

BARRIERS OF MARKET ORIENTATION IN THE CZECH SMES: A QUALITATIVE STUDY

Marek Novinský – Jiří Mařík – Miroslav Karlíček

Abstract

This paper presents the results of our qualitative study focused on the barriers of market orientation in the Czech SMEs. Based on in-depth interviews with top managers and owners of five companies we discovered the most significant barriers of market orientation in the given context. Among these were: owner's/CEO's attitude, understanding the concept and its potential benefits; management team's leadership and competences related to market orientation; lack of appropriate supporting business processes; and last but not least insufficient human and financial resources put behind the quest for increased market orientation and thus better performance and sustainability of their businesses. The level of market orientation differed significantly among the companies, but these differences can be mostly explained by the sector in which the company operated, by the company's size and by the company's level of maturity or development. We compare our findings with the existing studies and hypothesize possible ways to overcome the identified barriers.

Key words: market orientation, barriers of market orientation, implementation of market orientation, SMEs

JEL Classification: M 31, M100, L10

Introduction

Market orientation is the ability of a company to systematically generate relevant information about the market, to spread this information across all the company departments and to use this information in decision making and subsequent behavior (Kohli & Jaworski, 1990; Jaworski & Kohli, 1993; Baker & Sinkula, 2005). Market orientation correlates strongly with profitability, regardless of different market situations, as was proved for example by Narver and Slater (1990) or Kumar et al. (2011). It has also positive effect on innovation capability of a company (Keskin, 2006). Among the key determinants of market

orientation are: support of the concept by top management of the company and their willingness to accept risks, connectedness and understanding between company departments, and last but not least company performance measurement and reward system (Jaworski & Kohli, 1993).

As van Raaij and Stoelhorst (2008) state in their concept review article, nevertheless the previous years of intensive research, market orientation still faces several key issues like: single common definition, consensual measurement method, clear model description and recipe for its practical implementation. None of it supports penetration of the concept to daily business practice so there is space for theoretical clarification of how to implement market orientation correctly and successfully. If it is done so, it could become for a company an invaluable source of sustainable competitive advantage (Collis & Rukstad, 2008).

It is necessary to mention, that all surviving businesses exercise at least some basic level of market orientation (Jaworski & Kohli, 1993). Thus we should understand the implementation of the concept as a process of increasing its level to receive the potential benefits it could bring. The process represents quite complex organizational change and organizations do not change easily. This could be solved using robust and proven methodology for organizational change (for example Kotter, 2007).

There are many potential barriers for market orientation both on the level of understanding the concept (the theoretical ambiguity does not help) and on the level of its intentional application in the business environment. As there are many different partial approaches to market orientation and its implementation, there is also wide range of potential barriers. Fortunately, van Raaij and Stoelhorst (2008) were able to identify seven key enablers for successful implementation of market orientation across all the partial approaches. These were: structure, process design, ICT systems, reward system, leadership, behavioral norms and values. We can state, that underperformance of a company in one of these enablers could represent a serious barrier for implementation of the concept.

SMEs represent a backbone of most world economies and therefore their business success or failure has significant economic and social impact. This is why they recently got more attention of researchers. The SMEs have many specifics and they differ substantially, so their research faces many obstacles. There are not many studies focused on SMEs and their level of market orientation (for example Sukato, 2014; Keskin, 2006), but the number of studies has gradually increased in the recent years.

The local authors focused mostly on the theoretical basis of the concept and the consequences – company performance (Tomášková, 2005). In the recent study of Mařík et al.

(2015), it was indicated that local SMEs fail to monitor systematically their customers or their competitors, they use short-term goal oriented reward system and are weak in using market orientation IT support.

We are convinced, that the SMEs could strongly benefit from implementation of higher market orientation. As SMEs have their own specific characteristics differing from large companies the general studies findings could be heavy to digest for them or not applicable. It is also more important for SMEs with already existing management structure, so we focused primarily on these companies.

Our main goal in this study is therefore to shed the light on the main barriers the companies could struggle with on their way to higher market orientation.

