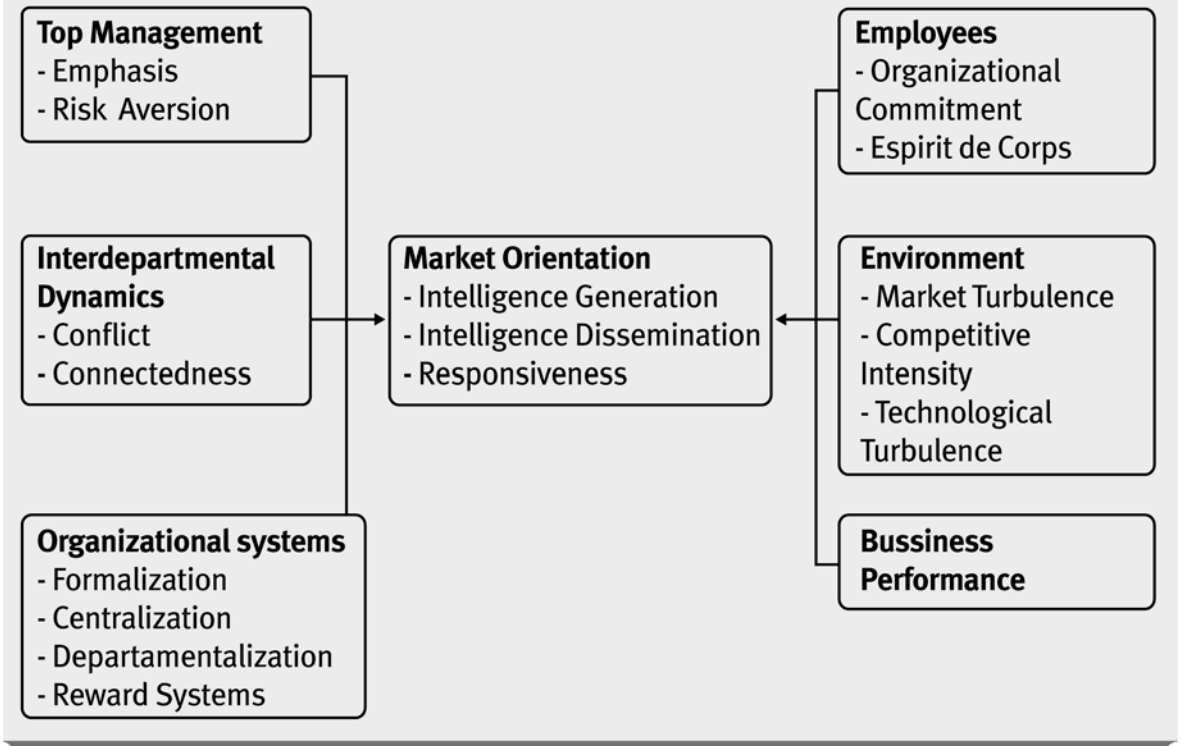
Top Management Factors: The primary factor is the top managers´ focus, which refers to managers' attitude and behaviors when using a company´s formal communication channels to divulge their posture. Managers' focus affects the three elements of Market Orientation (Kohli & Jaworski, 1990; Jaworski & Kohli, 1993). Another important factor is managers' attitude regarding risk because it can impact innovation and a firm´s overall responsiveness to Market Orientation (Jaworski & Kohli, 1993) (Figure 1).

Interdepartmental dynamics: Kohli & Jaworski (1990, p. 9) define this as "the formal and informal interactions and relationships among an organization's departments." These interactions can function smoothly or very poorly and can affect information dissemination and teamwork (Jaworski & Kohli, 1993).

Another factor related to this element is the "interdepartmental connectedness," both formal and informal, among employees and their receptiveness to their fellow employees' ideas and suggestions (Kohli & Jaworski, 1990). Kohli and Jaworski's results (1993) show that this aspect stimulates the dissemination of information.

