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Does it pay for firms in Asia's emerging markets to be market oriented? Evidence from Vietnam☆

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ABSTRACT

The positive effects of market orientation (MO) on firm performance are empirically supported much more strongly by studies conducted in developed than in emerging markets. One commonly cited reason for this differential effect is that MO is affected by the cultural, economic and institutional characteristics of the economies in which it is applied. This study aims to determine whether or not MO is relevant in an Asian emerging market such as Vietnam and if so, how a firm in such countries can become more market oriented. Based on a survey of 300 firms and using structural equation modeling, the present study finds that MO has a significant effect on firm performance and that its adoption is driven by both internal organizational and external market forces. The study identifies these specific internal and external forces, including those that are unique to the emerging economies in Asia.

1. Introduction

Market orientation (MO) is an important concept in contemporary marketing philosophy. Introduced about half a century ago in the late 1950s (McKitterick, 1957), studies on this concept started to proliferate in the 1990s with the influential works of Kohli and Jarworski (1990) and Narver and Slater (1990). Despite the numerous studies on MO, some important research gaps remain. An analysis of more than 60 studies published from 1990 to 2008 reveals three key research streams about MO namely, conceptualization and measurement, antecedents and consequences, and implementation (Pandelica, Pandelica, & Dumitru, 2009). Of those studies investigating the consequences of MO the results are diverse. While many if not most have found a positive impact of MO on performance, a minority have reported nil effects (Kumar, Jones, Venkatesan, & Leone, 2011). Of those that support a positive impact, the strength of influence varies. A possible explanation for the diverse results according to Ellis (2006) is that MO is significantly affected by the cultural, economic and institutional characteristics of the country being studied. This argument is supported by the findings of a meta analysis of 56 studies conducted in 28 countries which show that MO has a significantly stronger impact on performance in Western than in Eastern countries. The same study also finds MO to have a greater effect on performance in large and mature economies than in the small and developing economies of Asia (Ellis, 2006).

The reported lower returns in developing and in Eastern countries give rise to the question of whether or not firms in Asia's emerging economies should bother to be market oriented. In 2005, Ellis had doubts about the potency of MO as a predictor of firm performance in developing countries. According to Ellis (2005), more research from developing nations is needed before any claim could be made about the robustness of the MO construct. Sheth (2011) makes the prognosis that what is needed in emerging economies is not market orientation but rather market development. Other authors question the applicability of MO, being a western and mainstream concept, in non-western (Bathgate, Omar, Nwankwo, & Zhang, 2006) and emerging (Sheth, 2011) markets.

Another issue is why some firms are more market oriented than others. What antecedents drive the level of MO in a firm? What should firms do in order to improve their MO? Although these issues are addressed by some scholars (e.g., Brettel, Engelen, Heinemann, & Pakpachong, 2008), the majority focus on internal organizational factors only (Pandelica et al., 2009). The current study attempts to address these issues by investigating both the internal and external antecedents of MO and the effects of MO on firm performance in Vietnam, a relatively small, transitional and emerging economy in South East Asia. During the last two decades, Vietnam has transitioned from a central planning economy into a market economy. With the support of an open-door policy, firms have been given more discretion in terms of the products/services they can offer to the market. Competition has become an important "rule of the game" although in practice, some state owned companies have more privileges compared to private owned firms (Beresford, 2008). Its joining the WTO in 2007 has led to several

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opportunities (e.g. international trade and international business cooperation), as well as threats (i.e., severe competition) (Nguyen & Nguyen, 2011). Thus, with the emergence of a market economy, Vietnam provides a suitable context for investigating the adoption of MO and its consequences.

The present study aims to expand the current understanding about the relevance of MO in Asia where many emerging economies such as China, India, Indonesia, Thailand, Vietnam and others are located. The proposed conceptual framework focuses on the role of both the external and internal environments in determining the MO level of firms while the data obtained in Vietnam serve to test this framework. The next section of this article presents the theoretical background of the research followed by the proposed theoretical model, research methods, results, discussion and conclusion.

2. Theoretical background and hypotheses

2.1. The concept of market orientation

Market orientation is the implementation of the marketing concept and a market-oriented organization is one whose actions are consistent with the marketing concept. Particularly, MO is defined as "the organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization wide responsiveness to it" (Kohli & Jarworski, 1990, p.6). While Kohli and Jarworski (1990) view MO in terms of an organization's behavior, Narver and Slater (1990) view it as a cultural mindset. The latter's belief is that it is "the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business" (p. 21).

