

University Doctoral Thesis (PhD)

**THE ACHIEVEMENT OF MARKET ORIENTATION AND ITS
EFFECT ON PERFORMANCE IN HUNGARIAN SMEs**

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Contents

Introduction, the relevance of the subject, formulation of research questions

1. The structure of the doctoral thesis, the methodology applied

1.1. The structure of the dissertation

1.2. The model used as the basis for the analysis, the hypotheses and the results of empirical research

1.2.1. The model

1.2.2. Analysis of the hypotheses and the results of empirical research

2. The theses of the doctoral dissertation

3. The new and novel academic results

4. Limitations of the research, suggestions for further research

Bibliography

The author's publications on this subject

Introduction, the relevance of the subject, formulation of research questions

For almost three decades the question at the centre of attention for marketing academics has been whether the marketing conception, and its execution – market orientation - can lead to outstanding company performance. Market orientation has, over the last few decades, been conceived of in many different ways by many different people, but the essence of these approaches has been that by collecting information about the environment (about customers and competitors), the firm can develop a strategy which can create superior customer values. This strategy can be carried out with the help of organisational resources and can result in increased performance. The relationship between market orientation and performance has been examined from the most varied company, economic, geographical, industry sector and cultural environment perspectives, and the majority of researchers have found a positive relationship between the two variables.

At the same time, interest has mainly focused on the large firm sphere, and only in the last decade have we seen the spread of empirical studies which focus on smaller scale enterprises. As is clear from the description given above, carrying out the market conception requires the application of a well thought out, planned, process. However, the activities of small and medium sized firms are characterised by the absence of a conceptual marketing approach, by informal planning and by short term perspectives. Their human and material resources are meagre, their market share is small and the client base limited. It is thus quite justified to ask whether the application of the marketing conception can bring advantages to small firms, too. A whole series of studies show that it is precisely because of the special mode of operation of small firms that the development of market orientation as a resource is so crucially important, in order to ensure their success in the marketplace.

The central question of my dissertation is how the marketing conception is manifest in the Hungarian small and medium sized firm sector, and whether any relationship can be shown between it and performance. Performance can be understood on several levels, since objective financial measures do not always accord with the subjective indicators of satisfaction which managers use to evaluate success; in this way a new perspective is added to the analysis. As a further dimension I have included the entrepreneurial character of the firms' managers in the analysis. The owners/managers of the small firms fill a kind of 'general' role in the life of their organisations, and have influence over the whole area of their activity. Their commitment to market orientation can be critical from a performance perspective. This commitment can be strengthened, and indeed weakened, by many factors; for example, by entrepreneurial motivation, aims, and competencies, and here I examine the effects of these factors.

At the start of my research I must confront the 'confusion of Babel' which is to be found in the literature relating to market orientation as a resource, and the theoretical resource literature on which it is based. Of course, an academic debate generates new perspectives, approaches and categories, but after a time the threads are impossible to disentangle. For this reason, I consider it important, before concentrating on small and medium sized firms, to state my position on the evaluation of market orientation as a resource and its links to performance.

On this basis, my research questions are the following:

1. Does market orientation, as a marketing resource, have an effect – directly or indirectly – on the firm's performance, and is it a source of permanent competitive advantage (secondary research)?
2. Does the level of market orientation adopted by small and medium-sized firms have an effect – and if so, to what extent – on:
 - a) the firm's financial-economic results (profitability),
 - b) its marketing effectiveness, and
 - c) subjective satisfaction?
3. How do the entrepreneurial characteristics of the owners/managers of SMEs affect the adoption of market orientation?

1. The structure of the doctoral thesis, the methodology used

1.1 The structure of the dissertation

The dissertation is divided into two blocks and seven chapters. The first block (chapters 1-3) focuses on the central questions of the research, and the setting out of the theory of market orientation. The second block (chapters 4 – 6) concentrates on the small and medium sized firm aspects. The analysis is completed by a closing chapter 7, which includes the theses. The chapters of the dissertation are as follows:

Introduction, formulation of the research questions

I. Theoretical overview

1. The resource-based view: the theory
2. Marketing resources – market orientation as a resource
3. The marketing conception, market orientation

II. Small and medium sized firm aspects

4. The economic and social role of small and medium sized firms
5. The marketing and market orientation of small and medium sized firms – model creation, formulation of hypotheses
6. The realisation and effect of market orientation in the context of the performance of small and medium sized firms – empirical research
7. Summarising analysis, formulation of theses

Contents of the individual chapters

In *Chapter 1* introduce the formation, development and conceptual framework of the resource-based theory which serves as the basis for the theory of market orientation. The intellectual bases of the resource-based theory are rooted in several academic fields and can be traced back over several decades. It was in the 80s of the last century, however, that full recognition was achieved – born of a sense of frustration with the theories relating to organisational structure – of the fact that firms' outstanding performance does not depend on the external environment of the industrial sector they operate in, but on the unified internal resources which the firm can command and the different ways they are used. The chapter summarises the individual phases and results of the productive debate that has been active since then. (Among others, Wernerfelt, 1984; Dierickx–Cool, 1989; Barney, 1991; Prahalad–Hamel, 1990)

