MARKET ORIENTATION IN THE DUTCH CONSTRUCTION INDUSTRY

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Various recent and less recent publications have discussed the problematic nature of construction industries across the globe. Issues that are often brought up in these publications include construction's lack of customer orientation and customer value, fierce price competition, and poor profitability. These issues relate to a contemporary theme in marketing and strategic management known as Market Orientation. In a recent study Balance & Result Management Consultants, in cooperation with the University of Twente and sponsored by The Confederation of Netherlands Industry and Employers (VNO-NCW), measured the level of Market Orientation of small, medium sized and large firms in Central Netherlands. The Construction Industry was one of the sectors that were distinguished in this study. The study shows some remarkable differences in Market Orientation between the Construction Industry and the other industries. In this paper we discuss these differences and possible explanations in terms of firm and industry characteristics.

Keywords: benchmark, construction industry, marketing, market orientation, strategy.

INTRODUCTION

In the last decade initiatives to reform construction have stressed a change towards more client oriented business processes. Initiatives such as "Constructing the Team" (Latham, 1994), and "Rethinking Construction" (Egan, 1998) call for a new vision for and new perspective on the Construction Industry: more client and quality driven. The business focus has to shift from exploiting production capacity to serving clients. This implies that enterprises will have to operate in a more *'market-driven'* manner. Comparisons are often drawn between construction and other industries, (e.g. automobile manufacturing) where over the past decades a transition has taken place from an internal, efficiency-driven focus towards a more external, customer oriented approach (e.g. Womack *et al.*, 1990). These developments have made Market Orientation a contemporary theme in strategic management and marketing literature. The key argument is that through Market Orientation, a firm is capable of creating superior client value, and in that, of maintaining competitive advantage. It is therefore a crucial factor of influence on a firm's performance. In the summer of 2002, Balance & Result Management Consultants started a study on the topic, in cooperation with University of Twente and The Confederation of Netherlands Industry and Employers (VNO-NCW). The aim was to develop a method for measuring Market Orientation within firms, compare the level of Market Orientation of various firms and industries and relate the level of Market Orientation to characteristics of industries and firms. The Construction Industry was one of the sectors that were distinguished in this study. The study shows some remarkable differences in Market Orientation between the Construction Industry and the other industries.

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CONCEPTUAL FRAMEWORK:

A hypothetical model was constructed, relating a firm's Market Orientation to various environmental and internal factors (see Fig. 1)

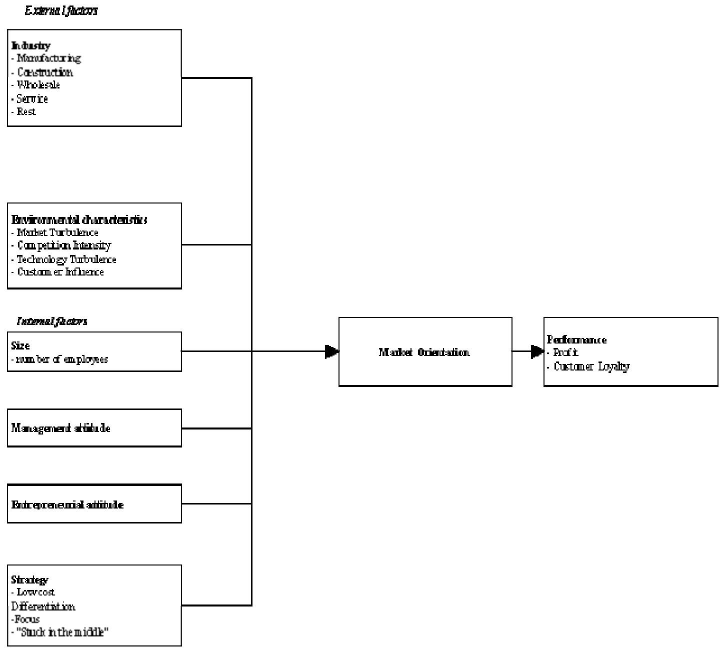

Figure 1: Hypothetical model of relationships

Marketing Concept

Kotler (1999) distinguishes a number of approaches to marketing. Some (e.g. Keith, 1960) argue that these perspectives represent the development of marketing in time.