The behavioral and cultural perspectives of MO are similar in the contention that firms should focus on customers and competitors, and that responsiveness to the external environment is the joint effort of the entire organization, not only of the marketing function. If Kohli and Jarworski (1990) consider "profit orientation" as a consequence of MO Narver and Slater (1990) view it as a target or an aim of achieving profit and maintaining long-term value to the enterprise. Narver and Slater's (1990) customer and competitor orientations correspond to the intelligence generation of Kohli and Jarworski (1990) while the intelligence dissemination of the latter corresponds to the interfunctional coordination element of the former. The main difference is that Narver and Slater (1990) have not explicitly included responsiveness in the MO concept the way Kohli and Jarworski (1990) have done.

In addition to the cultural and behavioral perspectives, Lafferty and Hult (2001) identify three other perspectives of MO namely, decision-making, strategic, and customer orientation. Shapiro (1988) conceptualizes MO as an organizational decision-making process which involves the interfunctional and interdivisional sharing of market information and decision making, and the implementation of well-coordinated decisions with a sense of commitment. The strategic perspective proposed by Ruekert (1992) focuses on the business unit rather than the corporate or individual market as the unit of analysis while the customer orientation perspective of Deshpande, Farley, and Webster (1993) proposes that MO is synonymous with customer orientation and that competitor orientation is antithetical to customer orientation.

Despite the various conceptualizations of MO, many authors (e.g., Hooley, Cox, Fahy, Shipley, & Beracs, 2000) agree about three key notions. First, the concept of MO includes customers, competitors and other environmental factors (Day, 1994). Second, MO is about the firm's ability to understand current market conditions, predict future conditions and act appropriately upon this knowledge (Narver & Slater, 1990). Third, a unified concept of MO is the problem of the whole enterprise rather than just the marketing department's (Slater & Narver, 1994).

The present study adopts the inclusive definition of Gray and Hooley (2002) which refers to MO as

> "the implementation of a corporate culture or philosophy which encourages behaviors aimed at gathering, disseminating and responding to information on customers, competitors and the wider environment in ways that add value for shareholders, customers and other stakeholders" (p.981).

This definition considers "both philosophy and behavior" and at the same time allows "the investigation of mediating and moderating variables, as well as antecedents and consequences" (Gray & Hooley, 2002, p.981).

Just as there are varied conceptualizations of MO, there also are different ways of operationalizing the construct. While most studies adopt the three MO dimensions namely, customer orientation, competitor orientation and interfunctional coordination (Kim, 2003; Tang & Tang, 2003; Tsai, 2003) some studies (e.g., Soehadi, Hart, & Tagg, 2001) adopt profit orientation as a fourth component while others include responsiveness (Gray, Matear, Boshoff, & Matheson, 1998) and long term orientation (Subramanian & Gopalakrishna, 2001) as a fifth component. In contrast, some adopt only a two dimension construct namely, customer orientation and competitor orientation (e.g., Venkatesan & Soutar, 2000). These variations indicate that MO takes on a slightly different meaning in different countries.

2.2. Model and hypotheses

The proposed model (see Fig. 1) views MO as a second-order construct with four dimensions. Responsiveness is added as a fourth dimension because not unless firms respond to market needs, very little is accomplished (Kohli & Jarworski, 1990). Environmental challenge in the proposed model includes competitive intensity and market turbulence while leadership covers competence and commitment. The three main hypothesized paths are the positive impact of environmental challenge and leadership on MO, and the positive impact of MO on firm performance.

This study is framed in the context of an emerging or developing economy in Asia which, may also be relevant in the emerging economies of Latin America, Africa and the Middle East; and in the transitional economies of Central and Eastern Europe, and the former Soviet Bloc.

2.2.1. The impact of market orientation on firm performance

Theoretically, MO affects firm performance in a positive way. A market-oriented firm helps create superior value which contributes to greater customer satisfaction and stronger customer loyalty (Zeithaml, 2000). Empirical studies however, show that MO does not always lead to superior firm performance (e.g., Sandvik & Sandvik, 2003). A review of empirical studies which was undertaken specifically for this paper shows that out of 34 articles on developed economies, published in 1990–2003, only 55% support a positive relationship between MO and firm performance. In contrast, the same review shows that 100% of the 18 studies on developing and transitional economies published in 1997–2007 provide supportive results. In a meta-analysis of 58 empirical studies conducted in various countries in 1990–2004, Ellis (2006) reports an overall positive link between MO and performance. However, the effect sizes are significantly stronger in the USA than elsewhere while those in Western Europe are somewhat higher than in Eastern Europe and Asia.

