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Market orientation and performance in service firms: role of innovation

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Abstract *There is wide acceptance of the precept that market orientation is associated with superior firm performance. However, empirical support for the proposition in prior literature is weak. This study examines the relationship between market orientation and performance with data from 201 international hotels and finds that market orientation is positively associated with both judgmental measures of performance – service quality, customer satisfaction, and employee satisfaction, and objective measures of performance – occupancy rate, gross operating profit, and market share. Specifically, the study finds that the immediate impact of market orientation is to spur innovation, which, in turn, enhances judgmental performance, which, in turn, enhances objective performance.*

Introduction

"Market orientation"

''Market orientation'' is a popular term used by marketing practitioners as an indicator of the extent to which a firm implements the ''marketing concept''. The marketing concept, in turn, holds that the key to achieving organizational goals – such as market share and profitability – depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors. A market-oriented firm is presumed to have superior market-sensing and customer-linking capabilities, and these capabilities are presumed to assure them higher profits in comparison with firms that are less market-oriented (Day, 1994). Because of its appeal, the presumed linkage between market orientation and profitability has been examined empirically by a number of scholars (Deshpande *et al*., 1993; Greenley, 1995; Han *et al*., 1998; Jaworski and Kohli, 1993; Narver and Slater, 1990; Slater and Narver, 1994). However, only two studies – Narver and Slater (1990) and Slater and Narver (1994) (albeit both based on the same data set) – found a positive association between management-reported ''market orientation'' and ''return on investment'' – an objective/financial measure of performance. Despite disappointing empirical support, scholars and practitioners continue to have

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an unwavering belief in the premise. It is, therefore, worthwhile to explicate the process by which market orientation leads to superior objective performance.

Meager empirical support

The fact that there is meager empirical support for the presumed relationship between market orientation and profitability may imply that the relationship between market orientation and objective performance is not direct. In this vein, Han *et al*. (1998) proposed that a market-oriented firm is likely to be innovative, which, in turn, is likely to lead to achievement of superior performance. Given that a market-oriented firm is presumed to have superior market-sensing and customer-linking capabilities, it should be in a position to ''innovate'' in a manner that provides superior value for its target customers (Narver and Slater, 1990). Service firms may do so by developing new products/services or reformulation of existing ones, creating new manufacturing/production methods or distribution channels, or discovering new approaches for management or competitive strategy (Slater and Narver, 1995). Moreover, a significant amount of management literature supports the idea that innovation leads to superior performance (Damanpour and Evan, 1984; Damanpour *et al*., 1989; Khan and Manopichetwattana, 1989; Zahra *et al*., 1988). Consequently, it makes sense to study the indirect linkage between market orientation and profitability.

Objective performance

Performance, however, is a two-dimensional construct. One of the dimensions is the objective performance, which involves financial or market-based measures such as capacity utilization, profitability, and market share. The other is the judgmental performance, which involves customer- and employee-based measures such as service quality, customer satisfaction, and employee satisfaction. According to some scholars, the main goal of market-oriented companies should be the creation and retention of satisfied customers (Day, 1994; Day and Wensley, 1988; Drucker, 1954; Hooley *et al*., 1990; Kotler, 1977). According to Narver and Slater (1990, p. 21), ''To maximize its long-run performance, the business knows it must build and maintain a long-run mutually beneficial relationship with its buyers.'' Statements such as ''stay close to the customer'' ''put the customer at the top of the organization chart,'' and ''define the purpose of a business as the creation and retention of satisfied customers,'' indicate that companies that offer superior customer value are ''expected to enjoy superior long-run competitive advantage and superior profitability'' (Day, 1994, p. 37). Moreover, a related goal, especially in service organizations, is to satisfy employees. A satisfied employee is committed to the organization and has high *esprit de corps* (Kohli and Jaworski, 1990). Heskett *et al*. (1994) observe that profitability and revenue growth result from customer loyalty, which, in turn, is created when highly satisfied employees deliver superior customer satisfaction. Such employees, especially in boundary-spanning roles, provide better service and make a positive impact on consumers. Satisfied customers spread the good word to other potential customers and keep coming back to the organization providing it with more business. Thus, the marketing concept basically suggests that superior judgmental performance is a prerequisite for superior objective performance. In fact, Jaworski and Kohli (1993) examined the relationship between market orientation and both objective and judgmental measures of performance, and found that market orientation is not associated with objective measures of performance but is positively associated with judgmental measures of performance. Consequently, this study proposes that a firm that is market-oriented is likely to be innovative, which, in turn, is also likely to result in achievement of superior judgmental performance, and which, in turn, is likely to result in achievement of superior objective performance.

