




THE EFFECT OF PROACTIVE MARKET ORIENTATION ON COMPANY PERFORMANCE: THE CASE OF MEDIUM AND LARGE MANUFACTURING COMPANIES IN ETHIOPIA

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ABSTRACT

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The objective of this study was to examine the effects of proactive market orientations on companies' performances to come up with possible managerial and theoretical insights as to how manufacturing companies become proactive in formulating and implementing their marketing strategies of these days. Quantitative research approach with explanatory research design was employed. The variables used in the research were formulated based on the extant literature review which includes proactive customer orientations, proactive competitors' orientations, and market-based innovations as determinant variables and the companies' performances as an outcome variable. Textile and leather companies become the center of attention for this study because being proactive is the demand of the competition for such industries as fashion dictates the needs of customers and the dynamism of the competition in general. Simple random sampling technique was applied and a total of 76 qualified questionnaires were used for the data analysis. Multiple linear regression analysis was used for data analysis and SPSS version 22 was used for the purpose. Based on the result, all of the three independent variables are found to significantly affect the dependent variable while proactive customer orientation is the strongest predictor among the three predictor variables. Hence, the managerial implication is implied for the companies that while being proactive is essential in general, being proactive in understanding the current needs of customers and predicting the changes in those needs in the future is particularly important in order for those companies to remain relevant and sustainable in the market.

Contribution/Originality: This study contributes in the existing literature by providing empirical evidence on the determinants of company performance by adding market based innovation to the known factors of proactive consumer and competitor orientations. The study also challenged prior findings that claim market based innovation has indirect effect on company performance

1. INTRODUCTION

Marketing literature in recent times has shifted their attention from the traditional way of doing business to market-based businesses. Such a shift in emphases brought a challenge to marketers as they are expected to learn the trends and make proactive actions. In this regard, organizations may learn primarily in three ways (Hult *et al.*, 2004; Hult *et al.*, 2005). The first of these is to benefit from the experiences of others which may call for being

following the leading innovation around the globe and attempting to duplicate the innovations in local markets with little or no modifications. The second way is to buy the knowledge completely. □

Such a transaction may occur either buying the package of expertise completely or trying to assemble the technologies from different sources. And the third and the most efficient way is to learn by investigating and mutual interaction with those around the organization. Such a system is efficient simply because the organizations can learn continuously from such stakeholders as customers, suppliers, and competitors. Besides, the most important information is the one that is obtained in interaction with customers (Cheng and Krumwiede, 2012). This information constitutes the basis of a customer-oriented approach that makes up the starting point of strategic decisions which will affect the future of competitiveness of an organization.

The key factor of market orientation are classified into customers or competitors; and its purposes as responsive or proactive (Nishikawa and Yoshida, 2010). This implies that to have precise measurements of proactive market orientation and to give a complete sense of market orientation, it is logical that both aspects need to be examined in a research. Hence, both proactive customer and competitor orientations are considered in this study as determinant factors for company performances. □

Proactive customer orientation refers to a firm's ability to continuously probe customers' latent needs and uncover future needs (Ngatno, 2015). Such an orientation has to do with well understanding the current realized needs of customers and predict the latent needs which may be realized sooner or later. Furthermore, predicting the likelihood of the future needs based on the trends of environmental dynamism is perceived to be equally important which deserves serious attention. In order to create value for their target markets, firms have to gather knowledge about current and future customers, and then use that knowledge in developing its marketing strategies (Hult *et al.*, 2005). Firms with a strong customer orientation have a competitive advantage because they consider the creation and maintenance of customer value to be a top priority (Hult *et al.*, 2005; Rust *et al.*, 2010). This implies that proactive competitor orientation has to do with the ability of a company to anticipate the competitive threats and analyze the competitor actions so that be prepared for future actions and reactions of competitors. Thus, being proactive in the market is not an option but the means of survival for firms in the current dynamic market. Hence, it is on the basis of such pragmatic ontological assumption that this study was conducted. □

1.1. Statement of the Problem

Empirical evidence has emerged claiming that firms suffer losses because they miss the opportunity to serve new needs of their customers (Ofek and Wathieu, 2010; Blocker *et al.*, 2011). As the latent needs of customers are unfolded in time horizons and due to a number of factors, organizations of these days need to be proactive in understanding these ever-changing needs to be sustainable or to remain relevant in the market. Hence, by providing solutions to customers' needs, firms are able to create superior customer value (Narver and Slater, 1990; Day and Nedungadi, 1994) Hence, superior customer value will inevitably lead to superior firm performances as measured by different dimensions.

