THE EFFECT OF INTERNAL AND EXTERNAL MARKET ORIENTATION ON PERFORMANCE OF PUBLIC FIRMS IN IRAN

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Abstract- The present study seeks to investigate the effect of internal and external market orientation on financial and non-financial performance. It is applicable from objective aspect and descriptive-field from methodological aspect. The data was collected through documentary study and field study including questionnaire. All managers, deputies and experts of firms related to Shiraz Municipality equal to 1704 were the statistical population of the study during the time period April-December 2014. The sample size was estimated equal to 129 by means of random sampling method. Results of regression test indicated the positive effect of internal and external market orientation on financial and non-financial performance of firms related to Shiraz Municipality. According to the results, information production, information dissemination and how to respond to internal information have a positive and significant effect on financial and non-financial performance. Similarly, information production, information dissemination and how to respond to external information have a positive and significant effect on financial and non-financial performance.

Keywords- Financial Performance, Non-financial Performance, Market Orientation, Information Production, Information Dissemination, Respond to Information

I. INTRODUCTION

Market orientation entered the marketing literature since the 1980's. It is a concept that roots in marketing theory for the concept of marketing philosophy and has seriously been studied by Narver and Slater [1]. They introduced market orientation as the beating heart of modern management and marketing. According to them, market orientation is an organizational culture that provides the essential behaviors in order to create higher value for customers with the highest level of efficiency and effectiveness. It leads to superior performance and competitive advantage for businesses.

From the viewpoint of modern managers, marketing includes customer growth, i.e. paying attention to satisfaction and quality from customer's viewpoint and customer loyalty and effective relationship with the customer. As a result, firms try to have loyal customers. Paying no attention to the customer destroys any business. Therefore, market orientation is the prerequisite for successful operations of a business. Firms can create more value for consumers by paying attention to market orientation and innovation and enhance customer loyalty. This enables the firm to achieve competitive advantage in comparison with other firms and thus, obtains a better performance than its competitors.

II. STATEMENT OF THE PROBLEM

Market orientation is to create intelligence across the firm in relation with the current and future needs of customers among various sectors of a firm and general responding to that intelligence. It is both considerable inside and outside the firm as well as in domestic and international markets of a country [2].

However, it seems that focusing on external customer is not efficient to achieve organizational purposes and other objectives. If employees do not have customer-oriented attitudes and behaviors and if internal systems and processes are not focused on customer purposes, marketing methods that are exclusively used for external customers are probably facing with failures [3].

Hence, a balanced viewpoint should be considered especially by taking into account the relative importance of dimensions of internal and external market orientation in performance. The primary purpose of this study is to investigate the effect of each dimension of external market orientation on firm's performance regarding public sector administration from an integrated viewpoint. Most studies are mainly focused on total measurement of (internal/external) market orientation and have shown less attention to the effect of each component of market orientation on organizational performance. Second, this study seeks to investigate the effect of these components on both dimensions of financial and non-financial performance, because one-dimensional exploration of performance cannot give accurate results to beneficiaries. Thus, the major research question is proposed in this way: Are the components of internal and external market orientation able to influence financial and non-financial performance of firms?

III. SIGNIFICANCE OF THE STUDY

Due to the advancement and transitions of the information and communications technology major changes have occurred in recent decades in markets and have made companies and firms think about strategies to enhance their capability and maintain their competitive ability. One of the critical success

factors in the competitive world and maintenance of firms' survival is the capability for successful marketing of products and services. Marketing can be helpful in directing the purposes, strategies, and programs of firms and provides the possibility to achieve superior performance and a higher market share. Businesses have to enhance their marketing capabilities in order to achieve superiority against their competitors and attract and keep their customers. In other words, it can be stated that innovation has been determined as the condition for durability in any market through intensification of the competitive environment with the prerequisite of accepting the principle of competition. It has been led to the importance of market orientation instead of product-orientation. At the beginning of the 21st century, quick and total global changes have transformed the environment of firms' activities so that the firms and their managers have to find new ways for compatibility with the global changes and be able to remain in the internal and external competitive arena [4].

Dimensions of internal and external market orientation were considered in this study, because despite the numerous studies about the effect of market orientation on performance, the effect of individual dimensions of internal and external market orientation on performance has not been mentioned. Effects of implementing market-based behaviors in the framework of local public firms are explored in the present study. The balance between internal and external market orientation provides a unique opportunity for the firms in the public sector to achieve their mission and improve their performance.