Chapter 2 deals with marketing resources questions built on the resource-based theory, and with market orientation considered as a complex marketing resource. The aim is, by consulting the relevant literature, to synthesize the various research results and thus offer some kind of diagnosis on the current state of a much-argued research theme. Representatives of marketing science have applied the conception of the resource-based approach in order to explain the contribution of marketing to the firm's performance. One of the main questions of the specialist literature is whether market orientation, as a resource, is able to bring competitive advantage. According to the literature market orientation meets the 'resource' criterion as defined by the resource-based theory, but it is still not clear how it contributes to creating competitive advantage. (Among others Webster, 1992; Day, 1994; Hunt–Morgan, 1995; Fahy–Smithey, 1999; Srivastava et al., 1998, 2001; Hooley et al., 1998, 2000, 2005)

Chapter 3 introduces the marketing conception and the theoretical approach of market orientation. The marketing conception can generally be described as the key to an organisation's success, by defining decisions and actions which serve the needs and demands of the target market more effectively and efficiently than competitors, keeping in mind the

profitability and the organisation's aims. Market orientation is based on the marketing conception, and is its implementation. There are two outstanding pairs of co-authors in this field, who attempted to provide a theoretical foundation for the concept of market orientation and to develop a methodology which would make market orientation measurable for firms. Kohli and Jaworski (1990) defined market orientation as the presence of three activities: 1) the creation at an organisational level of market information relating to the demands of current and future customers (intelligence generation), 2) the spread of this information among department/organisational units (intelligence dissemination), 3) the organisation's capacity to respond to the information (responsiveness). As can be seen, in this approach market orientation focuses much more on specific activities, rather than philosophical aspects. According to the other influential pair of authors, Narver and Slater (1990), market orientation demands the following necessary behaviours: 1) recognising the target consumers in order to be able to ensure we continuously provide the with superior value (customer orientation), 2) recognising the short and long term strengths and weaknesses of the competition, as well as the long and short term opportunities and strategies (competitor orientation), 3) exploiting and coordinating the firm's resources (interfunctional coordination). The chapter goes on to introduce the most important stages of the most widely researched conceptual foundations and developments in the field of marketing over the last thirty years. (Matear et al., 2004; Kirca et al., 2005; González-Benito–González-Benito, 2005; Morgan et al., 2009; Kumar et al., 2011)

The following chapter, *Chapter 4* introduces the second block of the dissertation, focusing on small and medium sized firms, and describes some indicators which play a role in the economic and social life of these firms. I introduce those criteria on the basis of which the small and medium sized firm sector can be distinguished from the large firm sector, as well as many operational peculiarities which fundamentally affect firms' activities.

Chapter 5 analyses the characteristics of the marketing and market orientation activities of small and medium sized firms. This includes the firm as a way of thinking and acting, the characteristics of the firm and their attitude towards marketing, understood as the kind of factors which fundamentally determine the conceptual basis adopted by small firms in their marketing activities. In this chapter I consider the findings and conclusions of Hungarian and international research regarding the market orientation of small and medium sized firms. On the basis of the literature, it appears that market orientation has no relationship with any specific size of firm and is decisive for both large and small firms. Since small firms characteristically lack systematic planning, strategic thinking and a long term orientation, market orientation will be something which guarantees a framework for their aims, decisions and activities. This framework is essential in terms of performance, since most small firms have too limited resources to be able to find other sources of success, such as being a cost reducing producer or having a competitive advantage in R & D activities. Another singular aspect of small firms is that the owner/manager has more opportunity to influence the

activities of the employees, and so can have a greater influence on any move to market orientation. (Among others Meziou, 1991; Pelham, 1996, 1999, 2000; Becherer et al., 2001; Blankson et al., 2006; O'Dwyer, 2009; Resnick–Cheng, 2011; Gellynck et al., 2012;)

As the result of my secondary research I set up the model which illustrates the inter-relationships on the basis of which the research questions I formulated would receive answers. The model also includes hypotheses for which I seek answers with the analysis of the data from my primary research. Details of the model can be found in sub-section 1.2 of the thesis booklet.

On the basis of the model and the hypotheses previously laid out, *Chapter 6* analyses the empirical research data with various statistical methods. The basis of the analysis was provided by the OTKA research programme no. NK 69283, “An examination of the factors affecting the foundation, growth and competitiveness of Hungarian firms”. The survey was divided into 9 blocks and 53 groups of questions, covering the entire functional area of the firm, from innovation and knowledge management to marketing. The questions referred to the period between 2004 and 2007. The survey was carried out by the Szociográf Piac- és Közvélemény-kutató Intézet (The Sociographic Market- and Public Opinion Research Institute) in April-June 2008. The selection of the firms was done on the basis of a layered representative sample, according to size (at least 2 individuals), region and industrial/business sector. The final sample included 695 firms (Szerb, 2010). Following the filtering of the questionnaire and the refining of the sample, 552 firms were left in my analysis.

I examined the national database which was produced as a result of the survey with the help of the SPSS statistics programme, following these steps:

- a) *The creation of the variables and the identification of the questions on the basis of the model and the hypotheses.* I matched the time of creation of the variables to the Pelham and Wilson (1996) scale. This combined measure is based on the original MKTOR scale, developed by Narver and Slater (1990) and on the MARKOR scale developed by Kohli and Jaworski (1990), and through various dimensions examines market orientation and its effect on performance. During the processing of the questionnaire I used 30 groups of questions to analyse my research themes, which resulted in the creation of a set of variables containing 53 criteria.
- b) *The descriptive statistical analysis of the entire refined set of samples (frequency distribution, averages).* As a first step in the analysis phase I examined the whole set of samples with descriptive statistical methods. In the case of category variables I used frequency distribution, and in the case of metrical variables I drew up a general picture on the basis of the model, using averages.

