COMMENTARY

# Seeing market orientation through a capabilities lens

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## Abstract

**Purpose** – The purpose of this paper is to examine how conceptualising market orientation within a capabilities framework may assist in developing further understanding of the construct.

**Design/methodology/approach** – Compelling issues in the market orientation literature relating to the nature of the market orientation construct, the relationship of the construct with performance, and identifying antecedents to market orientation are discussed. The capabilities perspective is explored in the context of these issues. In particular, a perspective of market orientation based on the market-sensing capability is proposed, which may provide additional insights into the construct.

**Research limitations/implications** – The capabilities framework facilitates a more comprehensive approach to understanding the nature of market orientation, which captures the complex interaction of behavioural and cultural factors in the conceptualisation of the construct.

**Originality/value** – This paper addresses the need to examine how marketing capabilities may contribute to organisation performance.

**Keywords** Market orientation, Performance management,

**Paper type** Conceptual paper

## Introduction

The market orientation literature (Kohli and Jaworski, 1990; Narver and Slater, 1990) has been highly significant in operationalising the marketing concept. There are a number of compelling themes relating to market orientation which have attracted attention in the literature including the ability of the construct to prescribe useful "market oriented" actions to managers (Harmsen and Jensen, 2004; Greenley, 1995), the reliance of market orientation on other constructs to strengthen its relationship with performance (see, for example, Menguc and Ash, 2006) and a lack of clarity about the nature of the construct (Gray and Hooley, 2002). The capabilities/resource based view perspective (RBV) (Wernefelt, 1984; Barney, 1991; Fahy *et al.*, 2000) is proposed as providing a meaningful framework to further develop understanding of market orientation. This approach is important in explaining the development of competitive advantage (Wernefelt, 1984; Barney, 1991; Bharadwaj *et al.*, 1993) and relates the activities of companies directly to performance (Harmsen and Jensen, 2004).

## Compelling themes within the market orientation literature

The operationalisation of the marketing concept in the development of the market orientation construct (Kohli and Jaworski, 1990; Narver and Slater, 1990) is a major

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step in the progression of marketing theory. For the first time, organisations are given a useful template for assessing how market oriented they are. According to Kohli and Jaworski (1990) a firm exhibiting market orientation engages in the generation of market intelligence, disseminates this intelligence throughout the organisation – and develops effective strategies in response to this information. Narver and Slater (1990) characterise market-oriented as being more culturally embedded, demonstrating an orientation on customers, competitors, and interfunctional cooperation.

There are themes within the body of literature on market orientation, which demand attention, in particular the relationship between market orientation and performance, the nature of the market orientation construct, and the development of a market orientation within the organisation.

## Relationship between market orientation and performance

Why should an organisation seek a market orientation, as urged by Webster (1988)? In order to improve performance. However, the proof for a positive relationship between market orientation and performance is not manifest. Empirical support is equivocal (Gray and Hooley, 2002; Langerak, 2003) with the predictive ability of the construct on performance dependent on a number of situational characteristics such as the scale chosen to measure market orientation, the cultural context of the study, the industry context, and the character of the sample (Langerak, 2003; Cano *et al.*, 2004; Shoham *et al.*, 2005; Kirca *et al.*, 2005; Ellis, 2006). This points to the difficulty of being unambiguous about the relationship of market orientation to performance. There is also a poor understanding of how market orientation affects strategy – and ultimately performance (Dobni and Luffman, 2003; Hunt and Lambe, 2000). Day (1998) concludes that the studies of Kohli and Jaworski (1990), and Narver and Slater (1990) have not been able to identify precisely how a market orientation has a positive relationship with profitability:

> Does it pay to be market-oriented? The simple answer is yes . . . the more complicated answer is "yes, but" because the studies have not been able to trace exactly how a market orientation enhances profitability (in part because it depends on the strategy and industry character) (p. 12).

An interesting point is also raised by Day here about the importance of taking into consideration the specific context when assessing the relationship with performance. This echoes Collis (1994) who affirms that the advantage emerging from capabilities can be found ". . . in different places at different points in time in different industries" (p. 151).

