Delineating the effect of market orientation on services performance:
a component-wise approach

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This article attempts to delve deeper into the relationship between the three core components of market orientation and service performance, settle literature inconsistencies and provide insights into the role of each component. A conceptual model is presented in which a synergetic mechanism among the market orientation components and their link to service performance is proposed. The model is tested in the context of travel and tourism services by gathering data from Greece and Lithuania and using structural equation modelling. The results indicate that customer orientation is the only direct determinant of service performance, whereas competitor orientation and inter-functional coordination exhibit indirect effects through customer orientation. The study provides new directions to market orientation research and assists marketing managers of services firms in gaining a better understanding of the concept and its implementation for accomplishing optimal performance results.

Keywords: market orientation; customer orientation; competitor orientation; inter-functional coordination; service performance

Introduction

Market orientation and its effect on performance have received considerable research attention since the seminal works of Kohli and Jaworski (1990) and Narver and Slater (1990). Market orientation refers to the extent to which a firm implements the marketing concept (Kohli & Jaworski, 1990) and is perceived as a business culture that assists in attaining sustainable competitive advantage by creating superior customer value (Narver & Slater, 1990). A market-oriented firm is able to better determine the needs and wants of target markets in order to satisfy them more effectively and efficiently than its competitors. Thus, comparing with less market-oriented firms, a market-oriented firm is presumed to be more capable in obtaining organizational goals, such as increasing market share and higher profits.

In line with this reasoning, researchers have examined the relationship between market orientation and business performance. However, the empirical evidence of the linkage between the two constructs is considered weak (Agarwal, Erramilli, & Dev, 2003) due to inconsistent findings in the literature (Agarwal et al., 2003; Greenly, 1995; Han, Kim, & Srivastava, 1998; Jaworski & Kohli, 1993). A volume of the literature reports direct positive effects (Avlonitis & Gounaris, 1997; Deshpande & Farley, 1998; Jaworski & Kohli, 1993; Langerak, 2002), whereas another supports indirect influences (Agarwal et al., 2003; Han et al., 1998) or no effects (Deshpande, Farley, & Webster, 1993a, 1993b;
Greenly, 1995). Recently, academic attention has been directed towards the linkage between market orientation and market performance. Specifically, market orientation has been associated with market-based assets (McNaughton, Osborne, Morgan, & Kutwaroo, 2001), new product success and innovation (Agarwal et al., 2003; Manzano, Kuster, & Vila, 2005). The marketing concept is deployed in order to facilitate the implementation of marketing strategies (Dobni & Luffman, 2000), create customer value, increase customer loyalty and satisfaction and, consequently, enhance performance (McNaughton et al., 2001). Due to its importance and despite mixed empirical support, academics and practitioners’ interest in this liaison remains undiminished. It is, therefore, essential to explicate the mechanism by which market orientation shapes performance.

One possible explanation of the discrepancies in research findings pertaining to the relationship between market orientation and performance may refer to methodological deficiencies. Most studies on the topic have used a single-aggregated measure of market orientation though there is considerable evidence suggesting its multidimensionality (Dawes, 2000; Han et al., 1998). Recently, an increasing number of scholars (Dawes, 2000; Han et al., 1998; Noble, Sinha, & Kumar, 2002; Sin, Tse, Heung, & Yim, 2005; Van Egeren & O’Connor, 1998) propose a component-wise approach in examining the process by which market orientation leads to superior performance. However, a substantial lack of literature in investigating the link between the individual market orientation dimensions and performance remains. With discordant findings regarding their role in affecting business performance, a closer reinspection of the dynamics of the market orientation components becomes even more imperative. Furthermore, most component-wise approaches are confined to certain components of market orientation such as competitive and/or customer orientation, whereas the role of inter-functional coordination is usually disregarded. Moreover, all studies considering market orientation as a multidimensional construct assume independency among its components while they focus on their direct effects on performance without examining possible indirect influences (Dawes, 2000; Han et al., 1998; Noble et al., 2002; Sin et al., 2005; Van Egeren & O’Connor, 1998).

To the author’s knowledge, no component-wise approach has examined the indirect influences of the three components of market orientation on performance. Although their distinctiveness has been admitted by marketing scholars (Dawes, 2000; Han et al., 1998; Noble et al., 2002; Sin et al., 2005; Van Egeren & O’Connor, 1998; Ward, Girardi, & Lewandowska, 2006), in empirical studies, market orientation components are not usually treated as separate constructs. With the exception of the works of Langerak (2003) and Ward et al. (2006) that consider their distinct but only direct effects on performance, no study has examined causal relationships between them or their indirect influences on performance. Consequently, when a component-wise approach is taken to study the linkage between market orientation and performance, it might be worthwhile to embrace all three dimensions of market orientation, contemplate causal relations between them and examine both their direct and indirect effects on performance.

As this review reveals, there is a paucity of evidence regarding the role of the three core components of market orientation and their influence on performance substantiating further investigations. As a result, the purpose of the present study is to address the voids in knowledge noted above and reconcile previous inconsistencies by proposing and testing a conceptual model that explicates the linkage between market orientation and performance. Specifically, the objectives of this article are (a) to investigate the direct and indirect effects of each market orientation component on service performance and (b) to examine causal relationships among the components of market orientation. This research differentiates from other studies relating market orientation with performance, and thus
contributes to existing theory and practice by addressing a number of key gaps. First, this study treats the three market orientation components as separate constructs and for the first time examines both their direct and indirect links to service performance. In this way, it provides new insights, as the majority of past research investigating the three components is concentrated on their direct effects on performance. Secondly, this is the first attempt where competitor orientation and inter-functional coordination are considered as the antecedents of customer orientation which in turn acts as a mediator in the relationship between these two market-oriented behaviours and service performance. Thus, this study responds to a recently raised call (Zhou & Nakata, 2007, p. 198) to examine the antecedents and ‘direct means of strengthening customer orientation’. In addition, the present article constitutes the first endeavour to examine possible interrelations between the market orientation components in order to explicate the mechanism under which a market culture is deployed and the market orientation–performance link operates. No previous investigation has appraised a synergetic mechanism in explaining the implementation of the marketing concept and its effects on performance. If the examination of causal effects among the elements of market orientation and their indirect influences on performance can contribute to identifying empirical regularities or reconciling inconsistencies in the market orientation–performance relationship, the level of confidence in market orientation would be advanced both conceptually and strategically.

Given its widely acknowledged importance and the extensive literature on market orientation, one might expect the concept is investigated adequately in all types of businesses and sectors. On the contrary, a close examination of the literature reveals that: (a) most studies use cross-sectional data and (b) relatively little research has been initiated in the context of services firms, given the rapid growth of the services sector over the last four decades (Gray & Hooley, 2002). Langerak’s (2002) review of the related literature reveals that 65% of studies on the topic used cross-sectional data and only 7.5% used a single-industry approach. Another challenge within the literature is that despite the growing interest in how market orientation shapes performance, the examination of its effects in travel and tourism services is limited. In the related review of literature, only 16 studies on market orientation in various service industries have been identified. From these studies, only four referred to travel and tourism services and almost exclusively used hotels as their sample.

Although a considerable body of research on market orientation has been developed in the USA, recently the importance of the concept has been investigated in other countries as well (Hooley, Lynch, & Shepherd, 1990; Lafferty & Hult, 2001). In the 1990s, limited information existed in the literature from countries other than USA and UK. Sin et al. (2005) reviewed 50 studies that investigated the relationship between market orientation and performance from 1990 to 2002 and reported that 19 of them used data from the USA, 11 gathered data from the UK and the remaining from countries such as Canada, Australia, Taiwan, Japan and New Zealand. In general, it has been acknowledged that ‘despite the growing interest in how market orientation shapes performance, the examination of its effects in global markets remains limited’ (Zhou, Brown, Dev, & Agarwal, 2007, p. 2). Furthermore, there is a substantial scarcity of evidence from multicultural (Lafferty & Hult, 2001) or bicultural data (Sin et al., 2005). Hence, it becomes apparent that there is a considerable lack of information regarding the effect of market orientation on performance in services such as tourism and travel and in countries other than USA and UK.

Methodologically, previous perspectives are followed in this study (Agarwal et al., 2003; Han et al., 1998) by collecting data from a single industry (travel and tourism services), but from two different countries, Greece and Lithuania. Hence, this study
hopes to fill the existing gaps in the literature by taking a bicultural approach and providing
evidence from a single service industry that is under-investigated.

In the sections to follow, the major concepts of interest are briefly described while
evidence on the relationships between the different components of market orientation
and business performance is reviewed for the purpose of identifying major research
avenues. Following this discussion, the proposed conceptual model is presented and the
related hypotheses are formulated. The methodology of the study is then described fol-
lowed by a presentation of the results of structural equation modelling (SEM). Afterwards,
the article concludes with a discussion of theoretical and managerial implications, study
limitations and directions for future research.

**Theoretical framework**

**Explicating the relationship between market orientation and performance**

Although various conceptualizations of market orientation exist in the literature
(Deshpande & Farley, 1998; Jaworski & Kohli, 1993; Narver & Slater, 1990), the con-
struct is of significant value due to its link to business performance. By being market
oriented, a firm can keep existing customers satisfied and loyal, attract new customers,
accomplish the desired level of growth and market share and, consequently, achieve
desirable levels of business performance (Homburg & Pflesser, 2000).

