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# **MARKET ORIENTATION AND COMPANY PERFORMANCE: A RUSSIAN SERVICE INDUSTRY PERSPECTIVE**

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## **MARKET ORIENTATION AND COMPANY PERFORMANCE: A RUSSIAN SERVICE INDUSTRY PERSPECTIVE**

**Purpose** – This paper examines the influence of Market Orientation on business performance in the local service industry in Russia.

**Design/methodology/approach** – The MKTOR and MARKOR models of Market Orientation were studied and evaluated. This led to the elaboration and proposal of a localized Market Orientation model which counts the peculiarities of doing business and the market in an emerging market. Such a model then provided the basis for a set of hypotheses tested by a field study of 133 organizations operating in the service industry. The impact of Market Orientation on business performance then was examined.

**Findings** – The results demonstrate that Market Orientation produces a positive effect on performance.

**Practical implications** – Companies may benefit by implementing Market Orientation. In the service industry, inter-functional coordination between different departments, competitive service product offers and a customer centred philosophy are the most crucial Market Orientation components. Others should not be overlooked as they also commonly provide a substantial basis for improved business performance. Being applied systematically, the Market Orientation paradigm may produce a positive effect on the business and its competitive position in the marketplace.

**Originality/value** – This paper follows a stream of publications dedicated to the Market Orientation paradigm. Even with the number of publications on Market Orientation there is a lack of studies on its application to different markets, countries and industries. This paper contributes to the small number of publications dedicated to Market Orientation in one of the most multifaceted emerging markets, Russia. It is also the first that studies Market Orientation applied solely to service industry organizations in Russia.

**Keywords:** Market Orientation, Performance management, Service industry, Emerging markets

**JEL classification:** Z

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## **Introduction**

Within recent decades a large amount of research has observed the efficiency of marketing concept implementation (Achrol and Kotler, 2012). Marketing concept is a customer-centered business paradigm which emphasizes the development and promotion of products and services demanded by consumers (Zhou, Chao and Huang, 2009). The business which supplies products and services with better consumer-perceived value usually reports the higher-than-average results (Kotler, 1984, Webster, 1988, Narver and Slater, 1990). This axiom is widely accepted by academics but the issue of the proper execution of marketing concept arises. While marketing concept itself is considered a business philosophy and can be seen as something abstract, it needs to be supported by a definite system of implementation (Kohli and Jaworski, 1990). Businesses, on the other hand, have communicated their need for efficient models of measurement for their investments in marketing. These demands were solved by introduction of Market Orientation, which some researchers believe to be “central to the discipline of marketing” (Farrell and Oczkowski, 1997). Marketing Orientation represents a scientific approach to measuring the efficiency of marketing concept implementation and proposes a set of universal measures for the correlation between marketing activities and business results through market oriented behavioristic components. As Market Orientation has received a great deal of interest from many researchers during the past two decades, many papers relating to the subject can be found in academic literature (Narver and Slater, 1990, Kohli and Jaworski, 1990, Jaworski and Kohli, 1993, Day, 1994, Ruekert, 1992, Deshpande, Farley and Webster, 1993, Kirca, Jayachandran, Bearden, 2005, Morgan, Vorhies, Mason, 2009, Fang, Chang, Ou, 2014).

There were 40 research projects between 1990 and 2011. Of these, 30 studies showed a strong correlation between Market Orientation and overall business performance, 7 studies showed a weak correlation and only 3 studies provided no evidence of such a correlation. As the vast majority of studies proved that Market Orientation leads to a better business performance, it is widely accepted that companies have to become market oriented in order to improve their results.

However, almost all studies were applied to western business and marketing cultures where measurement models of Market Orientation such as MKTOR and MARKOR are widespread. Most studies were completed in the fields of physical production while only a few were applied to the service industry. Service industries are very different from goods manufacturing in terms of marketing implementation, being based on the human-human, not

the product-human interface. Hence companies operating in the service industry have to be more market oriented and more flexible as they deal more with human interaction and relationships. The service industry, however, has an advantage in the possibility of faster reaction to changing consumer needs as service product development cycles are commonly shorter than for physical products. This makes the service industry better suited to Market Orientation.

The number of Market Orientation studies completed in emerging countries is quite limited. These countries have undergone the transition either from unsophisticated capitalism or a communist regime and a centrally planned economy to unrestricted markets mainly in the past two decades. At the same time emerging markets do not have much in common as every country has a unique set of peculiarities caused by specifics of history, geography, national mentality and many other qualities. Economy and market development specifics in emerging markets have a direct impact on the establishment of marketing concept, giving rise to national marketing models that are exclusive for the specific emerging market.