Being market orientated has to do with proactive-ness and responsiveness to customers' needs. In this regard, although being responsive to customer's needs requests plays a critical role in creating customer value (Homburg *et al.*, 2009) a mere responsive orientation towards customers addresses only expressed needs and may lead to the innovator's dilemma (Henderson, 2006). Furthermore, high focus on responsiveness hinders companies' ability to predict the future needs of customers which eventually affects its sustainability. □

Despite its relevance and of the day application, many firms these days frequently neglect or inadequately attend to the proactive dimension of market orientation (Tuli *et al.*, 2007; Blocker *et al.*, 2011). This in turn limits a firm's ability to proactively address the needs of customers and preempting the actions of its competitors. Hence, little empirical insight into the nature, consequences, and factors of proactively understanding customers' latent and future needs has been achieved (Tsai *et al.*, 2008; Blocker *et al.*, 2011). Furthermore, the problem of being trapped by

reactive market orientation is higher in developing countries, where Ethiopian firms belong, for reasons that firms in those countries have the lower understanding of market orientation and limited technological capabilities even to predict the future market trends let alone to devise proactive marketing strategies. Thus, in addition to the gap in managerial practices, there is also a theoretical gap on proactive market orientation which this study attempts to fill. □

1.2. Research Questions

1. How does proactive customer orientation affect companies' performances?
2. How does proactive competitor orientation affect companies' performances?
3. How does market-based innovation affect companies' performances? □

1.3. The objective of the Study

The general objective of this study was to measure the effect of proactive market orientation on company performance, and by disaggregating proactive market orientations into proactive customer orientation, proactive competitors orientation, and market-based innovation and see their effects on companies' performances. □

In line with the above general objective, the following specific research objectives were attempted to be addressed. Hence, the specific objectives of the study were to;

1. Measure how proactive customer orientation affects company performance
2. Examine how proactive competitor orientation affects company performance
3. Estimate how market-based innovation affects company performance □

1.4. Analytical Framework and Hypotheses Formulation

A key factor determining a firm's ability to successfully develop and commercialize technological innovation is how it comes to understand customer needs (Slater and Mohr, 2006). Customers are not just individuals who buy products in these days; they are concerns of doing business and those who justify the existence of the organizations. Hence, any attempt in the business world should put customers at the very heart of their businesses. In connection to this, market orientation is conceptualized in this study as an organization's culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and thus, continuous superior performance for the firm (Baker and Sinkula, 2007). Hence, market orientation has to do with both proactive and reactive marketing strategies as a means of survival and sustainability.

However, focusing on future customer needs may also alert the firm to new market and technology developments and increase its abilities to integrate developments into product innovation (Hertog, 2000; Zhang and Duan, 2010). Besides, companies of these days need to carefully analyze the moves and possible moves of competitors in their intelligence matters in order to be superior in the market.

Anticipatory customer intelligence is concerned with customers' latent and future needs that enable the firm to proactively pursue market opportunities that are not evident to competitors (Baker and Sinkula, 2009). Besides, it is concerned with competitor' strategy and predicts potential competitors in the future. Latent needs in this context are real needs that are not yet in the customers' awareness. This implies that a proactive market orientation is required to remind the latent needs of customers through innovation. Such innovation has a pivotal role in gaining competitiveness for the organizations through an unmatched link with the economic activities which reflect the financial as well as non-financial performance of the organization (Hult *et al.*, 2005; Tuli *et al.*, 2007). In relation to this, there are overwhelming empirical evidences claiming a strong and direct relationship between market innovation and firm performance (Morgan *et al.*, 2006). The sound argument here is that if a firm is able to install market-based innovation as a result of proactive market orientation (both customer and competitor

orientation), it is highly likely that it becomes successful and sustainable in the market. Thus, based on the aforementioned empirical evidence, the following analytical framework was developed. □

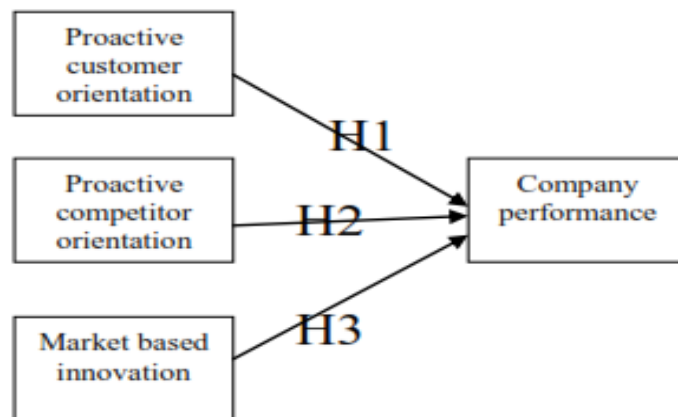


Figure-1. Analytical framework
 (Source: adapted from (Hult *et al.*, 2004; Blocker *et al.*, 2011; Ngatno, 2015))