Organizational systems: These systems pertain to formalization, centralization, departmentalization, and market–based reward systems (Kohli & Jaworski, 1990). A relationship between formalization and Market Orientation was not found, which indicates that the focus of

Figure 1. Antecedents and Consequences of Market Orientation



Source: adapted from Jaworski & Kohli, 1993, p. 55.

the norms is more important than the degree of formalization (Kohli & Jaworski, 1990; Jaworski & Kohli, 1993). Centralization was detected as a barrier to Market Orientation (Jaworski & Kohli, 1993). In regards to departmentalization, Kohli and Jaworski found that the levels of teamwork and conflict have a greater impact on Market Orientation than the number of departments in a firm (Jaworski & Kohli, 1993). Kohli and Jaworski identified market–based reward systems as the most influential aspect in the Market Orientation of a company (Jaworski & Kohli, 1993).

Kohli and Jaworski divide the consequences of Market Orientation into two classes:

In the first instance, the authors analyzed the relationship between Market Orientation and companies´ financial results, basing their analysis on two measures: employee's perception of their managers and market share (an objective indicator) (Jaworski & Kohli, 1993). They detected a relationship between the variables when the managers´ perception was used, however the relationship was not valid in the measurement of market share, which affirms that this indicator is not appropriate given the strategic focus of many firms. Furthermore, there was a time gap between the two elements that was difficult to reveal in the transversal research they conducted (Jaworski & Kohli, 1993).

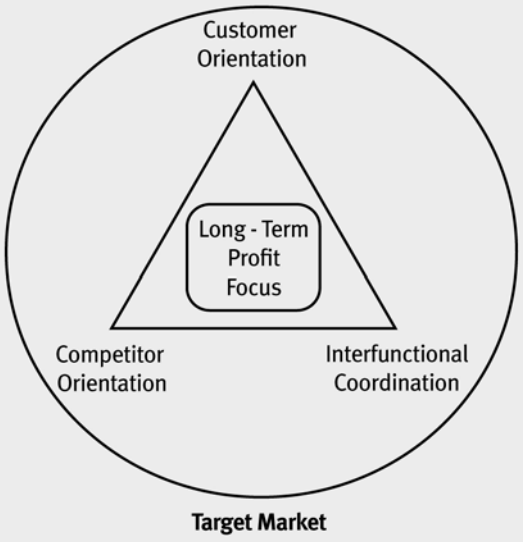
In the second instance, the effects of Market Orientation on a firm's employees were analyzed. These effects produced a sensation of achievement and high levels of job satisfaction in employees who considered it motivating to work for a company whose main objective is to please its consumers. These effects also generated an *espirit de corps*, improvement in teamwork, and strengthened employees' commitment to the company (Kohli & Jaworski, 1990; Jaworski & Kohli, 1993).

Jaworski and Kohli (1993) also propose three environmental moderators in the link between Market Orientation and Company Performance: technological and market turbulence, referred to as the speed of change in technology; customers' preferences and composition; and competitive intensity which affects the number of consumption alternatives to a client (Jaworski & Kohli, 1993). They did not find a moderator effect for these factors and for this reason they believe that the relationship between the main variables is robust when business performance is measured alongside managers´ perception (Jaworski & Kohli, 1993).

2.2. Narver and Slater´s MKTOR

In this model, "Market-orientation is the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business" (Narver & Slater, 1990, p.21). The construct is composed of three behavioral elements: customer orientation, competitor orientation, and inter-functional coordination; and two decision criteria: long-term focus and profitability (or economic wealth) (Narver & Slater, 1990) (The model is shown in Figure 2).

Figure 2. Market Orientation: Model MKTOR



Source: adapted from (Narver & Slater, 1990, p. 23).