- c) *Cluster analysis.* As the next step, before revealing the inter-relationships between all the individual variables, I examined the sample broken down into clusters, to obtain a deeper insight into the structure of the sample from a market orientation perspective. When choosing the cluster algorithm, in view of the high number of sample elements, I chose the non-hierarchical K-means algorithm, and after the analysis I decided on a three-cluster division.
- As a first step I examined whether there is any significant relationship between the individual variables and membership of a cluster, and if so, how strong this was. During this examination of the relationships, I used the following methods, depending on the type of criteria (quantitative, or qualitative): the Pearson χ^2 -test, the Cramer's V co-efficient, ANOVA, the Welch test, the Post-Hoc test.
 - Characterization of the clusters: After meeting the pre-conditions with the categorical variables I used the cross-tables and the relevant relation numbers in order to analyse the clusters, while with the continuous variables I examined the variations in the averages and distributions. On this basis I identified the most important features of the three clusters from the perspective of market orientation.
- d) *Analysis of the correlations and regression of the entire sample set.* After identifying the internal structure of the sample, I returned to the full sample set and using correlation (a two-sided Pearson co-efficient test) and linear and logistic regression, I attempted to acquire more precise information about the relationships between the groups of variables.

The last, summarizing *chapter 7* synthesizes the theoretical and empirical results of my research, formulates my theses, and draws up the limitations of research and the ideas for the further research.

1.2. The model serving as the basis for the examination, the hypotheses and the results of the research

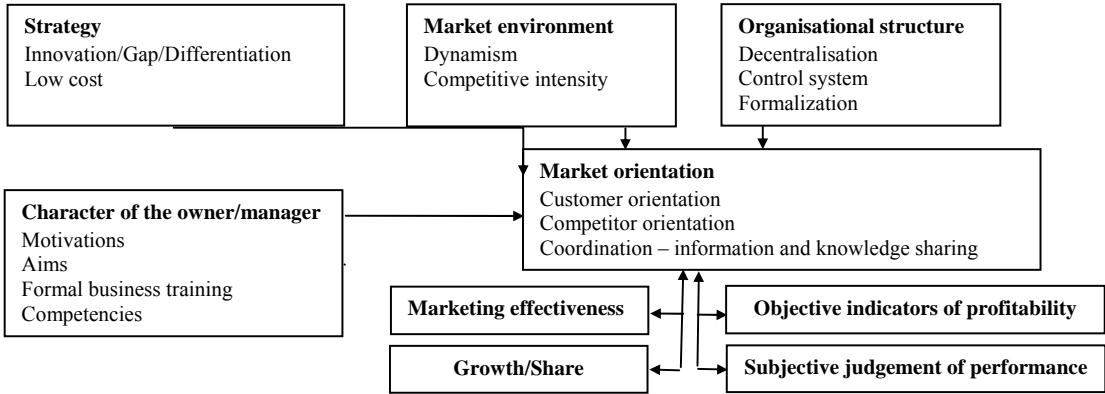
1.2.1 The model

For my research I used the Pelham–Wilson (1995) model which has already become usual in similar environments and which has proved to be reliable for use in research into small firms (Pelham–Wilson, 1996; Pelham, 1999; 2000). In my model market orientation the central element is the three components of market orientation: customer orientation, competitor orientation and coordination. I understand customer orientation and competitor orientation on the basis of the construction developed by Narver and Slater (1990). Referring to the Pelham–Wilson model, I re-inserted the third component of market orientation into the framework designed by Narver and Slater. However, in the context of the SME environment I defined it

as a kind of information- and knowledge sharing component. The reason for this was that in my opinion the market orientation achieved in small firms is predominantly influenced by the extent to which the managers and owners are able or willing to share information and knowledge acquired collectively, and so this is better viewed as a component rather than a moderator of the process.

The model unites the structural factors of the firm, such as its formalization, coordination and control system, since researchers have indicated that these activities have a strong positive effect on performance. The environmental factors of the market, such as the intensity of competition and the dynamism of the market are also included, as well as the two strategic alternatives (differentiation/gap and low cost strategy). My model also includes, as a new factor group, the different characteristics of owners/managers which can influence the level of market orientation achieved. (Fig. 1)

Fig. 1 A model of the relationship between the market orientation of small and medium-sized firms and their capacity to create profitability



Source: Author’s own model developed from Pelham, A. M. – Wilson, D. T. (1995): Does Market Orientation Matter for Small Firms? Marketing Science Institute, Working Paper, Report No. 95-102, April, p.11

1.2.2 Analysis of the research results and hypotheses

According to the literature, the marketing conception – the basis of market orientation – is not a feature of a significant proportion of SMEs. This is also borne out by the empirical results of my own research, since only 40% of the sample showed a restricted presence of the features of a market oriented culture.