Methodology

The study was performed between November 2015 and January 2016. It was based on in-depth interviews with managers of five Czech SMEs.¹ There were 8 managers interviewed altogether. Three of them were CEOs, two of them owners of the company, one sales director, one financial director and one marketing director.

Each interview took approximately 90 minutes. The scenario was focused on two main topics: 1) How the managers perceive the level of market orientation of their company (and its main determinants); 2) What are the main barriers of market orientation in their company and how these barriers could be overcome.

For better orientation we labelled the companies with letters (A-E). The following table (Tab. 1) summarizes the facts about the respondents and their companies.

There are several alternative definitions of market orientation in the literature (van Raaij & Stoelhorst 2008). All of them represent very specific point of view, but none of them can explain the concept to managers and owners in simple and practical way. To serve the purpose we used our own definition of market orientation. We define market orientation as ability of a company to effectively survive in its market ecosystem via delivering superior value to its customers. It includes: sensing the market environment, processing obtained information, orchestrating response of organization (action or reaction) to emerging market

¹ For determination of which companies are small or medium we used the definition of EU. Medium-sized companies are defined as companies with less than 250 employees, small companies as companies with less than 50 employees and micro companies as companies with less than 10 employees.

opportunities and threats, and adaptation of organization in case of substantial changes in the surrounding market environment.

Tab. 1: Information about the respondents and the companies

Company	Field	No of employees	Respondent	Reporting to foreign parent company
Company A	Fashion	90	CEO, CFO, sales director	No
Company B	FMCG	158	Marketing director	Yes
Company C	Engineering and construction	15	Owner and CEO	No
Company D	IT services	10	Owner	No
Company E	FMCG	100-199	CEO	Yes

Source: Authors

Findings

The interviews confirmed our primary expectations. The studied SMEs showed significant space for improvement in four crucial areas which could be considered as the key enablers for increasing their market orientation.

The owners and the top managers had generally low understanding of market orientation concept and its potential benefits for their company. Their attitudes towards increasing the level of market orientation were therefore inconsistent or even averse. As a consequence, the SMEs tended to lack a competent management team who could lead or coordinate growth of the company market orientation. The appropriate processes were therefore not properly defined and set as well. We also uncovered substantial lack of human and financial resources invested into the tool and activities supporting market orientation.

We will now elaborate more on the four main identified barriers.

Owner's/CEO's attitudes and understanding

Consistent with literature, our study suggests that the level of market orientation depends largely on the company's owner/CEO and his/her attitudes and understanding of market orientation.

In one case (Company E) the attitude of the owner towards market orientation was completely averse (according to the CEO interviewed). The local subsidiary could not invest more in marketing research and communication, since the owner of the parent company insisted on keeping the same model and processes as when the company was founded:

“If the (foreign) owner felt like doing it, we invested in such an innovation. There was no insight in customer behaviour, nor any clear plan or KPIs.” (Company E)

The company maintained a very modest growth thanks to its past reputation, size and quality of the products; but this state was perceived by the interviewed CEO as very risky.

“It can happen we find ourselves suddenly out of the market. We have not been preparing for the trends to come. If competitors start an intensive campaign, we can be pushed out of the market any day.” (Company E)

All of the others SMEs’ owners/CEOs in our sample seemed to have more or less inadequate understanding what market orientation means and why it should be strengthened. They were not sure if the costs of increasing the level of market orientation would at all pay back. At the same time, some of them were afraid that setting formal processes may be connected with enhancement of intra-company bureaucracy. As a consequence, they typically did not feel the urge for the corresponding investments.

Management team’s leadership and competences

The SMEs in our sample often did not have a dedicated person or team to promote and coordinate market orientation (as well as marketing function) within their companies.

The respondents often mentioned that they had a problem to find an appropriate marketing or even a sales director in the labor market (for the money they were prepared to pay for this position).

However, the owners/CEOs also seemed to misperceive the role marketing director should be playing in their companies. In case of Company A, the position of a marketing manager was cancelled and taken over by the sales director:

“We have cancelled the position of marketing director. I didn’t need someone to make nice pictures and leaflets for such a salary.” (Company A)

As a result of the above mentioned, for most SMEs we studied, there was no clear leader in charge of strengthening, coordinating and promoting market orientation. Potential systematic leveraging of the market orientation level was thus severely restricted.