Similar to Kohli and Jaworski´s model, Narver and Slater affirm that "Customer orientation and competitor orientation include all of the activities involved in acquiring information about the buyers and competitors in the target market and disseminating it throughout the business (es)" (Narver & Slater, 1990, p. 21) and that the orientations should become the input for teamwork in order to create superior value for consumers (Narver & Slater, 1990).

Customer-orientation refers to the understanding of current and future distributors and of users´ value chain, as well as the creation of superior value for both of them (Day & Wensley, 1988 as cited in Narver & Slater, 1990, p. 21). Competitor orientation implies knowledge of a company's current weaknesses and strengths, strategies, and future capacities, including knowledge of current and developing technologies. Finally, inter-functional coordination relates to the integration of the different areas of the business, transversal to the organization and not just as a marketing concern (Narver & Slater, 1990).

In this case the researchers found a positive relationship between marketing orientation and financial performance, measured as ROA (Return On Assets) They also found a positive relationship between other management variables related to employees and competitive advantage, based on either product differentiation or low cost (Narver & Slater, 1990).

2.3. The Impact of Market Orientation on Organizational Performance

Market Orientation is a significant concept if it positively impacts a firms´ results, and for this reason both Kohli and Jaworski (1990) and Narver and Slater (1990) put this relationship as the core element in their models. Kohli and Jaworski (1993) measured this relationship using managers´ perception and market share as performance indicators. They found a positive relationship with only the first variable, which they attribute to the fact that market share is not an appropriate indicator and that there could be a lag between market orientation and market share that is impossible to detect in transversal research (Jaworski & Kohli, 1993).

Narver and Slater found a positive relationship (Narver & Slater, 1990; Slater & Narver, 2000) between market orientation and financial performance, using ROA (Return On Assets) as the financial indicator in the first case and ROI (Return On Investment) in the second one. In the following paragraphs, some of their research that was carried out in different contexts will be discussed. In this research, they studied the relationship between Market Orientation and organizational performance using both the MARKOR and MKTOR models.

Using data from the banking industry based in a state in the American Midwest, Han, Kim, & Srivastava (1998) detected a positive relationship between Market Orientation and company performance when technical and administrative innovation was used as a moderator variable in regards to customer orientation, making sure not to let competitor orientation and inter-functional coordination lose importance in the context of a turbulent environmental settings.

Hooley, Greenley, Cadogan, & Fahy (2005) reinforce the fact that Market Orientation is an organization's cultural resource, and thus has an influence on its financial performance. They measured Market Orientation alongside net profit, ROI, and profitability ratios, and a significant relationship was found between Market Orientation and customer and financial performance.

Hult, Ketchen, & Slater (2005) employed ROA, ROI and ROE (Return On Equity) as financial indicators. They applied MKTOR and MARKOR, affirming that MKTOR reflects on the cultural elements of employees´ behavior and that MARKOR measures the effect of the market information-processing level of firms. They also found a direct relationship between Market Orientation and companies´ performance.

Rivera & Molero (2006) developed a Market Orientation model which they applied to an *Iberoamerican*[1] context. They tested their model on 15 banks and 12 insurance firms located in Peru and on 115 manufacturing companies located in Spain using the new product success and sales growth as ROI performance indicators. They detected a relationship between Market Orientation and the first two indicators, but not with the third one, sustaining the idea that this situation indicates that Market Orientation is a long–term factor.

Subramanian & Gopalakrishna (2001) worked in the Indian context and applying MARKOR they found, in a sample of 162 firms, a significant relationship between Market Orientation and companies´ results that was not moderated by market turbulence, suppliers´ power, and competitive hostility. In other words, Market Orientation improved the firms´ performance independent of the competitive environment they confronted.

In the airlines sector, Martín-Consuegra & Esteban (2007) observed, in a sample of 234 companies, a positive relationship between Market Orientation and firms´ results based on managers´ perception as well as the use of indicators such as company size, growth rates, market share, and profitability.

