An Exploratory Analysis of Market Orientation of Small and Medium-Sized Businesses (SMEs) in Peru

Un Análisis Exploratorio de la Orientación de Mercado de Pequeñas y Medianas Empresas (PyMEs) en Perú

John E. Spillan[1], Xin Li[1], Jeff W. Totten[2], César Antúnez de Mayolo[3]
[1]Ph.D. University of North Carolina at Pembroke, Pembroke, NC 28372-1510, e-mail: jspillan@uncp.edu, lixin@uncp.edu, [2]D.B.A. McNeese State University, Lake Charles, LA 70609, e-mail: jtotten@mcneese.edu
[3]Instituto de Análisis del Consumidor, Lima, Perú, e-mail: cantunezm@speedy.com.pe

Abstract. Traditional marketing knowledge says that a market oriented firm provides its employees with a better understanding of its customers, competitors, and environment. The consequence of having this knowledge leads the organization to provide enhanced customer satisfaction and firm performance. The objective of this research was to assess the market orientations of small business managers in the retail environment in Peru and provide empirical information about characteristics of the market oriented managers and non-market oriented managers. A concerted effort was made to determine the differences in the perceived importance of different elements of the marketing function.

Keywords: Market orientation, MARKOR scale, Peru, small sized retailers.

Resumen. El conocimiento tradicional del marketing sostiene que una empresa orientada al mercado proporciona a sus empleados una mejor comprensión de sus clientes, competidores y ambiente. La consecuencia de disponer de este conocimiento permite a las organizaciones proveer mayor satisfacción al cliente y un mejor desempeño para la empresa. El objetivo de este estudio fue evaluar las orientaciones de mercado de los gerentes de pequeñas empresas en el ambiente del *retail* en Perú y proveer información empírica acerca de las características de los gerentes orientados al mercado y de los gerentes no orientados al mercado. Se realizó un esfuerzo para determinar las diferencias en la importancia percibida de diferentes elementos de la función de marketing.

Palabras clave: Orientación de mercado, escala MARKOR, Perú, pequeños minoristas.

(Recibido: 8 de octubre de 2009. Aceptado: 21 de diciembre de 2009)

INTRODUCTION

For a lengthy period of time, market-oriented corporate strategy has been recognized as a pillar of superior company performance by academics and practitioners alike. Therefore, market orientation in both manufacturing and service industries has attracted significant amount of academic and practitioner interest in the current marketing literature (Kohli and Jaworski, 1990; Han, Kim, and Srivastava, 1998). This approach represents the implementation of the marketing concept and characterizes a firm's inclination to deliver superior value to its customers on a continuous basis (Slater and Narver, 1994). Simply stated, market orientation refers to the organization-wide generation of market intelligence through Decision Support Systems (DSS), Marketing Information Systems (MIS) and marketing research efforts, dissemination of the intelligence across company departments, and organization-wide responsiveness to the changes taking place in the environment (Kohli and Jaworski, 1990).

Historically, studies conducted thus far have principally focused on large size businesses located in the U.S. and Western Europe (Horng and Cheng-Hsui, 1998). One study by Stover (1989) suggests that foreign direct investment in developing countries has lagged because of the inward marketing orientation of state-owned enterprises' investment promotion materials. While this study presents a pessimistic point of view regarding market orientation, another study by Kaynak and Arbelaez (2000) provides a very positive perspective about market orientation in a developing country. Kaynak and Arbelaez (2000) surveyed Columbian managers and concluded that the marketing concept pervaded the entire organization of those firms studied.

Even though the marketing concept and market orientation ideas have been highlighted in business periodicals and academic literature for over four decades, businesses which function in global markets and want to become market oriented need to revise their outlook on the market and develop a different vision of doing business. As a result, it is valuable and essential that both academics and practitioners research the marketing orientation behavior of companies in developing countries. As the globalization issues become essential to marketing practice, it is critical to consider whether (1) the scale items "make sense" in other cultures and languages and (2) subsequent measure assessment would produce similar results (Kohli, Jaworski, and Kumar, 1993).

Very few, if any, studies have investigated the marketing orientation of small businesses in Peru. Therefore, the objective of this paper is to investigate the market orientations of businesses in a developing country, Peru. Specifically, this study investigates the market orientations in the Peruvian small business managers in the retail business environment. This study focuses on providing an overview of the marketing practices of Peruvian small businesses and to empirically investigate three issues: (1) test the effectiveness of MARKOR in Peru, (2) investigate the factors influencing Peruvian small business orientation, and (3) offer strategic alternatives to Peruvian small business managers on the best methods of implementing market orientation by the respective businesses.

The balance of the manuscript is composed of five sections. The first section presents an overview of the literature associated with market orientation, SMEs and Peru. Next the methodology, survey used, and data collection process are discussed. The third section presents the data analysis. Findings based on the analysis section are discussed in the fourth section. The final section discussed the authors' conclusions and the implications of this research for practitioners and researchers.

LITERATURE ON MARKET ORIENTATION

Marketing is a key management function that is responsible for being an expert on the customer and keeping the rest of the network organization informed about the customer so that superior value is delivered. Companies must make long-term commitments to maintain the relationship through quality, service, and innovation. Consequently, market orientation has become a prerequisite to success and profitability for most firms.

Even though there is some discrepancy in the use of the terms "market" versus "marketing" orientation, it generally consists of several important elements such as customer orientation and targeting, profit orientation, and integrated marketing organization-integration of effort by all areas of the organization to satisfy corporate goals by satisfying customer needs and wants (Perreault and McCarthy, 2002). Although Kohli and Jaworski (1990) accepted this definition, they viewed the profitability as a consequence of market orientation rather than a part of it. They defined market orientation as "organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to this intelligence" (p. 25). Market intelligence pertains to monitoring customers' needs and preferences, but it also includes an analysis of how they might be affected by factors such as government regulation, technology, competitors, and other environmental forces. Environmental scanning activities are subsumed under market intelligence generation. Intelligence dissemination pertains to the communication and transfer of intelligence information to all departments and individuals within an organization through both formal and informal channels. Finally responsiveness is the action that is taken in response to the intelligence that is generated and disseminated. Unless an organization responds to information, nothing is accomplished.

