

Don't Expect the Market Orientation to Improve Business Performance
Re: Request – “Studies on market orientation and business performance
sought for meta-analysis”

ELMAR Contribution by J. Scott Armstrong
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Studies on the market orientation are addressing the major objectives of the firm. To assess this orientation, one must ask “Compared to what.” Several possibilities for a firm’s orientation exist:

1. No explicit and measurable objectives.
2. Strategies that are relabeled to become “objectives” or “missions” (e.g., “to provide the best product”).
3. Attempts to maximize returns to a single stakeholder group:
 - a. Top management (seemingly a common strategy now, such as with Enron)
 - b. Stockholders (common for owner-managed companies)
 - c. Employees (as in worker cooperatives, such as were used in some communities in England and the US, and its large-scale use in Yugoslavia from the 1950s to 1980s)
 - d. Creditors (e.g., for bankrupt firms)
 - e. Customers (consumer cooperatives such as mutual life insurance companies represent the extreme form of a consumer orientation)
4. Attempts to provide satisfactory returns to all stakeholders. The Mondragon Cooperative in Spain, consisting of about 120 firms, has been using representatives of stakeholders on Boards of Directors for about half a century.
5. Attempts to perform better than competitors (market share)

“Market orientation” is closest to description 3e (Customers),

I have reviewed much of the literature relevant to different orientations. Here are some conclusions about how orientations relate to the effectiveness of a firm:

1. Objectives must be explicit and measurable. Extensive research by Ed Locke and others has shown that explicit, measurable objectives have a strong impact of effectiveness. Profit maximization has an advantage in that measurement of success is easy. Success under the market orientation is not so easy to measure.
2. The orientation’s objectives must be relevant to the ultimate objectives of the organization. When the stated objective departs from the ultimate objective (i.e., when it is irrelevant), it is expected to be harmful. This happens especially in alternatives 2, 3a, and 5. For example, we showed that when a firm’s objectives are to gain market share,

long-term profits and survival suffer. By this reasoning, I expect that mission statements and visions are harmful, but this has not yet been studied. I am willing to wager money on the outcome of a study on the detrimental value of mission statements, especially when they are actually used.

3. Attempts to maximize the returns to only one of the stakeholder groups would work reasonably well in a highly competitive market. Profit maximization seems to be the most stable and successful of these approaches and it holds up well when the market departs from pure competition.
4. Explicit attempts to use the stakeholder approach should be made. Numerous, carefully done econometric studies have shown that this improves profitability (the Mondragon studies) and reduces irresponsibility (as shown in my study, “Social Irresponsibility in Management”).

In short, I expect the market orientation to lead to poorer business performance than profit maximization or than satisficing returns to stakeholders. On the other hand, the market orientation should be superior to having no objectives or to having missions/visions.

[For more on this topic, see my *JMR* paper (in full text) on “Competitor Orientation” in the Strategy and Planning section at <http://jscottarmstrong.com>. The Social Irresponsibility paper is also there in full text.]