In this paper we first review the development of marketing concept applied to emerging markets and emphasize the specifics of the local national marketing model. We also focus on the service industry in emerging markets as it shows notable advances in marketing concept and has a strong potential in this field. As the core challenge of the local marketing model employment is about the efficiency of marketing tool implementation, the widely accepted MKTOR and MARKOR models of Market Orientation construct are then studied and evaluated. This leads to the elaboration and proposal of a localized Market Orientation model which takes into account the peculiarities of doing business and marketing in emerging markets. This localized Market Orientation model provides a basis for the hypotheses to be proved by the subsequent field study. The methodology and the data collection methods for the field study are followed by the data analysis. The analysis, conclusions and recommendations, limitations of the study and proposed guidelines for future research are in the final part of this paper.

## **Background**

Russia's transition towards a market economy started more than 20 years ago. This changeover was not smooth in many respects. The structure of the inherited economy put

Russia in a negative position for the development of the economy. The reforms hurt a majority of the population by the privatization process which started in 1993 and created a new wealthy oligarchy, led to a tremendous income gap between different societal groups and resulted in the creation of a tiny middle class. To date, Russia has failed to create an innovation driven post-industrialist economy and remains heavily reliant on its immense natural resources. The current economic model is also characterized by heavy governmental regulation providing the basis for widespread corruption. This model, however, has been able to generate 4–5% annual growth till 2014 according to Russian economic experts.

These particulars shape the unique Russian localized marketing model which is still forming. Other factors having a direct impact on its development include the national mentality and consumer buying habits, climate, geographical, historical features. National marketing models are unique from region to region and from country to country. This uniqueness means every country contributes something to the current state of global marketing concept. Every national marketing model has its own strengths. North America enriched the marketing concept with high-level product and service promotion tools, EU countries created sophisticated distribution systems and upmarket branding, Asian and particularly Japanese companies are known for their product development procedures. Although they are improving, Russian companies currently lag in this area. Local businesses and scholars are studying marketing features in order to implement practices that are the most suitable for Russia. This shows that local marketing concept should receive more research attention from academics.

The current Russian marketing model in the service industry is multifaceted. It is driven by the three following groups of businesses which are very different one from each other (Kazakov, 2012):

1. Ordinary Russian companies;
2. Local operations of multinational and foreign firms and corporations;
3. ‘Old school’ or ‘Soviet style’ Russian companies;

SME and start-ups usually form the first group. Lacking resources they are obliged to appreciate every customer, they tend to use marketing principles in their activities.

Even though many multinational corporations set up in Russia, they have little influence on the development of the Russian model of marketing. According to EconomyWatch the share of global corporations made up only 3% in GDP of Russia in 2013. However, their experience especially in methods of mass marketing and branding served as a good lessons for locals who attempt to benchmark these ideas.

Companies in the third group represent the inheritance of the former planned economy era. These commonly are big enterprises with some or a significant share of state ownership. With little exception 'old school' firms are believed to exhibit little or no marketing principles when it comes to their interaction with the market environment, especially with consumers. Some of them represent 'natural' monopolies and therefore have no inclination or necessity to use marketing.

## **Concepts and Methods**

### **Theoretical framework**

There are a number of Market Orientation construct models recognized by scholars. Narver and Slater (1990) developed a model of Market Orientation, MKTOR, and estimated its impact on business profitability. They showed a relationship between sustainable competitive advantage and Market Orientation, and that Market Orientation is a business culture that most effectively and efficiently creates superior value for consumers. The model involves three behaviors with respect to company marketing activities:

- (1) customer orientation including knowledge of consumer needs and making efforts to meet such demands thereby creating the real added value;
- (2) competitor orientation or understanding the strengths and weaknesses, long term strategies of existing and potential competitors;
- (3) cross-functional coordination which means the harmonization of internal resources aimed at superior value creation for the customers, and that every employee within the organization should be capable of contributing to value creation for the customer.

The coordinated utilization of all business resources aimed at value creation for the customer is strongly associated with the other components of the model, so MKTOR provides outstanding results only if all of the three components are integrated within business activity (Narver and Slater, 1990).

Kohli and Jaworski (1990) determined the scope of the Market Orientation concept and developed an integrated environment for further research in this field. Their Market Orientation model, MARKOR, also contains three components:

- (1) consumer focus, which serves as the central element of the Market Orientation, understanding consumer needs should not end with the collection of relevant

information, it should also include a description of the impact of the marketing environmental factors (competition, regulations, etc.) on consumer preferences and future customer needs, along with the existing demands;

(2) coordinated marketing, e.g. Market Orientation should not be considered as a matter of the marketing department only; knowledge and understanding of the customer needs is critical for another departments and this is particularly true with respect to the collection of market information;

(3) profitability, the lack of understanding of profitability as a component of Market Orientation is typical for management, profitability is seen as a consequence of company Market Orientation activities and this statement is supported by a number of researchers.