Market orientation has been studied mainly as a determinant of business performance
(Avronitis & Gounaris, 1997; Dawes, 2000; Matear, Osborne, Garrett, & Gray, 2002) and
innovation (Agarwal et al., 2003; Manzano et al., 2005). However, inconsistent findings
have been reported regarding the market orientation—business performance relation.
Several studies report a direct positive effect (Avlonitis & Gounaris, 1997; Deshpande
& Farley, 1998; Jaworski & Kohli, 1993; Langerak, 2002), others have examined a
mediated relationship (Baker & Sinkula, 1999) and finally a third stream of research
tested a moderated link (Pelham, 1997) between market orientation and business perform-
ance. In an extensive review of related literature, the majority of the studies (68%) inves-
tigating a direct relationship between these two constructs reported positive effects,
several (30%) found no effects, whereas a small number (2%) indicated negative effects
(Langerak, 2002).

Various measures of business performance have been utilized in the market orientation
literature including objective and subjective assessments. A substantial volume in the lit-
erature reveals that market orientation is associated with subjective performance and
specifically with both the degree of long-run financial performance and short-term profit-
ability, expressed as return on assets (Hooley et al., 2000; Narver & Slater, 1990; Ruekert,
1992), market growth rate (Dawes, 2000) and sales growth (Dawes, 2000; Slater & Narver,
1994a). However, objective measures of performance such as gross operating profit,
market share and capacity utilization have been also found to be related to market orien-
tation (Agarwal et al., 2003). Moreover, being market oriented constitutes the strongest
discriminating factor between high- and low-performing businesses (Ruekert, 1992).

Although the realization of the marketing concept is not considered the sole responsi-
bility of the marketing department, recent academic works have examined its impact on
market performance. Hence, it has been found that market orientation is positively associ-
ated with service quality, customer satisfaction (Agarwal et al., 2003), customer trust
(Pelham, 1997; Siguaw, Simpson, & Baker, 1998), brand equity, corporate reputation/ image
(Matear et al., 2002) and new product success (Slater & Narver, 1994a). The
conceptual model proposed by McNaughton et al. (2001) postulates market orientation
as the foundation for accomplishing market-based assets, creating value for customers and shareholders and attracting/retaining customers. Market orientation is also considered as a catalyst in the implementation of specific marketing strategies. Dobni and Luffman (2000) have reported that firms with strong market orientation engage in value creation strategies such as market segmentation, developing new products/services for new markets and product or service customization. Furthermore, in order to understand how market orientation impacts performance, researchers investigated several possible mediating factors such as innovation and customer relationship. Increasing evidence has linked market orientation to innovation. However, it is not clear yet whether innovation acts as a moderator and/or mediator on the relationship between market orientation and firm performance (Agarwal et al., 2003; Gray & Hooley, 2002; Manzano et al., 2005).

**Market orientation components and performance**

According to Narver and Slater (1990), market orientation consists of three behavioural components: customer orientation, competitor orientation and inter-functional coordination. Customer orientation involves understanding target buyers now and over time in order to create superior value for them continuously. Competitor orientation pertains to understanding current principal and potential competitors, and their strengths, weaknesses and capabilities. Inter-functional coordination is the coordinated use of resources in creating superior value for target customers.

Most of the studies mentioned in the previous section assumed that market orientation is a unidimensional construct and/or each of its components contributes equally. However, these assumptions do not seem to be valid due to the reported variability of each component across firms or sectors (Dawes, 2000; Day & Nedungadi, 1994; Greenly, 1995). It has been argued that a multidimensional approach might be more fruitful than a unidimensional because sometimes individual dimensions of a construct may have greater predictive ability (Carver, 1989). Statistical evidence in the market orientation literature supports this assertion with multidimensional models (e.g. confirmatory factor analysis (CFAs)) exhibiting better fit than unidimensional (Han et al., 1998; Ward et al., 2006; Zhou et al., 2007). Previous investigations on market orientation have pointed out to this direction for future research in order to gain a better understanding of the construct (Dawes, 2000; Narver & Slater, 1990) and the varying role of its components (Han et al., 1998). As this review reveals, a scarce body in the literature has examined the influence of the individual components of market orientation on company performance.

Although a consensus exists about the positive effect of market orientation, the literature provides inconsistent findings about the role of the three core components of market orientation. Balakrishnan (1996) reported that both customer and competitor orientation are positively associated with performance. Other researchers (Dawes, 2000; Noble et al., 2002) found that competitor orientation is the strongest determinant of business performance representing the strongest distinguishing feature of high-profit firms. However, most scholars consider customer orientation as the most fundamental aspect of market orientation (Deshpande & Farley, 1998) that strengthens the effect of service quality on customer loyalty (Chao, Fu, & Lu, 2007) and leads to differentiation advantage (Day & Wensley, 1988). Sin et al. (2005) have found that customer orientation is the only dimension of market orientation that exhibits a significant positive effect on market and overall business performance. Han et al.’s (1998) findings support an indirect relationship between customer orientation and performance through its effect on innovativeness. Based on contingency theory, Zhou et al. (2007) argued that customer orientation works
better in economically developed markets and markets with good local business conditions, greater resource availability and demanding customers, whereas competitor orientation is more effective in markets that are economically developing, have poor local business conditions and face resource scarcity. It is worthwhile to mention that most of the above studies were focused on customer and/or competitor orientation and disregarded inter-functional coordination although researchers have addressed its critical role in delivering customer value (Deshpande et al., 1993a, 1993b; Kohli & Jaworski, 1990; Narver & Slater, 1990). Two studies (Dawes, 2000; Gray, Matear, Boshoff, & Matheson, 1998) examined the role of inter-functional coordination on performance and reported mixed results. Gray et al. (1998) found that inter-functional coordination exhibits the strongest association with company performance, whereas Dawes (2000) reports lack of association between the two constructs. Given this evidence, an examination of the relationship between inter-functional coordination and performance would appear to be justified.

**Conceptual model**

Due to the multidimensionality of market orientation, it is proposed here to study the distinctive direct and indirect effects of each component on service performance (Figure 1). In Figure 1, the large grey circle represents market orientation as a culture, whereas the white circles within it reflect the behaviours created as result of this culture. Narver and Slater (1990, p. 21) defined market orientation as an organizational culture that ‘most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and thus continuous superior performance for the business’. Those behaviours are conceived as a manifestation of a market culture and are expressed with the three core components of market orientation (Narver & Slater, 1990). Market orientation as an organizational culture represents certain values and beliefs that provide norms for behaviour in the firm. These values and norms engender certain behaviours that describe how the organization operationalizes its culture (Deshpande & Webster, 1989; Narver & Slater, 1990). A dialectic relationship between a market-oriented culture and its corresponding behaviours has been recommended. To develop and sustain appropriate behaviours, the corresponding organizational values need to be embraced first. Conversely, values and norms are difficult to maintain if the appropriate behaviours have not been adopted (Day, 1993). Thus, the present model was developed based on Narver and

![Figure 1. Proposed model of the effect of market orientation on service performance (*significant path at 0.05 level).](image)
Slater’s (1990) approach to market orientation as an organizational culture manifested through the three core market-oriented behaviours: customer orientation, competitor orientation and inter-functional coordination.

In the initial work of Narver and Slater (1990, p. 23), market orientation was postulated as a triangle with each component (customer orientation, competitor orientation and inter-functional coordination) occupying a corner of the scheme. However, when they empirically tested the effect of market orientation on performance, they assumed a one-dimensional construct where each behavioural component contributes equally. The results of their study lead them to raise an important research question: ‘whether for a given magnitude of market orientation an approximate equality of the components produces, on average, superior profitability over a substantial inequality of the components, other things being equal’ (p. 34). In this vein, marketing scholars have casted doubts on the equal and independent contribution of each market orientation component to business performance (Dawes, 2000; Sin et al., 2005). Dawes (2000) has argued that equally strong associations between each dimension of market orientation and profitability should not necessarily be assumed. The reported variability of the effect each market orientation component exhibits on performance across firms or sectors (Dawes, 2000; Day & Nedungadi, 1994; Greenly, 1995) evidences their diverse role and substantiates a multidimensional approach. Therefore, in the present model the three market orientation components are treated as separate constructs.

However, all the above investigations assume independency among the market orientation components although causal relationships might be present. Preceding investigations were based on the simplified assumption that each market orientation component is independent from the other without justifying such an argument. Assuming independency among the individual dimensions of market orientation means that each element impacts performance autonomously. Hence, it is assumed that implementing or increasing only one component, for example competitor orientation (understanding the strengths, weaknesses, capabilities and strategies of competitors and being responsive to their activities), is enough to increase business performance (Dawes, 2000). Such an assertion, however, does not explain how this could be accomplished when competitor intelligence is not disseminated to other departments, nor coordinated efforts are performed to respond to competitor activities, while the needs of target buyers are not taken into account. Furthermore, if a competitor orientation assists in developing differentiation strategies there is no guarantee that these will be perceived favourably in the eyes of the consumers or these will be important to competitors (Day & Wensley, 1988). Even if the other two market orientation components (inter-functional and customer orientation) are implemented to a certain degree, what is (if there is) their optimal level that facilitates the competitor orientation–performance relation? Similar inefficiencies and questions can be raised in any single-focused component approach. Emphasis only on one element of market orientation has been considered a myopic, simplified approach raising scepticism that has been underlined in the literature as an undesirable approach because it captures only a partial or biased picture of reality (Day & Wensley, 1988). Methodologically, measuring only the direct effect of the individual market orientation components and in isolation from the others might reduce the predictability of performance.