Analysis of the effect of dimensions of internal and external market orientation on organizational performance is investigated in this study. Internal market orientation perspective is studied in order to help employees understand the organization better, foster their services in the organization, and adapt themselves with the organizational methods and change for the better. In this way, employees are prepared to confront with external factors and environmental challenges and enhance the success of the firm [3].

IV. THEORETICAL FRAMEWORK

Each study needs a theoretical framework. It is a model based on which the researcher hypothesizes about the relations among the important factors in creating a problem. It should not necessarily be the researcher's remark; in most cases, combination of the researcher's logical beliefs with the related research studies about the research problem has a key role in creating a basis to investigate the issue under study. In brief, theoretical framework deals with the relationship among independent, intervening, moderating and dependent variables that are supposed to be effective on the response and solution of the research problem. Creating such theoretical framework for formulation and testing of hypotheses as well as completing the researcher's understanding of the research problem are very helpful [5]. The theoretical framework of this study is displayed Fig. 1.

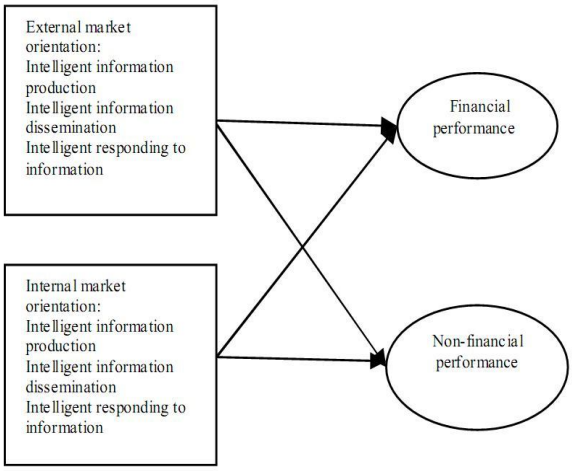


Fig. 1. Conceptual framework of the study (source: Rodrigues & Pinho, 2011)

V. LITERATURE REVIEW

Several studies have been conducted about internal and external market orientation and their consequences. Among these studies, the below cases can at least be mentioned. In an article entitled "the effect of internal and external market orientation on public firms' performance in Portugal" Rodrigues and Pinho (2011) showed that external information distribution and respond to information are strongly effective on non-financial performance and external information production and respond to information have a positive effect on financial performance. But with regard to internal market orientation, the results do not show a lower effect on performance.

Subramanian [6] explored the relationship between market orientation and business performance in 159 intensive care units in the US. The results of his study showed a positive relationship between market orientation and business performance in intensive care units.

Tsiotsou [7] investigated the relationship between market orientation and service performance in 329 tourism industries in Greece and Lithonia. According to the results, there was a direct relationship between customer orientation and service performance and indirect relationship between competitor-orientation, cross-sectoral coordination and service performance.

In a paper entitled "Is market-orientation a resource for achieving competitive advantage in firms?" Kumar et al. [8]) collected data during nine years of activity of 261 firms in the time period 1997-2005. The results of their paper disclosed that the firms which emphasized and performed market orientated activities had a better performance and competitive advantage than other firms.

Merlo and Auh [9] investigated the relationship between market orientation, role of entrepreneurship and influence of the secondary unit of marketing with business performance in 600 medium and large manufacturing enterprises in Australia. The results showed that there was a slight relationship between market orientation and role of entrepreneurship with business performance. Mohammad Karimi and Khosravi [10] presented an article entitled "the role of market orientation in the relationship between internal marketing and bank performance. According to the results, internal marketing had a positive effect on market orientation and in turn, market orientation had a positive effect on performance. Likewise, internal marketing had a positive effect on performance through the intermediary variable of market orientation indirectly. But no relationship was observed between internal marketing and performance directly. Moreover, each component of internal marketing had a positive effect on both components of market orientation. In an article entitled "exploring the effect of internal marketing on market orientation in service organizations", Hassangholipour et al. [11] performed a field study in Bank Mellat in Tehran City by emphasizing the intermediary role of organizational citizenship behaviors and organizational commitment. According to the findings, there was a positive relationship between internal marketing and market orientation in Bank Mellat. Also, there was a positive relationship between internal marketing and organizational commitment in Bank Mellat as well as between internal marketing and organizational citizenship behaviors. In addition, there was a positive relationship between organizational commitment and market orientation and between organizational citizenship behaviors and market orientation in the above bank. Pakdel et al. [12] carried out a study entitled "evaluation of the effect of market orientation, innovation and customer loyalty on business performance (case study: Pol clothing group)". Data analysis and testing of hypotheses indicated that increased level of innovation in Pol clothing group is the result of increased level of market orientation and this led to a better innovation performance in the firm. Increased loyalty of customers is resulted in the growth of innovative performance of the firm and finally the level of business performance is enhanced. Numerous studies have been conducted about the effect of internal and external market orientation on financial and non-financial performance among which we can mention Zhou et al. [13], Chen and Quester[14], Hsieh et al. [15], Micheels and Gow [16], Hamidizade and Ghamkhari [17], Arasti et al. [18], and Heidarzade [19].