It is also necessary to distinguish the concepts of “Market Orientation” and “marketing orientation”, as these two categories are not identical. An organization’s phased implementation of marketing concept through the use of specific but separate marketing tools is “marketing orientation” (Golubkov, 2003). When the organization has marketing orientation, it usually has a marketing department or dedicated marketing personnel, but the role is limited to market research or product/brand promotion. Such an organization only partially benefits from the potential of marketing concept. With the development of marketing orientation within the organization when marketing activities cease to be the sole job of the marketing department and marketing responsibility begins to spread in the direction of other organizational units, first to commercial (sales, buyer, logistics departments), and then to back-office type units (manufacturing, finance , human resources). Such intraorganizational diffusion of marketing responsibility ultimately allows the transition from “marketing orientation” to “Market Orientation”. “Market Orientation” is an organizational concept in which every division has objectives, structure, functions and responsibilities focused on customer needs and on competitors’ activities, which are aligned with the marketing strategy. Therefore “Market Orientation” reflects the positioning of the marketing concept in the center of the company management while the organization plans and executes its activities with a sense of the marketing philosophy.

We also need to emphasize pre-marketing business organization, which we call “Commercial Orientation”. This type was typical of the industrial era, when companies had little understanding of marketing put a lot of effort to pushing the sales of products which were convenient for the businesses in terms of R&D, production and distribution . It was a

clear instance of the push production system and its limitations and disadvantages were obvious (Spearman and Zazanis, 1992). “Commercial Orientation” has not faded and is still tangible for many modern Russian businesses who still fail to understand the needs and wants of their customers and intermediaries.

Overall hierarchy levels of Market Orientation can be visualized with a help of the following diagram (See Fig. 1).

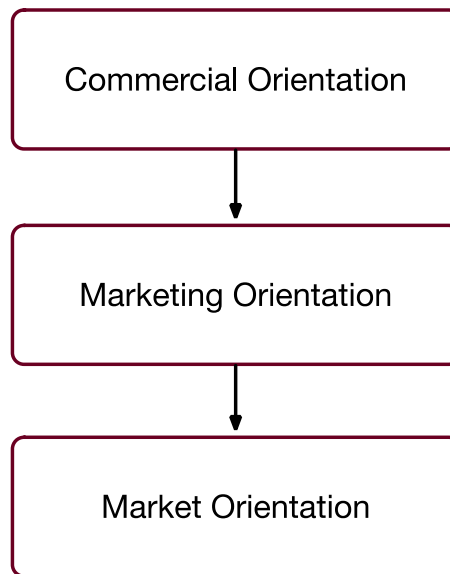


Fig. 1. Levels of Market Orientation

### **Research Methodology**

We considered MKTOR and MARKOR for the development of a Market Orientation model that would fit into the specifics of the Russian service industry. The MARKOR model which combines customer orientation, profit orientation and coordinated marketing, is blurred due to the fact that its components are not fully behavioral—they are not performed simultaneously. Profitability can be only a consequence and not a prerequisite for the fulfillment of the Market Orientation concept. The number of behavioral components of MARKOR construct can be reduced to two. Furthermore, the interpretation of “coordinated marketing” as another model component by Kohli and Jaworski is not clear. As the authors explain, “marketing is no longer the sole concern of the marketing department”, but they do not explain how marketing concept should be integrated into the business model of the company. Consequently, only one MARKOR component—consumer focus—can be considered valid, which is true, but, nevertheless, is insufficient as full model of Market Orientation.



MKTOR received less criticism from scholars (Farrell and Oczkowski, 1997) as it was more concrete. It is tied up with well-defined behavioral components that are visible and that can be accomplished in practice. The first MKTOR component, Customer orientation, serves as a basis of the marketing activities of organizational operations. Competitor orientation allows the implementation of the policies aimed to increase the company's ability to stay competitive as it helps to set up a benchmark for organization behavior in the marketplace. Inter-functional coordination, the third MKTOR component, is the positioning of the marketing concept into the center of the management system within the organization.

Pharell and Ozcowski (1997) examined the marketing orientation levels of 468 companies in Australia. They used two sets of questionnaires, the first was based on MKTOR determinants, the second comprised questions based on MARKOR metrics. The purpose of their research was stated as the comparative testing of the MKTOR and MARKOR models and to detect the strengths and weaknesses of each model. Survey participants filled in both questionnaires. The results demonstrated that MKTOR was less complicated, statistically more accurate, and easier to measure (Pharell and Ozcowski, 1997).

There is a limited number of research papers dedicated to Market Orientation concept studies by Russian scholars. Semenov, Kubakhov and Malkova (2009) pioneered the localized notion of Market Orientation and conceptualized the evolution of the theory by reviewing many research papers of their academic predecessors worldwide. They elaborated and proposed a unique method of Market Orientation measurement and its implementation based on the survey of 216 business organizations that operated in Russia. Kazakov (2012) tested the effect of Market Orientation on business performance based on a classification of Russian service companies with regard to their level of Market Orientation and used exploratory factor analysis. Rozhkov, Rebyazina and Smirnova (2014) used the two-factor model of company orientation towards customer and utilized MKTOR in their comparative study of Russian company customer orientation in 2008 and 2010.

