

The Comparative Relationship between Extended Market Orientation (EMO) and Refined Economic Value Added (REVA) and Return on Assets (ROA)

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Abstract- The concept of marketing means that the performance of each business unit starts with recognizing its customers and their needs. Every organization is responsible for not only producing and selling products and services, but also satisfying its customers; thus observing its customers' needs and wants empower the organization to survive in the market. Following the above mentioned statement, many researchers tried their best to introduce some methods and models to make this concept more applicable. Regarding the fact that the success of many organizations is due to creating a substantive competitive privilege and the key to make such a privilege is offering superior value for costumers; concentration on customers, competitors and the other influencing factors as a determinant culture in the organization or in the form of solitary complex consisting of purposeful activities toward market under some concepts such as market-orientation and customer orientation in practice have been used. The purpose of current research was exploring the relationship between Extended Market Orientation and business performance. Therefore, the subjects of this research project were the stock exchange companies which produced consuming products and their economic and financial data of 2004 to 2008 were available. The main variables of this research project were: Extended Market Orientation (EMO), the criteria of business financial performance (Rate of Return Assets (ROA)) and the criteria of business economic performance (Refined Economic Value Added (REVA)). In this research, statistical inference, parametric and nonparametric statistical methods, Spearman and Kendall correlation test have been used.

The data which were required for determining the business performance criteria have been extracted from financial accounts of the organizations and the required data to evaluate the extent of market orientation in the mentioned companies have been collected by use of s standardized questionnaire used in international researches. In order to assess the market orientation, the questionnaire besides a letter from the university has been sent to each company and after repeated follow-up, 65/7% as response rate were received and used. After collecting the required data and using them to analyze the hypotheses, the results showed there is a significance relationship between extended market orientation and rate of return assets while extended market orientation has no correlation with adjusted value economic added.

Keywords: *Extended market orientation, Economic Value Added, Refined Economic Value Added, Return on Assets*

I. INTRODUCTION

In today's highly competitive global markets, managers seek to improve organizational effectiveness by identifying organizational metrics linked to business performance. Market orientation is one such metric that has emerged as a significant predictor of performance and is presumed to contribute to long-term success [1]. Market orientation the implementation of the marketing concept [2] is the cornerstone of the marketing management and marketing strategy paradigms [3]. This paper focuses on measurement of market orientation and business performance.

II. THE MARKETING CONCEPT AND MARKET ORIENTATION

The marketing concept was formally introduced in the writings of McKitterick (1957) and Keith (1960). It defines a distinct organizational culture or business philosophy that puts the customer at the center of the firm's thinking about strategy and operations [4, 5]. Though the marketing concept is central to the marketing literature, very little research has been done in terms of creating a valid measurement scale and testing the construct empirically [6]. Only recently has empirical research been conducted in this area [7, 8].

According to reference [7], while the marketing concept is commonly defined as a philosophy or way of thinking that guides the allocation of resources and the formulation of strategies for an organization, market orientation is considered to be the activities involved in the implementation of the marketing concept. With this definition, three sets of activities—intelligence generation, intelligence dissemination, and responsiveness to market intelligence—represent the operationalization of market orientation. To measure market orientation from this behavioral perspective, a 32-item scale was developed which was later labeled MARKOR [9, 10]. Meanwhile, authors in reference [8] hypothesized that market orientation is a one dimensional construct consisting of three components: customer orientation, competitor orientation, and inter-functional coordination [6]. To measure market orientation from this cultural perspective, a 15-item factor-weighted scale (MKTOR) was developed [8]. Some of the authors and

academicians argued that whether or not the construct of a market orientation is equivalent to culture (as defined by Narver and Slater) or a set of behaviors (as defined by Kohli and Jaworski) is a subject of heated debate [11,12,13,14,15]. Specifically, a newly scale was introduced as EMO extends the scope of stakeholders and marketplace factors to include suppliers, regulatory aspects, social and cultural trends and macroeconomic environment as other authors acknowledge [10,15,16]. The focal EMO construct was defined as “a set of intelligence generation and dissemination activities and responses pertaining to the market participants (i.e., competitors, suppliers and buyers) and influencing factors (i.e., social, cultural, regulatory and macroeconomic factors)” [17]. Therefore, from a theoretical perspective, authors in reference [18] argued the fact that the EMO has a greater potential to explain a broader range of the phenomenon is conceptually consistent with market orientation and provides a more accurate picture of the relationships between the antecedent environment, the firm’s conduct and performance consequences than do other models, and after a few years they attempted to improve market orientation conceptualization and measurement by conceptually and empirically comparing three different scales of market orientation, the scale of Kohli and Jaworski, Narver and Slater and a newly developed market orientation (EMO) scale, and found that EMO scale is a conceptually improved scale that captures a broader spectrum of market factors (i.e., suppliers, regulatory aspects, social/ cultural trends and macroeconomic environment) than the existing market orientation scales [17,18], thus in this research project EMO scale in measuring market orientation was used.