Hence, the following hypotheses were developed based on the analytical framework

- Ha1: proactive customer orientation positively and significantly affects company performance
- Ha2: proactive competitor orientation positively and significantly affects company performance
- Ha3: market-based innovation positively and significantly affects company performance □

2. RESEARCH METHODOLOGY

The study focused on investigating and measuring the effect of proactive market orientation on company performance. Thus, cross-sectional explanatory research design was employed. Such a design is especially important when the objective is to measure a snapshot of reality and quantify the effect in a systematic way, which this study is all about.

The target population of the study was medium and large leather and textile companies in Ethiopia. The lists of those companies were obtained from their respective institutions and the sampling frame was developed based on that. Accordingly, the data were collected from 34 leather companies and 42 textile companies which were randomly chosen based on the proportion of the sampling frame of each industry. Marketing managers or their equivalents from each company were the respondents of the study.

A standardized five point likert scales (1 = strongly disagree to 5 = strongly agree) were used to measure the variables where the questionnaires were adapted from previous literature. Reliability of the instrument was tested and the inter-item consistency of each variable was found to be greater than 0.7 and the total inter items consistency is found to be 0.87 both are above the recommended value of 0.7. SPSS version 22 was used for data analysis and after testing the assumptions, multiple linear regression analysis was used to analyze the data and thereby to test the research hypotheses. □

3. DATA PRESENTATION AND DISCUSSION

The general objective of the study was to examine the effect of proactive market orientation on company performance. For the purpose, 90 questionnaires were dispatched and some 85 were returned. However, the nine questionnaires from the returned ones were either improperly filled or with many missed values. Hence, we need to make decisions either to use those questionnaires and to analyze those case wise or to leave them out from further considerations. However, dealing with missing data on case wise may be difficult due to the fact that some variables can be analyzed with more sample size than others. Hence, the decision was made to eliminate them and the analysis was made from the properly filled 76 questionnaires.

3.1. Correlation Analysis

In order to show how each of the variables considered associated with one another, the Pearson's correlation analysis was used. Accordingly, table 3.1 below shows how well the variables are correlated with one another and with the dependent variable (firm performance) which is our variables of interest. □

Table-3.1. Correlation among the research variables

Correlations		proactive customer orientation	proactive competitive orientation	market-based innovation □	firm performance
proactive customer orientation	Pearson Correlation	1	.501**	.615**	.665**
	Sig. (2-tailed)		.000	.000	.000
	N	76	76	76	76
Proactive competitive orientation	Pearson Correlation	.501**	1	.548**	.601**
	Sig. (2-tailed)	.000		.000	.000
	N	76	76	76	76
market-based innovation □	Pearson Correlation	.615**	.548**	1	.662**
	Sig. (2-tailed)	.000	.000		.000
	N	76	76	76	76
firm performance	Pearson Correlation	.665**	.601**	.662**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	76	76	76	76

** Correlation is significant at the 0.01 level (2-tailed).

As it is presented above, the correlation between each of the independent variables and the dependent variable is statistically significant at 5% significance level. In this case, the highest correlation coefficient is found between firm performance and proactive customer orientation ($r = 0.665$, and p -value of 0.000). Similarly, the correlation between market-based innovation and firm performance is significant (which is $r = 0.662$, p – value 0.000) and the correlation between proactive competitor orientation and firm performance is positive and statistically significant ($r = 0.601$, and p – value 0.000). In all cases, it was found that the correlation between the independent variables and the dependent variable is not only positive but also statistically significant. Such finding is in line with the existing body of knowledge implying that proactive orientation; be it market, customer, or competitor is the demand of these days dynamic environment that only meeting the current competition or reactively designing strategies in response to the change in environmental conditions cannot support the firms to stay where they are let alone to enable them to be profitable and sustainable in the future. □

3.2. The Regression Analysis

The correlation between the independent variables and the dependent variable were presented in the above table (table 3.1) and it was indicated that positive and significant correlations exist. However, such statistically significant result cannot tell how well each of the independent variables explains the dependent variable and hence the effect analysis needs a higher level inferential statistics. Hence, the multiple linear regression analysis was run to see the effect of the independent variables on the dependent variable through observing the standardized beta value and the corresponding probability values. □

Before actually running the multiple linear regression model, it is important to first check whether the assumptions for the model are satisfied. Hence, the multicollinearity test, normality test, linearity test and

heteroscedasticity tests were made and all the assumptions are sufficiently satisfied. Finally, the overall model fitness test was made using the ANOVA table as a default output of the regression analysis. □

Table-3.2. Overall model fitness test

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	4.454	3	1.485	34.470	.000 ^b
Residual	3.101	72	.043		
Total	7.555	75			

a. Dependent Variable: firm performance

b. Predictors: (Constant), proactive market orientation, proactive competitive orientation, proactive customer orientation

Hence, the model is statistically significant indicating that the model is fit for analysis and the independent variables in the model are highly likely to predict the variations in the dependent variable (firm performance). □

Having tested all the assumptions of multiple linear regression and found that the overall model fitness test is fit, the regression model was formulated with the following standardized beta values.

