

**The Impact of Market Orientation on Farm Performance within a Dynamic
Hawke's Bay (New Zealand) Environment (An Exploratory Pilot Study)**

A research report presented in partial fulfilment of the requirements for the degree of

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Extended Abstract

Purpose:

The last few decades have seen a dramatic change in the agricultural market place where it has evolved from a completely price driven, homogeneous, commodity market to a market characterised by increasing fragmentation and differentiation pertaining to the end customer and downstream firms. Despite this change in landscape, empirical evidence suggests that there are still many agribusiness enterprises within the Hawke's Bay (East Coast of New Zealand) that continue to channel all their energy and resources solely into striving to optimise production efficiency. Such practice often leads to substandard performance. With the development of the global agricultural market place, producers implementing the market orientation concept may very well find themselves in a position to better utilise non-price signals as a means to identify value opportunities, and consequently achieve better performance relative to their non-market orientated compatriots. Making use of a sample of Hawke's Bay agribusinesses covering a number of value disciplines (dairy, beef and sheep, apples, and grapes), this study examined the correlation that unobservable resources relative to market orientation had on firm performance.

Methodology:

Regarding the methodology employed for the purpose of this research, a survey instrument was utilised as the chosen tool. Based on anecdotal evidence and expert advice, it was clear that the survey instrument was the best mechanism for the purpose of answering the research question for this report.

The survey was designed to measure the impact of various subjective factors (market orientation, organisational learning, entrepreneurship, cost focus and innovation) on overall farm performance whilst controlling for several objective factors.

The market orientation pertaining to any organisation is a subjective reflection of its current and past activities in relation to customer interaction, the generation of market intelligence, and the reaction to market information from both internal and external sources. As a means to quantify these behavioural actions, former research (Narver and Slater, 1990; Kohli et al., 1993) has constructed measurement scales in an attempt to measure behavioural components

inherent in a market orientation. These scales include the MKTOR scale developed by Narver and Slater (1990) and the MARKOR scale developed by Kohli and Jaworski (1990).