III. CONSEQUENCIES OF MARKET ORIENTATION

Narver and Slater’s article in 1990 and Slater and Narver’s article in 1994 are pioneer studies of the impact of market orientation on firm performance [19]. Although performance can have a variety of meanings (e.g. short- or long-term, financial or organizational), it is broadly viewed from two perspectives in the previous literature: subjective concept, which is primarily concerned with performance of firms relative to that of their competitors and objective concept, which is based on absolute measures of performance [20]. Measuring market orientation with regard to the objective criteria is more popular in marketing literature. The relationship between market orientation and performance in this study measured with the two sections: refined economic value added (REVA) as economic performance and return on assets (ROA) as financial performance.

IV. HYPOTHESIS

Economic performance:

H1: The greater the market orientation of the organization, the greater the refined economic value added as economic performance measure.

Financial performance

H2: The greater the market orientation of the organization, the greater the return on assets as financial performance measure

V. RESEARCH METHODOLOGY

A. Scale and measurement

In this study, the scale for market orientation developed by author’s study in reference [15] was adopted. For all questions the five-point Likert-type scale anchors were used (1 = strongly agree; 5 = strongly disagree).

To measure financial performance (ROA) and economic performance (REVA) for 5 years from 2005 to 2009 the formal documents in Iran Stock Exchange were used.

The formula for calculating economic performance measure is as follows:

$$REVA = \text{Net Operating Profit After Taxes at the end of period } t \text{ (NOPAT)} - (\text{weighted-average cost of capital} * \text{total market value of the firm's assets at the end of period } t-1)$$

The formula for calculating financial performance measure is as follows:

$$ROA = \text{Net Income} / \text{Total Assets}$$

B. Data

A postal survey was conducted to collect information from all manufacturing firms in Iran Stock Exchange whose performance criteria for 5 years from 2005 to 2009 exist in formal documents. A self-administered questionnaire, a letter from the head officer of management department at Azad University, a personalized instruction cover letter explaining the purpose of the survey and a return envelope were sent to the marketing director/manager of the selected organizations. The general manager or the head of marketing was treated as the key informant. This approach implicitly assumes that the key informant’s individual opinion accurately provides a good indication of their organization’s market orientation in our questionnaire. Respondents were assured of their anonymity and offered a copy of the aggregate results of the survey. To further enhance the response rate, every 4 weeks after the initial mailing, a follow-up letter with a questionnaire was mailed. The rate of response (65/7%) were received and used.

VI. RESULTS

As the purpose of this paper has been exploring the relationship between market orientation and business performance, we examined the level of market orientation in manufacturing firms and also determined the relationship between this orientation and performance measures which were divided into two categories: economic performance, and financial performance.

The obtained result from the population of this research indicates that there is no relationship between market orientation of the organization and REVA, market orientation has a straight relationship with only return on assets.

Achieving the above mentioned results by conducting this research project shows that criteria of evaluating

financial performance such as ROA based on accounting data is still considered in stock market of Iran and can be used as a reliable criterion in evaluating the performance of businesses. On the other hand, despite Stewart's claim, the criteria of evaluating economic performance such as EVA and REVA are not enough vigorous in expositing the economic performance of companies; these results are in accordance with many previously done researches of Iran's stock market.

VII. DISCUSSION

The world of today, at the beginning of third millennium, along with the second industrial revolution- driven by inventions such as electricity and the internal combustion engine, a highly entrepreneurial period in business history, the growth in scale economies and the managerial revolution, and the speed of scientific discoveries and technical inventions has encountered us to unexpected and unpredictable challenges which resulted in ever-increasing importance of marketing capabilities; Market orientation is one such capability that has emerged as a significant predictor of performance and is presumed to contribute to long-term success [1]. Market orientation the implementation of the marketing concept [2] is the cornerstone of the marketing management and marketing strategy paradigms [3]. In today's competitive market, concentrating on a single dimension would lead to no success. No firm would succeed by applying a mere cultural approach and paying attention to the internal environment and ignoring the external environment and the firm's decisive measures or by a mere behavioral approach while paying attention to some activities without preparing the necessary cultural pre-requisites or by concentrating on just the competitors and the customers instead of a continuous monitoring of all the external factors or by choosing an unfitting strategy. Successful firms would be competent and perpetual in obtaining an optimized level of extended market orientation and a systematic approach. On the other hand, gaining more appropriate criteria for assessing the performance can help the businesses toward achieving competitive abilities based on market proclivity in the turbulent world of today and subsequently manifest the extent of organizations' progress toward achieving higher levels of market orientation in comparison to other organizations.

VIII. RECOMMENDATIONS FOR FUTURE STUDIES

Many researches are required to be done in the field of the relationship between market proclivity and business performance in which some of the most important title of them is mentioned below:

-A significant title for future researches can be studying the fact that whether the relationship of some variables of business performance with market orientation is more important than the other variables and whether we can represent any special preference for them.

- What were considered in this research were the current conditions of the industry in the field of the relationship

between market orientation and business performance, but finding the possible techniques of reinforcing the market proclivity can be a good subject for future researches as well.

- The other title which is recommended for further researches is studying the relationship between market orientation and the other performance criteria.

- Considering the business environment and the extent of its effect on the relationship between market proclivity and business performance there is also another remarkable point and subject for doing future researches. In other words, determining the environmental influencing factors on this relationship in dynamic and variant environment of today can be regarded as a very significant issue in determining the destiny of companies.

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