

## Chapter 13

# The Role of Market Orientation in Internationalization of SMEs

**Rosmeriany Nahan-Suomela**  
Vaasa University of Applied Sciences, Finland

**Satu Lautamäki**  
Vaasa University of Applied Sciences, Finland

### ABSTRACT

*A rapidly changing business environment generates a growing demand for enterprises to understand their markets. Knowledge about markets is a strategic resource and enterprises are advised to invest in understanding their markets, competitors, and customers. Market orientation is widely studied as a concept describing how enterprises generate and respond to market knowledge. Market orientation is a cultural factor which we analyze in the framework of organizational culture. We examine market orientation as a cultural factor, as adopting a new type of culture inside and outside an organization can be particularly challenging for Small- and Medium-Enterprises (SMEs). SMEs have not been considered as very active participants in global business, where market knowledge is of utmost importance. For example, Keskin (2006) finds that market orientation is an antecedent of learning orientation in SMEs and market intelligence guides their learning processes. This chapter examines both theoretically and empirically how market orientation as a cultural factor is related to the internationalization processes of SMEs. This hopefully helps us to understand how SMEs can develop their businesses to a global level. We will present a qualitative study of four Finnish SMEs representing different phases of internationalization. Finally, discussion on the results and future research directions will be presented.*

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## INTRODUCTION

In marketing literature, emphasis on market knowledge is termed as market orientation. Many scholars have contended with clarifying and understanding the meaning of market orientation as a concept. Knowledge about markets is a strategic resource for enterprises that are advised to invest in understanding their markets, competitors, and customers. Competitive advantage increasingly depends on an enterprise's ability to use the market knowledge, but not only on its access to it (Deshpandé, Farley, & Webster, 1993). It is also often claimed that if enterprises fail to develop their market orientation, they are likely to experience a failure in their business performance. Enterprises which are able to increase their level of market orientation will improve their market performance (Day, 1994; Kohli & Jaworski, 1990; Slater & Narver, 2000; Nielsen et al., 2003; Verhees & Meulenbergh, 2004).

Research on market orientation has concentrated on large enterprises--not on SMEs; neither has market orientation been fully examined in the context of internationalization. In addition, there would be a need for managerial suggestions on how to implement market orientation in practice (Bradshaw, Maycock & Öztel, 2008). For instance, Dougherty (1990) discovered market, customer (related to product usage), and competitor information were essential in the successful product development projects. Verhees & Meulenbergh (2004) also discovered that customer knowledge is related positively to small enterprise performance. This leads us to investigate what type of market knowledge would be most important for small- and medium-sized enterprises in their internationalisation process. We also look at methods Small- and Medium-Enterprises (SMEs) are likely to use in collecting this information, because in fact, most small enterprises do not conduct market research or set long term market planning (Meziou, 1991; Pelham & Wilson, 1996).

Doing business at an international level brings uncertainty of the future development of the mar-

ket. In terms of developing business operations from an international-to global level, SMEs have not been considered as very active participants. Market orientation can be a powerful factor which changes this situation, because in global business, generation and dissemination of market knowledge is of utmost importance. However, market orientation is also a cultural factor. In this chapter, the concept of culture is examined in the framework of organizational culture and its relationship with market orientation. Adopting a new type of culture inside and outside an organization can be particularly challenging for SMEs. To understand how SMEs can move from an international to a global context, our goal is to understand how SME managers perceive market knowledge and, more specifically, how market orientation as part of organizational culture is related to their internationalization processes.

Narver & Slater (1990) have examined market orientation from a cultural perspective. According to them, market-oriented enterprises are embodied with a culture in which personnel value being customer oriented, competitor oriented and participating in interfunctional coordination. This means employees in such a culture put a priority and gather market intelligence about customers and competitors and collaborate between various departments in the enterprises. The main argument of their research is that market orientation is closely connected with organizational culture, in other words, being market oriented is a part of the enterprise's culture and reflects the values which are shared by organizational members. Additionally, Farrell (2000) states an enterprise should consider the creation of a market-orientation as a fundamental part of the organization's culture. So, market orientation is a cultural factor, which we will analyze in the framework of organizational culture.

Lafferty & Hult (2001) have produced a synthesis of the concept of market orientation based on earlier conceptual studies. According to them, the concept of market orientation can be approached from five perspectives; namely,

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