- Production concept: a customer will prefer products that are available and affordable; the supplier will therefore focus on improving efficiency of production and distribution. This is a much-used and successful method under circumstances in which demand is greater than supply, such as in the post-war housing market.
- Product concept: a firm believes that a customer will prefer products that offer superior quality, performance and functionalities. The firm will devote constant attention to improving the product, with the risk of losing sight of the actual customer's demands.
- Sales concept: a firm believes that customers will buy a firm's products only after the firm has put much effort on promotion and sales. Making the sale is the only thing that counts, customer satisfaction is barely relevant.

As early as the 1950s, Peter F. Drucker recognized the importance of marketing for firms. According to Drucker, the main purpose of a firm is to create a customer (Drucker 1973). In this line, Drucker coined the 'marketing concept', making marketing more a corporate philosophy than an organizational function. *"Marketing is not only much broader than selling; it is not a specialized activity at all. It is the whole business seen from the point of view of its final result, that is, form the customer's point of view. Concern and responsibility for marketing must therefore permeate all areas of the enterprise."* (Drucker 1954). The main difference between the marketing concept and the other three, is that the others are inside-out perspectives, focusing on a firm's own processes and products rather than the customer. The marketing concept is an outside-in perspective: the firm selects the clients whom it wishes to approach, concentrates on their needs and demands and creates a proposition that seeks to fulfil these needs as much as possible.

Market Orientation

At the end of the 1980s, the marketing concept was rediscovered by Kohli & Jaworski and Narver & Slater. The term 'marketing concept' was replaced by 'Market Orientation'; firms having implemented this concept were termed 'market oriented'. Market Orientation (MO) is defined by Narver & Slater (1990; in line with, amongst others Deshpandé, 1989 and Aaker, 1988) as follows: "…*the organizational culture and climate that most effectively encourages the behaviours that are necessary for the creation of superior value for buyers and thus, continues superior profit for the business."* Market Orientation consists of three behavioural elements: Customer Orientation, Competitor Orientation and Interfunctional Coordination. Customer Orientation is the process of selecting customers, understanding their nedds and demands, creating customer value and retaining customers (Anderson & Narus 1999). Competitor Orientation is the process of identifying competitors, understanding their strategies, obtaining competitive advantage and keeping this. Interfunctional Coordination is the extent to which the external orientations on customers and competitors are translated into internal organizational routines. Knowledge about customers and competitors need to be shared and implemented throughout the firm's value chain.

Measuring Market Orientation

Over the years, several instruments have been developed to measure Market Orientation. The best known and most-used are those developed by Kohli & Jaworski (MARKOR) and Narver & Slater (MKTOR). Several authors have compared these instruments (e.g. Deshpandé & Farley, 1998). Mavondo & Farrell (1999) find that Narver & Slater's MKTOR is more robust and gives a better tool for comparing firms' Market Orientation considering the industry they operate in, and comparing the Market Orientation across different industries. In order to enhance MKTOR's abilities for diagnosing an individual firm's Market Orientation and translating these findings into managerial interventions for improving Market Orientation, MKTOR was supplemented in this study by elements from other studies and own interpretation.

External factors

- Industry: each industry has its own unique set of conditions and way of operating. We therefore expect the level of Market Orientation to vary across industries; the industry in which a firm operates influences the level of the firm's Market Orientation
- A number of researchers suggest a relationship between a firm's environment and the level of Market Orientation.
  - Market Turbulence: can be defined as the extent to which customers' preferences vary over time. Firms experiencing market Turbulence need to constantly adapt their products and services to these changing preferences. Davis *et al.* (1991) found that Market Orientation is indeed higher with higher (perceived) levels of market Turbulence.
  - Competitive Intensity: the higher the (perceived) level of competition, the more firms will feel the need to react to changing competitors' strategies

(Kohli & Jaworski 1990; Pelham & Wilson 1996), resulting in a higher level of MO.

- Technology Turbulence: the faster the rate of technological change, the more firms will feel the need to keep track of them; missing certain changes can have detrimental effects on competitive position, making a higher level of MO essential.
- Customer influence is defined as the extent to which an individual customer can influence the product. It is assumed that the higher the level of Customer influence, the closer the relationship between supplier and customer will be, and the higher the level of Market Orientation will be.