Mediating

The purpose of this study, therefore, is to assess the mediating role of innovation and judgmental performance in the relationship between market orientation and objective performance. Methodologically, we follow Han *et al*. (1998) and study firms belonging to a single industry. This eliminates, to a large extent, the diverse environmental considerations that complicate the study findings. Moreover, like Han *et al*. (1998), we choose to study a service industry. The chosen industry is the hospitality industry, with focus on hotel firms. Unlike Han *et al*. (1998), however, the firms in this sample are located in multiple countries. The hotel industry is highly global and caters to a standardized consumer need world-wide. The international nature of the sample ensures greater generalizability of results.

Previous studies

A number of studies have empirically examined the relationship between management-reported market orientation and performance (Deshpande *et al*., 1993; Greenley, 1995; Han *et al*., 1998; Jaworski and Kohli, 1993; Narver and Slater, 1990; Slater and Narver, 1994). A review of these studies follows.

Narver and Slater (1990)

Narver and Slater (1990) surveyed managers at the SBU level of 36 commodity firms and 74 non-commodity firms (of which 23 were in specialty products businesses and 51 in the distribution business) to assess the relationship between market orientation and return on investment (ROI). They found that market orientation was positively associated with ROI for non-commodity businesses but non-linear (U-shaped) for commodity businesses.

Slater and Narver (1994)

In a follow-up study, Slater and Narver (1994) extended the previous study to include assessment of two additional objective performance measures – new product success and sales growth – besides ROI. Because the two studies share the same data, it is no surprise that the findings are consistent with the findings of Narver and Slater (1990). The study supported the hypothesized positive relationship between market orientation and the three objective performance measures.

Jaworski and Kohli (1993)

Million-Dollar Directory

Jaworski and Kohli (1993) studied two samples – one consisted of 154 respondents drawn from Dun & Bradstreet's *Million-Dollar Directory* (1993) and the other comprised 139 respondents drawn from the American Marketing Association membership roster. They studied the relationships between market orientation and five measures of performance, of which two – market share and return on equity – can be classified as objective measures of performance and three – organizational commitment, *esprit de corps*, and overall performance – can be classified as judgmental measures of performance. For both samples, market orientation is not associated with objective measures of performance, but it is positively associated with judgmental measures of performance. The findings with respect to objective measures of performance are in direct contrast with those of Narver and Slater (1990), despite the fact that the study controlled for product quality and indicators of the competitive environment factors – such as competitive intensity, customer power, supplier power, entry barriers, and substitute products.

Deshpande et al. *(1993)*

Deshpande *et al*. (1993) studied the impact of customer orientation in conjunction with innovation and organizational culture on performance of Japanese firms. Their measure of performance can also be classified as objective measure of performance – it was a composite of profitability, size, market share, and growth rate. In line with Jaworski and Kohli (1993), this study also did not find evidence to support the assumed positive relationship between marketers' perceptions of customer orientation and performance.

Greenley (1995)

UK firms

Greenley (1995) replicated the Slater and Narver (1994) study with data from 280 UK firms representing a variety of consumer and industrial goods and services industries. In contrast with the results obtained by Narver and Slater (1990) and Slater and Narver (1994), Greenley (1995) did not find direct relationships between market orientation and various measures of objective performance.

Han et al. *(1998)*

Han *et al*. (1998) questioned the weak, mixed, or insignificant findings pertaining to the hypothesized positive association between market orientation and performance in the studies described above. They proposed a framework in which the relationship between market orientation and performance is mediated through innovation. The data for the study were obtained via a survey of the person in-charge of marketing operations at the senior management level of 134 banks located in a mid-western state in the USA. The results indicate that there is no significant direct relationship between market orientation and objective performance. However, they report a significant positive relationship between market orientation and innovation and between innovation and objective performance.