Harris & Ogbonna (2001) analyzed human resource management as an additional moderator element in the relationship between Market Orientation and organizational results. They concluded that an adequate personnel direction achieves better Market Orientation and results levels within organizations.

In the Norwegian hotel industry, Haugland, Myrtveit, & Nygaard (2007) detected a relationship between Market Orientation and the subjective profitability perception of managers compared to their main competitors, yet they did not find such a relationship when they compared Market Orientation to the objective measures of ROA and relative productivity. They inferred that in the case of services, product quality influences a firms´ results more than Market Orientation, but they mentioned again the aspect of the measures used. Chen & Quester (2009) worked with Taiwanese hairdressers and identified a relationship between Market Orientation and customer retention index. According to them, the discrepancies in different research results are based on the selection of inadequate indicators.

2.4. International Consolidation Research

Langerak (2003) evaluated 50 studies conducted from 1990 to 2002, which looked into the relationship between Market Orientation and organizational performance. He detected 26 studies with a positive relationship, 12 with no significant results, 2 with a negative relationship and 10 with mixed results. He remarked "that the overall issue of predictive power of market orientation is, after 13 years of extensive research, still an open question" (Langerak, 2003, p. 460). It is important to note that this work is descriptive and no statistical tools were applied.

Rodriguez, Carrillat, & Jaramillo (2004) developed a meta-analysis, defined as "a quantitative method of synthesizing empirical evidence across a collection of related studies" (Rodriguez, Carrillat, & Jaramillo, 2004, p. 185). In this method, statistical tools were applied in order to find relationships or effects difficult to detect with other conventional synthesis methodologies. They included 53 empirical studies representing an overall sample size of 12,043 respondents from 23 countries, across five continents. A positive and consistent relationship between Market Orientation and firms´ results was found.

1. This term refers to both Spain and Latin America

They analyzed moderator effects including the kind of organizational objective (profit or not-for-profit), the industry type (service or manufacturing) and the socioeconomic development measured with three indicators: Hofstede's individualism cultural dimension, gross domestic product per capita, and Human Development Index. The most significant relationships were detected in the case of not-for-profit and service-oriented businesses. The relationship was not influenced by the national culture or by the socioeconomic development (Rodriguez, Carrillat, & Jaramillo, 2004).

From the methodological point of view, the relationship was stronger when the MARKOR scale was used than in the case of the MKTOR scale, and they concluded that "the strength of this relationship might be overstated when business performance is measured using subjective scales and understated when using objective scales" (Rodriguez, Carrillat, & Jaramillo, 2004, pp. 191-192). Considering these results, in this research a MARKOR-modified version was utilized as the instrument to collect information about MSMEs.

2.5. Hypotheses

The aim of this study was to explore the level of influence of Market Orientation on Financial Performance, using the MARKOR (Kohli & Jaworski, 1990) scale to measure the first variable, objective financial measures, and the second variable, managers´ perceptions. The following hypotheses were put forward:

H1: Bogotá´s MSMEs have a Market Orientation higher than 4.5 out of 5.0 for each one of its components.

H2: The components of Market Orientation explain over 75% of the financial performance objective in Bogotá´s MSMEs.

H3: The components of Market Orientation explain over 75% of the perceived financial performance in Bogotá´s MSMEs.

3. Methodology

3.1. Survey Design

MARKOR´s survey (Kohli & Jaworski, 1990) was adapted to Bogotá´s MSMEs' context. It was translated into Spanish and reviewed by three marketing experts, who made suggestions as to necessary modifications. A group of entrepreneurs then commented on and made a final revision to the survey, and the final draft was uploaded to the *Encuesta Fácil* web site in order to request the data.

The variables included were Intelligence Generation and Dissemination, with 5 items to each one, and Response Design and Implementation with 4 items to each one, for a total of 18 questions about Market Orientation. As per the advice of marketing experts, two "positive" questions were added at the beginning of the survey in order to encourage the entrepreneurs to answer it and two items regarding financial performance perception were also included at the end.