Narver and Slater (1990) argued that market orientation consists of three behavioral components: customer orientation, competitor orientation, and inter-functional coordination. Ruekert (1992) defined market orientation similarly but added an explicit focus on strategic planning by business units. Shapiro (1988) argued that three characteristics make a company market-driven: (1) information on all important buying influences permeates every corporate function; (2) strategic and tactical decisions are made inter-functionally and inter-divisionally; and (3) divisions and functions make well-coordinated decisions and execute them with a sense of commitment.

Hou (2008) categorized the conception of market orientation into eight approaches: "the decision-making perspective (Shapiro, 1988), the market intelligence perspective (Kohli & Jaworski, 1990), the culturally based behavioral perspective (Day, 1994; Deshpandé et al., 1993; Slater & Narver, 1994), the strategic focus perspective (Ruekert, 1992), the customer orientation perspective (Deshpandé et al., 1993), the system-based perspective (Becker & Homburg, 1999; Hunt & Morgan, 1995), the market-based organizational-learning perspective (Sinkula, Baker, & Noordewier, 1997) and the customer relationship perspective (Baker & Sinkula, 1999)" (p. 1253).

Camino and Ayala (2006) see market orientation as an organizational strategy, and thus "the definition of market orientation has nine components: (1) analysis of final clients, (2) analysis of distributors, (3) analysis of competitors, (4) analysis of the environment, (5) interfunctional coordination, (6) strategic actions directed to final clients, (7) strategic actions directed to distributors, (8) strategic actions directed to competitors, and (9) strategic actions directed to the environment" (p. 31).

Hadcroft and Jarratt (2007) summed up the key assumptions of market orientation (MO), as espoused by four key groups of "thought leaders" (Kohli/Jaworski, Narver/Slater, Shapiro, and Deshpandé/Farley/Webster), as follows:

1. MO is defined as a sequence of information based behaviors, and a culture of customer and competitor orientations and inter-functional co-ordination.
2. Market orientation places high priority on the creation and delivery of superior customer value.
3. Market orientation provides behavioral norms for gathering, sharing, and responding to market information.
4. Market orientation requires organizational systems and processes for the assessment of customer needs and market intelligence dissemination.
5. Market orientation requires adaptive organizational structures.
6. "Market orientation requires the commitment of top management" (p. 23).

While most scholars agree on the importance of market orientation, a number of authors have voiced their concerns on the appropriateness of market orientation in ensuring the success of a company. For instance, Kaldor (1971) suggested that the marketing concept is an inadequate description of marketing strategy since it ignores the creative abilities of the firm. Kaldor further argued that customers do not always know what is needed. An extreme example is the medical doctor-patient relationship, where the patient cannot specify the treatment. It is the doctor who assesses the specific needs of the patient. Yet, it does not necessarily mean that the doctor is not addressing the needs and wants of his/her patient. In fact, customers are not necessarily good sources of information about their needs. Also, the ability of the customers to verbalize what they need/want is limited by their knowledge levels, and that when they suggest modifications, they take into account the limits of technology. Consequently, a marketing-oriented firm may be preoccupied with line extension and product proliferation. Therefore marketers sometimes need to anticipate the future needs and wants of consumers to be successful. Hirschman (1983) hypothesized that the marketing concept, as a normative framework, is not applicable to two broad classes of producers - artists and ideologists because of personal values and social norms that characterize the production process. When the roles of marketer and producer are vested in the same person, conflict may arise. In fact, commercial success in an aesthetic or ideological industry owing to the adoption of market orientation may be viewed negatively by their peers because they have violated industry norms. Also, consumer protection groups often raise questions about adhering to the market orientation philosophy without considering the impact on society as a whole and the environment. The question is whether what is good for specific customers is also good for society as a whole (Tse, 1998).

Measuring Market Orientation

Since market orientation has been one of the most important concepts studied in the discipline, scholars have been interested in conducting empirical research that investigated market orientation. A substantial number of studies have been published on this topic (see Wrenn, 1997 and Rojas-Méndez, et al. (2006, Table 1, pp. 100-03) for a detailed listing). One of the major issues that the scholars agree on is the lack of systematic effort to develop valid measures of market orientation. Among several available scales for measuring market orientation (Churchill, 1979; Deshpandé, et al., 1993; Wrenn, LaTour and Calder, 1994; and Wrenn, 1997), perhaps the two most significant studies sought to define and operationalize market orientation, Narver and Slater (1990) and Kohli and Jaworski (1990). Based on an extensive review of literature on sustainable competitive advantage and marketing strategy, Narver and Slater (1990) operationalized market orientation as consisting of three dimensions: customer orientation, competitor orientation, and inter-functional coordination. Using a literature review and field interviews of managers, Kohli and Jaworski (1990) and later Kohli, Jaworski and Kumar (1993) operationalized the market orientation construct as consisting of three basic components: intelligence generation, intelligence dissemination, and responsiveness.

Carr and Lopez (2007) focused on the implementation of a market-oriented philosophy within a firm in their study that tested the theoretical framework developed by Matsuno, Mentzer and Rentz (2005). The latter authors attempted to integrate the two key orientation scales through their Extended Market Orientation Model; however, their model had not been tested. Carr and Lopez added innovative behavior and individual consequences to the model and tested their new model, Market Orientation as Culture and Conduct (MOCCM). Results showed a clear linkage between business orientation toward customers and customer orientation of salespeople (p. 121) and supported the position that the two orientation scales should be considered as complementary, not competing, constructs (p. 122).

Market Orientation and Performance

Previous research has predicted a positive relationship between market orientation and performance on the assumption that a market orientation provides a firm with a better understanding of its environment and customers, which ultimately leads to enhanced customer satisfaction. However, research on the relationship between market orientation and performance had produced mixed results (Voss and Voss, 2000).