Hypotheses

The basic premise of this study is that a firm that is market-oriented is likely to be innovative, which, in turn, is likely to result in achievement of superior judgmental performance, and which, in turn, is likely to result in achievement of superior objective performance. The model is illustrated in Figure 1.

Role of innovation

Business philosophy

Han *et al.* (1998) examined the manner in which a market-oriented business philosophy is converted into superior performance. Deshpande *et al*. (1993) and Slater and Narver (1995) suggest that perhaps the most important manifestation of market orientation is the success of innovations *en route* to superior performance. Innovation is particularly critical to service firms, as their products are difficult to protect through patents and copyrights. To enjoy competitive advantage, service firms may need to continuously innovate to stay ahead of competitors. Accordingly, we propose the following:

H1. Market orientation is positively associated with innovation.

H2. Market orientation is positively associated with judgmental performance.

H3. Market orientation is positively associated with objective performance.

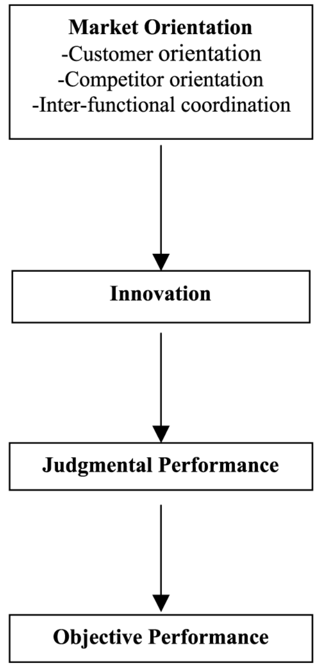

Figure 1. The study model

H4. Innovation mediates the relationship between market orientation and judgmental performance.

H5. Innovation mediates the relationship between market orientation and objective performance.

Role of judgmental performance

Judgmental measures

Scholars have suggested that judgmental measures of performance, that include customer satisfaction, employee satisfaction, and service quality, are important prerequisites for profitability or objective measures of performance (Day and Wensley, 1988). Heskett *et al*. (1994) trace the link between financial profitability in service organizations to things like customer satisfaction, service quality and, finally, employee satisfaction. Based on their study, they conclude that profitability is ultimately driven by employee and customer satisfaction. A satisfied employee, for example, is committed to the organization and has high *esprit de corps* (Kohli and Jaworski, 1990). Such employees, especially in boundary-spanning roles, provide better service and make a positive impact on consumers. Satisfied customers spread the good word to other potential customers and keep coming back to the organization providing it with more business (Kohli and Jaworski, 1990; Oliver, 1980; Slater and Narver, 1994). Hence, the following:

H6. Innovation is positively associated with judgmental performance.

H7. Innovation is positively associated with objective performance.

H8. Judgmental performance mediates the relationship between innovation and objective performance.

H9. Judgmental performance mediates the relationship between market orientation and objective performance.

Method

Data collection

A survey questionnaire was developed for this study to measure the study constructs (see the subsequent section for a description of measures). The preliminary questionnaire was pre-tested on a sample of 30 hotel general managers who attended an executive development program at a leading hotel and restaurant school in the north-eastern USA. The questionnaire was modified to enhance clarity. The modified questionnaire was mailed to general managers of 530 hotels accompanied with a covering letter from the CEO of the Global Hoteliers Club. A reminder was sent two weeks later and a second reminder was sent four weeks later with the copy of the survey questionnaire. A total of 201 usable responses were received, resulting in a response rate of 39 percent.

Information

In total 38 non-respondents (hotels that did not respond even after the two reminders) were later faxed a short one-page form with some particulars about the background of the hotel and requested to complete the form and fax it back. Of these hotels 11 responded. Information provided by these hotels was compared with comparable data from the respondents. Also the background information of the early respondents was compared with that of the late respondents (Armstrong and Overton, 1977). Taking these results together, it was concluded that non-response bias is negligible and insignificant.