### *Type of relationship between market orientation and performance*

It is likely that a linear relationship between market orientation and performance is simplistic - and that market orientation may rely on other constructs such as innovation (see Han *et al.*, 1998; Maydeu-Olivares and Lado, 2003) or innovativeness (Menguc and Ash, 2006) in this link. Perhaps, rather than bundling market orientation with other constructs to strengthen its relationship to performance, an alternative view might be that one should reflect more on the nature of market orientation itself? In particular, it is important to consider the expansive nature of the construct – according to Stoelhorst and van Raaij (2004), examining how the elements of a multi-disciplinary model of market orientation combine to create competitive advantage, is key to really understanding the relationship with performance.

## The nature of market orientation

The operational description of market orientation is undoubtedly beneficial. Empirical measures such as MARKOR (Kohli *et al.*, 1993) and MKTOR (Narver and Slater, 1990) have proved to be useful as reliable measures of the degree to which a company is market oriented. However, their relevance for practitioners has been challenged:

> Their (i.e. Narver and Slater, and Jaworksi and Kohli) MO (market orientation) scales have been designed for academic research, and are likely to be of limited benefit to companies (Greenley, 1995, p. 10).

Market focus or market orientation or customer focus are very complex multi-faceted constructs (see, for example, Day, 1998). The study of market orientation has tended to focus on the degree of market orientation exhibited by companies and the relationship between market orientation and performance; there has been a deficiency of knowledge about the actual form or nature of the construct. Even where there is examination of the nature of market orientation, there is generally a lack of consensus (Gray and Hooley, 2002).

## How to develop a market orientation

Rather surprisingly, there has been relative little attention in the literature to the antecedents of market orientation (Avlonitis and Gounaris, 1999; Gray and Hooley, 2002), while there have been a number of studies linking various factors to market orientation including Homburg *et al.* (2002); Harris and Ogbonna (2001); Vorhies and Harker (2000) highlighting issues such as leadership style (Farrell, 2000) and marketing planning quality (Pulendran *et al.*, 2003). The Jaworski and Kohli (1993) study identifies a number of antecedents to market orientation: top management emphasis on the importance of market orientation, interdepartmental connectedness, and reward management. Difficulties arise in that different models of market orientation are used in various studies – and also the question may arise as to where the influencing factors that may determine market orientation come from (Avlonitis and Gounaris, 1999). Therefore, one is in danger of engaging in a circular discussion about the factors, which facilitate the development of market orientation, where they originate, and indeed differentiating them from the construct itself.

So, there is a lack of specific advice in the market orientation literature to organisations on how to become market-oriented (Greenley, 1995; Harmsen and Jensen, 2004). The key problem relates to how a market orientation is defined – Webster (1988) has emphasised the role of information. This raises a dilemma about how to identify the causal factors for market orientation – take for example, information management, which is already contained in the definition of the market orientation construct, in particular that of Jaworski and Kohli (1993). Therefore, while one can acknowledge the informational character of market orientation, the potential role of information as an antecedent has not been adequately assessed.

## Value of the capabilities perspective to understanding market orientation

The RBV literature (Wernefelt, 1984; Barney, 1991) provides the promise of a tantalising glimpse into the sometimes-elusive realm of organisational success through its focus on distinctive resources, which differentiate organisations. Enhanced performance is facilitated by the resources which are specific to the firm, appear valuable to the customers, and have the advantage of being non-substitutable and also difficult to imitate (Barney, 1991; Rugman and Verbeke, 2002) and which if deployed in an effective manner by the management team will lead to competitive advantage (Fahy and Smithee, 1999; Fahy, 2001). Capabilities can be defined as 'complex bundles of skills and collective learning, exercised through organisational processes, that ensure superior coordination of functional activities' (Day, 1994, p. 38). Significantly, Day sees the potential of the emerging capabilities approach in offering a new vista on market orientation. Srivastava *et al.* (2001) point out that marketing and resource-based scholars are united in seeking answers to the same question: "what gives rise to competitive advantage and how can it be sustained?" (p. 777). There is a definite movement towards integrating the RBV/capabilities theory with the marketing literature (e.g. Wernefelt, 1984; Bharadwaj *et al.*, 1993; Fahy *et al.*, 2000), which may address this question.