We used MKTOR to develop a Market Orientation model which would account for the specifics of doing business in Russia. The development of such a model is to accommodate the specifics of service industry businesses. Local business specifics lead to the need to include additional behavioral components into the localized MKTOR model. Based on this assumption, we conducted series of in-depth interviews with service industry managers, owners and other stakeholders as well as with local scholars who specialize in similar topics or were familiar with the Market Orientation concept. As a result, two more

components that improve the local MKTOR model and are appropriate for the local service industry were added:

1) (GOVOR) Relationships with the federal state authorities and local governmental institutions: this component is particularly important for successful functioning in the service sector in Russia, as most business analysts, practitioners and academics point out the strong influence of state bodies on business, "the state is the factor that integrates heterogeneous elements in time and in space for the benefit of the development process in this country" (Kleiner, Petrosyan, Bechenov, 2004).

2) (INDOR) Business peculiarities of the industry: this particular component includes the compliance of the company's activity with the macro-environment, which is directly connected to the industry where the company operates, following the established ways, traditions, rules and behavior in the market, industry-specific barriers for the entry and exit from the market, the overall industry level of quality of service. It also includes a focus on the nature of the separate sub-sectors of the service industry, which exploit different ways to provide service products to different target audiences and clients.

The model, localized to a country and to a single industry, was named MOSI (Market Orientation in the Service Industry). It is influenced by MKTOR, Kumar's ideas and contains additional components which reflect its localized nature relevant to business conditions in Russia. MOSI was tested with the help of a survey conducted among service industry insiders (top management and business owners) with a key hypothesis that Market Orientation based on the proposed model has an impact on business metrics: company turnover, revenues and customer retention rate. We used the original MKTOR questionnaire as the basis for our survey with the inclusion of 8 additional questions to study the added business behavioral components discussed above. The questionnaire therefore consisted of 4 parts: questions aimed to retrieve descriptive statistics on the company; questions to reveal the respondent position within the business, his/her competencies and organization wide role in decision making; MOSI metrics scale questions on 5 business behavioral components, 24 questions in total, to elicit the independent variables for further analysis; and the final section was dedicated to getting information on business performance which would enrich the research data set with dependent variables and overall testing for goodness of fit.

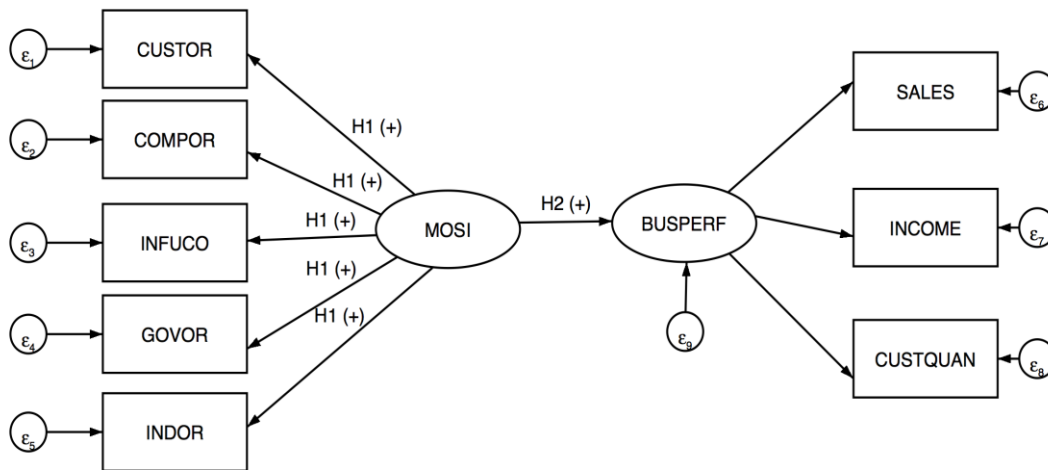


Fig. 2. MOSI Hypothesized Model

(Abbreviations: CUSTOR = Customer Orientation; COMPOR = Competitor Orientation; INFUCO = Interfunctional Coordination; GOVOR = Government Orientation; INDOR = Industry Orientation; MOSI = Market Orientation in Service Industry; BUSPERF = Business Performance; SALES = Revenue; INCOME = Company's profit, CUSTQUAN = Number of Customers)

In constructing the MOSI Hypothesized model we used the previously utilized approach to SEM building found in the literature (Kara, Spillan and DeShields, 2005) but incorporated an extended set of unique variables that reflect the nature of MOSI.