Participants

Table I summarizes the salient characteristics of the analysis sample. Of the respondents, 74 percent are general managers of their respective hotel properties. The hotels represented in the sample are heavily international; they derive, on average, 57.4 percent of their revenues internationally and have been international for an average of 28 years. There are 46 countries represented in the sample, assuring the representation of a diverse set of countries. About 61 percent of the hotels in the sample are located in a city center and almost 67 percent are classified as five-star hotels. The average hotel's customer mix is predominantly individual and group business people.

Measures

14-item scale

Market orientation. Market orientation is measured with a 14-item scale based on a scale proposed by Narver and Slater (1990). The items were measured on a five-point scale, where 1 indicated ''strongly disagree'' and 5 indicated ''strongly agree.'' An average of the 14 items represents a hotel's overall market orientation. The scale includes three main concepts – customer orientation, competitor orientation, and inter-functional coordination.

Innovation. Innovation is measured with a two-item scale. The scale assesses a hotel's propensity to invest in generating new capabilities and figuring out whether or not it can come up with new ways to serve customers. The measure captures both administrative and technological innovation (Han *et al*., 1998). Both items were measured on a five-point scale, where 1 indicated ''strongly disagree'' and 5 indicated ''strongly agree.'' An average of the two items represents a hotel's overall level of innovation.

Performance. Performance is measured with six items, of which three are objective measures of performance and the rest are judgmental measures of performance. The three objective measures are occupancy rate (a key performance measure in the hotel industry), gross operating profit, and

	Number	Percent
Geographic origin		
Continent		
Africa	21	10.4
Asia	78	38.8
Australia	17	8.5
Europe	45	22.4
South America	5	2.5
North America	35	17.4
Total	201	100.0
Positioning of hotel		
Luxury/5-Star	77	38.3
Upscale/5-Star	58	28.9
First-class/4-Star	54	26.9
Others	12	6.0
Total	201	100.0
Location of hotel		
City center	122	60.7
Suburban	16	8.0
Resort	51	25.4
Others	12	6.0
Total	201	100.0
Parent company particulars		
Number of hotel properties world-wide	312	
Number of years since international	28	
Percent of revenue from international		58
Individual property characteristics		
Number of rooms available for sale	365	
Number of full-time employees	435	
Respondent characteristics		
Number of years in current position	6.5	
Number of years in hotel industry	24.5	
Number of countries where worked	7.3	
Percent having college education		74.4
Percent who are general manager		73.8

Table I. Sample characteristics

market share. The three judgmental measures of performance are service quality, customer satisfaction, and employee satisfaction. Each one of these performance measures was measured on a five-point scale, where 5 indicated "Much better than competitors," 4 indicated "Better than competitors," 3 indicated "About the same," 2 indicated "Worse than competitors," and 1 indicated "Much worse than competitors." An average of the three objective measures of performance represents a firm's overall measure of objective performance and an average of the three judgmental measures of performance represents a firm's overall measure of judgmental performance.

Results

Mediating role of innovation

The method used to test for the mediation effect of innovation on the relationship between market orientation and both objective and judgmental performance is derived from a regression procedure specified by Baron and Kenny (1986). According to this method, it must be demonstrated that market orientation (which is an explanatory variable) is related independently to both innovation (which is a mediator variable) and performance (which is the dependent variable). This is important in order to demonstrate that market orientation is related to both concepts. To prove that innovation mediates the impact of market orientation on performance, the regression coefficient associated with market orientation should be insignificant when both innovation and market orientation are simultaneously included as explanatory variables in a regression equation. The results suggest that, although market orientation is related to performance directly, it does not explain the variance in performance in the presence of innovation. If market orientation is related to innovation directly, and innovation explains a significant amount of variance in performance in the presence of market orientation, it will lead us to conclude that innovation fully mediates the relationship between market orientation and performance. The results are reported in Table II.

Analysis results

The regression analysis results (see equation (1), Table II) indicate that market orientation is positively and significantly related ($\beta = 0.52$; $p < 0.001$) to innovation. This finding supports *H1*.

The regression analysis results (see equation (2); Table II) indicate that market orientation is positively and significantly related ($\beta = 0.47$; $p < 0.001$) to judgmental performance. The finding supports *H2*.

The regression analysis results (see equation (3); Table II) indicate that market orientation is positively and significantly related ($\beta = 0.17$; $p < 0.05$) to objective performance. This finding supports *H3*.