Some empirical studies suggested a positive relationship between market orientation and managers' perceptions of overall firm performance (Jaworski and Kohli, 1993; Camino and Ayala, 2006; Deshpandé and Farley, 2007), managers' perceptions and financial performance (Pelham and Wilson, 1996; Slater and Narver, 1994), and managers' perceptions and new product performance (Atuahene-Gima, 1995, 1996; Frishammar and Hörte, 2007; Pelham and Wilson, 1996; Slater and Narver, 1994). Kirca, Jayachandran and Bearden (2005, pp. 37, 38) found a strong positive relationship between market orientation and organizational performance, more for manufacturing firms than for service firms. Market orientation's impact on performance was also stronger in countries with low power distance and low uncertainty avoidance. Palmer and Pels (2004, pp. 80-81) "based their work on a research framework developed by Matsuno and Mentzer [2000], but use a radically different methodology. Matsuno and Mentzer used strategy as a modifier of the Kohli and Jaworski [1990] market orientation-corporate performance relationship. They suggested two modifications to the Matsuno and Mentzer model. First, to substitute strategy with the contemporary marketing practice typologies [transactional, relational, et al.] as a modifier. Secondly, to use marketing outcomes as an alternative to corporate performance. They also used firms in the U.K. and Argentina to represent different types of business environments (stable versus emerging/turbulent). While market turbulence clearly had no effect on market orientation and marketing practices, other relationships were not clearly identified from the analyses (p. 81). At the same time, several studies did not support a direct positive relationship between performance and market orientation (Han, Kim and Srivastava, 1998).

To summarize, though there is no reason to believe that the strength of the relationship between performance and market orientation may vary depending on industry characteristics, customer characteristics, or the type of the performance measure used, the literature generally supports the proposition that market-driven and innovative firms will outperform their competitors (Day and Wensley, 1994; Gatignon and Xuereb, 1997; Jaworski and Kohli, 1993; Narver and Slater, 1990; Sin, et al., 2004; Slater and Narver, 1994).

Market Orientation and SMEs

A large portion of the research that has been conducted on market orientation has involved or focused on larger firms. Of particular interest to the researchers is the relationship between market orientation and performance in small and medium-sized businesses (SMEs). This section of the literature review examines studies that have focused on SMEs.

Becherer, Halstead and Haynes (2001) looked at internal environmental factors in USA SMEs in their study. However, they did not use either of the two "standard" scales for measuring market orientation. Market orientation was greater as company size, measured by the number of employees, increased from less than 10 to 100 or more, as the business' scope broadened from local to international, and as sales volume increased (p. 8). Regarding performance, firms "with more favorable changes in sales demonstrated more marketing orientation" over the preceding three years than did firms with less favorable sales growth (p.8). Turning to personal characteristics and decision-making behavior of the firms' presidents, Becherer, et al. (2001, pp. 10-11) found mixed results. A higher level of education earned by the president was found to produce greater market orientation. Presidents who made day-to-day decisions by themselves were associated with lower market orientation.

A few studies have been conducted on small firms in Sweden. Sciascia, Naldi and Hunter (2006) studied the relationship between market orientation and entrepreneurial orientation using 2500 small and medium-sized Swedish firms, and concluded that market orientation is the main determinant in entrepreneurial orientation. Frishammar and Andersson (2009) studied the impact of strategic orientations on the international performance of SMEs using a sample of 188 Swedish firms. They found that market orientation was somewhat positively associated with international performance, but cautioned that traditional market orientation constructs might not actually work in the SME environment. Armario, Ruiz and Armario (2008) studied the relationships among market orientation, knowledge acquisition, and market commitment in Spanish SMEs as they pursued foreign markets. The authors discovered a direct positive relationship between market orientation and a strategy to pursue globalization (entry into foreign markets). This relationship was moderated by both how knowledge is acquired and the degree of market commitment.

Verhees and Meulenberg (2004) studied small rose growers in The Netherlands, using the two key orientation scales plus other scales, and found evidence that "customer market intelligence is related positively to company performance of small firms" and "for small firms in markets with relatively homogeneous products, a market orientation is helpful in the selection of an attractive product assortment" (p.10 of 20). Keskin (2006) surveyed managers of small-sized Turkish firms and found that market orientation affected performance indirectly by affecting both innovativeness and learning. Alpkan, Yilmaz and Kaya (2007) surveyed Turkish manufacturing SMEs and found a generally positive relationship between market orientation and firm performance; however, planning flexibility negatively impacted performance in very dynamic environments. Low, Chapman and Sloan (2008) interviewed six managers of SME firms in Australia in a study that built upon their earlier work that connected high levels of innovation with high levels of market orientation (see Low, et al., 2005, 2006). Using Leximancer, a data-mining tool, the authors concluded that market orientation served as an explanatory factor in the innovation processes of SME manufacturers (p. 8). Tajeddini, Trueman and Larsen (2006) studied the linkages between three aspects of market orientation, innovativeness and performance among SMEs in the Swiss watch industry. The linkage between market orientation (in terms of customer, competitive and inter-functional orientation) and the culture of innovativeness is supported and associated with improved firm performance.

The literature clearly points out that MO is an important strategic force in many firms. While this concept has been studied and tested in developed countries, limited study of its implementation in developing countries, especially those countries in Latin America has been initiated. Because Peru is a largely populated country in South America, we conjectured that this country with a very active market oriented economy would be suitable for investigation of the market orientation concept. As such, we ventured to Peru to gather data and study market orientation concepts in Peruvian firms.

As a context for our research, the next section provides a brief profile of Peru and it major characteristics.

Peru

Latin American businesses have become full partners in the globalization process. Companies competing in this region are responding not only to new trends in technology, but also to the influence of fundamental changes that keep Latin America a dynamic business environment (Robles, et al., 2003). The globalization of markets offers great challenges and opportunities for domestic and international marketers. One of the important trends is that specific customers in international markets are selecting a wider range of foreign branded products than ever before (Cavusgil, et al., 2008). This situation has caused marketers to show a growing interest in understanding the factors related to consumers' evaluation and selection of imported products. The variety of imported goods available for sale in developing countries is quite large. Peru is no different than any other developing nation in its desire to obtain popular products to sell in its markets. Peru's participation in the globalization process has helped its economy grow as a worldwide trading partner. Peru can now be seen to be entering a more stable phase in its history. After several years of inconsistent economic performance, the Peruvian economy grew by more than 8% per year during the period 2006-2008, with a stable exchange rate and low inflation (CIA Factbook, 2009). An increasing level of governmental consistency and growing economic strength has led to growing confidence from within. With a population of more than 29.5 million people, of which over sixty-five percent are 15 – 64 years old and 29.1% are 0 – 14, Peru represents a potential market that should be of great interest to many marketers (CIA Factbook, 2009).