Business processes

Our study suggests that SMEs overall lack a systematic approach to business development. They seemed to address operational issues only and to have no time, capacity or know-how for strategic decisions based on a deeper analysis of market information (incl. for example comparison of data from different sources). Analyzed SMEs typically failed in systematic monitoring of the very basic marketing factors, such as: customer satisfaction, customer needs and decision making process, competitors activities etc.

The branches of multinationals operating in the FMCG sector were, to some degree, the exceptions. The competition was monitored based on the Nielsen data. These companies also performed sporadically qualitative customer research and used information from retailers. However, the market and customer data were still not adequate. For example, they were not able to monitor causality between marketing activities and revenues. Similarly, the new product development was rather erratic.

“Basically, we introduce new product lines on trial and error principle.” (Company B)

“Our core product category is in slow decline due to national trends, but the substitute we had developed haven’t compensated for that (...) So far we have not been successful in attracting younger generation that has totally different expectations, e.g. in terms of healthy food perception.” (Company B)

With the exception of one company (Company B), none of the studied companies set KPIs for the activities connected to market orientation. The companies did not set long-term marketing goals and were not able to track effectiveness and efficiency of their marketing activities. Involvement of employees in market orientation also seemed to be relatively low.

Human and financial resources

As already mentioned, low understanding of market orientation benefits by the SMEs’ owners/CEOs was connected with their low willingness to invest into related human resources (marketing and sales specialists) as well as into market intelligence (CRM, customer research, competition research etc.).

The SMEs mostly lacked skilled marketing or sales specialists, and therefore suffered from low marketing know-how. Some respondents stated they had bad experience with these positions. Others mentioned that lack of marketing specialists was result of a very low budget

for marketing. The marketing function (and sometimes also the sales function) was thus often undertaken by the company owners or CEOs.

“We have had negative experience with sales managers and reps. It is impossible to find the right one and thus the members of the board have to do it.” (Company C)

Similarly, the respondents struggled to find reliable marketing agency or consulting partners. Some respondents mentioned even negative experience, as well as insufficient budget.

The companies we studied did not invest into systematization of market information in the form of CRM or more developed marketing IT solutions. Most of the companies did not have appropriate intuitive software solutions to support deeper data analysis and creation of marketing strategies. This may not be that critical for small companies, but higher complexity and delegation of responsibilities in larger and growing companies, create the need for a “marketing information system”, which could synthesize market information from various sources and enable sharing of this information across the company. Although availability of market information, tools and services for their processing has recently dramatically increased and at the same time the corresponding costs went down, it still represents, according to the respondents, important barrier of market orientation in the case of SMEs.

Conclusion

There is a clear wide evidence in the literature, that market orientation brings many potential benefits to companies among others higher profitability (Narver & Slater, 1990; Kumar et al., 2011), innovation capability (Keskin, 2006) and sustainable competitive advantage (Collis & Rukstad, 2008). The SMEs are not any different in that respect. So market orientation can be therefore seen like their tool to achieve better performance. Like with any other tool, there are two ultimate conditions at two different levels before we effectively use it. First of them is understanding the benefits, the tool could bring in achieving the result (and also assessing the associated costs) and the other is understanding how to practically use the tool to achieve the desired result. We focused on such preconditions in our study rather than on the issues connected with the practical implementation of the concept.

As we can see in the Figure 1, we identified relatively wide range of potential inter-related barriers of market orientation, but there were four major among them: 1) Owner’s /CEO’s attitude and understanding of the concept; 2) Management team’s leadership and

competencies; 3) Supporting business processes; and 4) invested human and financial resources.

The role of owner or CEO is absolutely crucial and central, therefore their “buy-in” of the concept could be the central roadblock for market orientation increase – there is clear consistence with Jaworski and Kohli (1993) and other later studies. Unless they understand clearly the value of the concept to the company (the benefits and the associated costs) they will negatively influence also the other connected barriers.