The regression analysis results (see equation (4); Table II) indicate that market orientation is positively and significantly related ($\beta = 0.39$; $p < 0.001$) to judgmental performance in the presence of innovation, which is also positively and significantly related ($\beta = 0.15$; $p < 0.05$) to judgmental performance. Because the regression estimates associated with both market orientation and innovation show significant positive relationships with judgmental performance, we fail to suggest that innovation mediates the relationship between market orientation and judgmental performance. However, because the size of the coefficient for market orientation in the estimates of equation (6) is less than the size of the coefficient for market orientation in the estimates of equation (2), we can say that innovation may be a partial mediator in the relationship between market orientation and judgmental performance. Thus, *H4* is partially supported.

Market orientation

On the other hand, the regression analysis results (see equation (5); Table II) indicate that market orientation is insignificantly related ($\beta = 0.08$) to objective performance in the presence of innovation, which is positively and significantly related ($\beta = 0.17$; $p < 0.05$) to objective performance. Because the regression estimate associated with market orientation is insignificant in the presence of innovation while the regression estimate associated with innovation is significant in the presence of market orientation, we can suggest that innovation mediates the relationship between market orientation and objective performance. Thus, *H5* is supported.

Mediating role of judgmental performance

Following the Baron and Kenny (1986) procedure used above, it must be demonstrated that innovation (which is an explanatory variable) is related independently to both judgmental performance (which is a mediator variable) and objective performance (which is the dependent variable). To prove that judgmental performance mediates the impact of innovation on objective performance, the regression coefficient associated with innovation

Eq. no.	Regression equation	Dependent variables	Independent variables Market orientation	Innovation	Judgmental performance
1	$IN^{A} = b_0 + b_1 \times MO^{B}$	Innovation	0.52a		
2	$JP^{C} = b_0 + b_1 \times MO$	Judgmental performance	0.47a		
3	$OP^{D} = b_0 + b_1 \times MO$	Objective performance	0.17c		
4	$JP = b_0 + b_1 \times MO + b_2 \times IN$	Judgmental performance	0.39a	0.15c	
5	$OP = b_0 + b_1 \times MO + b_2 \times IN$	Objective performance	0.08	0.17c	
6	$JP = b_0 + b_1 \times IN$	Judgmental performance		0.36a	
7	$OP = b_0 + b_1 \times IN$	Objective performance		0.22b	
8	$OP = b_0 + b_1 \times MO + b_2 \times IN + b_3 \times JP$	Objective performance	–0.04	0.12	0.31a

Notes: ^{a}: $p < 0.001$; ^{b}: $p < 0.01$; ^{c}: $p < 0.05$; ^{A}: IN = Innovation; ^{B}: MO = Market orientation; ^{C}: JP = Judgmental performance; ^{D}: OP = Objective performance

Table II. Regression results

should be insignificant when both innovation and judgmental performance are included as explanatory variables in a regression equation simultaneously. If innovation is related to objective performance directly, and judgmental performance explains a significant amount of variance in objective performance in the presence of innovation, it will lead us to conclude that innovation fully mediates the relationship between market orientation and performance. The results are reported in Table II.

The regression analysis results (see equation (6); Table II) indicate that innovation is positively and significantly related ($\beta = 0.36$; $p < 0.001$) to judgmental performance. This finding supports *H6*.

The regression analysis results (see equation (7); Table II) indicate that innovation is positively and significantly related ($\beta = 0.22$; $p < 0.01$) to objective performance. This finding supports *H7*.

Judgmental performance

The regression analysis results (see equation (8); Table II) indicate that judgmental performance is positively and significantly related ($\beta = 0.36$; $p < 0.001$) to objective performance after controlling for market orientation ($\beta = -0.04$; insignificant) and innovation ($\beta = 0.12$; insignificant). This implies that judgmental performance is a full mediator of the relationship between innovation and objective performance. The finding supports *H8*. Note also that market orientation is not related to objective performance in the estimate of equation (8). This implies that judgmental performance is a mediator of the relationship between market orientation and objective performance. The finding supports *H9*.

Discussion

What is market orientation?