Furthermore, marketing academics have not examined yet causal relations among the three components of market orientation though association results (e.g. reported inter-correlations ranging from 0.65 to 0.74 in Narver and Slater (1990) and Gatignon and Xuereb (1997) studies) and inconsistent findings guide to this research avenue. Although association might not necessarily signify causality, it is, however, a necessary condition
for testing and demonstrating causal relations (Bollen, 1989). Indeed, Kohli, Jaworski, and Kumar (1993, p. 473) in their seminal work were the first to point out to this direction as an interesting methodological issue for further research by proposing the examination of ‘a potential causal ordering among the various components of market orientation’. In spite of their recommendation, no subsequent investigation took a causal approach in studying the components of market orientation with the issue remaining unexplored.

As a result, this research integrates Narver and Slater’s (1990) conceptual approach to market orientation and its components with Kohli et al.’s (1993) recommendation for testing causal links among them. In this study, the triangular-type relationship between the components of market orientation is adopted and causal relations among them are proposed. In the present conceptual model, equal conceptual importance among the dimensions of market orientation is alleged although equivalent linkage with performance is not assumed. Moreover, instead of hypothesizing that each component of market orientation is a direct determinant of performance, only one component, customer orientation, is expected to exhibit a direct effect on performance, whereas competitor orientation and inter-functional coordination have an indirect influence. In the proposed model, all components of market orientation are embraced, contrary to traditional approaches that emphasize primarily customer orientation. Previous assertions either perceive competitor orientation as antithetical to customer orientation (Deshpande et al., 1993a, 1993b) or suggest a balanced mix between the two components (Day & Wensley, 1988; Gatignon & Xuereb, 1997). This study, as a more comprehensive approach, incorporates inter-functional coordination and proposes causal relationships between the three market orientation elements. Specifically, it proposes that competitor orientation is a prerequisite for customer orientation and inter-functional coordination, whereas customer orientation is the only direct determinant of service performance. Therefore, taken a partly exploratory approach, the additional task of this study is to determine the interrelationships among the elements of market orientation. Following, the hypotheses of the study are presented.

**Hypotheses**

The majority of marketing literature is replete with works promulgating customer orientation as the most fundamental aspect of corporate culture. Customer orientation has been considered the focal element of market orientation in most principal streams of thought (Deshpande et al., 1993a, 1993b; Kohli & Jaworski, 1990; Langerak, 2002; Narver & Slater, 1990) and found to shape performance in most of the studies that took a component-wise approach (Day & Wensley, 1988; Deshpande & Farley, 1998; Sin et al., 2005). Customer orientation, as the fundamental element of a customer value strategy, provides the foundation for a sustainable competitive advantage and contributes to financial performance (Deshpande et al., 1993a, 1993b; Kohli & Jaworski, 1990). It has been directly associated with performance because, as the literature postulates, market-oriented firms are able to create superior customer value (Han et al., 1998) that results in enhanced customer satisfaction (Agarwal et al., 2003) and strong brand loyalty (Aaker, 1991). Increasing customer satisfaction and loyalty prevents customer switching behaviour, requires less marketing effort to attract and retain customers (Reichheld & Sasser, 1990), increases cash flow and firm value and, consequently, leads to higher profits (McNaughton et al., 2001). Compelling evidence in the literature supports a linkage between customer orientation and performance. Zhou et al. (2007) report that from the three market orientation dimensions only customer orientation is significantly associated with and impacts performance. In line with this vein, a study by Sin et al. (2005)
revealed that customer orientation is the only component of market orientation exhibiting significant and strong effects on marketing and overall performance. A recent review of literature showed that although inconsistencies exist about the effect of customer orientation on performance measures, the majority of the studies support a positive and direct relationship (Zhou & Nakata, 2007). Due to its dominant role and previous research findings, customer orientation is considered here as the only direct determinant of service performance (Figure 1). Therefore, it is hypothesized that:

**H1**: Customer orientation will have a positive direct effect on service performance.

Inter-functional coordination represents the second pillar of market orientation proposed by Narver and Slater (1990). In order to achieve maximum long-term business profits, appropriate implementation of the marketing concept is instrumental and an integration of all other business functions with those of marketing is a prerequisite (Felton, 1959). The few studies that examined the direct effect of inter-functional coordination on performance (Dawes, 2000; Han et al., 1998; Sin et al., 2005) found no indication of a direct link between the two constructs. In their study, Gatignon and Xuereb (1997) treated inter-functional coordination as a construct distinct from market orientation that mediates the relationship between strategic orientation (customer, competitive and technological orientation) and performance. Hence, they considered inter-functional coordination as the mechanism that enables the above strategic orientations of the firm to work synergistically. Moreover, in field interviews with business executives Kohli and Jaworski (1990, p. 3) have found that ‘it is critical for a variety of departments to be cognizant of customer needs and to be responsive to those needs’. Consequently, horizontal communication of market intelligence within and between various business functions, coordinated efforts and participation are necessary in order for a firm to respond effectively to customer needs (Kohli & Jaworski, 1990). Every employee of a firm jointly with others from every department is involved in producing and delivering products and/or services that will satisfy customer needs and preferences. Effective inter-functional coordination and optimal inter-functional dependency will lead to the creation of superior customer value and consequently increased performance. Thus, inter-functional coordinated behaviours should facilitate customer orientation and influence service performance indirectly. Therefore, it is expected that:

**H2**: Inter-functional coordination will have a direct positive effect on customer orientation.

The little attention of marketing to competitors has been addressed by marketing scholars since the early 1980s (Day & Wensley, 1983). However, the dominant role of customer orientation makes marketing vulnerable to several criticisms and ‘has deflected attention from the pursuit of competitive advantage’ (Day & Wensley, 1983, p. 81). Customer orientation might play a role in creating customer value but an effective strategy requires a competitor focus also. Competitor orientation requires identification of short-term strengths and weaknesses and long-term capabilities and strategies of current and potential competitors (Day & Wensley, 1988; Narver & Slater, 1990) as well as responsiveness to the activities of competitors (Balakrishnan, 1996). Contemporary business strategies aim at achieving superior performance by gaining an advantage over competitors. In order for businesses to gain sustainable competitive advantage, they need to develop distinctive competences and differentiation through superior customer value (Day & Wensley, 1988). Managers need to collect information on close competitors’ prices and activities before gathering data about customers’ needs and perceptions of competitors’ offerings in order to create continuously superior value. According to Day
and Wensley (1983, p. 82) ‘a competitor orientation views customers as an ultimate “prize” gained at the expense of rivals’. Customer-oriented firms satisfy demand and serve the needs of their customers better (create product advantage) than their competitors. Thus, competitor orientation is a prerequisite of customer orientation (Day, 1993; Gatignon & Xuereb, 1997) and is expected to precede it in the implementation of the marketing concept. Therefore, the research proposition is that:

\[ H3: \text{Competitor orientation will have a direct positive effect on customer orientation.} \]

However, for companies to create superior value for their customers, they need to disseminate knowledge about their competitors throughout all business units and departments. Superiority analysis in relation to competitors’ skills and resources is conducted within the company using competitors as the standard of comparison (Day & Wensley, 1988). Contingency factors (internal and external environmental conditions) have been associated with competitor orientation. Thus, competitor orientation has been found to be more effective when market growth is high (Gatignon & Xuereb, 1997), market demand is stable and competition is concentrated and limited to a few powerful customers (Day & Wensley, 1988). In competitive environments, companies need to be continuously informed about competitors’ activities in order to respond effectively, gain and sustain competitive advantage and improve performance. Several sources of competitive advantage have been proposed in the literature such as products that better satisfy customer needs, lower prices, strong distribution agreements and suppliers’ support (Day & Wensley, 1983). The opportunities for differentiation and sources of competitive advantage need to be communicated throughout the company in order to involve the various units and offer superior value to its customers. Competitive activities and threats should unify managers of various business units and/or departments to compact the ‘common enemy’ and consequently facilitate the implementation of inter-functional coordinated behaviours. A ‘crisis strategy’ has been recommended as a mean of political manoeuvring of the marketing or the general management personnel for implementing the marketing concept in organizations (Piercy, 1989; Whittington & Whipp, 1992). Furthermore, Augusto and Coelho (2007) support the notion that in highly competitive firms the effects of inter-functional coordination should be strengthened while such firms are more likely to use inter-functional coordination to solve technical issues and accelerate the product development process. Recently, Carr and Lopez (2007) found that competitor orientation exhibits direct and significant effects on intelligence generation and dissemination. Hence, in the proposed model, it is expected that competitor orientation acts as an antecedent of inter-functional coordination. At this point, the exploratory nature of this hypothesis and the paucity of prior theory and empirical findings that directly supports the proposed relationship need to be addressed. However, although such an assertion has not been tested empirically in the literature (with the exception of Carr and Lopez’s study), a competitor orientation–inter-functional coordination relationship seems plausible especially in highly competitive markets. Thus, horizontal dissemination of competitors’ intelligence within and between various business functions, synchronized efforts and participation are necessary in order for a firm to respond effectively to customer needs and consequently achieve superior performance. Based on the foregoing discussion, it is expected that:

\[ H4: \text{Competitor orientation will have a positive direct effect on inter-functional coordination.} \]