Internal factors

- Size: Narver & Slater (1990) argue that larger organizations are generally less capable in implementing Market Orientation. Smaller organizations generally have a more cohesive culture and more simple organizational structure, which makes it easier to coordinate between functions.
- Management Attitude: Several authors (e.g. Webster, 1988; Felton, 1959; Kohli & Jaworski, 1990) have found the role of senior management of crucial importance for Market Orientation. A positive attitude of management towards Market Orientation is an important precondition for implementing Market Orientation in a firm.
- Entrepreneurial Attitude: Market Orientation is about adapting the organization and its products to the ever changing needs of customers while keeping an eye on the changing proposition of competitors. The introduction of new or altered products is not without risk. Risk-averse organizations will in general be less capable of achieving Market Orientation (Kohli & Jaworski 1990). Rogers (1983) found that the willingness to innovate (products, services) relates to the willingness of an organization to change itself. The willingness to adapt the marketing program to the changing needs of the market, is an indication of a Market Orientation. The more positive the attitude towards organizational change, the more likely Market Orientation will be achieved (Kohli & Jaworski 1990).
- Strategy: a firm's strategy influences the way it collects, diffuses an uses information. Firms adopting, in terms of Porter (1985), a differentiation/ innovation strategy will need to be well aware of present and future customers' needs , and of competitors' value propositions in order to be able to maintain competitive advantage. Firms adopting a low cost strategy will have a more internal orientation, focussing on managing cost and efficient production. Although Narver & Slater have found both types of strategies to stimulate Market Orientation, a differentiation strategy, however, leads to a significantly higher level of MO. Because it is possible for firms to have strategies with characteristics of both low-cost leadership and differentiation, the concept of Treacy & Wiersema (1995) was introduced into this study. Tracy & Wiersema argue that market leaders are focussed on low cost ('cost efficiency'), innovation ('product leadership') and service ('customer intimacy'), and excel in one of these strategies. In their view it is not so much a question of choosing between strategies, as there is of combining them.

RESEARCH METHOD

The study was carried out as a final project by an MSc student of University of Twente, Dept. of Business Engineering (Suelmann 2003). This project was supervised by researchers from University and Balance & Result Management Consultants. The hypothetical model based on literature study was translated into in a questionnaire consisting of 122 items. This questionnaire was sent to 1637 members of VNO-NCW. The questionnaires were addressed to and mainly filled in by senior management. A total of 247 completed questionnaires were returned (15% response rate). Considering the length of the questionnaire, this seems quite reasonable. The respondents were divided into five categories: manufacturing (63= 17%; textile, chemical, plastics, metal etc.); construction (44= 29%); contractors in infrastructure, housing, HVAC, finishing/ cladding, property developers, engineers/architects etc); wholesale (23= 19%); service (accountants, legal, IT, advertising, etc.); miscellaneous (20= 14%; transport, hotels/ restaurants, retail etc.). The returned net sample is reasonably representative for the Dutch corporate landscape, although agricultural, fishing and forestry industries are not taken into account (they are no member of VNO-NCW). The conclusions therefore hold mainly for Trade, Manufacturing, Construction and Service industries. After answering some general questions about organizational size, industry, etc., respondents were asked to rate the items on a five point scale. Cronbach alphas of the items were determined in order to establish the reliability of the measurement. Factor analysis was used to determine the explanatory value of the items. Regression analysis was used to test the hypotheses. Variance analysis was used to measure differences in Market Orientation across industries (Suelmann 2003).

RESULTS

It appears that the industry has influence on Market Orientation. The level of MO in construction is significantly lower than in other industries, such as manufacturing or wholesale. In Fig. 2, construction's scores are displayed on MO as a whole and on the behavioural elements.