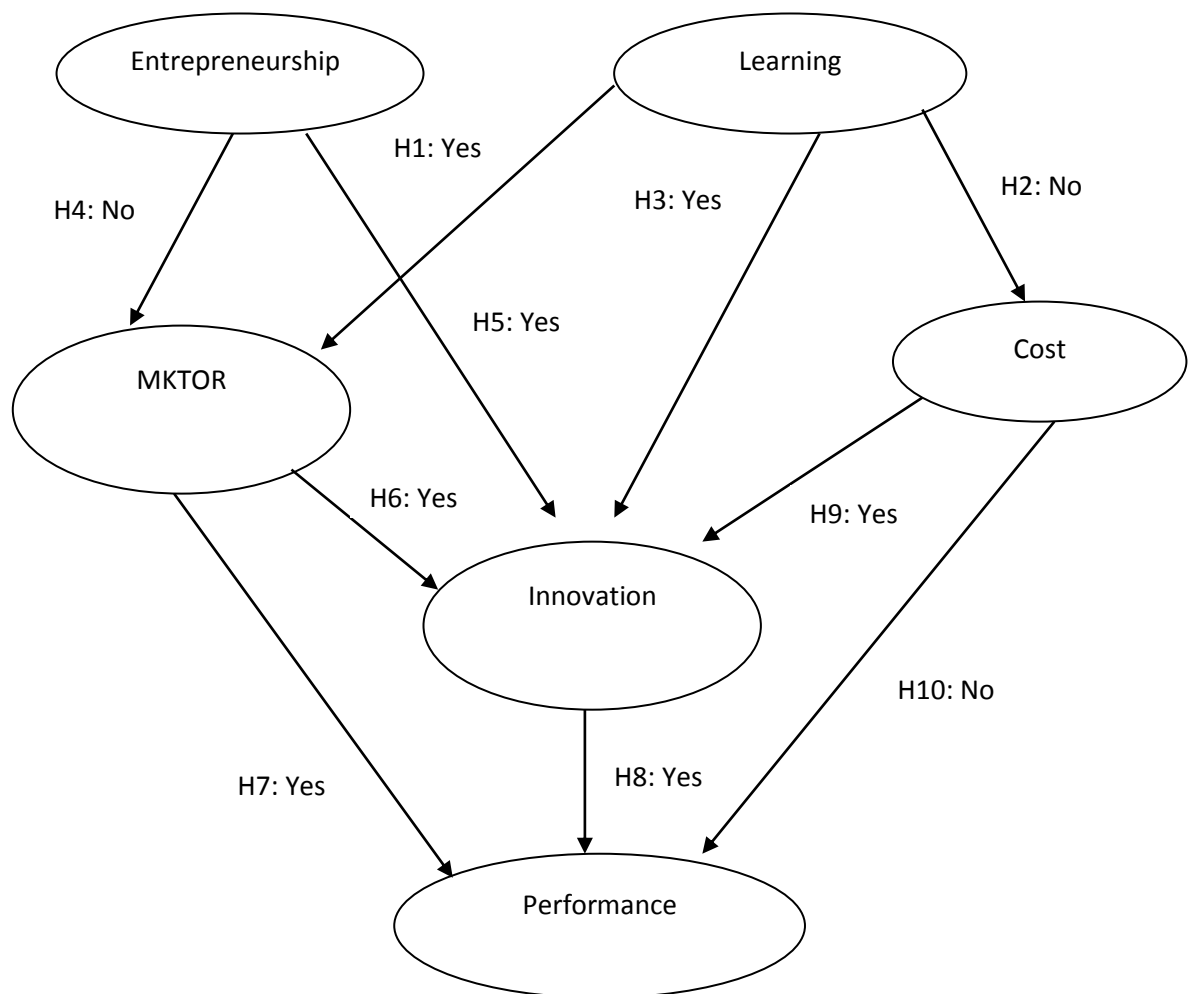
After careful consideration of these two rival market orientation measures, it was decided to employ the MKTOR scale to fit within the survey instrument. Neither scale has been without a degree of criticism regarding their development and level of reliability (Farrell and Oczkowski, 1997; Gauzente, 1999). On the whole however, the MKTOR scale has proven to be more applicable across populations (Mavondo and Farrell, 2000). The alternative, the MARKOR scale, has its measure centred on the importance of intelligence dissemination within single decision maker firms. Within such organisations, the generation of market intelligence is simultaneously disseminated throughout the firm, depriving the scale of any variability in the measure of market orientation across an organisation (Micheel's, 2010).

With the employment of the MKTOR scale, a firm's market orientation is comprised of a customer and competitor focus together with the coordination of market knowledge within the firm (Micheel's, 2010). After much consideration, this was thought to be the better fit for the purpose of this study. As with all questions pertaining to this measurement scale, the verbiage was assessed in order to fit with production agriculture terminology.

Results:

The results of this research relate ten hypotheses based on associated theoretical foundations with the observed outcomes derived from the survey instrument. Figure 1 below outlines a path analysis of these hypotheses together with the significance of each of the correlations.

Figure 1 The conceptual model with hypothesised relationships



Regarding all agribusinesses examined for this report, hypotheses 1-3 assessed the correlation between organisational learning and a number of latent variables. The results indicate that a learning orientation possessed by a firm is an important antecedent for both market orientation and innovation ($y = 0.924$, $y = 1.219$, respectively). Surprisingly however, within

this sample of Hawke's Bay agribusinesses, a learning culture did not show to have a positive influence on the cost focus of a firm. This could be the result of a whole range of different factors from contents of literature read through to poor comprehension and implementation of cost focus tactics on behalf of the report participants. The correlation between learning and innovation was consistent with findings by Desphande *et al.*, (1993) who found the same relationship to hold true in their respective research. This significant link is promising in the midst of a rapidly changing market characterised by heterogeneous dynamics. Incremental, emergent, or even radical revolutionary changes in thinking, products, processes, and organisations themselves is a requirement in order to keep up with changing market conditions.