Despite the academic focus on customer orientation, businesses actually operate with a strong focus on competitor orientation (Heiens, 2000) as a substantial volume of business
press in strategic marketing reveals (Ries & Trout, 1986). Strategically, market orientation facilitates strategy implementation (Dobni & Luffman, 2000) and is used by firms to gain and sustain competitive advantage (Hunt & Morgan, 1995; Narver & Slater, 1990). The premise that for achieving superior market performance on a consistent basis a firm must develop a sustainable competitive advantage is the foundation of contemporary strategic thinking (Aaker, 1991; Day & Wensley, 1988). The ultimate goal of a firm is to increase market share and profitability by gaining a sustainable competitive advantage (Day & Wensley, 1988). Sustainable competitive advantage is attained by offering superior customer value through the use of various strategies such as differentiation strategies, focus strategies and market information strategies (Narver, Park, & Slater, 1992). However, ‘management first must understand the reasons for the current advantages and deficiencies of the business and the vulnerability of the advantages to copying or leapfrogging by competitors. Without a proper diagnosis, managers cannot choose the best moves to defend or enhance the current position’ (Day & Wensley, 1988, p. 1). Because in a competitor perspective the comparison of competitors is made by the management team and not by the customers, the initiation of the marketing concept may be more appropriate to start with this method. A competitor orientation is easier to implement because is under the control of the management team since it includes internal value chain activities, whereas a customer-focused approach works backwards from the customer to the company and, consequently, is more difficult to handle (Day & Wensley, 1988). Since sustainable competitive advantage signifies the ultimate goal of market-driven firms and a competitor perspective is easier to control, it is expected that generation of market intelligence pertaining to competitors should constitute the point of reference at the initiation stage of a market orientation. Therefore, competitor orientation is expected to be the starting point of market orientation in the proposed conceptual model.

Method

Sample

The target population for this research is the tourism industry and specifically travel and tourism services. The particular industry, tourism, is of great economic importance due to its size and continuous development. Tourism represents over 4% of global gross domestic product and over 3% of employment worldwide. These figures reach 11% and 8%, respectively, if we take into account other related economic activities. Furthermore, according to the European Commission, tourism constitutes one of the most important sectors of the European economy generating 5% of its gross national product (GNP), with 2 million enterprises and 20 million job positions. Europe as a tourism destination represents 52.4% of the world tourism market with more than 400 million tourists per year (Jonckers, 2005).

In addition, travel and tourism services are of particular interest from a market orientation viewpoint as they distribute and/or offer intangible commodities in which customer orientation and service quality are considered focal. Travel and tourism services all over the world are currently facing rapid changes due to market globalization, intensified competition and the dynamic evolution of new technologies. Moreover, international events such as terrorist attacks, wars and severe diseases (i.e. SARS) have resulted in diminishing tourist demand and consequently decreased their business. The long-term existence of a travel and tourism business in such a fierce competitive environment depends on its ability to satisfy customers’ needs and desires, retain its customers and attract new ones. The adoption of market orientation can assist travel and tourism services in
designing and offering a service mix that will create superior customer value and sustainable competitive advantage. Therefore, focus on these services is particularly interesting since competition in the tourism industry is fierce and technological advances are rapid, making the implementation and sustainment of an aligned market orientation even more essential. As a result, travel and tourism services were chosen because of their interesting profile and the turbulent environment in which they operate. Finally, it is believed that by studying market orientation in travel and tourism services can increase our understanding of the link between market orientation and performance in a service context.

A single-industry approach was taken because it allows developing questions understood by all respondents (Dobni & Luffman, 2000), provides a degree of control over environmental particularities (Harrigan, 1983) and increases internal validity at the expense of its findings’ generalizability (Dobni & Luffman, 2000). Furthermore, because causal relationships are tested, a single-industry investigation is more appropriate for inference purposes. As it has been acknowledged, a major weakness of cross-sectional designs is that causality is harder to infer because they are usually based on measures of association (Dawes, 2000; Ruekert, 1992).

Data were collected from a mail survey of Greek and Lithuanian travel and tourism services. The two countries were chosen because tourism constitutes one of the most important industries in their economies. Specifically, tourism is the biggest single contributor to Greece’s GNP (19% of GNP) employing some 800,000 people, 18% of the country’s workforce. Lithuania, although a transitional economy, exhibits increasing tourism growth, averaging 11% for the period 1995–2003 (World Tourism Organization, 2004). The two countries differ in terms of the maturity level of the tourism sector with Greece being a mature tourism market (average growth per year 2.5%) and Lithuanian a developing tourism market. However, both countries are facing fierce global competition and market orientation might be an efficient vehicle for attaining sustainable competitive advantage and increasing performance. Indeed, it has been recommended to study the linkage between market orientation and performance in diverse and competitive contexts due to dynamics involved in such environments (Dobni & Luffman, 2000). Questionnaires were mailed to 700 tourism and travel companies in Greece and 500 in Lithuania. The difference in the number of the questionnaires sent is due to the size difference of the tourism sector in the two countries. Input was sought on a single informant basis, however, not restricted to marketing managers rather it included both marketing and non-marketing managers. This approach is consistent with previous assertions where a market orientation is not the responsibility only of the marketing department (Dobni & Luffman, 2000; Narver & Slater, 1990) but involves all functions of a firm (Kohli & Jaworski, 1990).

A total of 329 questionnaires were received after a single follow-up in Greece and no follow-up in Lithuania (27.4% response rate). Although a follow-up could increase the size of the Lithuanian sample, it was not performed because it was not financially feasible. The sample consisted of 260 Greek and 69 Lithuanian travel and tourism firms ($N = 329$) having on average 8.61 employees (minimum 1 – maximum 247 employees). The majority of the sample (83.4%) employed up to 10 employees, whereas only 6% of the travel and tourism services investigated employed more than 20 employees. The sample consisted of 174 travel agencies, 61 hotels, 49 sport tourism agencies and 45 other tourism enterprises ($N = 329$). Non-response bias was assessed by comparing the early respondents’ and the late respondents’ measured levels of market orientation and market performance. None of the differences was found to be significant by t-tests, suggesting the non-response was less likely to be a cause of concern in subsequent analysis.
Construct operationalization and measures

Market orientation was assessed using Narver and Slater’s (1990) measure, MKTOR. MKTOR was employed to measure market orientation as culture expressed through certain behaviours and gauge the degree of market orientation of travel and tourism services. MKTOR has been recommended as a more appropriate measurement instrument when studying market orientation across different populations (cultures, nations) because it provides consistent across-group results (Mavondo & Farrell, 2000; Zhou et al., 2007). Furthermore, it has been demonstrated that it is a valid and a reliable measure of market orientation in the transition economies of western Europe (Hooley et al., 2000).

Because MKTOR was first developed in Western culture, a pilot study among 25 managers (15 Greek and 10 Lithuanian) of travel and tourism services took place in order to elicit their perceptions of ambiguity and interpretation of the original MKTOR. On the basis of their comments, MKTOR was slightly modified by refining some items and reducing it from 15 to 11 items (some items were combined) and using a 5-point scale instead of a 7-point scale used in the original instrument. Shorter versions of MKTOR have been previously utilized (Agarwal et al., 2003; Slater & Narver, 1994b; Ward et al., 2006) without diminishing the validity and/or reliability of the measure. Recently, Ward et al. (2006) validated MKTOR across four countries (Australia, the Netherlands, China and Singapore) and reduced it to nine items. The resulted nine-item instrument exhibited a robust factor structure, invariant across countries and organizational type. Moreover, the use of a 5-point scale in MKTOR is not an uncommon practice in the literature (Agarwal et al., 2003; Zhou et al., 2007) and resulted from the recommendations of the managers participating in the pilot study.

Recent studies conceptualize performance as a complex construct consisting of two dimensions: market (or marketing) and financial performance (Homburg & Pflesser, 2000; Zhou & Nakata, 2007). In this study, only market-related criteria to service performance was used because company information is usually regarded as highly confidential in Greek and Lithuanian societies and respondents may be reluctant to provide hard financial data. Furthermore, the sample consisted of small to medium firms that are known for their unwillingness and inability to provide objective performance data, although financial data for such firms are often not publicly available (Sapienza, Smith, & Gannon, 1988). Moreover, Zhou and Nakata (2007) recommend that when assessing customer orientation, market performance should be emphasized because the two constructs are directly related. In their study, they found that customer orientation is only indirectly related to financial performance and market performance acts as a mediator of this relation. Day’s (1993) capability approach supports this notion by suggesting that market orientation influences a firm’s market capabilities (e.g. market sensing and customer linking). Indeed, Vorhies, Harker and Rao (1999) found that market orientation is positively related to marketing capabilities such as market research, product development, promotion, marketing management and others. Thus, because in the proposed model customer orientation is examined in direct relation to performance, the market dimensions of service performance were chosen over financial performance criteria.