The varying effects of MO on firm performance may be attributed to various reasons. Kohli and Jarworski (1990) suggest that under conditions of limited competition, stable market preferences, and technologically turbulent industries or booming economies, MO may not be strongly related to performance. Another reason is that MO may lead a firm to narrowly focus on current customers and their stated needs, without anticipating threats from nontraditional sources (Kumar

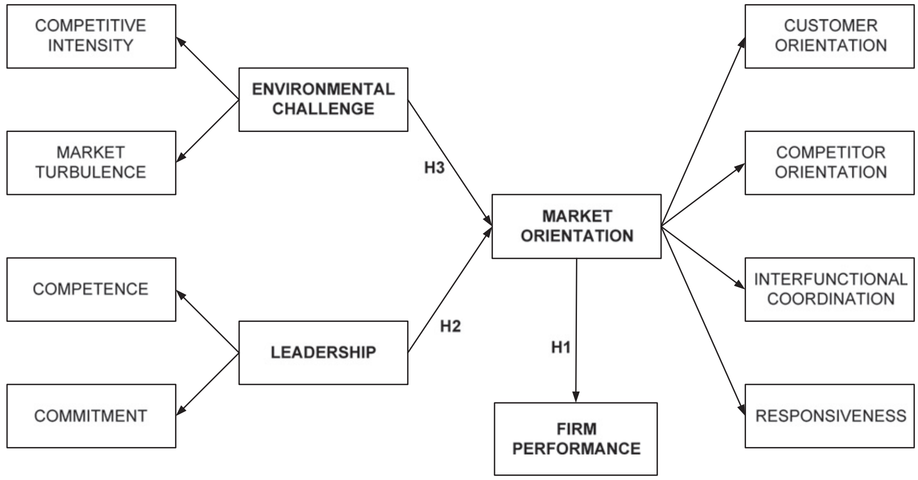

Fig. 1. Antecedents and outcome of market orientation.

et al., 2011) which according to Sheth (2011) is true in emerging economies where competition comes from unbranded products and services and unorganized sectors such as households acting as production units.

The effects of MO on performance in Asia's emerging economies are evident in the literature. A number of studies report a positive impact of MO and marketing related factors on business performance in China (e.g., Liu, Luo, & Shi, 2003; Tang & Tang, 2003), Russia (Golden, Doney, Johnson, & Smith, 1995), Ukraine (Akimova, 2000) and Thailand (Racela, Chaikittisilapa, & Thoumrungroje, 2007). Notwithstanding these positive results, some studies note the lack of relevance of MO. For instance, Golden et al. (1995) find that MO was of little value in the Soviet Union's central planning system while Qu and Ennew (2003) observe that there was little incentive to be customer oriented in China. Transitional economies however are changing fast (Golden et al., 1995) and thus, the following hypothesis is proposed:

H1. Market orientation has a positive effect on firm performance.

2.2.2. Antecedents of market orientation

Previous studies suggest that different internal and external factors explain the varying MO levels of firms. Within a firm, Kohli and Jarworski (1990) identify leadership, interaction between groups, and organizational system as the main factors while other studies report behavior of leaders (Brettel et al., 2008), firm resources (Qu, Ennew, & Sinclair, 2005), firm characteristics such as systems, structures and strategies (Brettel et al., 2008) and innovation culture (O'Cass & Ngo, 2007) as the other relevant factors. In this study, leadership is selected as the representative construct for internal factors. In transitional economies where organizational and management systems are still underdeveloped, leadership stands out as the key driver of a firm's orientation (Alhakimi & Baharun, 2010). Considering further that Vietnam is a high power distance country where decision making is typically top-down, leadership would play a key role in determining the orientation of a firm (Dong & Liem, 2010). Leadership which includes perceptions, attitudes and behaviors of top management (Harris, 2002) has two relevant dimensions namely, commitment and competence. The development of MO in a firm starts from the leader's awareness and understanding of MO and its influence on firm performance (Flavian & Lozano, 2006). Upon understanding its benefits, leaders will engage and deploy appropriate management systems which could involve changes in the organizational structure, strategy, organizational culture and reward systems (O'Cass & Ngo, 2007).