The link between learning and market orientation was highly significant ($p < 0.001$). Learning has been defined by Mayer (2001) as the process of acquiring new or modifying existing knowledge, behaviours, skills, values, or preferences and may involve synthesising different types of information. This process is very much in association with the market orientation concept; hence this pathway was highly expected.

The impact of firms' entrepreneurship inclinations on both market orientation and innovativeness was examined through hypotheses 4 and 5. Entrepreneurship has a statistically significant influence upon innovation ($y = -0.248$), however the same does not apply to the influence entrepreneurship has on market orientation ($y = 0.016$). Across the board, hypothesis 5 consistently agreed, whilst apart from the beef and sheep sector, hypothesis 4 declined for all groups. Possible reasons for this non-agreement may be that Hawke's Bay farmers do not have a propensity to think internally (within the confines of the farm gate) when exhibiting entrepreneurial characteristics.

Hypothesis 5 lines up well with what Duening (2009) proposed entrepreneurship as being; "one who undertakes innovations, finance and business acumen in an effort to transform innovations into economic goods". The fact that this relationship is cross-sectional in latitude provides one with a lot of reassurance regarding the fact that an entrepreneurial mindset will lead to innovative outputs.

Remaining with the variable of innovation, hypothesis 8 showed this trait to be a significant determinant of firm performance (H8; $y = 0.308$). Firm performance is clearly one of the

main objectives of most organisations. The integrity of this finding is also strengthened by the fact that this significant correlation is consistent across all disciplines. Based on this, it would be wise for the wider Hawke's Bay agribusiness industry to really embrace the importance of an innovative mindset for cultivating good firm performance.

Viewing data from 'total agribusiness participants', the market orientation variable confirmed what was very much expected. Data output demonstrated market orientation to be a statistically significant influence on subjective performance, both indirectly through innovation (H6; $y = -0.674$) and directly (H7; $y = 0.351$). This result aligned perfectly with my literature review which reported this phenomenon in a range of industries around the globe. This finding, although expected, is the first empirical data set of this kind produced for agribusinesses within Hawke's Bay. Failing to become market orientated, according to 'total agribusiness' results, will lead to a lack of innovation and a reduction in firm performance; two mandatory outputs required to be successful in the current global agricultural market.

Managerial Implications:

Propositions within this report regarding market orientation have direct managerial implications. Research findings contained in this document clearly delineate which variables when linked with each other lead to a market orientation and ultimately, enhanced farm performance. These six variables (Fig. 1) are largely controllable by managers, and for this reason, can be altered for the purpose of enhancing the market orientation of their farm. Figure 1 entails a very specific path analysis which illustrates which variables foster or discourage a market orientation in Hawke's Bay agribusinesses. Based on the fact that 5 of the 6 variables (the exception of overall performance) can be controlled by managers, deliberate engendering of a market orientation is possible (Kohli and Jaworski, 1990).

For example, our findings suggest that farmers who are actively learning and engaging in educational activities will be more likely to become more market orientated (H1) as opposed to cost focused (H2). The same positive correlation exists with learning and innovation (H3). Findings by Short (2001) demonstrate that economies of scale are not present in small operations (from a global perspective, most New Zealand agribusinesses would fit this 'small' category). Short (2001) proceeded to suggest that in the midst of such a phenomenon, small firms need to become more innovative and market orientated in order to safeguard their

existence within today's increasingly segmented marketplace. Regarding this much needed innovativeness, managers need to carefully balance market orientation and cost focus in order to achieve this variable (H6 and H9).

Overall performance equates to farm gate return (FGR) for Hawke's Bay farmers. For most firms, this is the overall objective. Fig.1 clearly depicts that increased market orientation and innovation will lead to enhanced overall firm performance (H7 and H8). A cost focus will not (H10), however, it is indirectly related through the prerequisite of innovation.

To conclude, a framework regarding the implementation of a market orientation concept has been established. These pathways are not difficult to follow; however, they will require a culture change on behalf of the firm set on embracing such a concept.

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