I identified three clusters as a result of the analysis, each of them at a different level of market orientation. The advantages of the *cluster characterized by market orientation* were first and foremost close relations with customers compared to that typical in the market positions occupied by their competitors. However, the variables describing coordination did not achieve

very high values here, either. Compared to the high level of attention devoted to consumers, firms in the *moderately market oriented group* did not pay particular attention to their competitors, and coordination activities were almost entirely lacking. The *third cluster does not adopt the marketing conception*, since they show no commitment to consumers, to competitors, nor to sharing knowledge within the organisation.

The demography of the clusters contributed something to the characterization of the groups. In terms of the distribution according to firm size it is noticeable that in the most market oriented cluster the proportion of medium sized firms was greatest and that of micro firms was smallest, while in the cluster characterized by a lack of market orientation, these proportions were reversed. In other words, the marketing conception probably became a more acceptable idea as the firm size increased. The other variable which has a significant relationship to the size distribution of the clusters is the division according to region. The most developed region(s) displayed the most mature market orientation activities, while in Central Hungary and the Great Plain region market oriented activities were not typical. In terms of ownership and industry sector no decisive differences between the clusters could be found.

One of the important conclusions from the analysis is also in harmony with the literature; i. e. it is consumer orientation which is most typically present in the life of small firms, while the coordination element is almost ignored.

Regarding **consumer orientation**, the prediction was almost completely correct, because rapid adaptation to consumers' demands is characteristic of the examined firm segment, and is the determining feature of small firms. Their capacity to create value, which Narver-Slater (1990) defined as the central task was, however, relatively low, and in this sense only the highly market oriented cluster produced a markedly different result. However, one of the important results of the analysis was that the customer oriented atmosphere of the small firms was primarily the result of the management style of the owner/manager. A leader who has the right competencies and, in addition to a leadership style based on experience and intuition, also has some formal business knowledge, is better able to deal with some elements of the marketing process.

Just like customer orientation, **competitor orientation** requires a continuous flow of information, which helps the firm to acquire the kind of competitive advantage to position itself favourable vis-vis its competitors. In this factor there are significant differences between the clusters, but it is particularly the highly and moderately market oriented firms which are active in this area. The competitive advantage derives mainly from marketing resources, among which are features which are hard to define, such as the possession of highly developed technology, human abilities, excellent leadership, loyal employees and flexible adaptability.

The basic principle of the third component of market orientation, **coordination**, is that within an organisation, anyone can add potential value and the integrated coordination creates a close link between this resource and both the customer and competitor orientation. However, in the SME environment coordination between the functions is not noticeable, and a simpler structure is more typical. So in these cases we can examine the extent to which the owner/manager is committed to collective decision making, and to what extent he/she is prepared to share information within the firm. In terms of the coordination component the firms in the sample present a fairly uniform picture, since the major proportion of them are characterized by decisions made by an individual or by the owner. Typically, only in the highly market oriented cluster firms is there sometimes information and knowledge exchange. This is probably due to the fact that in this cluster there is a higher than average proportion of SMEs.

Knowing what kind of market oriented culture can be found in the SMEs of the sample, we can analyse the hypotheses formulated on the basis of the basic model of the research.

1) Effects deriving from the internal environment

Regarding the effects deriving from the internal environment, the first hypothesis was the following:

H1: The level of formalisation, decentralisation and the control system have a positive relationship with the level of market orientation. – I accepted hypothesis H1.

In the sample, alongside the high level of centralisation, the formalisation and the level of control were at a low level. At the same time there is a significant difference in these structural variables between the clusters with different market orientation. It is noticeable that among the moderating factors it is the organisational structure features which have greatest influence on all three components of market orientation. This suggests that any progress in these structural variables will help to ensure a high level of customer services and values, will improve the efficiency of information collection and distribution as well as the responsiveness of the organisation. However, it must be pointed out that among the result variables the effect of marketing effectiveness on profitability can only be shown to operate indirectly. This result does not accord with that of Pelham and Wilson (1996), whose calculations did not show a significant relationship between organisational factors and market orientation and profit.

2) Strategy

The strategy followed by the firm also determines the organisational responsiveness to a large degree, and so I assume that:

H2: *Putting the use of an innovation/gap/differentiation strategy at the forefront of the firm has a positive relationship with the market orientation of small firms. I accepted the H2 hypothesis.*

More than half of the firms stated that, even if only partially, they built their strategy around cost efficiency, while in innovation they were less active. The innovation they undertook depended on their financial resources and was of a remedial, catching up nature. At the same time the firms in the highly market oriented cluster stand out in terms of product innovation, which improves their ability to differentiate. However, in my research I could not find the significant relationship between the level of market orientation and the strategy adopted by the firm which emerged from the research of Narver and Slater (1990). Since it was precisely the highly and moderately market oriented firms which declared that, in addition to innovation, they followed a cost reducing strategy, at least in part, I could not confirm this relationship.