In order to test MOSI (Fig. 2) the following primary set of hypotheses was determined:

H1: Market Orientation is a combined construct of customer, competitor, government, industry orientation and inter-functional coordination in the service industry;

H2: Market Orientation has a positive impact on the business performance of the company operating in the service industry.

## Results of the study

### The Sample

The survey was conducted for over months through a direct mailing of questionnaires to companies and personal interviews where possible. In the mailing, 500 Russian service sector companies were targeted. We sent 456 survey forms and arranged 44

personal interviews. 187 filled forms were received back and 102 forms were eligible for data analysis; 21 personal interviews were completed. The data collection phase thus resulted to n=133, a sample which may characterize the Russian service industry. According to Mennon, Bharadwaj and Howell (1996) an acceptable response rate is 15% to 20%; in the present study it was 27%.

### Data Reliability Test

We completed a reliability test for scale variables using Cronbach alpha (Cronbach, 1955) and component-to-construct correlations (Narver and Slater, 1990). The results of data reliability test are given in Table 1. Narver and Slater (1990) recommend the threshold for Cronbach  $\alpha$  of .7 to confirm the reliability for scale variables values. In data reliability analysis, one component, Government Orientation, does not meet this criterion (.688).

**Tab. 1. Data Reliability Analysis Results \***

Item	Cronbach $\alpha$	Item-to-Total Correlation (Spearman)	Significance P-value (Two-way)
<b>Customer Orientation (CUSTOR)</b>	.870		
Customer commitment		.840	.000
Services value for a customer		.556	.000
Customer demands awareness		.857	.000
Customer satisfaction measurement		.799	.000
Post-sale service level		.669	.000
<b>Competitor Orientation (COMPOR)</b>	.905		
Competitive information provided by salesmen		.784	.000
Reaction speed for competitor activities		.826	.000
Activities of competitors are discussed		.816	.000

Endeavors for competitive edge		.813	.000
Competition activities are tracked and recorded		.800	.000
<b>Interfunctional Coordination (INFUCO)</b>	.867		
Non-S&M depts. interaction with customers		.666	.000
Information is distributed freely among depts.		.700	.000
Corporate strategy embraces all depts.		.745	.000
Inter-departmental interaction and cooperation		.797	.000
Five-year strategic development plan is available		.703	.000
Employees work is coordinated by management		.646	.000
<b>Government Orientation (GOVOR)</b>	.688		
Legislation changes tracking		.634	.000
Participation in tenders arranged by government		.626	.000
Government has an impact on firm's business		.513	.000
Firm's ability to influence the legislation		.533	.000
Good relationship with officials		.593	.000
<b>Industry Orientation (INDOR)</b>	.815		
Knowledge 'how to' make business in industry		.732	.000
Industry requirements compliance		.734	.000
Level of competition within industry consideration		.588	.000
Industry specifics impact on firms' business		.729	.000
Industry specifics consideration in strategy planning		.737	.000

\* Based on approach to reliability test by Narver and Slater (1990)

The Spearman correlation coefficients were used as the questionnaire contained ordinal scales for dependent variables that measured the components of the Market

Orientation. Two-way correlations are considered stricter in terms of statistical significance. Table 1 indicates mostly strong correlations between components and their respective constructs except for Government Orientation.

### **Market Orientation Construct Validity**

We used the pair-correlations and factor component analysis to test the validity of the Market Orientation construct (Narver and Slater 1990). This was done to determine if all the components of the tested Market Orientation model are aligned and tied one to another. The consequences of the Market Orientation model were also included in the analysis in order to determine the direct correlations of model components. These Market Orientation consequences included ordinal scales of Sales Growth or SALES variable (Q: Did your organization witness a growth in sales in last fiscal year?), Increase of income or INCOME variable (Q: Did your company report an increase in its income last fiscal year?) and Customer Base Expansion or CUSTQUAN variable (Q: Did your company enlarge its customer base last fiscal year?). The results of this analysis are presented in Table 2.

**Tab 2. Market Orientation Construct Intercorrelations**

	CUS TOR	COM POR	INFU CO	GOV OR	IND OR	SAL ES	INCO ME	CUSTQ UAN	Factor comp.
CUSTOR									.860
COMPOR	.723								.834
INFUCO	.774	.772							.879
GOVOR	.282	.236	.263						.429
INDOR	.669	.659	.637	.237					.772
SALES	.759	.683	.785	.491	.636				.931
INCOME	.692	.667	.738	.410	.622	.933			.902
CUSTQUAN	.684	.725	.693	.432	.625	.774	.765		.863

Overall, the construct looks rigid except for Government Orientation, which demonstrated low-to-medium Pearson correlation ratios for the the rest of the construct components. Hence, this component was removed from the MOSI model.