In the study, service performance was assessed by using three items referring to service quality, service variety and customers’ service. Performance was measured on service-tied criteria because they are of significant value to services firms. In fact, it has been suggested that ‘market-oriented companies are more likely to identify relevant information, share such information and make more informed decisions conducive to achieving specific and determined performance criteria rather than all performance dimensions’ (Matsuno &
Mentzer, 2000). According to Matsuno and Mentzer (2000), the relationship between market orientation and performance depends on the strategy type and its primary performance criteria. Thus, because service-related performance criteria are deemed important to all service firms and the chosen criteria are considered mutual to these businesses independently from their strategy, they have been selected to measure performance. Responses to the items were made using a 5-point Likert scale anchored by well below average (1) to well above average (5). In line with previous investigations (Becherer, Halstead, & Haynes, 2001; Dawes, 2000), the scale measured service performance in absolute terms, rather than as a comparison against competitors or relative to expectations because managers may not be aware of competitors’ performance and expectations of performance may vary. Considering that SMEs were studied and their performance data were not publicly available, managers might not have knowledge about their competitors’ performance. Thus, absolute measures of performance deemed more appropriate. Moreover, ‘performance relative to expectations’ was not considered because data were collected from marketing and non-marketing managers and expectations may vary between the two groups.

Judgmental measures of service performance were used instead of objective because it has been reported that market orientation is not associated with objective measures of performance but is positively associated with judgmental measures of performance (Jaworski & Kohli, 1993), and judgmental performance has been found to be a mediator of the relationship between market orientation and objective performance (Agarwal et al., 2003; Han et al., 1998). Moreover, previous investigations report a strong convergence between subjective and objective performance measures (Dawes, 2000).

**Results**

First, a CFA was used for testing the measurement model and then SEM was deployed to test the theorized model, which appears in Figure 1. To assess the practical fit to data of both the CFA and the SEM model, seven practical fit indexes were used: (a) the ratio of the \( \chi^2 \) to the degrees of freedom; (b) the root-mean square error of approximation (RMSEA); (c) the non-normed fit index (NNFI); (d) the normed fit index (NFI); (e) the adjusted goodness-of-fit index (AGFI); (f) the goodness-of-fit index (GFI) and (g) the comparative fit index (CFI). A ratio of the \( \chi^2 \) to the degrees of freedom below three is considered acceptable in the literature, whereas a value of RMSEA smaller than 0.08 indicates a reasonable fit to the data. Moreover, values of fit indexes larger than 0.90 indicate good model fit (Hoyle, 1995).

**Confirmatory factor analysis**

The 18 items used to measure the four latent constructs were subjected to CFA using LISREL 8.52. CFA was employed to test the proposed theoretical framework and to verify unidimensionality and convergent validity. Some items were dropped from the analysis due to small loadings (Table 1). The revised measurement model was found to fit the data well with the \( \chi^2 \) GFI not being statistically significant (\( \chi^2 = 88.61 \) with 29 degrees of freedom, ratio \( \chi^2/df = 3.1; p = 0.59 \), Hoelter index =185). If the \( \chi^2 \) value is not significant, the model is an adequate representation of the data (Hoyle, 1995). Moreover, the fit indexes values met or exceeded the critical values for good model fit (RMSEA = 0.07, NNFI = 0.97, NFI = 0.97, AGFI = 0.90, GFI = 0.95, CFI = 0.98).

Next, internal consistency was evaluated by using Cronbach \( \alpha \) and composite reliability (CR). The Cronbach \( \alpha \) for the latent variables ranged from 0.89 to 0.95, well
above the recommended 0.70 cut-off point. Both CR and average variance extracted (AVE) were calculated using the procedures recommended by Fornell and Larker (1981). According to Fornell and Larker (1981), variance extracted estimates assess the amount of variance that is captured by an underlying factor in relation to the amount of variance due to measurement error. They have suggested that it is desirable for a construct to exhibit estimates of 0.50 or larger. As shown in Table 1, all the composite reliabilities for the four multi-item scales ranged from 0.81 to 0.93, indicating acceptable levels of reliability for the constructs. Moreover, the AVEs ranged between 0.83 and 0.92, well above the recommended 0.50 level (Bagozzi & Yi, 1988).

Finally, the model was tested for convergent and discriminant validity by using the factor loadings and the Φ matrix. Convergent validity is indicated when path coefficients from latent constructs to the corresponding indicators are statistically significant. The loadings of the observed variables ranged from 0.74 to 0.95 all were positive and significant at the 0.05 level (the lowest t-value = 14.89), indicating that the observed variables were explained by the latent variables. Significant t-values met the criteria for convergent validity. Discriminant validity is inferred when measures of each construct converge on their respective true scores, which are unique from the scores of other constructs. Discriminant validity is assessed by: (1) the confidence interval test and (2) the variance extracted test (Anderson & Gerbing, 1988; Fornell & Larker, 1981). The confidence interval test to assess

Table 1. Measurement model and CFA results.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Loading</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market orientation: Please indicate how much of the following statements represent your company’s current culture and practice (1 = strongly disagree, 5 = strongly agree)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer orientation (α = 0.89, CR = 0.89)</td>
<td>0.85</td>
<td></td>
</tr>
<tr>
<td>Committed in monitoring/assessing customer needs†</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business objectives are driven by customer needs and satisfaction</td>
<td>0.88*</td>
<td></td>
</tr>
<tr>
<td>Frequently measures customer satisfaction</td>
<td>0.85*</td>
<td></td>
</tr>
<tr>
<td>Pays close attention to after sales services</td>
<td>0.81*</td>
<td></td>
</tr>
<tr>
<td>Communicates regularly with customers†</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitor orientation (r = 0.71, CR = 0.83)</td>
<td>0.84</td>
<td></td>
</tr>
<tr>
<td>Collects information about competitors activities</td>
<td>0.89*</td>
<td></td>
</tr>
<tr>
<td>Shares information about competitors</td>
<td>0.80*</td>
<td></td>
</tr>
<tr>
<td>Responds rapidly to competitors actions†</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inter-functional coordination (r = 0.67, CR = 0.81)</td>
<td>0.83</td>
<td></td>
</tr>
<tr>
<td>Shares resources among business units/departments</td>
<td>0.74*</td>
<td></td>
</tr>
<tr>
<td>Integrates internal business functions to serve customer needs</td>
<td>0.91*</td>
<td></td>
</tr>
<tr>
<td>Understands how employees can create customer value†</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service performance (α = 0.95, CR = 0.93)</td>
<td>0.92</td>
<td></td>
</tr>
<tr>
<td>How would you evaluate the performance of your company in the following criteria? (1 = well below average, 5 = well above average)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service/produce quality</td>
<td>0.95*</td>
<td></td>
</tr>
<tr>
<td>Service/product variety</td>
<td>0.87*</td>
<td></td>
</tr>
<tr>
<td>Customer service</td>
<td>0.94*</td>
<td></td>
</tr>
</tbody>
</table>

Note: χ² = 88.6 (p = 0.59) with 29 degrees of freedom, RMSEA = 0.07, NNFI = 0.97, NFI = 0.97, AGFI = 0.90, GFI = 0.95, CFI = 0.98. r, Pearson correlations; CR, composite reliabilities; α, Cronbach alpha; AVE, average variance extracted estimate. In cases where the construct has two measures, Pearson rs are reported instead of Cronbach’s αs.

†Items were dropped from the analysis due to small loadings.
*Significant at the 0.05 level.
the discriminant validity between two factors involves calculating a confidence interval of plus or minus two standard errors around the correlation between the factors and determining whether this interval includes 1.0. If it does not include 1.0, discriminant validity is demonstrated (Anderson & Gerbing, 1988). The two tests of discriminant validity were performed. First, it was checked whether the correlations among the latent constructs were significantly less than one. Then, the confidence intervals of the Φ values (± two standard errors) were calculated. None of the confidence intervals included the value of one (values of confidence intervals ranged from 0.64 to 0.89), providing evidence of discriminant validity. The Φ matrix is provided in Table 2. Then, the AVEs of each construct were compared against the shared variance with the other latent constructs. AVEs were larger than the shared variance with the other latent constructs, strong evidence of discriminant validity. Thus, the conditions for convergent and discriminant validity were satisfied indicating that the constructs are measured reliably and can be discriminated.

Additional tests: common method assessment and invariance testing

Input was sought on a single informant basis, however, not restricted to marketing managers rather it included both marketing and non-marketing managers. This potential problem was checked by using the test recommended by Cote and Buckley (1987). Three models were estimated: model 1 was a method-only model in which all items were loaded on one factor (χ² = 540.41, 35 degrees of freedom, p = 0.000, RMSEA = 0.21, AGFI = 0.56, CFI = 0.83); model 2 was a trait-only model in which each item was loaded on its respective scale (χ² = 88.61, 29 degrees of freedom, p = 0.59, RMSEA = 0.07, AGFI = 0.90, CFI = 0.98) and model 3 was a trait and method model in which a common factor linking to all the measurement items was added into model 2 (χ² = 245.53, 22 degrees of freedom, p = 0.000, RMSEA = 0.18, AGFI = 0.65, CFI = 0.92). Comparing these three models, Model 2 demonstrates a much better fit than models 1 and 3. This shows that trait rather than the common method factor explains most of the variance. Because the common factor does not sufficiently describe the data, common method bias is unlikely to be a concern for this study.