3) Market Environment

SMEs, with their limited resources, are particularly vulnerable, or with their flexibility can be particularly adaptable, to a changing market environment. My hypothesis regarding the market environment was the following:

H3: *An awareness of a growth in market dynamism and the intensity of competition positively influence the level of market orientation in small firms. – I rejected hypothesis H3.*

We can state that the firms examined are aware that their business environment is a turbulent one, and that alongside the intensive competition and the high level of high risk business activity, the owners/managers are optimistic about their firms' future. There is no difference between the clusters in terms of their awareness of the influence of the market environment, and so we cannot say that it can be influenced by the level of market orientation. The optimism about the firms' future can be explained by the fact that the owners/managers believe they are clear about the environment of their business activities, and are in step with the changes occurring in that environment. Their behaviour can perhaps be described as 'the illusion of being fully informed'. Neither Pelham and Wilson (1996), nor, later, Pelham (1999, 2000) were not able to show any significant effect in terms of the influence of the market environment. At the same time, they point out that it is one of the defining characteristics of small firms - their capacity for flexibility - which can reduce the effect of the environment on market orientation and performance.

4) The character of the firms

One of the typical characteristics of SMEs is that the owner/manager has great influence over any extension of the concept of market orientation to the whole firm. Commitment to

market orientation can feed off several sources. When the firm is created or established, motivation, the aims of the manager, the formal education and his/her competences can all help or hinder the adoption of the marketing concept. Consequently, I assume that the following are true:

H4a: *Those firms where the motive for starting the firm was to take advantage of a good business opportunity, will have a higher level of market orientation. I rejected hypothesis H4a.*

In terms of motivation it can be clearly stated that in the firms in the sample the owner(s) started the firm in order to take advantage of an opportunity offered, and that therefore in no way is it typical that they were 'forced' into business. Since there is no significant difference between the clusters in this regard, it can be stated that there is no relationship between the market orientation and the level of motivation.

H4b: *At those firms where the aim of the business is to reach a higher level of income (profit), the level of market orientation will be higher. I rejected hypothesis H4b.*

One of the initial assumptions of my research was that in many cases satisfaction with work, greater independence, or the maintenance of an existing level of income was more important for an entrepreneur, and so he/she did not feel pressure to apply a conception of the business that would bring a higher profit. Analysis of the sample did not confirm this hypothesis, since independently of the level of market orientation, the overwhelming majority – alongside greater independence – were aiming for a higher income. This result is not consistent with that of Peterson (1989), who found that the goal of many small businesses was not to achieve the highest possible profit.

H4c: *At those firms whose owner/manager had a formal educational qualification in business, market orientation was higher. I accepted hypothesis H4c.*

Formal education, however, is closely connected in many ways to the individual components of market orientation. The forming of the way of thinking of the owner/manager can have a decisive influence on the relationships with customers, the possibilities for differentiation and the practice of knowledge-sharing.

H4d: *The more business-related competencies the owner/manager has, the higher will be the level of market orientation. – I accepted hypothesis H4d.*

The indicator measuring business-related competencies on the basis of self-assessment shows with an almost maximum average value that the managers of the firms consider themselves fully competent in the firm in all fields of business, from managing financial issues and handling risk, to managing human resources. It is, however, noteworthy that a kind of self-confidence is typical of SME managers, which is in total accord with the findings of the

literature, among others Carson et al. (1985). Since the variable related to competencies had significantly higher values in the highly and moderately market oriented clusters, I found this hypothesis to be true.

The second part of the basic questions of my research was related to whether any relationship could be found between the level of market orientation and performance.

I approached performance through several variables. On the one hand I examined business position related variables such as the effectiveness of marketing activities and the changes in the market growth/share, which could indirectly support profitability (measurements of effectiveness). I also applied objective measures of profitability (measurements of results), and also took into account subjective satisfaction with performance. I formulated my hypotheses in these four approaches, and also showed the results in this framework.

5) Marketing effectiveness

Marketing effectiveness belongs to the group of factors which indirectly influence performance; its essence is that a more flexible adaptation to the environment results in a market oriented firm having more marketing effectiveness, which will increase the income and the profit. Consequently, I assume that:

H5: A high level of market orientation has a positive relationship to marketing effectiveness. – I accepted hypothesis H5.

According to Pelham and Wilson (1995), market orientation significantly and positively affects marketing effectiveness, and this is supported by my research. The cluster which has a high level of market orientation is far more active than the sample average in product- and market developing activities.

The negative attitude of small firms to marketing activities is illuminated by an interesting contradiction. The majority of the firms believed that they were doing good marketing work in order to avoid risks, while an insignificant proportion (predominantly market oriented firms) felt that the marketing innovations they applied contributed to an increase in sales. This indicates the often heard point that unprofitable marketing activities carried out in an unprofessional way often give rise to negative judgements and the money used is considered a wasted investment. Carson et al. (1985) also came to a similar conclusion.

6) Market growth/share

Another groups of factors which influence performance indirectly is the market growth/share variable, which, on the basis of the model applied I considered to be the net sales revenue (considered in the period from 2004 to 2007) and the growth in the number of customers and employees. My hypothesis assumed that:

H6: *A high level of market orientation has a positive relationship with market growth/share.*
– ***I partially accepted hypothesis H6.***

There was minimal growth in the three categories. However, while the growth of sales revenue and the number of employees variable was not significant in terms of the different clusters, there was a difference in the growth in customer numbers. The highly market oriented cluster stood out from the sample as the one with the most dynamically growing target market.