VI. METHODOLOGY

This study is descriptive-field-correlational in which documentary study and field study were used to collect the information related to theoretical principles and theoretical background of the research topic.

6.1. Statistical population

All managers, deputies and experts of the firms related to Shiraz Municipality equal to 1704 were the statistical population of the study in 2014.

5.2. Sample and sample method

In order to determine the sample size, a preliminary study was conducted on 30 persons because variance of the statistical population was inaccessible. Then the sample size was determined equal to 129 through Cochran formula.

5.3. Data collection method, Tools and Analysis

The required data was collected through documentary study and questionnaire. Rodrigues and Pinho's standard questionnaire (2011) was employed and the Likert scale was utilized to extract the opinions. Descriptive statistics methods were used to analyze descriptive data. Kolmogorov-Smirnov test, variance analysis and regression and Friedman test were employed for data analysis by means of SPSS-20 software.

VII. FINDINGS

In this section, hypotheses were tested using Pearson correlation test and regression analysis. The results are shown in Tables 1 and 2. Analyses were done through SPSS-20 software.

7.1. The main hypothesis

Internal and external market orientation has a direct and positive effect on financial and non-financial performance. This hypothesis was tested through simple regression test. The results are shown in Tables 1 and 2. The significance level related to F test is less than 0.05; thus this hypothesis is accepted and it can be stated that internal and external market orientation has a direct and positive effect on financial and non-financial performance.

Table 1. Regression results about financial and non-financial performance in terms of internal and external market orientation

Model		Constant	Internal and external market orientation
Raw coefficients	B	2.394	0.426
Standard coefficients	Standard error	0.393	0.104
	Beta		0.340
T		6.085	4.097
Significance level		0.000	0.000

Table 2. Indexes of the regression model of financial and non-financial performance in terms of internal and external market orientation

Significance level	0.000
F	16.782
Adjusted coefficient of determination	0.109
Coefficient of determination	0.116
The square root of coefficient of determination	0.340

Adjusted coefficient of determination of this model is equal to 0.109. Hence, 10.9 percent of changes of financial and non-financial performance can be explained by internal and external market orientation. The below equation can be presented to predict the changes of financial and non-financial performance based on internal and external market orientation:

(1) Financial and non-financial performance= 2.394 + (0.426) internal and external market orientation

According to above equation number (1), 0.426 units are added to financial and non-financial performance in lieu of one unit increase in internal and external market orientation. Given the adjusted coefficient of determination, degree of effectiveness of internal and external market orientation on financial and non-financial performance is 10.9%.

DISCUSSION AND CONCLUSION

The purpose of this study was to investigate the effect of internal and external market orientation on financial and non-financial performance in firms related to Shiraz Municipality. It is applicable from objective aspect and descriptive-field from methodological aspect. All managers, deputies and experts of firms related to Shiraz Municipality, equal to 1704, were the statistical population of the study. The sample size was determined equal to 129 by means of Cochran formula. Results of regression test between the independent variables (internal and external market orientation) and the dependent variable (financial and non-financial performance) show that there is a positive and significant correlation between the two variables. The significance level is less than 0.05. Given the adjusted coefficient of determination, the effect of internal and external market orientation on financial and non-financial performance is 10.9 percent (low-moderate) and beta coefficient is equal to 0.426. It means that 0.426 units are added to financial and non-financial performance of firms related to Shiraz Municipality in lieu of one unit increase in internal and external market orientation. Therefore, the major hypothesis regarding that internal and external market orientation has a significant effect on financial and non-financial performance is confirmed.

ACKNOWLEDGMENTS

Author thanks Dr. Josephine Laydia and Mrs. Neda Jamshidi who assisted a lot in conducting this study.

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