The firm's leaders competence in identifying and predicting key issues with respect to customers and competitors, and in making proper decisions regarding the use of resources to achieve strategic market oriented objectives is crucial to the firm's success. While it is the leader's commitment that drives the firm to create value and apply the principles of MO, it is the leader's competence that enables the firm to implement "high quality" MO activities and to manage the process effectively and efficiently (Alhakimi & Baharun, 2010; Day, 1994). Therefore, it is hypothesized that:

H2. Leadership has a positive effect on a firm's market orientation.

The external factors that impinge on MO include national culture (Brettel et al., 2008), competition intensity (Kumar et al., 2011), government policy (Qu et al., 2005), environmental challenge (Gray et al., 1998) and market turbulence (Kumar et al., 2011). These factors are encapsulated in the construct, environmental challenge which refers to the extent and nature of changes in the environment that can enhance or impede the implementation of MO (Kohli & Jarworski, 1990). According to Harris (2002), MO is essentially an externally-oriented and market-driven business principle which can help firms adapt or respond effectively to changes in the external environment.

In the current study, environmental challenge is conceptualized as a latent construct consisting of two dimensions namely, competitive intensity and market turbulence. Market turbulence relates to the changes occurring in the firm's existing or potential customers in terms of needs and behavioral preferences. In a stable market, appropriate responses to the needs and behavioral preferences of customers would ensure the firm's competitive position for a fairly long time. Conversely, in markets with fast and frequently occurring changes, firms need to learn and regularly update information about their markets, then find the best and timely response to these changes (Kumar et al., 2011).

In general, markets in emerging economies are changing at "breakneck speed" and businesses are facing the difficult task of keeping up with rapid market expansion and changes in the demographic base (D'Andrea, Marcotte, & Morrison, 2010). This market turbulence is attributed to market deregulation and increased inward investments giving rise to new market segments, rapid new product introduction, and consumer choice expansion. Empirical evidence from Central Europe shows that firms with higher levels of MO are often found in markets that are rapidly changing in terms of both technology and customer requirements and where competition is intense (Hooley et al., 2000). Thus, it is hypothesized that:

H3. Environmental challenge has a positive effect on a firm's market orientation.

3. Methods

3.1. Measures

The measurement scales adopted in this study are shown in the Appendix. Except for the newly developed scales for leadership commitment and leadership competence all the other scales are based on previous studies.

3.2. Data collection

Data collection was through a survey of 300 Vietnamese owned companies in HoChiMinh City and the neighboring provinces of Binh Duong and Dong Nai. The sample firms were identified through the local business telephone directory and were contacted personally by the survey team. All those who agreed to participate were requested to complete the survey instrument which the survey team collected on a follow-up visit. The survey team was composed of eight business students who were trained for this project. The sample distribution across firm size and industry is presented in Table 1.

4. Results

4.1. Reliability and validity

The measurement scales were first refined and then assessed for reliability and validity. Exploratory factor analysis was applied to the 36 items representing the nine latent constructs. Based on the EFA results, four items were dropped due to low (<0.40) factor loadings. Confirmatory factor analysis (CFA) was then used to test the full measurement model. The kurtosis and skewness of the indicators were all found to be within acceptable limits. Further refinement was made to eliminate 8 items that had high covariance in the error terms. The CFA of the refined full measurement model yielded the following indices: chi-square = 287.71; dF = 216; p = 0.001; chi-square/dF = 1.33; GFI = 0.93; TLI = 0.97; CFI = 0.97; RMSEA = 0.03. The HOETLER index of 262 is above the threshold value of 200 which indicates that the sample size is large enough for this analysis (Byrne, 2001).

The CFA results also show that all items loaded on their designated constructs with loadings ranging from 0.64 to 0.87 indicating satisfactory convergent validity. The correlation coefficients of the 36 pairs of constructs range from 0.11 to 0.70. All the squared correlation coefficients are smaller than the extracted variances (VE) indicating satisfactory discriminant validity (Fornell & Larcker, 1981). The composite reliability of the constructs ranges from 0.71 to 0.85, all exceeding the acceptable standards for exploratory research (Kline, 1998).