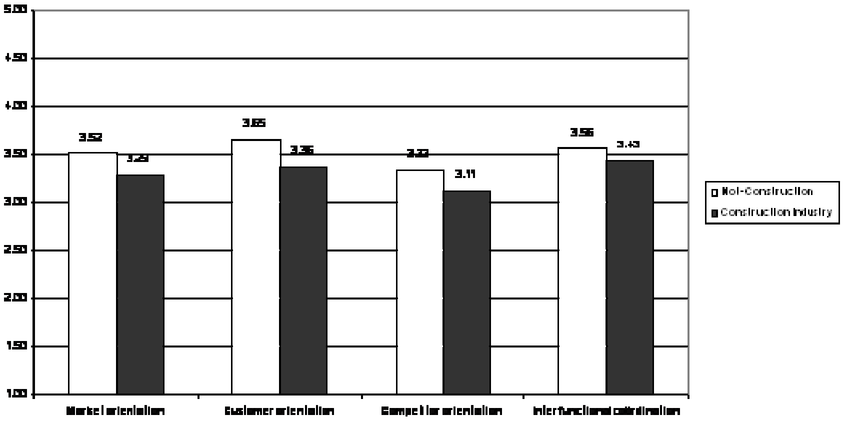

Figure 2:Levels of Market Orientation and its components

The results of the regression analysis are displayed in Table 1. Two models were used, the difference being the use of the strategy concept according to Porter ('either cost leadership or differentiation') and that of Treacy & Wiersema ('both product leadership and cost efficiency'). By introducing the various industries as dummy-variables, it is possible to determine the influence of the industry on Market Orientation. Construction was used as reference-dummy, as it had the lowest score.

Table 1: Factors of influence on Market Orientation

	Independent factors		Expected sign	Model 1	Model 2	
Basis	Market Turbulence		+	-,120 (,048)	-,134* (,048)	
	Competitive Intensity		+	,148* (,030)	,147* (,030)	
	Technology Turbulence		+	,139* (,034)	,138* (,035)	
	Customer Influence		+	,014 (,036)	-,006 (,037)	
	Management Attitude		+	,200** (,052)	,202** (,054)	
	Entrepreneurial Attitude		+	,293** (,050)	,230** (,053)	
Strategy	Treacy Wiersema		+	,186** (,024)		
		Lage-kosten	+/-		-,031 (,092)	
	Porter	Differentiatie	+		,078 (,076)	
	Reference dummy: No strategy	"Stuck in the middle"	+		,213** (,088)	
Industries	Manufacturing		+	,184* (,091)	,191* (,093)	N=56
	Wholesale		+	,135 (,121)	,139 (,128)	N=17
Dummy reference: Construction	Service		+	,106 (,081)	,100 (,084)	N=86
	Rest		+	,170* (,121)	,175* (,123)	N=16
	Constant			(,940)	(,317)	
	N			211	210	
	Corrected R^2			,292	,290	

Standard coefficients; standard error between parentheses; * : $p \leq 0{,}05$; ** : $p \leq 0{,}01$)

Surprisingly, there appears to be a negative relation between Market Turbulence and Market Orientation. Although this is not significant, it does raise some questions. Perhaps firms that experience a high level of market Turbulence find it too difficult to keep up with customer needs and therefore refrain from developing a Market Orientation. Figure 3 shows a significant difference between the level of Competitive Intensity between construction and other industries. Competitive Intensity has a significant positive influence on Market Orientation, except in construction, where this relation is, although positive, not significant.

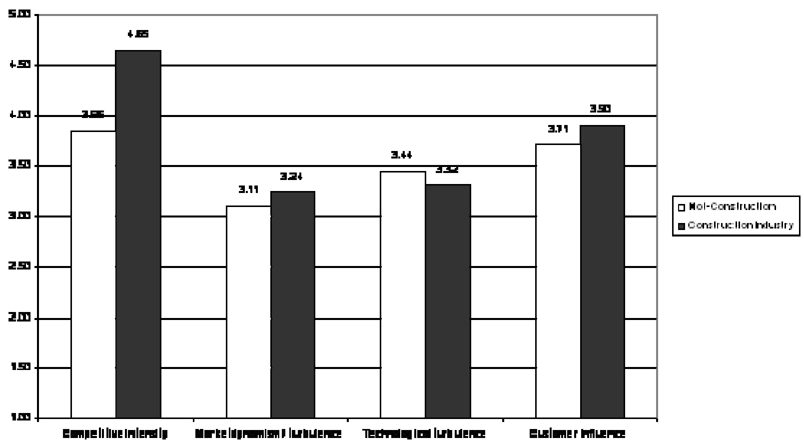

Figure 3: Levels of Market Factors

This study shows that Technology Turbulence have a positive effect on Market Orientation. The assumption that Customer Influence has a positive effect on MO is not confirmed. The relationship is, although not significant, even negative. Wholesale has a high level of Market Orientation, but a low level of Customer influence; Construction has a high level of Customer Influence (see Fig. 3) but a low level of Market Orientation. This may be explained as follows: the greater the customer's influence, i.e. the more specified his demand, the lower the need for formal activities to map out these needs, and the lower the lever of customer orientation. The assumed relationship between size and MO is not confirmed. The organizational attitude, reflected in Management attitude (p=0,01) and Entrepreneurial attitude, are more important. The difference in management attitude in construction compared to other industries is significant, as shown in Fig. 4.

