

Chapter 3

Market Orientation in Emerging Firms: Towards a More Rigorous Understanding of Entrepreneurial Marketing

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ABSTRACT

Most studies on the effect of market orientation in established and young companies have indicated a positive influence on firm performance. Whether and in what form this effect can also be found empirically in emerging firms – despite their numerous particularities – is still a largely unexplored issue. Applying rigorous procedures in the development of the measurement instrument and using a unique sample of 141 young companies, the authors confirm that market orientation does also have a significant and positive effect on the performance of emerging firms. However, results indicate significant differences to established firms regarding two aspects: (1) the items included in the measurement instrument diverge considerably from the established scales in this area, adding behavioral aspects characteristic for emerging firms and leaving aside items specific to larger organizations; (2) firms do not show a single consistent pattern of market-oriented behavior contributing to company success. Therefore, founders of emerging firms should pursue an individual way of market-oriented behavior that seems most appropriate when considering the company-specific liabilities.

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INTRODUCTION

Discussion about market orientation in established companies started as early as the 1950s with Peter Drucker and other researchers claiming that marketing involves the entire organization being seen from the customers' perspective (Drucker, 1954). Systematic conceptualization of market orientation in established companies was first provided by Kohli and Jaworski (1990), Narver and Slater (1990), Shapiro (1988), and Webster (1988). Subsequent empirical studies mostly used measurement scales that are based on the MARKOR and MKTOR scales introduced by Jaworski and Kohli (1993), Kohli, Jaworski, and Kumar (1993), and Narver and Slater (1990). The majority of these studies clearly indicate that market-orientated behavior has a positive effect on performance in established firms (Grether, 2003, who provides a comprehensive review of more than 70 empirical studies in this area).

In general, it seems admissible to assume that this positive influence of market orientation on company success can also be found in young and/or small companies (Fischer, & Reuber, 1995; George, & Zahra, 2002; Pelham & Wilson, 1996). However, as young firms differ significantly from established companies (Hills, & LaForge, 1992; Muzyka, & Hills, 1993; Storey, 1994), it is very likely that the market-oriented behavior in these firms, and its relationship with performance, displays particularities that are worth examining in more detail.

Results of such a study promise to be highly relevant from a practical perspective: in order for entrepreneurs to benefit systematically from market orientation as a potential success factor they need to understand which activities lead to higher levels of market orientation and how these can contribute to the success of their company. Therefore, from a research perspective a measurement instrument of market-oriented behavior is needed that incorporates the particularities of young companies. Thus far, to our knowledge none

of the attempts to examine the effects of market orientation for small and medium enterprises (SMEs) has led to a generally accepted, valid, and reliable measurement instrument.

As a consequence, following the multi-stage process of construct development recommended by Churchill (1979), we

1. develop a measurement instrument for market-oriented behavior building on the specific characteristics of emerging firms as a subset of SMEs that we define as young, growth-oriented enterprises (Muzyka, & Hills, 1993) and
2. test this measurement instrument in terms of the effect shown on performance. This will then be used as a basis for deriving practical implications for founders of young firms.

We begin our discussion with the specification of the domain. Here, we a) describe the dimensions of market-oriented behavior as introduced by Kohli and Jaworski (1990) for established companies, b) characterize the specific nature of emerging firms, and c) conclude this section by analyzing the adequacy of Kohli & Jaworski's (1990) conceptualization for emerging firms. Based on both literature searches and also interviews with experts we generate additional measurement items within this conceptualization in order to adequately capture the particularities of market-oriented behavior in emerging firms. Using data from a sample of 141 emerging firms (data collection), we then purify the measurement instrument. The empirical results applying this instrument are presented in the subsequent section. We conduct our analysis using the partial least square (PLS) structural equation approach (cf. Chin, 1998a; Wold, 1985). Finally, we discuss the implications of our findings together with potential avenues for further research.

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