In order to test for the invariance of the measurement models between the two country samples, the procedure recommended by Joreskog and Sorbom (1993) was employed. The notion for measurement equivalence is that the measurement models are invariant across samples. This assumption refers to the invariance of factor loadings, factor correlations and error variances and is accepted if the change in χ² is non-significant (Byrne, 1995). Thus, in order to validate the measurement model between the two subsamples, invariance testing was conducted. The measurement model with the increased constraints fitted the data well (χ² = 193.98 and 73 degrees of freedom, p = 0.00, RMSEA = 0.07,

<table>
<thead>
<tr>
<th></th>
<th>COOR</th>
<th>COMOR</th>
<th>INTFCO</th>
<th>SERPER</th>
</tr>
</thead>
<tbody>
<tr>
<td>COOR</td>
<td>1.00</td>
<td>0.59</td>
<td>0.69</td>
<td>0.76</td>
</tr>
<tr>
<td>COMOR</td>
<td>0.77* (0.02)</td>
<td>1.00</td>
<td>0.45</td>
<td>0.69</td>
</tr>
<tr>
<td>INTFCO</td>
<td>0.83* (0.03)</td>
<td>0.77* (0.03)</td>
<td>1.00</td>
<td>0.52</td>
</tr>
<tr>
<td>SERPER</td>
<td>0.87* (0.01)</td>
<td>0.70* (0.03)</td>
<td>0.72* (0.04)</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Note: COOR, costumer orientation; COMOR, competitor orientation; INTFCO, inter-functional coordination; SERPER, service performance.

†Above diagonal, shared variances; below diagonal, correlations (standard errors).

*Significant at 0.05 level (All correlations are significantly less than 1.0).
GFI = 0.89, CFI = 0.96; NFI = 0.94). However, when comparing this model with the measurement model without these constraints leads to an insignificant $\chi^2 (\chi^2 = 193.98 - 88.61 = 105.37, df = 73 - 29 = 44, p > 0.10$) suggesting no differences of the overall model in the two data sets. In other words, the factorial structure of the final measurement model is invariant between the two countries and no evidence was found of a country effect on the accepted parameters of the model. Thus, it is more efficient to use the parameters of the overall measurement model than to develop separate parameters for the two countries in the study.

**The structural model**

After the preliminary analyses, the structural model of the study was tested using the statistical package LISREL 8.52 and employing maximum likelihood (ML). ML has many advantages in comparison with other estimation procedures because its estimates are quite robust to the violation of the multivariate normality assumption and performs quite well in a variety of limitations such as small sample size and excessive kurtosis (Hoyle, 1995). The proposed model (Figure 1) did fit the data well with a $\chi^2$ value of 106.75 (ratio $\chi^2/df = 3.1$) and 35 degrees of freedom ($p = 0.00$). All of fit indexes values were larger than the 0.90 threshold (NNFI = 0.96, GFI = 0.94, AGFI = 0.90, CFI = 0.98, NFI = 0.97) and the RMSEA value was close to the acceptable levels (0.08), another indication of the good model fit. Moreover, the largest eigenvalue of the beta matrix (stability index) was less than one (0.75), a necessary and sufficient condition for convergence of the hypothesized model. A stability index much greater than one means the model is not stable because of high indirect effects (Joreskog & Sorbom, 1993).

All hypotheses were confirmed by the conceptual model. Customer orientation had a significant positive direct and strong effect on service performance ($\gamma_1 = 0.87, p < 0.05$), whereas inter-functional coordination and competitor orientation had significant positive effects on customer orientation ($\gamma_2 = 0.59, p < 0.05$ and $\gamma_3 = 0.32, p < 0.05$, respectively). Competitor orientation exhibited a significant positive effect on inter-functional coordination ($\gamma_4 = 0.77, p < 0.05$).

Total, direct and indirect effects on the endogenous variables of the proposed model were all significant and are presented in Table 3. As shown in Table 3, all constructs used in the model presented significant positive direct and/or indirect effects on service performance. Several of the total effects were very strong. Specifically, customer

<table>
<thead>
<tr>
<th>Outcome Determinant</th>
<th>Direct</th>
<th>Indirect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Service performance</strong> ($R^2 = 0.75$)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer orientation</td>
<td>0.87*</td>
<td>–</td>
<td>0.87†</td>
</tr>
<tr>
<td>Competitor orientation</td>
<td>–</td>
<td>0.67*</td>
<td>0.67†</td>
</tr>
<tr>
<td>Inter-functional coordination</td>
<td>–</td>
<td>0.51*</td>
<td>0.51†</td>
</tr>
<tr>
<td><strong>Customer orientation</strong> ($R^2 = 0.73$)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitor orientation</td>
<td>0.32*</td>
<td>0.45*</td>
<td>0.77†</td>
</tr>
<tr>
<td>Inter-functional coordination</td>
<td>0.59*</td>
<td>–</td>
<td>0.59†</td>
</tr>
<tr>
<td><strong>Inter-functional coordination</strong> ($R^2 = 0.59$)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitor orientation</td>
<td>0.77*</td>
<td>–</td>
<td>0.77†</td>
</tr>
</tbody>
</table>

†Total effect may be incomplete due to unanalysed components.
*Significant effects at 0.05 level.
orientation exhibited the strongest positive total effect on service performance (0.87) followed by competitor orientation (0.67) and inter-functional coordination (0.51). However, the effects of competitor orientation and inter-functional coordination on service performance are only indirect, whereas that of customer orientation is direct. Competitor orientation exhibited the strongest total effect (0.77) on customer orientation followed by inter-functional coordination (0.59). However, the impact of competitor orientation consists of direct (0.32) and indirect effects (0.45) whereas the effect of inter-functional coordination is only direct. Moreover, competitor orientation is a strong determinant of inter-functional coordination with a direct effect of 0.77.

With respect to the explained variance of the endogenous variables, 75% of the variance on service performance was explained. Competitor orientation and inter-functional coordination explained 73% of the variance on customer orientation, whereas competitor orientation explained 59% of inter-functional coordination.

**Testing a rival model**

Following past propositions, a rival model was also tested (Figure 2), in which customer orientation, competitor orientation and inter-functional coordination are direct determinants of service performance. The three market-oriented behaviours express the market culture of the firm but are independent from each other. This model allows us to test whether each market orientation component has an independent direct influence and thus a transformational impact on service performance. The rival model was proposed in order to test for the robustness of the proposed model because as it has been argued ‘the strongest test of a proposed model is to identify and test competing models that represent truly different hypothetical structural relationships’ (Hair, Black, Babin, Anderson, & Tatham, 2006).

The rival model presented a worst fit to the data with a $\chi^2$ value of 353.22, 33 degrees of freedom (ratio $\chi^2/df = 10.7$) and a reject decision ($p = 0.00$). When the rival model is compared with the proposed model, the latter exhibits a better fit to the data. Specifically, the $\chi^2$ difference between the two models is relatively large (from 353.22 for the rival model to 106.75 for the proposed model) and significant ($p < 0.001$). In the rival model, all path coefficients were not significant at the 0.05 level ($t$-values ranged from 1.96 to $-1.80$),

![Figure 2. Rival model.](image-url)
whereas all fit indexes were smaller than the recommended critical values of good fit and the respective values in the proposed model (NNFI = 0.88, GFI = 0.77, AGFI = 0.55, NFI = 0.89, CFI = 0.90, RMSEA was 0.18, larger than the recommended 0.08). Furthermore, when parsimony fit indices (Parsimony goodness of fit index (PGFI) and Parsimony normed fit index (PNFI)) were compared, the hypothesized model was especially robust. The PGFI produced a value of 0.38 for the rival model compared with a PGFI of 0.50 for the proposed model. Moreover, the PNFI (0.54) of the competing model was lower than that of the hypothesized model (0.62). The lower values of the competing model in the above parsimony fit indices indicate a preference for the hypothesized model (Hair et al., 2006). Thus, all the above measures point to the superiority of the proposed model.

Discussion/implications

Although market orientation has generated substantial research attention, inconsistent findings have been reported in the literature about the effect of customer orientation, competitor orientation and inter-functional coordination on performance. Overall, this research attempts to delve deeper into the relationship between the three core components of market orientation and performance, settle literature inconsistencies and provide insights into the role of each component. These premises underlie the general aim of this study, which is to determine to what extent each market orientation component influences service performance. The empirical findings presented in this article provide important insights pertaining to both the components of market orientation and their influence on service performance. This is one of the very few studies in the extant literature that does not assume direct contribution of each market orientation on performance but considers distinct (direct and indirect) effects. Furthermore, the most valuable contribution of this research is the examination of the interrelationships among the market orientation components.

The present study examines a mechanism by which the core components of market orientation contribute to performance and assists in better understanding their role in unlocking the ‘black box’ (Zeithaml, Varadarajan, & Zeithaml, 1988) of firm performance. This is the first research in the literature that takes a completely different approach for studying market orientation by treating its components as separate constructs exhibiting direct and indirect effects on performance. In particular, it was shown that only one component, customer orientation, is a direct determinant of performance, whereas inter-functional coordination and competitor orientation are only indirectly related. Thus, in the proposed model customer orientation acts as a mediator in the relationship between performance and the other two market orientation components. These channelling effects are much more subtle and complex than the direct relationships of the market orientation components on performance previously assumed. The findings here provide a possible explanation why previous investigations have reported that only customer orientation has an effect on performance, whereas no effects for competitor orientation and inter-functional coordination were found (Day & Wensley, 1988; Deshpande & Farley, 1998; Sin et al., 2005). Thus, although all market orientation components contribute (directly or indirectly) to performance, they do not exhibit equal or the same type of effects. Each component behaves in a unique way, as a separate construct, whereas its interdependence with the other components results in a synergetic mechanism that allows the implementation of the marketing concept and subsequently shapes performance.