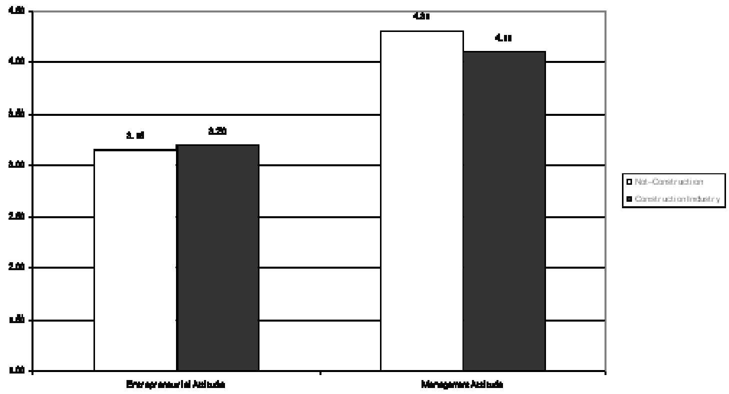

Figure 4: Levels of Internal Factors

In this form, the model explains 32,9% of the variation of Market Orientation between organizations. This seems to be a quite reasonable score in social sciences.

CONCLUSIONS AND DISCUSSION

This study clearly shows that the Dutch Construction Industry lags behind compared to other sectors when it comes to Market Orientation. This underlines statements made earlier in this paper about the necessity to change in this direction: construction really has some caching up to do when it comes to the way it treats its customers. This study also shows that certain (more or less fixed) industry characteristics will confirm the *status quo* of low Market Orientation. As long as market and technology Turbulence remain (perceived as) low in construction, management will not feel the sense of urgency to focus their attention on the outside world. A quite remarkable finding in this context is the relationship between the level of customer influence and the level of Market Orientation in construction. Although construction's products are client specific (and thus, in terms of this study, the level of customer influence is high), the level of customer orientation is relatively low. This can be explained as follows: traditionally, a client in construction specifies the product in great detail. In that situation, there is no great need for a construction firm to wonder about his client's needs: these have already been explicitly written down. Although competition in construction is fierce, this does not lead to a higher level of Competitor Orientation. An explanation may be found in the high level of competition itself: competition is simply too fierce to keep track of. Another explanation may be found in the type of competition that dominates construction, i.e. price competition. When price is the only aspect setting a firm offering apart from those of its competitors in a particular project, the competitive differences in other aspects is either irrelevant in the eyes of the client, or not significant. In those cases, there is not much sense in focussing on your competitors. The two findings above combined, confirm the view that construction merely offers production capacity instead of ready end products or concepts; there is little competitive difference between the suppliers of this capacity; and thus price becomes the only important selection criterion. Egan (1998) encourages construction to focus on developing integrated end products; the client is more interested in *what* the end result is than *how* this is delivered. In offering concepts with superior value perceived by the client, price competition could be, at least for an important part, be avoided. This calls for specification and procurement systems that support this (e.g. Innovative Procurement in the Netherlands, as described in Boes *et al.*, 2002). But perhaps most importantly, a shift must be made in management attitude in construction. This study clearly shows the importance of dedicated management for Market Orientation. The limitations of the dominant management paradigm in construction (as described, for example by Pries, 1995 and Koskela, 1992) are hereby underlined. Without senior management qualified for these issues, encouraging Market Orientation and setting the example within their firms, there is little to be expected in term of a shift towards a more market oriented industry. Of course, this quantitative research is rather generalizing, in the sense that it approaches construction as a collective. There is much to be learned from successful entrepreneurs that have made the shift towards Market Orientation. Further research will be conducted within these firms.

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