THE STUDY

Questionnaire

A questionnaire was developed to collect data for the study. Marketing orientation scale items used in this study were mainly adopted from Kohli, Jaworski and Kumar (1993). The survey instrument consisted of two sections. Section 1 asked the respondent to answer 32 MARKOR questions (see Appendix on pages 33-34) to measure their market orientation. These questions were structured in a Likert scale model (1 to 5) with strongly disagree, disagree, neither agree nor disagree, agree and strongly agree as the choices. Section 2 of the questionnaire included demographic and background questions. The questionnaire was first developed in English and then translated into Spanish. To check the consistency of the translation, back translation was also performed.

Data Collection

The study's participants were small business owners and managers from 153 enterprises located in 4 major cities in Peru. Our research focused on studying small formal retail enterprises conducting business in cities outside the nation's capitol because the Peruvian small business sector is predominately composed of small family owned businesses; the majority of our sample represents businesses from this category. The selection of the businesses was drawn from a directory of businesses located at the local university. All of the participants were recruited on the basis of convenience and participated voluntarily. Data were collected through personal interviews by contacting each organization and seeking permission to collect data. Data were collected during business operations, while the business is closed, or at some other convenient time that met the business owner's schedule. After deleting responses with missing data, the final sample consisted of 144 firms.

Analysis and Results

Factor Structure

Data analyses to validate the structure and measurement of market orientation were taken place in three phases. First, the dimensionality of market orientation was examined. An exploratory, principle component factor analysis (PCA) using Varimax rotation was conducted with SPSS. Each of the 32 MARKOR items was expected to load on a primary component with loading above 0.5. Cross-loading items were detected and eliminated when they also loaded high on the other components (loadings above 0.4). The remaining 18 items fell into three major components. **Table 1** presents the 3-factor results with item loadings.

In this study, the MARKOR items loaded differently on market orientation components, compared to prior empirical studies. Kohli et al's (1993) three dimensions of market orientation (market intelligence, market dissemination and responsiveness) didn't hold in this dataset from Peru businesses. Prior literature has documented the varying definitions and foci of market orientation (Kohli et al., 1993). The existing empirical studies of market orientation have mostly researched large businesses in the U.S.A. When we study market orientation in different contexts, for example, in a developing country or with small and medium-sized businesses, the results may show different foci and elements of the concept. Based on the PCA results as well as the scale items, we named the three components of market orientation identified in this study as Coordinated Efforts (Component 1, nine items), Responsiveness (Component 2, five items) and Customer Interaction (Component 3, four items). Although there is some discrepancy in the conceptualization, these three components address the core elements in the understanding of market orientation shared by practitioners and researchers – customer focus and coordinated marketing (Kohli and Jawowski, 1990). Thus, we believe the results are reasonable.

Table 1. Principle Component Factor Analysis – 3-Factor Results

	Collaborated Efforts	Responsiveness	Customer Interaction
MO1	0.139	0.051	0.583
MO2	0.017	-0.038	0.597
MO3	0.645	0.172	0.246
MO4	0.256	0.625	0.162
MO5	0.215	0.124	0.542
MO9	0.150	0.749	0.159
MO10	0.598	0.342	0.215
MO12	0.573	0.037	0.378
MO14	0.502	0.152	0.214
MO16	0.266	0.305	0.548
MO18	0.164	0.600	0.233
MO21	0.272	0.609	0.057
MO22	0.679	0.133	0.226
MO24	0.603	0.226	0.177
MO25	0.529	0.184	-0.270
MO29	0.205	0.550	-0.023
MO30	0.632	0.152	-0.033
MO32	0.649	-0.088	0.352

Measurement Model

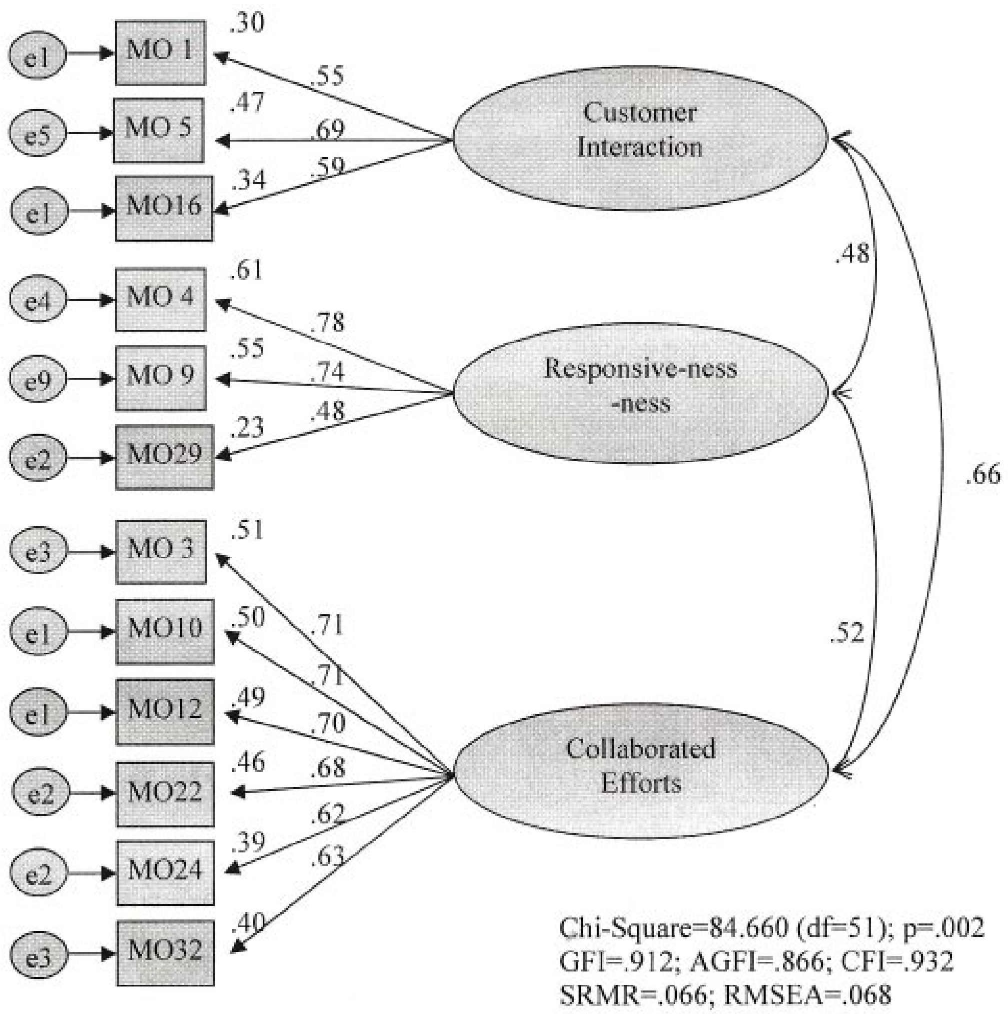
Based on the PCA results, a confirmatory factor analysis was performed using the structural equation modeling technique with AMOS. Unidimensionality was first tested for individual components of market orientation, including customer interaction, responsiveness and collaborated efforts. The observed items were evaluated based on the item loadings on the latent variable (the component), the error variance estimate, and the modification indices. Some items were excluded in order to achieve a good fit of the scales to the sample data. As a result, 3 items remained for customer interaction (MO 1, 5 and 16), 3 items for responsiveness (MO 4, 9, and 29) and 6 items for collaborated efforts (MO 3, 10, 12, 22, 24 and 32).