3.2. Data Collection

Data was taken from the Bogotá Chamber of Commerce database in which 3940 MSMEs were mailed the survey three times. As a result, 303 forms were collected, for a gross response rate of 7.7%. Some of the surveys were excluded for the following reasons: incomplete questionnaires; lack of demographic data; companies that were not included in the database; enterprises that were not from Bogotá or that did not meet the requirements to be considered a MSME (República de Colombia, 2004). Therefore, 209 surveys comprised the final sample, for a net response rate of 5.3%.

3.3. Measures and Models

In the final sample a number of regressions were carried out in order to review the impact of each of the components of Market Orientation on Financial Performance. The components of Market Orientation were information generation and dissemination, and response design and implementation, which were taken as independent variables. Before the regressions, the average of each of the mentioned items was calculated for each company. Based on recommendations of other authors, such measures were not used as market share in the outlined models (Pawels & Others, 2004, p. 153 and Jaworski & Kohli, 1993).

The dependent variables were: net sales, operational income, their ratio to the companies´ assets, and the managers´ perception of financial performance. The variable information was obtained from the database provided by the Bogotá Chamber of Commerce and by the adapted instrument. The next models were reviewed:

S = rce of Bogotá (Bogotá Chamber of Commerce, 2006) and which stand within the grounds for liquidation of companies in Bogotá, most directly related to the lack of strategic marketing management, such as failure to maintain the products' commercial management, brand power, negative sales behavior, and the low share of exports in total revenue.

Consequently, we can suggest as one of the reasons behind the lack of a relationship between Market Orientation and financial performance in the surveyed companies to be that they did not develop significant strategic marketing management. Therefore, Market Orientation was not one of the variables that would generate such results, but would rather result in situations like those raised in the CCB report on the disappearance of companies in Bogotá, which accounted for the liquidation of 8593 firms representing an accumulated capital of around 1.8 billion dollars during the 2003-2005 period (Bogotá Chamber of Commerce, 2006).

These results also corroborate those obtained by the authors last year in their work developed with the same target population in which it was concluded that there is a lack of knowledge and a negative perception of marketing, and therefore a poor use of marketing management tools (Vega & Rojas, 2009). In fact, there is a short-term approach that goes against the implementation of Market Orientation, according to Kohli and Jaworski (1990, p. 17). But similar findings have been found in different types of contexts (Murdoch, Blackey, & Blythe, 2001; Lancaster & Waddelow, 1998 and Carson & McCartan-Quinn, 1995), reinforcing the fact that small businesses do not necessarily create a cause-and-effect relationship between marketing management and financial performance.

As a result, it would be appropriate to undertake further analytical research in order to re-approach the way that the involved organizations structure development programs for new and small enterprises, both private and public. Such new approaches under review include: a greater focus on marketing management training; the skills that are actually developed; the perception of this element of the programs, and how much it is reflected in an effective marketing management.

A benefit of this research is that it can prompt a a greater analysis within the sample cases that showed a strong relationship between Market Orientation and organizational performance in order to identify the best marketing management practices to disseminate to the business community and to generate a practical application of the work presented in this article.

As a consequence of this research and the international work consulted, there is a very large dispersion about the indicators used to measure performance, both financially and in other aspects like marketing, which ultimately hinders comparisons, methodologies, and results. Thus, further research should focus on comparing what would be the most useful and reliable metrics to generate the necessary dialogue between academics and marketing practitioners.

According to these results, it would be interesting to explore MSMEs' antecedents to Market Orientation as stated in Kohli and Jaworski's (1990) model. Additionally, it would be remarkable to analyze the weaknesses of this population, pursuing academics' goal of generating specific improvement recommendations and to further promote Market Orientation. These antecedents, as discussed in the theoretical foundation are those related to Top Management, Interdepartmental Dynamics and Organizational Systems (Kohli & Jaworski, 1990).

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