### **The Impact of Market Orientation On Business Performance**

The essence of Market Orientation is its ability to produce a positive impact on business results and company performance (Narver and Slater, 1990, 2000; Kirca et al., 2005). It is also necessary to show the impact of all five Market Orientation components on key performance metrics. Business performance is seen as a consequence of Market Orientation and is accompanied by customer consequences, innovation consequences and employee response consequences (Kirca et al, 2005, Narver and Slater, 1996). Due to the limited opportunities to examine all Market Orientation consequences in the field we focused on two basic business performance metrics—Increase In Sales and Company Income Growth as a result of Market Orientation implementation, and one customer-based consequence—Customer Quantity Increase. We included Customer Quantity Growth in the business performance metrics as the customer base can be counted as numeric data and thus correspond to Sales and Income variables in this study. Furthermore, some research also incorporates customer driven metrics into the business performance of the organization (Eccles, 1991, Kleijen and Smits, 2003).

We implemented path analysis in a combination with confirmatory factor analysis inclusive of two latent grouping variables of MOSI and Business Performance (BUSPERF) to test the hypothesized model of MOSI. The resulting MOSI model with estimations is presented in Fig.3.

The resulting SEM model provided good results in a overall goodness of fit with  $\chi^2 = 31.04$ , SRMR = .031, TLI=.980 and CFI=.968.

H1 cannot be rejected as all predictor constructs are positively adhered to the joint MOSI conceptual model (See Table 3).

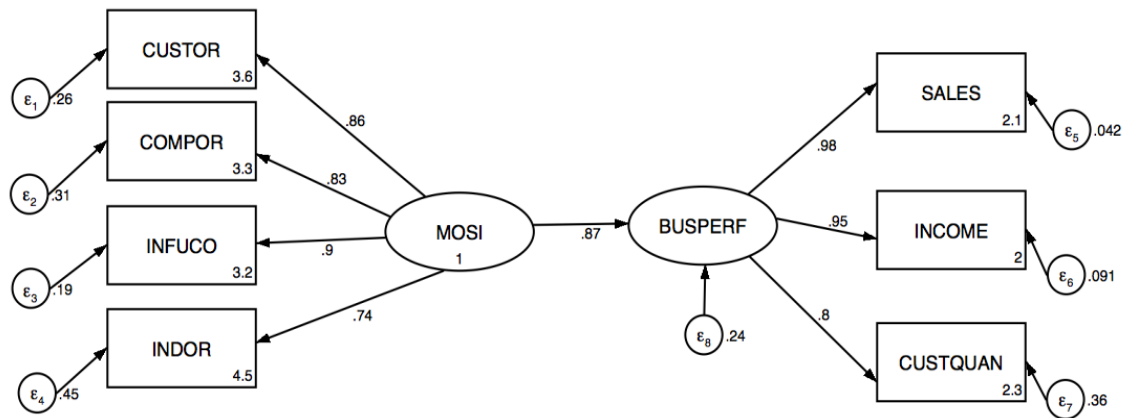


Fig 3. MOSI Resulting Model Framework

Hence, MOSI is a result of the combination of five organization behavioral components including Customer Orientation, Competitor Orientation, Inter-functional Coordination and Industry Specifics Orientation. However, these components do not affect Market Orientation equally (Table 3).

**Tab. 3. Data Analysis For Market Orientation Structural Model**

Measurement	Path Coefficient ( $\alpha$ )	Z-Statistics	P-value
MOSI→CUSTOR	.86	15.20	.000
MOSI→COMPOR	.83	14.96	.000
MOSI→INFUCO	.9	14.95	.000
MOSI→INDOR	.74	15.57	.000

Three original model component  $\alpha$ -values demonstrated their key importance for Market Orientation. The proposed and tested component—Industry Orientation—also obtained a high  $\alpha$ -value.

H2 testing started with the analysis of the right side in the path model (Fig.3). According to the data in Table 4, Business Performance can be a valid grouping variable for