A combined measurement model was then run with the three components as depicted in **Figure 1**. The model fit was first examined. The Chi-square (χ^2) of this model was 84.66 ($p < 0.01$), with 51 degrees of freedom (df). The χ^2/df was 1.66. The Goodness-of-Fit Index (GFI) and Comparative Fit Index (CFI) were greater than the 0.90 cutoff. The Adjusted Goodness-of-Fit Index (AGFI) was slightly lower than 0.90, but close to GFI. Both the Standardized Root Mean Square Residual (SRMR) and the Root-Mean-Square Error of Approximation (RMSEA) were below the 0.08 cutoff. All these indices suggest a good model fit.

Next, the item loadings were examined. Most items loaded on the designated constructs with loadings above 0.6. The modification indices didn't suggest any cross-loadings. There were three items with loadings below 0.6. They were MO1, MO16 and MO29. However, the results also indicated that the three loading estimates were significant at $p < 0.001$. The elimination of each item would not improve the model fit significantly. Thus, we decided to keep the three items in the model. The above results evidenced the convergent validity of the measurement scales.

To verify the discriminant validity of the measurement, the correlation between each pair of the constructs (i.e., market orientation components) was examined. We expected the correlations between the constructs to be lower than 0.6, showing that the measurement scales diverge from one another. The results showed that two out of three correlations were as expected. The correlation between Customer Interaction and Collaborated Efforts (.66), however, was a little higher than the cutoff. An additional test was performed then using an alternative model with the constructs of Customer Interaction and Collaborated Efforts combined into one. The new model showed a significant increase in Chi-square (105.13). The other model fit indices also worsened significantly. Thus, we believe the discriminant validity was established with the original, three-construct model as shown in **Figure 1**. Overall, the measurement model confirmed the PCA results, and suggested a good fit of the measurement scales with the sample data.

Figure 1. Measurement Model



Structural Model

Next, a structural model was run to test the three-dimensional structure of market orientation. A second-order construct of market orientation was created with three first-order sub-constructs – customer interaction, responsiveness and collaborated efforts – as its reflective indicators. **Figure 2** presents the structure model.

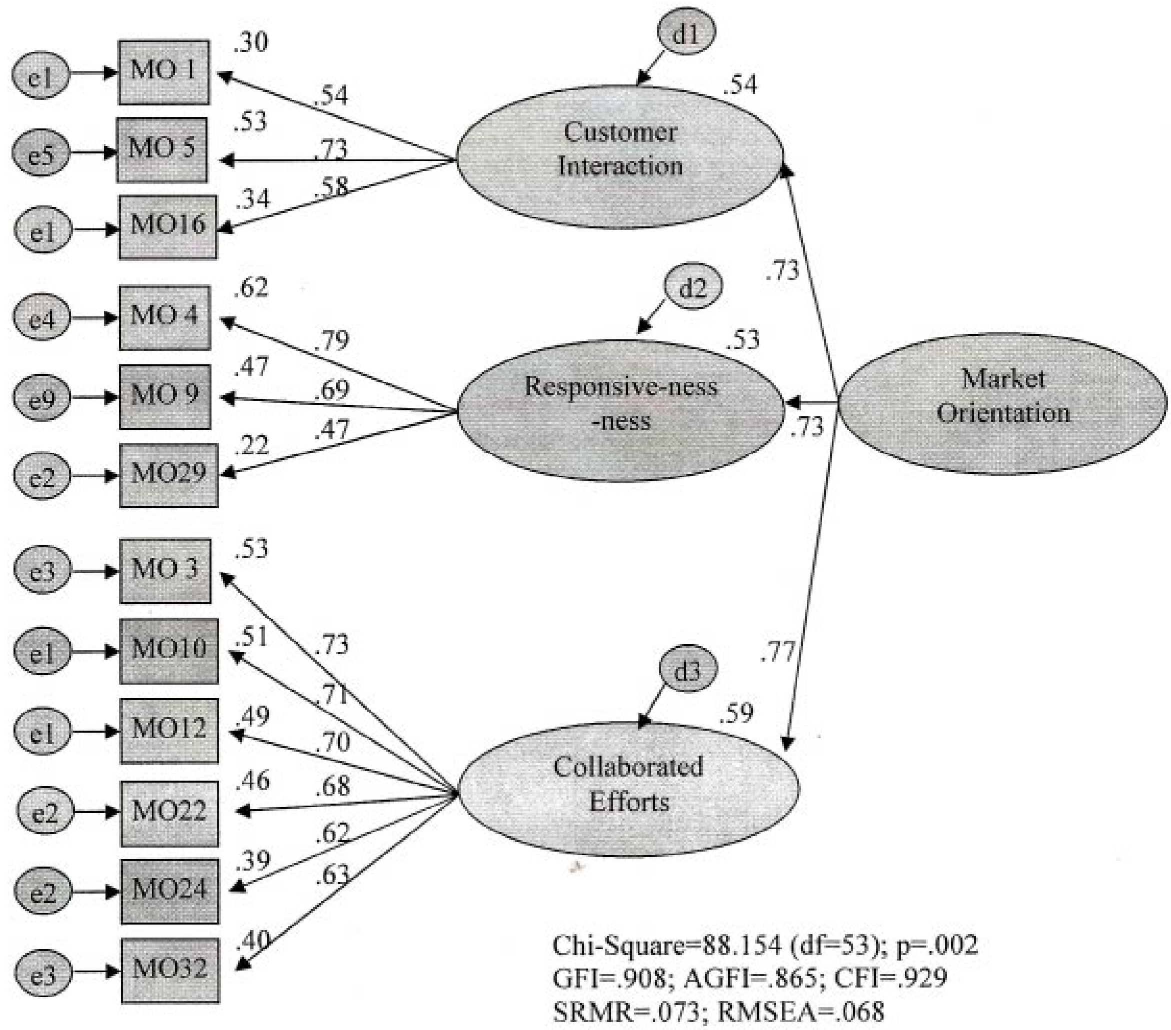
With this structural model, we first examined the model fit. The Chi-square was 88.154, with 53 df. The χ^2/df was 1.66. The very minor difference of Chi-square values between the structural model and the measurement model indicates that the addition of the structural part has not caused a substantial misfit to the model (Loehlin, 1998). The GFI and CFI were above 0.90. The AGFI was slightly lower than 0.90, but very close to GFI. The SRMR and RMSEA were below 0.08. All of these results provide evidence of a well-fitting model.