4.2. Common method variance

The potential problem of common method variance (Fiske, 1982) was addressed in two ways. The Harman single factor test revealed that the fit of the single-factor model was highly unsatisfactory (chi-square = 1577.4; dF = 252; chi-square/dF = 6.26; GFI = 0.68; CFI = 0.54; TLI = 0.50; RMSEA = 0.13), indicating that CMV is not the major source of the variations in the observed items. Given that Harman's test is highly conservative in detecting biases (Malhotra, Kim, & Patil, 2006), the marker-variable technique was also employed. The smallest positive correlation obtained is 0.009 (p = 0.875) between item 46 (leadership commitment) and item 22 (market turbulence). The second smallest is 0.03 (p = 0.602) between item 45 (leadership commitment) and item 30 (competitive intensity). These two very small values confirm that CMV is not a major problem in this study.

4.3. Structural model estimation and results

The estimated structural model yielded the following indices: chi-square = 330.80; dF = 241; p = 0.000; chi-square/dF = 1.37; GFI = 0.92; TLI = 0.96; CFI = 0.97; RMSEA = 0.04. The standardized loadings shown in Table 2 indicate that MO has a statistically significant effect on firm performance (β = 0.69; p = 0.002) thereby supporting H1. On the antecedents of MO, both leadership and environment challenge are found to have a significant effect with standardized coefficients of (γ = 0.57; p = 0.002) and (γ = 0.55; p = 0.002), respectively, thereby supporting H2 and H3. Environmental challenge and leadership are both found to be important determinants of a firm's MO. Together, these two antecedents account for 63% of the variance of MO. In turn, MO explains 48% of the variance in business performance.

The results in Table 2 also show that all four components of MO have substantial standardized regression coefficients. The standardized coefficients representing the paths from environmental challenge to market turbulence and competitive intensity are 0.77 (p = 0.002) and 0.54 (p = 0.002), respectively. Similarly, the standardized coefficients representing the causal paths from leadership to its two dimensions are 0.59 (p = 0.003) for commitment and 0.89 (p = 0.002) for competence.

5. Discussion and conclusion

The results of the study support the view that responsiveness is a dimension of MO, in addition to, customer orientation, competitor orientation and interfunctional coordination. Its high factor loading (0.78) shows that acting on market changes in an appropriate and timely manner is part and parcel of being market oriented. Together, the four dimensions explain a high 48% of the variation in firm performance. These findings provide concrete evidence that the concept of MO is both applicable and relevant and that it does pay for firms in Vietnam to be market oriented. At the surface, this finding seems to contradict Sheth's (2011) view that firms in emerging markets should take a market development rather than a market orientation stance

Table 1
Sample characteristics.

Industry	Total (no. of firms)	Firm's size (no. of employees)		
		Micro (<20)	Small–medium (20–200)	Large (>200)
Manufacturing	87	17	38	32
Trading	91	33	41	17
Services	122	44	51	27
Total	300	94	130	76

Table 2
Standardized structural paths.

Structural path			Standardized estimate	p-Value
Market orientation	→	Interfunctional coordination	0.78	0.003
Market orientation	→	Customer orientation	0.83	0.004
Market orientation	→	Competitor orientation	0.62	0.002
Market orientation	→	Responsiveness	0.78	0.004
Env. challenge	→	Competitive intensity	0.54	0.002
Env. challenge	→	Market turbulence	0.77	0.002
Leadership	→	Competence	0.89	0.002
Leadership	→	Commitment	0.59	0.003
Env. challenge	→	Market orientation	0.55	0.002
Leadership	→	Market orientation	0.57	0.002
Market orientation	→	Firm performance	0.69	0.002

and that firms should focus on converting non-users to users rather than on existing customers. A closer assessment of Sheth's proposition would however show that in the long run, it is not a question of one view or the other as new customers will need to be satisfied for them to remain loyal to a firm or its products. In terms of the question of why some firms are more market oriented than others, the results show that the answer lies in both external and internal forces. The external challenges brought about by competition and market turbulence cause firms to become more market oriented. Between these two, the latter has a greater impact (0.77 vs. 0.54). The changes on the demand side are more compelling possibly because the consumer base in emerging markets is changing rapidly. Internally, both the competence and the commitment of a firm's leader(s) are instrumental in developing a market orientation with the former having a greater impact. The capabilities of top management more than their values and beliefs drive firms to become more market oriented. The self-efficacy of a firm's leader is a more powerful force possibly because this is a vital resource in an emerging economy where formal management systems are either inexistent or underdeveloped.