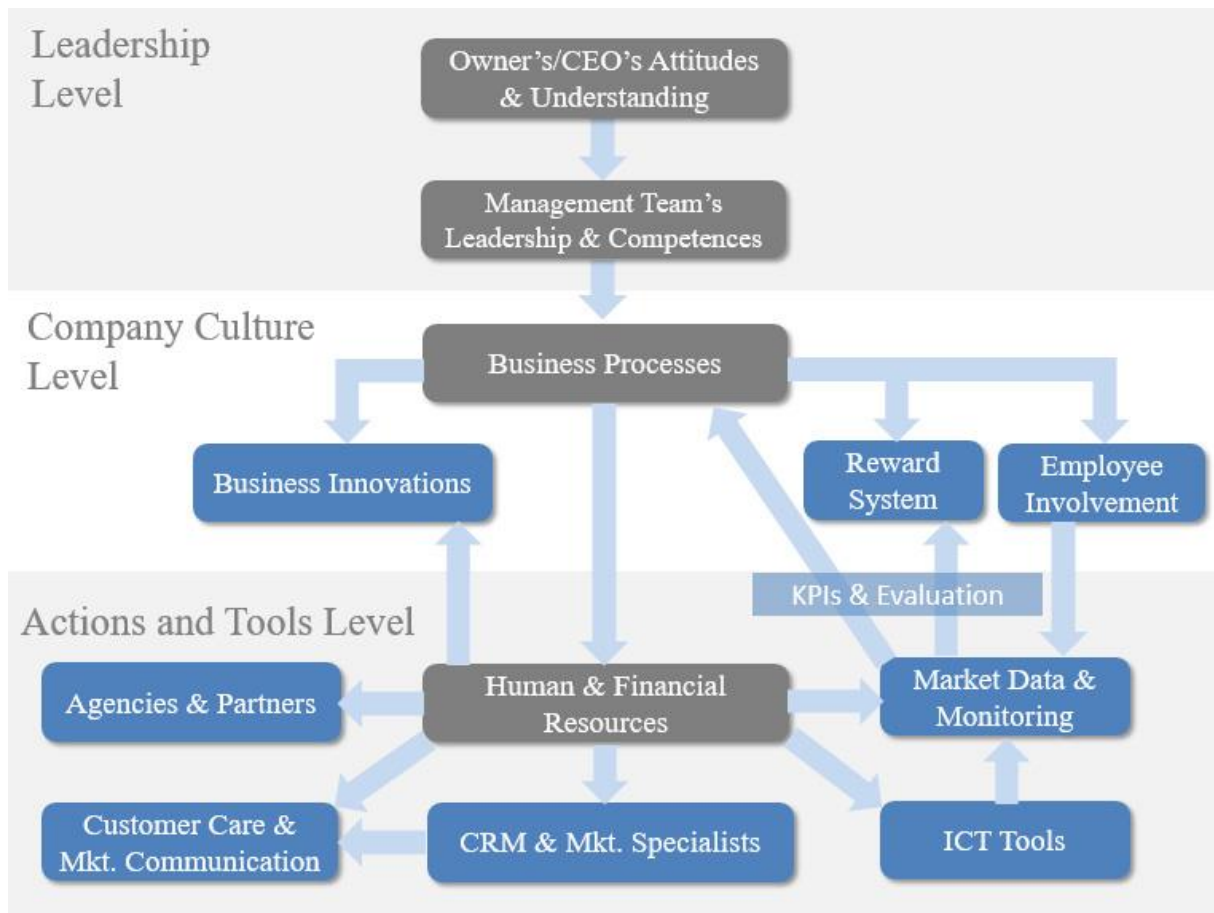
All surviving businesses exhibit some level of market orientation (Jaworski & Kohli, 1993). The general level of market orientation among the studied companies varied significantly, but these differences can be mostly explained by the sector in which the company operated, by the company’s size and by the company’s level of maturity or development. To enjoy the benefits connected to market orientation a company should learn how to increase the level of market orientation and how to incorporate it to its business culture to assure sustainability of the specific company skill. This is in line with the Kotter’s eight steps methodology for effective transformation of organizations (2007). Unfortunately, the presence of any of the four major identified barriers would block effectively the whole Kotter’s process. This explains, why it is so difficult for companies to change their market orientation.