Marketing concept

Marketing concept has had a powerful impact on the way marketers now think and plan. The power of the marketing concept becomes clearer when we compare its description with that of the selling concept. The selling concept is based on the premise that consumers do not buy enough of an organization's products on their own. Therefore the organization must undertake an aggressive selling effort. The marketing concept, on the other hand, assumes that consumers will buy products that satisfy their needs. Thus, an organization, that first attempts to understand their needs and then create and deliver the desired products, will not have to trick consumers into buying their products. Focus on consumer satisfaction may be expensive, but perhaps necessary for long-term profitability and continuity of the organization.

In order to have market orientation, a firm must engage in:

- generation of market intelligence to identify the needs of the customers;
- generation of market intelligence to identify the competitive environment; and
- development of an organizationally coordinated response (Narver and Slater, 1990).

Generation of market intelligence on customers. In order to respond to customer needs, firms need information about the needs and preferences of customers that will provide the basic intelligence to prepare marketing plans. A customer orientation requires that a seller understand a buyer's entire value-chain, not only as it is today but also as it will evolve over time.

Generation of market intelligence on competitors. The sellers must understand the short-term strengths and weaknesses and long-term capabilities and strategies of both current and future competitors. The intelligence also includes monitoring of competitive factors that may influence customers' needs and preferences in the future.

Superior value

Inter-functional coordination. Creating superior value for customers requires more than just the marketing function. Every individual in every function in a seller firm is involved in producing and delivering the product or service to the customer. This makes it important for each one of them to internalize the needs and preferences of the organization's customers and endeavor to jointly design and offer products or services, distribute, price, and promote in a way that results in customer satisfaction. A firm must draw on and integrate effectively, as well as adapt as necessary, its entire human and other capital resources in its continuous effort to create superior value for customers. Achieving effective interfunctional coordination requires an alignment of the functional areas' incentives and the creation of interfunctional dependency so that each area perceives its own advantage in cooperating closely with the others.

Why be market-oriented?

The goal of all organizations is to boost market share and profitability. A market orientation provides a unifying focus for the efforts and projects of individuals and departments within the organization, thereby leading to superior performance. In addition, market orientation is reported as providing psychological and social benefits to employees. Accomplishing customer satisfaction results in employees sharing a feeling of worthwhile contribution, as well as higher levels of job satisfaction and organizational commitment.

What is performance?

Performance

This study emphasizes the fact that performance is a two-dimensional construct. One of the dimensions is the objective performance, which involves financial or market-based measures such as capacity utilization, profitability, and market share. The second is the judgmental performance, which involves customer- and employee-based measures such as service quality, customer satisfaction, and employee satisfaction. The marketing concept basically suggests that superior judgmental performance is a prerequisite for superior objective performance. However, this is the first study to support this linkage and to illustrate that market orientation is linked with objective performance, albeit via its impact on judgmental performance. Note that, with the exception of Narver and Slater (1990) and Slater and Narver (1994), previous studies have failed to empirically demonstrate a linkage between market orientation and objective performance. Even Han *et al*. (1998), who showed an indirect relationship between market orientation and objective performance, did not find a direct relationship between market orientation and objective performance. This study is, therefore, a significant step in providing empirical support for the "assumed" relationship between market orientation and objective performance. The results imply that superior objective performance cannot be realized without the realization of superior judgmental performance.

Importance of innovation

Innovation is the key to survival of most firms, especially service firms. The study results suggest that firms that are less market-oriented are less likely to consider innovation. Unless protected from competition, such firms are likely to face declining performance. Since the impetus for this study comes from Han *et al*. (1998), it is imperative that we examine the contribution this study makes in relation to Han *et al*. (1998). Han *et al*. (1998) had found that the impact of market orientation on objective performance is mediated fully by innovation. Han *et al*. (1998) opened a new way to examine the process by which market orientation leads to superior firm performance. This study supports the findings of Han *et al*. (1998). However, this study extends Han *et al*. (1998) and demonstrates that the impact of market orientation on judgmental performance is also mediated by innovation, albeit partially. Moreover, another key extension of Han *et al*.'s (1998) study is that even the relationship between innovation and objective performance is not direct but mediated by judgmental performance.