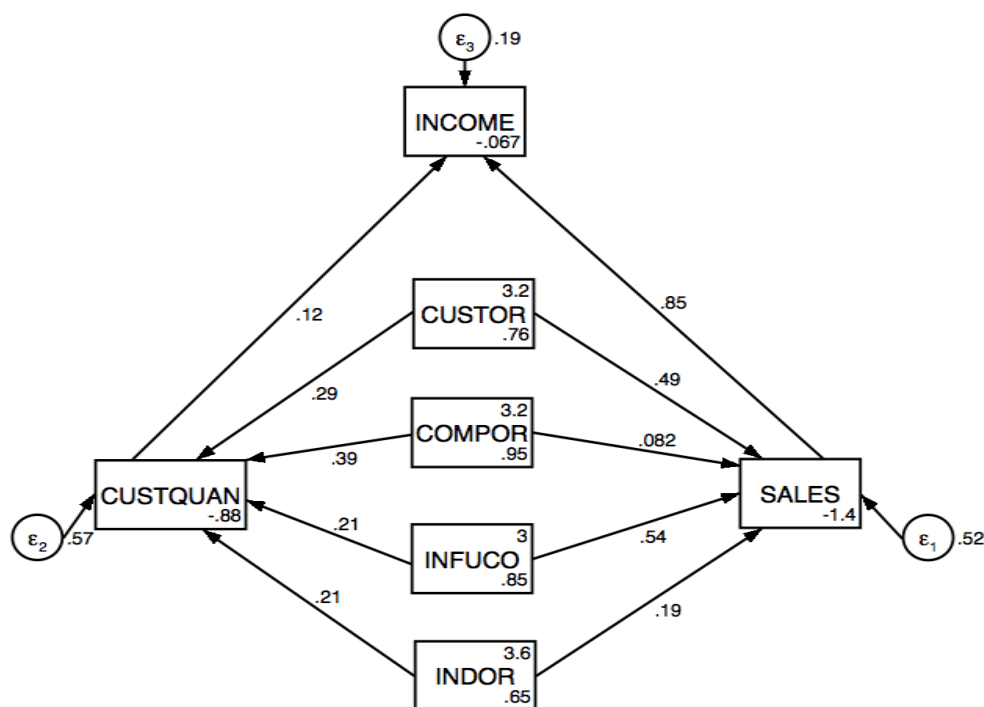


key business results such as sales growth ( $\alpha=.98$ ,  $p=.000$ ), an increase in company income ( $\alpha=.95$ ,  $p=.000$ ) and in the number of customers serviced by the company ( $\alpha=.8$ ,  $p=.000$ ).

**Tab. 4. Data Analysis For Business Performance Structural Model**

Measurement	Path Coefficient ( $\alpha$ )	Z-Statistics	P-value
BUSPERF→SALES	.98	13.57	.000
BUSPERF→INCOME	.95	13.32	.000
BUSPERF→CUSTQUAN	.8	13.90	.000

The results of latent variable path model analysis confirmed their validity. The estimated model in Fig.3 acknowledges that Market Orientation has a positive impact on Business performance with a path coefficient of  $\alpha=.87$  ( $p=0.000$  and z-statistics of 32.99). To test further and double check the existence of Market Orientation’s positive influence, we build an accompanying structured path model showing the direct effects of the Market Orientation components on Customer Quantity Growth and Increase in Sales, and their impact on Company Income without latents. These two variables further produce an impact on income growth in the model and business performance results (See Fig. 4).



**Fig. 4. Path Analysis of Direct Effects of Market Orientation Components**

The second model testing the direct effects of Market Orientation on Business Performance metrics has good indicators of goodness of fit with  $\chi^2 = 35.341$ , SRMR=.037, CFI=.947 and TLI=.840. The path model provides positive coefficients of the specific Market Orientation components direct impact on Business Performance. Market Orientation components as standalone applications also produce an effect on Business Performance. Thus H2 cannot be rejected.

## **Discussion and Avenues for The Future Research**

When testing H1, the low model integrity of Government Orientation was discovered based on the modest values of the Spearman correlation indices with regard to other MOSI components and this component did not demonstrate tangible correlation scores with the item-to-total construct. Thus it was decided to remove Government Orientation from the model. The assumptions were however contradictory as stated above. These constraints should be further investigated, and a full explanation will require more examinations in the future.

The verification of Inter-functional Coordination and Industry Orientation indicated lower values of factor load on Customer Quantity Increase compared to other MOSI components. This may be explained by the mostly indirect influence of an organization's internal activities on the customer base increase, as Inter-functional Coordination is vital for Market Orientation but provides a clear effect in the long term. Industry Orientation does not make the company unique for the market and customers because this component means the compliance with industry standards of service, operations and other ways of doing business as all market players do in the same industry, therefore there is less direct effect on Customer Quantity Increase.

Industry Orientation and Competitor Orientation both have a modest influence on Sales Increase, the latter has almost no impact on it. Competitor Orientation produces a medium effect on Customer Quantity Increase but at the same time it has less impact on Sales Increase according to the direct effects model. These effects should be further investigated in future research.

Internal causal effects in Business Performance are another point for discussion. Sales Increase causes income growth ( $\alpha=.85$ ,  $p=.000$ ) as expected, but customer base growth has much less effect on the business performance indicator ( $\alpha=.12$ ,  $p=.023$ ). This can be explained by the willingness of participants to develop loyalty programs and retain existing

customers and to maximize sales to them rather than promote their business new ones. This impedes company growth and makes it more dependent on existing customers who may demand more from loyalty programs in a long run. This issue also has to be addressed to a future research.