Although the hypotheses of this study are tested in only one small emerging and transitional market, a number of implications can be drawn. Firms, both domestic and multinational, that are operating in emerging markets such as Vietnam can enhance their performance by improving customer and competitor orientations, and interfunctional coordination; and responding appropriately to market changes. To be more market oriented, top management needs to pay greater attention to the fast changing customer base and upgrading their management capabilities. Overall, this study provides concrete evidence supporting the hypotheses about MO in emerging markets. The evidence also shows that despite its Western origin, MO is robust enough to be relevant and adaptable to a non-western, Asian market environment.

It is very likely that these empirical findings are tenable in other emerging markets in Asia because firms in the region share similar internal and external characteristics. Like Vietnam, these countries are characterized by high power distance cultures and fast changing economic and socio-political environments. Internally, firms in these countries tend to be reliant on top management for direction and approach towards customers and competitors. The ability to respond quickly and appropriately to market changes which is found in this study to be more important than competitor orientation would resound well across Asia's fast growing markets. This study therefore makes a number of contributions. First, the study expands the concept of MO to include responsiveness in addition to customer orientation, competitor orientation and interfunctional coordination. Responsiveness is therefore not to be ignored when operating in the dynamic emerging markets of Asia. Second, this study provides statistically significant evidence that the environmental challenges and the commitment and competencies of top management determine the MO level of firms. Where firms are engaged with a fast changing market and intense competition, and where firms have a committed and competent leadership, MO intensifies and becomes an effective tool for successful business performance. These antecedents of MO appear to be unique to emerging markets particularly in Asia. Third, the results obtained in this study provide strong support to the main premise that MO is affected by the cultural, economic and institutional characteristics of the economies in which it is applied or that marketing is contextual. Together, these findings extend the literature about the theory and practice of MO in the emerging markets of Asia or where the conditions characterizing these markets as described in this paper are present.

Further studies are however needed to validate and to build on these findings. Contextual qualitative studies designed to interrogate the nature and components of MO in countries with different political and economic systems would be a rich area for future research. Quantitative investigations involving samples from large, emerging or transitional economies such as India, Indonesia or China, and other small economies such as those in the South East Asian or South Asian regions would also be beneficial.

Appendix A. Measurement scales

Construct	Scale item	Reference
Customer orientation	• Business principles emphasize customer satisfaction** • Commitment to serve customer needs • Encourage customer feedbacks • Monitor customer satisfaction	Langerak (2003) Tang and Tang (2003) Deng and Dart (1994)
Competitor orientation	• Aware of strengths/weaknesses of competitors • Report activities of competitors • Competitive advantage often mentioned ** • Business operations based on understanding of competitors**	Soehadi et al. (2001) Tang and Tang (2003) Langerak (2003) Deng and Dart (1994)
Interfunctional coordination	• Share information • Often discuss about customer/market trends • Supportive spirit among departments • Effective coordination among departments*	Soehadi et al. (2001) Deng and Dart (1994) Tang and Tang (2003) Langerak (2003) Subramanian and Gopalakrishna (2001)
Responsiveness	• Responds rapidly to: • changes in prices • promotion activities of competitors** • market changes • changes in business environment.	Soehadi et al. (2001) Deng and Dart (1994) Tang and Tang (2003) Langerak (2003) Jaworski and Kohli (1993)
Leadership competence	In general, the leaders of our company are • competent • have strong management capability • make smart decisions in business** • complete their work very well**	
Leadership commitment	Company leaders often tell people around • company's survival depends on adaptation to its market(s) • be attentive to the activities of competitors • firm must gear up to meet customer needs • serving customers is critical*	Jaworski and Kohli (1993)
Competitive intensity	• Competition is cutthroat • There are many promotion wars in our industry • Anything that one competitor can offer, others match readily • Price competition is a hallmark of our industry*	Langerak (2003) Jaworski and Kohli (1993)
Market turbulence	• Customers' preferences change over time • Customers always looking for new products/services • Fast-changing customer needs** • Customers often change their demand*	Langerak (2003) Jaworski and Kohli (1993)
Firm performance	• Good sales growth compared to industry/competitors** • Good profit growth • Good market share growth • Overall performance is good	Tay & Morgan (2002) Slater and Narver (1994) Langerak (2003) Jaworski and Kohli (1993)

Note: Items marked with * and ** were subsequently dropped based on EFA and CFA results respectively.

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