The loading coefficients between second-order construct and the three first-order components helped us evaluate the structure of Market Orientation. Both

Customer Interaction and Responsiveness have coefficients of 0.73, while Collaborated Efforts has a coefficient of 0.77 on Market Orientation, all significant at $p < 0.001$. This confirmed positive and significant relationships between Market Orientation and the three components.

In addition, the first-order indicators' reliability of the model was assessed using the percentage of variance in the indicator that is explained by the second-order construct (Long, 1983). As the results show in Figure 2, 54% of variance in Customer Interaction, 53% in Responsiveness and 59% in Collaborated Efforts were explained by Market Orientation. The results further confirmed the validity and reliability of the three-dimensional structure of Market Orientation.

Figure 2. Structure Model



Cluster Analysis

With a better understanding of market orientation as well as the dimensions that constitute this concept in the context of small businesses in Peru, we further studied the market orientation segments of Peru businesses using a cluster analysis on the sample data. A K-means cluster analysis was performed to find a three-cluster solution in order to group the respondents into meaningful market orientation segments. **Table 2** describes the three segments. The first segment includes 68 respondents (47.2% of the sample). Members in this group are highly market oriented with highest mean values in customer interaction, responsiveness and collaborated efforts. The second segment includes 16 (11.1%) of the study respondents, representing the group with lowest mean values for the three dimensions, and thus being least market oriented. The remaining 60 respondents, 41.7% of the sample, compose the third segment – the medium market-oriented group.

Table 2. Cluster Analysis Results – Three-Cluster Solution

Clusters	# of cases	Percentage	Customer Interaction	Responsive-ness	Collaborated Efforts
1	68	47.2%	4.24	3.94	4.28
2	16	11.1%	2.50	2.77	2.22
3	60	41.7%	3.28	3.29	3.54
Total	**144**	**100.0%**	**3.65**	**3.54**	**3.74**

ANOVA analysis was performed to compare the demographic information, such as age, gender, experience, company size, education and foreign language ability, among the three segments (see **Table 3**). Only two factors were significantly different among the groups. They are education and language ability. In general, managers with high educational background and those who speak more than one language are more likely to be market oriented. On the contrary, managers with less education and who don't speak foreign languages tended to pay less attention to market orientation.

Table 3. Descriptive and ANOVA Analysis Results

	Clusters	N*	Mean	ANOVA	Sum of Squares	df	Mean Square	F	Sig.
Age	1	63	39.49	Between Groups	18.831	2	9.416	0.095	0.910
	2	16	38.38	Within Groups	13392.038	135	99.200		
	3	59	39.56	Total	13410.870	137			
	Total	138	39.39						
Gender	1	68	1.31	Between Groups	0.335	2	0.168	0.772	0.464
	2	16	1.19	Within Groups	30.602	141	0.217		
	3	60	1.35	Total	30.938	143			
	Total	144	1.31						
Yr of Exp	1	68	16.12	Between Groups	39.043	2	19.521	0.207	0.813
	2	16	16.44	Within Groups	13313.180	141	94.420		
	3	60	17.22	Total	13352.222	143			
	Total	144	16.61						
No of Emp	1	68	3.60	Between Groups	1.759	2	0.880	0.413	0.662
	2	16	3.63	Within Groups	300.213	141	2.129		
	3	60	3.38	Total	301.972	143			
	Total	144	3.51						
Edu	1	67	3.07	Between Groups	18.637	2	9.318	**8.604**	**0.000**
	2	16	1.88	Within Groups	150.546	139	1.083		
	3	59	2.88	Total	169.183	141			
	Total	142	2.86						
Lang	1	67	1.04	Between Groups	2.936	2	1.468	**15.963**	**0.000**
	2	15	1.53	Within Groups	12.782	139	0.092		
	3	60	1.12	Total	15.718	141			
	Total	142	1.13						

* There are a few missing data in the demographic information.

DISCUSSION

The MARKOR scale is a commonly used measurement device for determining the degree of market orientation among companies in various venues. It has been considered valid in various studies done in diverse countries and cultures (Kara and Spillan, 2002). However, several researchers have suggested further testing of this scale in divergent settings (Kohli, Jaworski, and Kumar, 1993; Appiah-Adu, 1997). Acting in response to these suggestions, we believe that a Peruvian business environment represents a new empirical context that allows for an in-depth inquiry into the market orientation in Peruvian businesses. This study provides a test of the applicability of a scale developed in the Western markets to a Latin American country, namely Peru, with a different cultural and economic environment.