The newly introduced Market Orientation components, Government Orientation and Industry Orientation, need to receive further study in service and other industries as they resulted in modest values in Market Orientation model authenticity. Finally, due to the multifaceted character and high level of volatility in the Russian economy longitudinal studies of Market Orientation status quo level and its implementation are important. The latest events and changes in Russia that have occurred since 2014 and were caused by sanctions and the economic recession will produce an impact on the business environment and company behaviour, and consequently will produce an effect on their Market Orientation.

### **Limitations of the study**

The present study has certain limitations. First, the research setting is restricted to the service industry and was conducted in one country. Different business sectors and industries may demonstrate divergent scores using MOSI. The MOSI model included two country unique components—Government Orientation and Industry Orientation that may be not relevant for other countries or/and territories. Second, the timespan of the study is limited to 2010 which was a time of stable economic conditions. Recent circumstances, e.g. sanctions, oil prices, ruble devaluation, and the expected recession are currently influencing the national economy and the behavior of business organizations in this country. Such a rapidly changing economic situation will certainly have many implications for Market Orientation in Russian companies and will need further investigation and explanation in the future when the situation stabilizes. Third, even though the sample of  $n=133$  provided ample data distribution, the results may be limited to research projects of this scale and has to be increased to  $n=300-500$  companies for the studies in the future.

### **Summary and conclusions**

To date, there are a sizable number of publications dedicated to the definition and understanding of Market Orientation in the literature. Many authors have contributed to the subject of Market Orientation. In many studies researchers hypothesized and proved the

positive effect of Market Orientation on Business Performance. The majority of the studies in this field were either directed at testing MKTOR or MARKOR models in a number of different research settings or unique approaches explain the Market Orientation paradigm from different angles and perspectives.

In this paper we proposed, examined and tested the localized Market Orientation model applied to the service industry. It is based on MKTOR with supplementation of two additional components—Government Orientation and Industry Orientation—which were believed to reflect the peculiarities of the multifaceted nature of the economy in Russia. The data analysis demonstrated a high level of reliability and construct authenticity for most of MOSI components with the exception of Government Orientation which showed medium integrity values but still within the acceptable threshold level.

The impact of Market Orientation on Business Performance then was examined. This was done by structural path modeling. First, we tested the influence of the introduction of two latent variables that involved Market Orientation and Business Performance. The model estimation returned a good result for goodness of fit. Then we studied the possibility of separated MOSI components direct effects on Business Performance indicators by using a different path model. This was done in order to evaluate the exact contribution of each MOSI component on Business Performance. The result of the second model estimation again showed that all MOSI elements have a positive impact on company performance even though this influence is quite uneven from one component to another.

The overall results of our study demonstrate that Market Orientation produces a positive effect on Business Performance. This impact was ascertained both via the introduction of latent variable MOSI and by the direct effects of the separate components on Business Performance. In a first model, where MOSI was used as a grouping latent variable, we determined high predictor construct coefficient values for the MKTOR model components Customer and Competitor Orientation and for Inter-functional Coordination. The new constructs, Government and Industry Orientation, provided less evident  $\alpha$ -values, especially for Government Orientation. However, in the direct effects model the same construct demonstrated a similar effect but with much higher path coefficient values, and the influence of Government Orientation on sales results and customer base increase proved to be very substantial. This phenomena should be addressed in future studies to clarify the real impact of Government Orientation on business results.

The direct effects path model provided another interesting finding. Customer Orientation leads to Increase in Sales but to a lesser degree than new customer acquisition.

Hence service companies rely more on increasing sales to their existing customer base by improving their loyalty programs. On the contrary, Competitor Orientation helps to obtain more customers by promoting competitive service product offers following an increase in sales. Inter-functional Coordination helps to improve sales results and is less correlated with new customers acquisition. This proves the need for building a service organization which is customer centred in order to orient the firm towards the market and improve its sales. Industry Orientation almost equally impacts the growth of the customer base and sales growth. The increase of company income is based on Sales growth rather than on customer acquisition in the service industry.

We believe that there is an array of managerial implications following this study. Companies in the service industry will improve their results by incorporating and implementing the Market Orientation components. First, management should pay close attention to Inter-functional coordination between different departments which would lead to an increase in sales. The departments that carry out sales, marketing and service operation functions should be primarily targeted. The coordination shift may be leveraged through market specific information distribution, mutual targets, plans and budgets, shared responsibility and reward systems. Such coordination should also embrace departments which interact with customers on an occasional or temporary basis, even the back-office ones such as accounting, logistics and administration. All internal company specializations have to understand the importance of the customer and should plan their activities with regard to customer orientation, which increases sales. Secondly, the company should also take a close look at its service product offers and make them competitive and appealing to customers as this helps to attract more customers. Third, the other Market Orientation components should not be overlooked as they also provide a substantial basis for business performance. Being applied systematically the Market Orientation paradigm may have a great effect on the company's business and its competitive position in the marketplace.

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