Table-3.3. Regression output

Coefficients										
Model		Unstandardized Coefficients		Standardized Coefficients	t	S sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	.241	.310		-7.77	.0440	-.858	.377		
	proactive customer orientation	.358	.102	.347	3.510	.001	.155	.562	.583	1.714
	proactive competitive orientation	.243	.087	.260	2.788	.007	.069	.416	.656	1.524
	market based innovation	.288	.096	.306	2.992	.004	.096	.480	.545	1.834

a. Dependent Variable: firm performance

As it is presented above, the highest predictor of firm performance among the variables in the model is proactive customer orientation with a standardized beta value of 0.347 and p-value of 0.001. Hence, it is implied that as proactive customer orientation increases by one unit, the firm performance will be improved by 0.347 units. The second significant predictor of firm performance is proactive market-based innovation with standardized beta value of 0.306 and p-value of 0.004 where the default level of significance in the model is 0.05. Hence, it is implied that as a proactive market orientation increases by one unit, it is highly likely that the firm performance will be improved by 0.306 units. And still, the final predictor of firm performance in the model is proactive competitor orientation with a standardized beta value of 0.26 and p-value of 0.007 which is still statistically significant and with a similar interpretation. □

Table-3.4. Coefficient of determination

Model Summary ^b										
M Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.768 ^a	.590	.572	.20753	.590	34.470	3	72	.000	1.913

a. Predictors: (Constant), proactive market orientation, proactive competitive orientation, proactive customer orientation

b. Dependent Variable: firm performance

Finally, the coefficient of determination was calculated to see how much of the variance in firm performance is explained by the independent variables in the model. Accordingly, about 57.2% of the variation of firm performance in the case manufacturing industries is explained by the three variables (market-based innovation, proactive customer orientation, and proactive competitor orientation). □

Such a result justifies not only the variation explained but also the variables in the model are an important and significant predictor of the firm performances and worth considering in the research. Hence, it can be inferred that a firm needs to be proactive in its market-based innovation, customer orientation, and competitor orientation in order for it to be competitive. Such proactive orientation requires marketers and the management in general to sense the trends in the macro and micro environments so that strategies may be devised to exploit the opportunities ahead of competitors. Besides, customers' continual changes in their preferences and sophistication can be estimated and appropriate product feature and quality can be designed to meet those predicted changes as a result. Hence, the empirical evidence above strongly support the claims of previous researchers (Hult *et al.*, 2005; Cheng and Krumwiede, 2012) who argue that it is not enough for companies to respond to customers' needs. Proactively predicting those needs and innovating the way of doing businesses are the demand of the day instead.

4. CONCLUSIONS AND IMPLICATIONS OF THE STUDY

The general objective of the study was to examine the effect of proactive market orientations on company performance. And the empirical evidence shows that being proactive has a strong and significant effect on the companies' performances. As a result, the following logical conclusions are drawn. □

The first research hypothesis claims that proactive customer orientation has a strong and significant effect on the company's performances. And the empirical evidence supports this claim. Hence, it can be inferred that predicting the future customers' needs in these days the dynamic market environment is what companies need to consider when they formulate and implement their marketing strategies. And failure to do so can log the company out of the competition. □

The second research hypothesis claims that proactive competitors' orientation has a positive and significant effect on the company's performances. Hence, the empirical evidence support this claim implying that predicting the likely move and strategies of competitions enable a firm to preempt the possible threats and surpass their competitors' strategies in advance and become dominant in the industry. □

The third and final research hypothesis claims that market-based innovation has a positive and significant effect on the company's performance. And such a claim was substantially supported by the empirical evidence implying that innovating the product, strategies, and generally way of doing business enables a firm to remain relevant and sustainable in the market. Hence, it is recommended that a company needs to innovate its way of doing businesses as there may not be time for it for adjustment when sudden changes in technology happens which may shape the tastes and preferences of customers if it waits for reaction on the one hand and other ready and proactive companies may exploit and dry the opportunities on the other. □

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