7) Profitability

Market orientation is, however, able to have a direct influence on profitability. Since small firms are characterized by a lack of systematic decision making, strategic thinking and long-term orientation, market orientation will be what ensures a comprehensive framework for objectives, decisions and activities. This framework is essential in the interests of performance, since most small firms only have access to limited resources and so cannot find other sources of success (Pelham–Wilson, 1995). On this basis I assume that:

H7: *A high level of market orientation will positively influence the growth of profitability.* – ***I rejected hypothesis H7.***

Two indicators measure *profitability*: the change in the return on assets in relation to gross income (ROA), and the change in earnings before taxes, considered between 2004 and 2006. Both indicators changed in a positive direction, so we are dealing with a developing group of firms. What, however, is noteworthy from the research point of view is that although the results of the highly market oriented cluster were slightly better than those of the other two clusters, there is no significant difference between the groups in this respect. This means that neither on the market orientation level, nor in the moderating factors introduced into the model, such as the organisational structure, the strategy, the market environment and the characteristics of the firm, was there any influence felt on objective indicators of profitability. This result is in direct contradiction with the results of international research, since many other authors, such as Pelham and Wilson (1995, 1996), Kara et al. (2005), and also Megicks and Warnaby (2008) state that the influence of market orientation is observable in the economic indicators of performance.

8) Subjective satisfaction

Managers of small firms use both economic and non-economic indicators to measure the success of their activities, and often consider the subjective criteria (flexible lifestyle, control of the business etc.) to be more important. From this it is not certain that in the interest of better economic performance they will show more commitment to achieving the market oriented conception. Consequently, my hypothesis was the following:

H8: There is no relationship between the subjective evaluation of performance and the level of market orientation. – I rejected hypothesis H8.

A high level of subjective satisfaction was shown with the business performance, and, what is essential, it is cluster-specific, i.e. the market oriented firms were more satisfied. According to the analyses, among the market orientation components there was a relationship observable with competitor orientation. It seems that if the firm is able, through some competitive advantage, to differentiate itself from competitors, the manager regards this as a kind of success. The next point of relationship is the formal business education of the owner/manager, which brings a type of consciousness and monitoring capacity to the business operation, which indirectly increases the level of satisfaction. So the analyses showed that, in addition to many other factors, the achievement of the marketing conception can also influence the subjective evaluation, and is not independent of it. González-Benito and González-Benito's (2005) comprehensive review of the literature on market orientation, as well as the study by Kirca et al. (2005) both found that in the case of subjective measurements the relationship between market orientation and performance was stronger and more positive. There are, however, counter examples, such as Morgan et al.'s (2009) research, which did not confirm this relationship.

2. The theses of the doctoral dissertation

As the theoretical grounding for the central questions of my evaluation, I considered the resource-based theory, which seeks to answer the question of how a firm is able to continuously out-perform others. The proponents of this theory – in contrast to the industrial sector theory – claim that a firm's profits are not only determined by the external environment, but much rather by the heterogeneity of the internal resources and the way they are utilised.

The resource-based approach to the firm has contributed much to explaining the differences between firms' performance. Consequently, proponents of the marketing conception also use this approach in order to analyse the influence of marketing resources on performance, and the ways in which lasting competitive advantage can be achieved.

But what should we consider a marketing resource? There have been many important outcomes of the debate about how to define what are marketing resources and within these, marketing orientation. There have been numerous attempts to define marketing resources, but most frequently they are considered a combination of assets and abilities/competencies which the firm has deployed to achieving sustained competitive advantage, and which encompass some of the mechanisms of isolation. These attempts at definition particularly emphasise intangible tools and the integrating role of marketing capabilities, as the kind of resources which are most appropriate for the creation of competitive advantage and are difficult to copy.

At the centre of the debate regarding the relationship between marketing and the resource-based theory lies a problematic question, which I have analysed as a particularly important issue in my dissertation: can marketing orientation be considered as a resource, and as such, can it create competitive advantage? Researchers have stated that the marketing orientation can be considered a source of competitive advantage, but, according to Morgan, Vorhies and Mason (2009) it is not yet clear how it can serve to create competitive advantage. The starting point of the problem lies in the criticism which has been levelled at the resource-based theory, which argues that until there is a clear, comprehensive definition of the concept of 'resource', it is not appropriate to use it to explain how resources can be used to create customer value, and so competitive advantage (Priem–Butler, 2001). This criticism also stands in the case of marketing orientation interpreted as a resource. Reference is made to it as a *(intellectual) market-based asset* (Morgan et al., 2009; Srivastava et al., 2001), as a *distinctive capability* (Day, 1994), as a *higher-order competence* (Hunt–Lambe, 2000), as an *organisational culture* (Hooley et al., 2002 in Berács et al., 2003), while others categorise it as *marketing-support resource* (Hooley et al., 2005), or as a combination of some of these. As can be seen there is as yet no consensus on this issue, although everyone agrees that there are many shared features between the criteria used to describe market orientation, isolating mechanisms and resources. That is to say orientation takes time (it is path-dependent), it is socially complex in its structure, it is built on tacit abilities and practice, and it is imperfectly imitable and sustained; therefore, it can clearly be considered as a resource.

Summarising and evaluating my secondary research and I argue in favour of defining market orientation as a culture and cultural resource. Market orientation, as values and norms transmitted by an organisational culture produces consistent behavioural patterns which enable the firm to create high value for its customers, and thus achieve superior performance. I agree with those opinions according to which there is a mutual, and mutually supporting relationship between the culture of market orientation and its behavioural perspective, and that they are not separate from each other and neither can enjoy priority over the other (González-Benito–González-Benito, 2005).