Importance of judgmental performance

Indirect relationship

With the exception of Jaworski and Kohli (1993), previous research has not studied a linkage between market orientation and judgmental performance. Even Han *et al*. (1998), who showed an indirect relationship between market orientation and objective performance, did not find a direct relationship between market orientation and objective performance. As stated before, this is the first study to provide evidence that judgmental performance is a key mediator in the relationship between market orientation and objective performance as well as between innovation and objective performance. Therefore, it is imperative that firms pay close attention to increasing service quality, customer satisfaction and employee satisfaction, if they want to ensure superior profitability.

Limitations

Academic perspective

From an academic perspective, this study has its limitations. Since the sample for this research is drawn from hotels belonging to the Global Hoteliers Club, the applicability of these findings to other hotels should be considered with caution. Generalizations on other service firms should be made with caution. Moreover, because the study is based on the subjective assessment of one key informant, the evaluation of the firm's market orientation, innovation, and performance is prone to various cognitive biases. However, a caveat is that objective measures for most of the study constructs (except objective performance) are unavailable.

Future research

This study opens up several avenues for future research. First, there is a need to conduct a similar study for other types of hotels that are under-represented. Second, there is a need to obtain perceptions from multiple respondents from each firm. Third, while management-reported assessments of market orientation are commonly studied, consumer-reported assessments of market orientation may be a better indicator of a firm's market orientation. Fourth, there is a need to conduct a similar study for other types of service firms.

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This summary has been provided to allow managers and executives a rapid appreciation of the content of this article. Those with a particular interest in the topic covered may then read the article* in toto *to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefit of the material present

Executive summary and implications for managers and executives

Links between market orientation and company performance

The idea that market orientation is associated with superior company performance is widely accepted, although there is little empirical support for the proposition in the literature. Agarwal et al. *examine in detail the nature of the links between market orientation and company performance.*

Objective and judgemental performance

The authors point out that objective performance involves financial or market-based measures such as a company's profitability, its market share and its use of capacity. Judgemental performance, in contrast, covers customer and employee-based measures such as service quality, customer satisfaction and employee satisfaction.

Superior judgemental performance is a prerequisite of superior objective performance. Firms that stay close to the customer and offer him or her superior value often enjoy superior long-term competitive advantage and greater profitability. Moreover, satisfied employees who are committed to the organization often provide better service and so help to retain existing customers and, through word-of-mouth, attract new ones.

The important role of innovation

Market-oriented firms are usually better at "sensing" the market and tying their products more closely to what the customer wants. Market-oriented firms should therefore be able to innovate in a way that provides superior value for their target customers. Service companies may do this by developing new services, or by reformulating existing ones, creating new distribution channels or discovering new approaches for management or competitive strategy. Innovation is particularly important to service firms, as their products are difficult to protect through patents and copyrights. Service firms may need continuously to innovate to stay ahead of competitors.

The survey results

Using data from 201 hotels in 46 countries, the authors demonstrate that market orientation is positively associated with judgemental measures of performance, objective measures of performance and market share. Specifically, the study finds that the immediate impact of market orientation is to spur innovation. This enhances judgemental performance which, in turn, enhances objective performance.

Differences between selling and marketing

"Selling" is based on the idea that consumers do not buy enough of an organization's products on their own, so it must undertake an aggressive selling effort. "Marketing", in contrast, assumes that consumers will buy products that satisfy their needs. Based on these assumptions, the authors argue that an organization that first attempts to understand consumers' needs and then tries to create and deliver the desired products will not have to "trick" consumers into buying their products.

What marketing involves

Firms that concentrate on marketing, rather than selling, must first gather information about what the needs and desires of customers actually are, and how they are likely to change in the future. Market-oriented firms also need *to understand the short-term strengths and weaknesses, and long-term capabilities and strategies, of current and future competitors.*

Finally, every individual in every function in the firm should be involved in producing and delivering the service to the customer. Employees must therefore internalize customers' needs and preferences and endeavour jointly to bring about customer satisfaction. Each area of the firm must perceive its own advantage to lie in co-operating closely with the others.

(A précis of the article ''Market orientation and performance in service firms: role of innovation''. Supplied by Marketing Consultants for Emerald.)