The designated significance to all three components of market orientation is postulated in the findings of this investigation. The results show that there is a strong positive relationship between customer orientation of a firm and its degree of effectiveness. Specifically,
it was found that customer orientation is the only direct determinant of service performance exhibiting a strong effect (0.87). This finding is in line with previous results and verifies the dominant role of customer orientation in shaping performance (Day & Wensley, 1988; Deshpande & Farley, 1998; Sin et al., 2005). However, the indirect effects of competitor orientation and inter-functional coordination were significant and strong as well (0.67 and 0.51, respectively). The three market orientation components explained a large portion of the variance on service performance (75%) providing support to previous assertions of their substantial contribution to performance. Moreover, the results indicate that competitor orientation has a strong total effect on customer orientation (0.77), larger than the total effect of inter-functional coordination (0.59). However, the indirect effect of competitor orientation through inter-functional coordination on customer orientation is larger (0.45) than its direct effect (0.32). This finding signifies the importance of inter-functional coordination not only as a distinct and essential element of market orientation but as a linchpin between the other two components. Competitor orientation and inter-functional coordination explained a large portion of the variance on customer orientation reaching 73%. Thus, in order to enhance customer orientation, a firm needs to increase its competitor orientation and inter-functional coordination. By emphasizing only customer orientation, it will not lead to optimal degrees of performance but an increase in competitor orientation and inter-functional coordination will foster customer orientation and subsequently boost performance. Competitor orientation was the only direct determinant of inter-functional coordination with a strong effect of 0.77 and explaining 59% of its variance. Noticeably, the total effect of competitor orientation on the other two market orientation components was the same (0.77). Competitor orientation as the starting point of market orientation affects directly the level of inter-functional coordination, controls directly and indirectly the fluctuation levels of customer orientation and, consequently, influences indirectly service performance. Hence, competitor orientation constitutes a necessary prerequisite in increasing customer orientation and achieving superior service performance. These findings support previous contentions of the importance of competitor orientation although here it is not linked directly to performance.

The dynamic nature of market orientation prevails in this research. It becomes apparent that to maintain or strengthen a market-oriented culture, a focus on the alteration of certain (e.g. competitor orientation) or all the means (e.g. three market-oriented behaviours) that perpetuate this culture is required. Thus, fluctuations on one or more market-oriented behaviours will result in variations on the level of a market-driven culture.

However, due to this interrelation between the market orientation components, not only the level of market orientation is influenced but its effect on performance as well. It is evidenced that if one of the behaviours reduces/increases, the overall effect of a firm’s market orientation on performance will diminish/amplify, respectively. This approach differs from previous unidimensional perspectives because it does not assume monotonic and independent relations between the three market-oriented behaviours and performance. From a conceptual standpoint, the present research provides evidence of the existence of a synergetic mechanism among the market orientation components in shaping performance. The three elements of market orientation work in a synergetic manner to enhance performance and not in isolation as it has been previously assumed. Each component of market orientation plays a distinct and important role. Competitor orientation is the starting point in manifesting/influencing a market-driven culture acting as an antecedent of inter-functional coordination and customer orientation and indirect determinant of service performance. Inter-functional coordination represents the connective chain between competitor and customer orientation that acts as antecedent
of customer orientation and indirect determinant of service performance. Customer orientation is a mediator in the relationship between the other two market-oriented behaviours and service performance, and the only direct determinant of service performance. The synergetic nature of market orientation prevails in this research as the required internal mechanism not only for the optimal adaptation of a market-driven culture but for increasing service performance as well.

In addition, the present findings indicate that the proposed conceptual approach is superior to previous models explaining the linkage between market orientation and performance. As this research reveals, when tested against competing component-wise approaches, the present model outperforms by exhibiting a much better fit to the data. Moreover, the predictive ability of the present model is higher than that of unidimensional and other multidimensional perspectives. The model explained 75% of the variance in performance, whereas previous perspectives exhibited much lower explanatory power. Unidimensional approaches to market orientation explained 22–49% of the variance in performance (Narver & Slater, 1990; Sin et al., 2005; Slater & Narver, 1994a), whereas component-wise approaches assuming independency explained 26–55% of the variance (Dawes, 2000; Sin et al., 2005). Thus, the findings here suggest that not only a component-wise approach is more appropriate but an interdependency perspective is essential in better explaining how market orientation shapes performance.

However, it should be noticed that the performance measures used in this study refer to service-related measures which can be considered as outcomes of core capabilities in services and therefore are closely related to market orientation. It has been previously supported that market orientation is the underlying mechanism that creates superior capabilities (e.g. customer service delivery) and improves their processes (Day, 1993). In this vein, Slater and Narver (1995) propose customer service as a firm’s core value-creating capability that drives the market orientation and performance relationship. Therefore, the findings of the present study insinuate that in fully understanding (and not underestimating) the role of market orientation on performance, service performance measures related to certain marketing capabilities’ outcomes deem appropriate and should be considered. The discordant findings in the link between market orientation and financial performance along with recent studies supporting a direct relation between market orientation and market performance (where market performance measures usually represent capabilities’ outcomes) and an indirect with financial performance support the above assertion.

Another contribution of the present study refers to the context in which it was conducted. Limited research on market orientation components and their link to performance has been initiated in the context of services firms, given the rapid growth of services over the last four decades (Gray & Hooley, 2002). Even fewer investigations have used as their sample travel and tourism services. The study assists in filling the existing knowledge gap in the relation between the individual market orientation elements and performance in services and particularly in travel and tourism firms. Thus, this is one of the few investigations (e.g. Lado, Maydeu-Olivares, & Rivera, 1998) that reports findings regarding the effects of market orientation components on performance in services firms. Moreover, this study gathered data from two European countries, Greece and Lithuania, to respond to recently raised calls for information from countries other than USA and UK.

In sum, the nature of market orientation as a business culture is more complex and dynamic than previously assumed. The present findings suggest that market orientation as a culture is manifested through three discrete but interconnected behaviours, playing a distinct role in shaping service performance. Specifically, it is evidenced that competitor orientation constitutes the terminus a quo in the implementation of the marketing concept,
inter-functional coordination acts as a pulley between the other two market orientation components and customer orientation represents the driving force that directly leads to superior service performance.

**Theoretical implications**

This article presents a model that traces the effects of the individual market orientation components on performance. The current approach provides new insights into the relations and the underlying mechanism of the behaviours manifested in a market-driven culture. Moreover, the present model furthers our understanding of the market orientation–performance relationship by explicating the mechanism under which each market orientation component influences service performance. This addresses a gap in the stream of research that seeks to demonstrate a positive empirical relationship between the elements of market orientation and performance measures (Dawes, 2000; Day & Nedungadi, 1994; Greenly, 1995; Noble et al., 2002; Zhou et al., 2007).

Despite the recent advancements in understanding the characteristics of market-driven firms, little is comprehended about the internal processes that enable an organization to become market driven. The findings of the current study provide insights into the nature and role of market orientation in an organization. Market orientation as a culture is not a composite of isolated behaviours, as it has been regarded in previous component-wise approaches, but of interconnected and interdependent actions. The present findings support that for a firm to be market oriented all behaviours, customer and competitor orientation and inter-functional coordination are necessary. However, the optimal implementation of the marketing concept is not only an issue of which behaviours and to what degree those behaviours take place in an organization but how they are deployed as well. Contrary to previous perspectives that were confined to measuring the degree of market orientation, the present study suggests that the process of implementing the marketing concept matters too. Thus, market orientation constitutes a dynamic internal process with a sequence of behaviours necessary to carry out and complete this process. The optimal implementation of this process facilitates the coordinated application of resources focused on delivering superior customer value (Narver & Slater, 1990; Slater & Narver, 1994a).

The current findings support a capabilities’ approach that places processes at the centre of attention (Day, 1993) and assists in understanding the internal mechanisms that enable an organization to become market driven. The proposed market orientation model may be applicable to the ‘types of capabilities – processes’ model introduced by Day (1993, p. 13) and suggests that the behaviours manifesting a market-driven culture do not exist in isolation but constitute integral parts of an ongoing process with specific roles and distinct functions. Adopting the present model to Day’s (1993) prototype, market orientation as a culture becomes not only a synthesis of behaviours but an amalgam of ‘outside-in’, ‘inside-out’ and ‘spanning’ processes. The proposed model implies that market orientation as an internal mechanism may assist an internally focused firm in becoming externally oriented. Both, ‘inside-out’ (competitor orientation) and ‘spanning’ (inter-functional coordination) processes shift their span further towards the external end of the market orientation dimension (customer orientation/outside-in processes). Therefore, market orientation constitutes the mechanism that not only influences the level of certain market capabilities (Day, 1993; Hunt & Lambe, 2000; Vorhies et al., 1999) but the processes necessary to drive a firm to an external focus. The present findings extend Day’s (1993) capabilities perspective by suggesting which distinct market-oriented behaviours might support and facilitate specific types of processes. Thus, in a market-driven
organization, competitor orientation may serve ‘inside-out’ capabilities that are activated by competitive challenges and external opportunities (Day, 1993, p. 12). For example, at the diagnostic stage of market sensing, a competitor orientation constitutes the starting point that encourages and facilitates benchmarking of direct and anticipated competitors’ capabilities and assists in recognizing competitive gaps in these capabilities. Accordingly, customer orientation may guide ‘outside-in’ capabilities that ‘enable the business to compete by anticipating market requirements ahead of competitors and creating durable relationships with customers, channel members and suppliers’ (Day, 1993, p. 13). Inter-functional coordination may facilitate ‘spanning’ processes that link and integrate ‘outside-in processes’ and ‘inside-out processes’. Day (1993) supported that market-driven organizations are superior in market capabilities such as market sensing and customer linkage. The findings here support this notion but extend it to the processes underlying these capabilities. Market orientation can be viewed not only as a distinct competence or source of superior capabilities as capabilities approaches have stated (Day, 1993; Hunt & Lambe, 2000; Vorhies et al., 1999) but as a competence building and leveraging process as well (Sanchez, Heene, & Thomas, 1996). Market orientation as a competence building process can assist a firm in achieving qualitative changes in its existing capabilities (e.g. market capabilities) in ways that help the firm in meeting its performance objectives (e.g. service performance). Moreover, market orientation as a competence leveraging process can help firms applying its existing competences (e.g. service delivery) to current or new market opportunities (e.g. new segments) without requiring qualitative changes in the firm’s capabilities. Thus, market orientation offers the underlying mechanism for process improvements which constitutes a base for differential advantage (Day, 1993).