The resource-based theory and its dynamic spread places emphasis on the interaction between the firms “know what” resources and the complementary “know how” resources. This means that the firm's market orientation, marketing capabilities and assets can be interlinked, and can thus make the firm better able to coordinate the development of these resources in the context of the market than its competitors. Since the relationship between the two factors can cause casual ambiguity, it is particularly difficult to copy this relationship and so it can create a competitive advantage.

Thesis 1: Market orientation is a deeply embedded cultural resource which has a close mutual relationship with other market-based assets and marketing capabilities, and also supports organisational processes beyond the marketing area; as a result, it is both directly

and indirectly capable of creating competitive advantage and thus connecting to general performance.

The results of my research showed that, following the terminology of Day (1994), SMEs have important *outside-in* capabilities, such as rapid reaction to customer's demands. There are also significant inside-out capabilities, including the development of up-to-date technology and human resources such as managerial competence and the loyalty of employees. At firms with a high level of market orientation we also find *spanning* competencies, such as product development. It emerged from the research that of these the externally derived capabilities, and particularly those linked to customers, are particularly noticeable, and this can be a primary driver of market orientation. In addition to these capabilities we can also identify *market-based assets*, such as sustained relationships with customers/suppliers and the presence of IT. During my analysis it was confirmed that these assets and capabilities cannot be sharply differentiated; there is a kind of complementary synergy existing between them. Within this, it can be stated that the competitive advantage enjoyed by SMEs is usually of an intangible nature, involving elements such as the relationships formed with consumers and suppliers. These intangible resources, understood in the widest sense, are more difficult to copy and thus provide a more valuable basis on which to develop competitive advantage.

Thus, SMEs can be clearly be seen to possess the kind of marketing resources which can act as the basis for competitive advantage. However, how do they deal with market orientation as a cultural resource?

Thesis 2: SMEs only adopt marketing orientation to a limited extent. It is typically the main driver of market orientation – customer orientation – which occurs, while there is less emphasis on competitor orientation. Information is used in an opportunistic way. The use of up-to-date IT makes it possible to gather information, but interpreting and disseminating it causes problems. Features of the firm such as the formal education and competencies of the owner/manager affect the application of market orientation. The size of the firm grows in proportion to the level of adoption.

According to the literature, market orientation can represent a potential competitive advantage to small firms over their large rivals, since: (1) they are closer to their customers, and so are able to react quickly and flexibly to their needs and demands, (2) they are able to share information quickly and with less modification, since their organisational bureaucracy is smaller (among others Blankson et al., 2006; Kara et al., 2005; Megicks–Warnaby, 2008). The first assumption was completely verified, since the ability to adapt quickly to customers' demands was a strength of the group of small firms analysed. However, the ability to create value, which was described by Narver and Slater (1990) as a central task, was only visible in the more market oriented small firms. Less attention was paid to competitor advantage, although competitive advantages – as we saw in the previous thesis – were created with the

help of special, mainly intangible resources (developed technology, excellent management, flexible adaptation).

The basis of the process of the creation of value is collecting and disseminating information about customers and competitors. Up-to-date IT tools can be of assistance in this, which to a greater or lesser extent small firms already possess, but typically, do not use interactively. What is more, their use of this information is opportunistic, and adapts to the situation at hand, and they have a typically short term view. This is closely linked to the decision-making system at these firms, which appears to be quite uniform – i.e. the individual, or owner's decision predominates. Consequently, the information dissemination practice as defined by Kohli and Jaworski (1990) does not occur, and only at firms which show a greater commitment to market orientation is there an attempt to share knowledge. Since it is an essential principle of the coordination component that in an organisation anyone can create value in the possession of information and knowledge, small firms thus miss an opportunity to create potential value.

Among the basic characteristics of smaller firms is that they have more moderate resources, their organisation is less bureaucratic and their planning is informal. Because of this special character – although independently of size, all firms are influenced by the external environment – SMEs are more influenced by the internal culture and the internal environment of the firm. Consequently, market orientation in these firms is at least in part determined by *the firm's structural factors, the beliefs of the owners, and their value system and management style.*

On the basis of my research I can state that there is a relationship between the level of market orientation and the structural features of the organisation. Attempts at decentralisation, the increase of formalisation, and the operation of control systems all reveal a conscious approach in business which helps to develop a market orientation culture. Any progress in these structural factors helps to ensure a high level of customer services and values, develops the effectiveness of information collection and dissemination and the responsiveness of the firm.

At the same time the market orientation atmosphere of small firms is influenced by the management style of the owner/manager. My results proved that a manager with the right entrepreneurial competencies and a formal business education is better suited to achieving some of the activities related to the market orientation process. This kind of firm goes beyond a leadership style based on experience and intuition. The way of thinking associated with a formal business education has a basic influence in forming relationships with customers (customer orientation), opportunities for differentiation (competitive orientation) and the sharing of knowledge (coordination), both directly and indirectly through changes in the structure of the firm.