In the first part of our analysis we found that Kohli, Jaworski and Kumar's (1993) MARKOR scale provides a good perspective for evaluating the market orientation of SMEs in Peru. From the data factor analysis of the Peruvian firms in this study, we were able to determine that the MO scale produced three major construct categories similar to the ones originally produced in past research. As our PCA analysis indicates Customer Interaction, Responsiveness and Collaborative Effort were the resulting constructs produced in our analysis. These three descriptions are very similar to the ones produced by Kohli, Jaworski and Kumar in their 1993 study. One of the constructs is identical (Responsiveness) while the other two can be interpreted to be extremely similar to Intelligence Generation (IG) and Intelligence Dissemination (ID). The fact that they are not exact in comparison is probably due to language and cultural interpretation of the MO concept. Despite the scale being originally developed in the United States, our findings suggest that the scale essentially captures the construct of market orientation in the Peruvian small business environment. As a consequence, this research contributes to the growing market orientation literature by confirming the MO scale applicability in another developing country (Rojas, Kara and Spillan, 2006).

In the second part of our analysis using the cluster technique, we found that there was a significant difference among firm employees based on their education and language capabilities. Since education is critical to understand the knowledge base associated with market orientation, this would seem to be probable. Additionally, those employees who are able to speak other languages, especially English, can have a broader exposure to marketing concepts and thus able to understand, explain and implement the concepts more readily.

The literature suggests that market oriented companies more frequently use long-term relationship building with their customers whereas less market oriented firms favored survival strategies. This may be because developing economies are often referred to as having high context cultures. This characteristic includes more intense personal relationships, broader trusted friendships, as well as deeper knowledge of participants in the marketplace (Goldstucker, 1968; Moyer, 1970; Rotblat, 1975; Samiee, 1990). These cultural attributes facilitate interactions that are often invisible to the outsider. Samiee's (1993) research indicates culture has a strong influence on relationships and often become the foundation for any business negotiations.

Moreover, the structure of the small businesses surveyed may affect their market orientation. Matsuno, Mentzer, and Ozsomer (2002) state that an organization's structure influences the market orientation of a firm. The existence of many departmental and structural barriers can be a means to increased isolation and fewer linkages and coordination among the other workers in the business (Rojas, Kara and Spillan, 2006).

It appears that because these businesses are marketing oriented managers/owners perceived that they were more effective in retaining customers. They apparently realize the importance of being attuned to their customers' needs, thus taking the time to interact with them, especially through research efforts. Then they make use of the information collected to respond to customers' changing needs and desires in a coordinated and integrated manner.

MANAGERIAL IMPLICATIONS

The findings in this study have important managerial implications. As globalization continues to become a major part of a businesses operation, small firms need every strategic edge they can find. Repeatedly small firms encounter cost and competitive demands. New insights into a business marketing orientation provide ideas for development of effective strategies to adopt as they pursue their competitive edge. This study of Peruvian small businesses along with the other affirmative confirmations of the MO concept in Taiwan, Greece and the U.S. clearly demonstrate that manager(s) in small firms can make a difference in their organizations performance and achieve success (Rojas, Kara and Spillan, 2006). The global markets strongly suggest that small business managers check their business situations for threats, opportunities, weaknesses and strengths, Understanding the dimensions of MO can help develop strategies that can offer major opportunities for firms to strengthen their competitive edge, promptly respond to their customers' changing needs, and thus effectively compete in global markets.

Limitations and Future Research

Although this study provided relevant and interesting insights into the understanding of the role of MO on business performance in a Peruvian small business environment, it is important to recognize the limitations associated with the study.

From the methodological point of view, the sample size and the non-probabilistic sample data collection procedure may impose some limitations to the external validity on our findings. Moreover, since it is a cross-sectional data, the results might not be interpreted as proof of a causal relationship but rather lending support for the previous causal scheme. Also, this study's results are based on small firms that were randomly included based on convenience sampling. Therefore, the study's findings have limited generalizibility and should not be extended to other environments.

Future studies should extend this MO study by including antecedents and moderating factors (such as competition, market turbulence, and differences in business environment in Latin America) into the design. When investigating the relationship between MO and the firm performance, future studies should also consider different performance measures, such as market share, return on investment, and sales turnover, and data should be collected from multiple informants. In spite of the claims of other researchers that no significant differences exist in the responses in the utilization of a single respondent or multiple respondents, it would be interesting if the future studies employ multiple respondents from different departments within the organization.

A similar study in Peru using different market-orientation scales (such as Narver and Slater, 1990) could also provide information relevant to the robustness of the MO-performance relationship in the specific context of a developing economy in Latin America. Other research avenues include investigation of MO-performance relationship using a longitudinal perspective. In the context of the current study, this could lead to valuable observations.

REFERENCES

ALPKAN L., YILMAZ C., KAYA N., 2007. Market orientation and planning flexibility in SMEs. International Small Business Journal 25, 152-72.

APPIAH-ADU KWAKU., 1997. Market orientation and performance: do findings established in large firms hold in the small business sector? Journal of Euromarketing 6, 1-26.

ARMARIO J., RUIZ D.M., ARMARIO E.M., 2008. Market orientation and internationalization in small and medium-sized enterprises. Journal of Small Business Management 46, 485-511.

ATUAHENE-GIMA K., 1995. An exploratory analysis of the impact of market orientation on new product performance - a contingency approach. Journal of Product Innovation Management 12, 275-293.

ATUAHENE-GIMA K., 1996. Market orientation and innovation. Journal of Business Research 35, 93-103.

BAKER W.E., SINKULA J.M., 1999. The synergistic effect of market orientation and learning orientation on organizational performance. Journal of the Academy of Marketing Science 27, 411-427.

BECHERER R.C., HALSTEAD D., HAYNES P., 2001. Marketing orientation in SMEs: effects of the internal environment. Journal of Research in Marketing & Entrepreneurship 3, 1-17.