From a methodological stance, the causal links among the market orientation components and their direct and/or indirect effects on performance imply that each market-oriented behaviour should be treated as a separate construct with a discrete role in the implementation of the marketing concept and distinct effects in shaping performance. This approach is not completely novel in the literature since Gatignon and Xuereb (1997) were the first to treat inter-functional coordination as a separate construct that moderates the relation between market orientation (customer, competitor and technological orientation) and performance. However, this research suggests that all market orientation components should be treated as independent constructs that are interrelated with causal links. Such perspective is in accordance with Narver and Slater’s (1990) operationalization of market orientation as a business culture and behaviour. Distinct but interrelated behaviours (components of market orientation) that facilitate and foster each other manifest the market-driven culture of a firm. In turn, this culture expressed in practice with the three core components of market orientation will lead to superior business performance.

Based on the preceding discussion, it becomes apparent that the role of market orientation is multifidus. Market orientation represents the underlying culture that not only influences performance but facilitates the implementation of ‘inside-out’, ‘outside-in’ and ‘spanning’ capabilities, interconnects and leverages these processes and facilitates the spanning mechanisms that guide firms towards an external orientation. This ascertainment justifies the large volume in the literature dedicated in the investigation of market orientation and calls for further inquiries.

**Practical implications**

The current findings show that treating market orientation as an aggregate construct of equally important behavioural orientations can be misleading and limit its strategic
value for management practice. As a pedagogical tool, the proposed conceptual model may encourage marketing managers to identify and justify their posture and expectations with respect to market orientation. The present findings may be used by managers as a roadmap in implementing the marketing concept and achieving superior service performance. Thus, it may assist in the implementation of the marketing concept by providing guidance in how to initiate and further develop it. Although a market orientation might be desired, many firms fail to implement and sustain this orientation not only due to financial constraints but because they underestimate the difficulties inherent in directing attention from internal to external concerns (Day, 1993). A foremost implication of this study is that if a particular level of effectiveness is desired, a distinct degree of market orientation is required. However, when adopting the marketing concept, a firm needs to rely, invest and implement all three core components of market orientation and not to focus just on one or two. Previous connotations have recommended an emphasis on either customer and/or competitor orientation (Day & Wensley, 1988; Gatignon & Xuereb, 1997) to achieve superior performance while disregarded the importance of inter-functional coordination. However, relying on either customer- or competitor-focused decision making might lead to strategic inefficiencies and put a firm in a defensive and reactive position. This research clearly postulates that all three elements of market orientation are necessary when adopting the marketing concept to accomplish an optimal degree of service performance. Managers need to understand the interdependence of the market orientation components, facilitate their implementation and synchronize their activities in order to achieve a desired level of market orientation and boost performance. In line with this reasoning, companies, and especially services firms, need to equally focus on the collection, dissemination across all business functions and use of customer and competitor intelligence in conjunction with coordinated actions to accomplish an optimal degree of strategic integration and improved performance.

Moreover, the study provides practical guidelines to managers who pursue enhanced levels of market orientation. The process for implementing the marketing concept becomes clear by directing managers to engage in behaviours with a certain sequence. Specifically, in addition to the behaviours to be nurtured, managers are guided as to how to start the initiation of a market-oriented culture or how to shift to different degrees of market-oriented behaviours. Thus, competitor orientation should be used as the starting point in introducing the marketing concept to a firm or as a catalyst for increasing the degree of market orientation. Generating market intelligence on current and future competitors’ strengths, weaknesses, capabilities and strategies is the first step for creating or enhancing a market-oriented culture. Following, inter-functional coordinated efforts and customer-oriented behaviours are facilitated in order to fully implement or boost a market orientation. Thus, if appropriate implementation of the marketing concept is instrumental in achieving long-term business profits (Felton, 1959), then this research provides guidance to accomplish such an objective.

Although adopting the marketing concept requires additional resources and investments, firms can benefit in many ways. In addition to its link to performance, often, market orientation has been characterized as synonymous with the strategic orientation of a firm (Dobni & Luffman, 2000). For example, differentiation strategies, focus strategies and market information strategies have been linked to market orientation (Narver et al., 1992). From a strategic perspective, the findings provide a comprehensive picture of the modus operandi of market orientation that leads to superior business performance. The limited consideration into ‘the actual mechanism responsible for transforming market-oriented behaviour into superior corporate performance’ has been already addressed in the
literature (Han et al., 1998, p. 31). This investigation elucidates the manner in which to go about implementing the marketing concept. In particular, it helps managers in setting priorities in terms of strategic focus and understanding the drivers of company performance. Developing a market orientation often represents a key strategic change and a strategy execution tool (Ruekert, 1992). Managers of service firms need to realize that a market orientation provides a context to facilitate the implementation of their strategies (Day, 1994) because it reduces strategy ambiguity among various business units (Dobni & Luffman, 2000). Thus, managers intending to adopt a customer-focused strategic orientation need to not only gather data on customers’ needs, attitudes and behaviours but on competitors’ offerings and activities as well. Furthermore, because successful services require not only external marketing but interaction and internal marketing, market orientation can be used as the catalyst or the driving force that facilitates their successful implementation. The need for good inter-functional coordination to disseminate customer and competitor intelligence internally appears to be of particular importance, especially for service providers who depend on satisfactory personal interactions (Gray & Hooley, 2002).

In sum, this research clearly delineates the components of market orientation and their contribution in shaping service performance. The synergetic mechanism identified in this study provides new directions to market orientation research and assists marketing managers in gaining a better understanding of the concept and its implementation for accomplishing optimal performance results.

**Limitations/future research recommendations**

This study has certain limitations that qualify its findings and provide directions for further research. First, the findings and implications (theoretical and practical) of this study should be read in the context of the specific sample size. Results may not be generalized but they are probably useful as a qualified exploratory approach to analyse the relationship among the constructs under investigation. With the objective of isolating within-industry variation a single-industry approach was adopted, focusing on travel and tourism firms. This approach clearly prevents the generalization of the results outside the scope of the industry considered (e.g. other services or companies of industrial and consumer goods). However, this limitation is countered by the large size of the tourism industry and the findings of this research will have wide ranging applicability across this industry. A recent study that took a single-industry approach (telephone companies) confirms such an assertion by reporting that ‘organizations with similar market orientations have a tendency or aptitude to engage in similar strategies when in the same industry’ (Dobni & Luffman, 2000, p. 909). Moreover, the number of employees in the firms participating in the study indicated that information was gathered mainly from small-sized firms limiting our ability to generalize these findings to firms of larger size. Fourth, the context of the study (Greece and Lithuania) is also a concern constraining generalizations of the results to other European countries. However, the use of a market setting other than the larger European markets does not diminish the significance of the findings reported in this article and could be applicable to similar tourism markets (e.g. Spain, Portugal, Italy, Slovenia, Croatia). Fifth, since this study is based on subjective judgement of the perceptions of firms’ managers, the measurement of the degree of market orientation and service performance is subject to cognitive and/or social desirability biases (common phenomena associated with self-reports such as surveys).

Despite these limitations, the present study indicates a promising direction for further investigations. A replication of this research in other types of services and businesses
(industrial and consumer goods) is most recommended to expand the examined relationships and provide further validation of the proposed model. It would also be beneficial to test these relationships in a co-alignment perspective, considering technological orientation, innovation and market/financial performance implications. Furthermore, an examination of environmental factors (e.g., competition intensity and demand variations) and their role in shaping the interrelationships among the market orientation components is another interesting research directive. Although the proposed model was confirmed, it cannot be assumed that it holds for all the measures of performance or market capabilities. Testing whether the three components of market orientation and their interrelations remain constant or change according to the type of performance or capability is a potential avenue for future enquiry. Research on identifying the strategies associated with each component of market orientation constitutes an additional area for further investigation. Finally, the link of each market orientation component with the implementation of internal, external and interaction marketing of a service firm constitutes another promising research agenda.

In conclusion, it is emphasized that service performance is attributable directly to the level of customer orientation and indirectly to the degree of inter-functional and competitive orientation of a firm providing significant theoretical and practical implementations. This article reinforces the notion that there are specific and variant relationships between each component of market orientation and service performance encouraging further investigations of the phenomenon.

References