The market orientation literature has perhaps for too long been an orphan, originating in the marketing literature (e.g. Kohli and Jaworski, 1990) but clearly borrowing from the management and strategy domains. As market orientation is likely to have its effects demonstrated through the strategic actions of an organisation, it clearly makes sense not to take an isolationist perspective, but to acknowledge the broader, holistic nature of the construct (see Dobni and Luffman, 2003; Stoelhorst and van Raaij, 2004), indeed, much of the market orientation literature has emerged from the RBV (Gray and Hooley, 2002).

Market orientation has a positive relationship with a number of capabilities such as the customer-linking capability (see Hooley *et al.*, 2005) and the market-sensing capability (Day, 1994). Modelling market orientation within a capabilities perspective may facilitate a more satisfactory prescriptive approach – rather than simply measuring the status of market orientation, the emphasis will be on identifying key capabilities, which the organisation must develop in order to be market-driven.

## Developing a conceptualisation of market orientation based on the market sensing capability?

There has been debate in the literature about the status of market orientation as a capability (Menguc and Ash, 2006) but if this market orientation capability is dependent on other constructs to explain performance as discussed earlier, perhaps one should look elsewhere to identify a capability which may capture the essence of market orientation, and has the potential to more satisfactorily explain the relationship with performance? One such possibility is the market-sensing capability (Day, 1994, 1999); market-sensing is an anticipatory capability which enables the firm to track the way that the market is moving in advance of its competitors through an open approach to market information development and interpretation, and the capture of market insights (Day, 1994, 1999; Ramaswami *et al.*, 2004; Olavarrieta and Friedmann, 2007), and which is characterised by activities such as scanning outside the periphery, or seeking insights beyond the usual sources (see Day and Schoemaker, 2006). The Kohli and Jaworski (1990) conceptualisation of market orientation which places an emphasis on generating, disseminating and responding to market information effectively represents the nature of a market sensing capability, according to Day, who also perceives the competing definition from Narver and Slater (1990) as being complementary to this capability. Therefore, the market-sensing capability would appear to be critical to the understanding of the development of market orientation. Day (1999) notes how market sensing activity has a beneficial effect on market learning and in fact describes market-sensing as a "superior market learning capability" (p. 85). Also, a positive learning environment has a beneficial effect on market orientation (O'Driscoll *et al.*, 2001). Significantly, market orientation has the potential to drive effective generative learning, according to Slater and Narver (1995) who add the caveat that this assumes a broader conceptualisation of market orientation. Market learning is also highlighted by Stoelhorst and van Raaij (2004) as playing a potentially significant role in integrating a broader model of market orientation.

As discussed previously, capabilities are significant in explaining sustainable competitive advantage (SCA), dynamic capabilities, which enable the effective management of resources to allow the organisation to cope with a changing environment (Collis, 1994; Teece *et al.*, 1997; Helfat *et al.*, 2007) are particularly critical. The market-sensing capability (Day, 1994, 1999) may meet the requirements of being such a dynamic capability. The importance of this capability has recently been acknowledged in the literature (Ramaswami *et al.*, 2004; Cravens, 2006; Ritter, 2006; Olavarrieta and Friedmann, 2007). There has also been some significant work on the decomposition of a "learning capability" (see Hult and Ferrell, 1997; Goh and Richards, 1997; Li and Calantone, 1998; Jerez-Gomez *et al.*, 2004) – and further insight into market orientation may emerge from full decomposition of the market-sensing capability (Foley and Fahy, 2004).

## Conclusion and research directions

The operationalisation of the marketing concept in the seminal work of scholars such as Kohli and Jaworski (1990), and Narver and Slater (1990) has been of significant benefit to the progression of marketing thought. There are a number of compelling themes in the market orientation literature that have attracted attention. These issues relate to the nature and development of market orientation, as well as the relationship with performance. The capabilities perspective has the potential to address the complex nature of the market orientation construct. In particular, a model of market orientation based on the key market-sensing capability may facilitate further understanding of the construct. Decomposition of the market-sensing capability is desirable to provide more insight into the construct (Foley and Fahy, 2004) in particular the relationship of market orientation with performance, preferably through fine-grained research as advised by Srivastava *et al.* (2001) for empirical analysis of marketing resources. Empirical study should be within the specific firm and industry context (see Collis, 1994, Oliver, 1997) as acknowledgement of the particular setting is also important to ensure relevance for practitioners.

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