Since the owner/manager clearly has a significant role in the marketing activities of the small firm, researchers started to search for market orientation behaviour at an individual level (Becherer et al., 2001; Blankson et al., 2006). At an individual level motivations and values form attitudes, and the cognitive components of attitudes have an influence on the conative component, i.e., on the behavioural intentions. In other words, the manager's cognitive evaluation about how best to meet consumers' needs and so achieve profit and growth, will influence the individual commitment to realizing market orientation. Cognitive convictions come from a combination of both experience and information from different sources. It is likely that in the process of creating these cognitive convictions – in addition to the experience gained in business life – a decisive role is played by the knowledge gained on a formal business course.

The areas of interest of my research extend to the question of whether the market orientation achieved by SMEs affects firm performance.

Thesis 3a: No close relationship can be found between the level of market orientation and the general economic-financial indicators of performance. Thus “profitability” is not significantly influenced by the level of market orientation.

Thesis 3b: The effect of market orientation, through the variables of business positioning – such as marketing effectiveness, target market growth – are felt indirectly and in the long term, and so influence the level of “effectiveness”.

Thesis 3c: In the level of market orientation adopted by SMEs a significant role is played by the owner/manager's subjective evaluation of performance. Consequently, the market consolidation which can come about as a result of effective operation can also lead to satisfaction.

The results of my research indicate that the level of market orientation adopted by SMEs slightly influences the objective, financial, i.e. profitability, indicators of performance. We cannot, however, state that market orientation has no effect on performance. Its influence can be shown, if not directly, through the effectiveness of marketing (successful product- and market development activities) and a growth in the number of customers. These operational success factors can later lead to visible financial performance.

At the same time, the level of market orientation adopted by SMEs plays a clearly significant role in the owner/manager's subjective evaluation of performance. My research strengthens the theoretical line which claims that the measurement of subjective performance is more strongly linked with market orientation. It can therefore be seen that attempts to achieve a consolidation of market position and increase efficiency strengthens the managers' belief that the firm is on the right track.

I close my analysis with two important considerations. Focusing on market orientation as a resource is only worthwhile in those firms which strive to achieve sustained competitive advantage. For those who are satisfied with their current position, and so do not attempt to grow either in terms of efficiency or profitability, the resource-based view does not have anything relevant to communicate. Furthermore, it must be recognised that market orientation is not a button which will automatically increase performance when pressed. Its effects often only appear indirectly and over the long term, and – as the analyses in the literature show – are dependent on the culture and the environment.

3.The new and novel academic results of the analysis

The new and novel scientific results of the dissertation which can assist in answering the research questions are the following:

1. A summary of the various approaches following a wide-ranging examination of the literature relating to the resource-based theory and marketing resources. A synthesising examination of the literature relating to market orientation as a marketing resource, and, on this basis, the formation of the author's own point of view (Thesis 1).
2. Using the secondary research results, the dissertation established a model for the examination of the relationship between the market orientation and the performance of small and medium-sized firms. Individual entrepreneurial characteristics, such as the objectives of the firm, motivation, and the formal education and competencies of the entrepreneur were introduced into the model as a new moderating group of factors. Through an examination of performance from varying perspectives, a much more comprehensive approach became possible, which, in addition to the objective indicators (profitability and efficiency) also took account of the subjective satisfaction of the owners/managers with the firm's performance.
3. On the basis of the model established it was possible to identify the most important characteristics which show how small and medium-sized firms deal with market orientation as a cultural resource (Thesis 2).
4. The dissertation showed the relationship between the level of market orientation and the organisational structural factors. It further established the important role played by the cognitive conviction of owners/managers in the level to which market orientation is adapted (Thesis 2).
5. The dissertation managed to identify the performance indicators which show a relationship with the level of market orientation achieved by small and medium-sized

firms, and further reinforced the theoretical direction which states that in the case of measuring performance subjectively the relationship with market orientation is stronger than it is in the case of objective economic indicators (Thesis 3a, b, c).

4. The limitations of the research, ideas for further research

A limitation to the use of the research results is the fact that the OTKA database used as the basis for the research was not designed according to my research questions. The set of variables developed by the database at times meant compromises had to be made, and so the results must be understood in that context.

A further limitation is that evaluating market orientation as a cultural resource in itself means that positive effects can appear in the long term. A longitudinal study could show these effects, for example by indicating that market oriented firms are also capable of achieving higher performance, according to financial indicators, than their non-market oriented rivals.

As a further direction for research, a more sophisticated approach to the measurement of performance could be one objective. As we have seen, performance at small firms is something that can be considered from several perspectives. While large firms usually employ financial, objective indicators to measure the firm's performance, such as profit, ROI, and ROA, the success of small firms can be approached in a much more integrated way. Alongside economic indicators there are individual indicators of success which are linked to individual, personal goals, such as satisfaction with work, consumer satisfaction and other equally difficult to measure objectives. Consequently, those economic measures which are generally used to indicate performance can, in the case of small businesses, be misleading and give a false picture. Of course, managers of small firms have varying combinations of economic and non-economic objectives, and so it would be an interesting research question to find out how these success factors affect the adoption of market orientation.

The operational environment of the SME sector has significantly changed since the empirical research was carried out. New kinds of adaptational pressures and opportunities have appeared (the effects of crises, changes in IT, communication and network structure, cooperation etc.), which have forced firms to adopt new solutions and behaviours, defined by the need to 'get by' in the market. These offer interesting and exciting directions for further research.

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