BECKER J., HOMBURG C., 1999. Market-oriented management: a system-based perspective. Journal of Market Focused Management 4, 17-41.

CAMINO J.R., AYALA V.M., 2006. The construct of 'market orientation' in an IberoAmerican context. Journal of Euromarketing 15, 23-49.

CARR J.C., LOPEZ T.B., 2007. Examining market orientation as both culture and conduct: modeling the relationships between market orientation and employee responses. Journal of Marketing Theory and Practice 15, 113-25.

CAVUSGIL T., KNIGHT G., JOHN R., 2008. International business: strategy, management, and the new realities. Upper Saddle River, NJ: Pearson-Prentice Hall.

CHURCHILL G.A., 1979. A paradigm for developing better measures of marketing constructs. Journal of Marketing Research 16, 64-73.

DAY G.S., 1994. The capabilities of market-driven organizations. Journal of Marketing 58, 37-52.

DAY G., Wensley R., 1988. Assessing advantage: a framework for diagnosing competitive superiority. Journal of Marketing 52, 1-20.

DESHPANDÉ R., FARLEY J.U., 2007. Interdisciplinary research within a modified competing values model of organizational performance: results from Brazil. Journal of Global Marketing 20, 5-16.

DESHPANDÉ R., FARLEY J., WEBSTER F., 1993. Corporate culture, customer orientation, and innovativeness in japanese firms: a quadrad analysis. Journal of Marketing 57, 23-37.

FRISHAMMAR J., ANDERSSON S., 2009. The overestimated role of strategic orientations for international performance in smaller firms. Journal of International Entrepreneurship 7, 57-77.

FRISHAMMAR J., HÖRTE S., 2007. The role of market orientation and entrepreneurial orientation for new product development performance in manufacturing firms. Technology Analysis & Strategic Management 19, 765-88.

GATIGNON, HUBERT AND JEAN-MARC XUEREB., 1997. "Strategic Orientation of the Firm and New Product Performance," *Journal of Marketing Research*, 34 (February), 77-90.

GOLDSTUCKER J.L., 1968. The influence of culture on channels of distribution. Proceedings American Marketing Association, Fall, pp. 468-473.

HADCROFT P., AND DENISE J., 2007. Market orientation: an iterative process of customer and market engagement. Journal of Business-to-Business Marketing 14, 21-57.

HAN J.K., KIM N., SRIVASTAVA R.K., 1998. Market orientation and organizational performance: is innovation a missing link? Journal of Marketing 62, 30-45.

HIRSCHMAN E.C., 1983. Aesthetics, ideologies and the limits of the marketing concept. Journal of Marketing 47, 45-55.

HOU J., 2008. Toward a research model of market orientation and dynamic capabilities. Social Behavior and Personality 36, 1251-1268.

HORNG S., CHENG-HSUI C., 1998. Market orientation of small and medium-sized firms in Taiwan. Journal of Small Business Management 36, 79-85.

HUNT S.D., MORGAN R.M., 1995. The comparative advantage theory of competition. Journal of Marketing 59, 1-15.

JAWORSKI B.J., AJAY K.K., 1993. Market orientation: antecedents and consequences. Journal of Marketing 57, 53-70.

KALDOR A.G., 1971. Imperative marketing. Journal of Marketing 35, 19-25.

KARA A., SPILLAN J.E., 2002. An exploratory analysis of market orientation of small sized retailers in Guatemala. Journal of International Marketing & Marketing Research, 27.

KAYNAK E., ARBELAEZ H., 2000. Managers perceptions to the evolution of the marketing concept: the case of Columbia. Journal of International Marketing and Marketing Research 25, 13-18.

KESKIN H., 2006. Market orientation, learning orientation, and innovation capabilities in smes: an extended model. European Journal of Innovation Management 9, 396-417.

KIRCA A.H., JAYACHANDRAN S., BEARDEN W.O., 2005. Market orientation: a meta-analytic review and assessment of its antecedents and impact on performance. Journal of Marketing 69, 24-41.

KOHLI A.K., BERNARD J.J., 1990. Market orientation: the construct, research propositions, and managerial implications. Journal of Marketing 54, 1-18.

KOHLI A.K., BERNARD J.J., AJITH K., 1993. MARKOR: a measure of market orientation. Journal of Marketing Research 30, 467-77.

LOEHLIN J.C., 1998 (ed). Latent variable models - An introduction to factor, path and structural analysis. Mahwah, NJ: Lawrence Erlbaum Associates Inc., Publishers.

LONG J.S., 1983. Confirmatory factor analysis: a preface to Lisrel, Newbury Park, CA: Sage.

LOW D.R., CHAPMAN R.L., SLOAN T.R., 2005. Market orientation and innovation performance within australian SMEs. In 6th International CINet Conference, Brighton, United Kingdom: Centrim.

LOW D.R., CHAPMAN R.L., SLOAN T.R., 2006. Innovation and market orientation on SMEs: antecedent factors and inter-relationships. In 7th International CINet Conference, Lucca, Italy: Centrim.

LOW D.R., CHAPMAN R.L., SLOAN T.R., 2008. We only innovate on customer's requests': an exploration of innovation and market orientation in Australian manufacturing SMEs. Monash Business Review 4, 1-9.

MATSUNO K., MENTZER J.T., 2000. The effects of strategy type on the market orientation-performance relationship. Journal of Marketing 64, 1-16.

MATSUNO K., MENTZER J., OZSOMER A., 2002. The effects of entrepreneurial proclivity and MO on business performance. Journal of Marketing 66, 18-32.

MATSUNO K., MENTZER J.T., AND RENTZ J.O., 2005. A conceptual and empirical comparison of three market orientation scales. Journal of Business Research 58, 1-8.

MOYER R., 1970. The structure of markets in developing economies. MSU Business Topics, (Autumn), pp. 43-60.

NARVER J.D., STANLEY F.S., 1990. The effect of a market orientation on business profitability. Journal of Marketing 5, 20-35.

PALMER R., PELS J., 2004. Marketing practice and market orientation: an exploratory international study. Marketing Issues in Western Europe: Changes and Developments, E. Kaynak and F.