When we compare our four major barriers (and also the minor ones) with the van Raaij and Stoelhorst (2008) seven enablers for implementation of market orientation, we can see quite significant overlap. There is a bit surprisingly no overlap in owner’s / CEO’s understanding of the concept, but van Raaij and Stoelhorst assume it as a basic pre-condition and focus clearly only on the enablers of it’s implementation. There is also weaker overlap in terms of structure, values and norms, and competence management, which could be explained by the size and the phase of development of targeted companies.

Management implications

As the concept of market orientation could be beneficial to any company, the owners and CEOs should probably devote some time to further exploration of the concept and evaluating its benefits and potential cost. If not, they could create the crucial barrier for their business transformation and success. Our study also indicated, that all the major barriers identified by other researchers apply also to the Czech SME’s – at least in this small sample.

Fig. 1: Barriers Structure



Source: Authors

Academic and research implications

Low awareness of market orientation not only in SMEs is not purely fault of the “ignorant” management. It is necessary to stress, that it is not easy for them to fully adopt the concept without clear common definition, system of measurement, explanation of how it works (the model) and recommendations for practical implementations. That is a call for researchers in the applied research and academics to clearly conceptualize market orientation and also report a case studies as lively examples of the implementation of the concept and thus also reasons to believe for managers and business owners. It does not have to be a flawless system, but it must be easy to understand, easy to communicate and relatively easy to adopt and practice.

References

- Baker, W. E., & Sinkula, J. M. (2005). Market Orientation and the New Product Paradox. *Journal of Product Innovation Management*, 22(6), 483–502.
- Collis, D. J., & Rukstad, M. G. (2008). Can You Say What Your Strategy Is? *Harvard Business Review*, 53(4).
- Jaworski, B. J., & Kohli, A. K. (1993). Market Orientation: Antecedents and Consequences. *Journal of Marketing*, 57(3), 53-70.
- Keskin, H. (2006). Market orientation, learning orientation, and innovation capabilities in SMEs. *European Journal of Innovation Management*, 9(4), 396–417.
- Kohli, A. K., & Jaworski, B. J. (1990). Market Orientation: The Construct, Research Propositions, and Managerial Implications. *Journal of Marketing*, 54(2), 1-18.
- Kohli, A. K., Jaworski, B. J., & Kumar, A. (1993). MARKOR: A measure of market Orientation. *Journal of Marketing Research*, 30(4), 467-477.
- Kotter, J. (2007). Leading Change: Why Transformation Efforts Fail. *Harvard Business Review*, 52(1).
- Kumar, V., Jones, E., Venkatesan, R., & Leone, R.P. (2011). Is market orientation a source of sustainable competitive advantage or simply the cost of competing? *Journal of Marketing*, 75 (1), 16-30.
- Mařík, J., Novinský, M., & Karlíček, M. (2015). Performance Measurement System and Market Orientation of SMEs: Preliminary Qualitative Study. *International Days of Statistics and Economics*, 2015, 1097-1106.
- Narver, J. C., & Slater, S. F. (1990). The Effect of a Market Orientation on Business Profitability. *Journal of Marketing*, 54(4), 20-35.
- Sukato, N. (2014). The Implementation of Market Orientation and Innovation in SMEs. *International Journal of Academic Research in Business and Social Sciences*, 4(5), 614–625.
- Tomášková, E. (2005). Měření tržní orientace a její vliv na podnikový výkon (Vysoké učení technické, 2005). Vutium.
- Van Raaij, E. M., & Stoelhorst, J. W. (2008). The implementation of a market orientation: A review and integration of the contributors to date. *European Journal of Marketing*, 42(11/12), 1265–1293.

Contacts

Marek Novinský

University of Economics
W. Churchill Sq. 4
130 67 Prague 3
Czech Republic
email: marek.novinsky@vse.cz

Jiří Mařík

University of Economics
W. Churchill Sq. 4
130 67 Prague 3
Czech Republic
email: jiri.marik@vse.cz

Miroslav Karlíček

University of Economics
W. Churchill Sq. 4
130 67 Prague 3
Czech Republic
email: miroslav.karlicek@vse.cz