Market Orientation and Customer Satisfaction in the Service Dyad

by

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MARKET ORIENTATION AND CUSTOMER SATISFACTION IN THE SERVICE DYAD

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MARKET ORIENTATION AND CUSTOMER SATISFACTION
IN THE SERVICE DYAD

ABSTRACT

An emerging perspective on market orientation suggests that strategic insights may be gained when firms take into account their customers’ view on the organization’s level of market orientation. Recent research offers evidence on the applicability of a customer-defined market orientation construct, and the existence of a gap between suppliers’ and customers’ evaluations of the supplier’s extent of market orientation. The current article extends this line of research by exploring the market orientation gap and its outcomes in a relationship-marketing context. Specifically the research explores the importance of such a gap for the relationship. The article reviews a number of theoretical viewpoints as to why multiple perspectives should be sought when assessing organizational phenomena such as market orientation. Second, it empirically tests the impact that a perceptual market orientation gap between business service providers and their customers has on customer satisfaction. The findings suggest that the greater the divergence in perceptions of market orientation between customers and service providers, the lower the level of customer satisfaction. The research and managerial implications of these finding are explored, and strategies are offered as to how to ‘mind the gap’.
INTRODUCTION

The achievement of market orientation has been the focus of a considerable body of conceptual and empirical research over the past 10 years, mainly concentrating on the nature, antecedents, and consequences of market orientation as an intra-organizationally defined phenomenon (e.g. Narver and Slater 1990; Kohli and Jaworski 1990; Deshpande and Farley 1998). Much of this research has, understandably, focused on marketing managers’ perceptions of their organizations’ market orientation levels. However, an emerging perspective (e.g. Steinman, Desphandé and Farley 2000; Webb, Webster and Krepapa 2000) suggests that beneficial strategic insights may also be gained when firms take into account their customers’ view on the organization’s level of market orientation. This recent stream of research offers empirical evidence on (1) the applicability of a customer-defined market orientation construct and its consequences (Webb et al. 2000) and (2) the existence of a gap between suppliers’ and customers’ evaluations of the supplier’s extent of market orientation (Steinman et al. 2000). The current article extends this line of research by exploring the concept of the market orientation gap and its outcomes in a relationship-marketing context.

If a gap exists between service providers’ and customers’ perceptions of a firm’s level of market orientation, then a proximate question of strategic concern is: “what is the significance of such a gap for the relationship?” This article seeks to address this question. First, we review a number of theoretical viewpoints that offer conceptual support for the importance of seeking multiple perspectives when assessing an organizational phenomenon such as market orientation. Second, we build on the Steinman et al. (2000) study on the relationship antecedents of the market orientation gap, and empirically test the impact that a perceptual market orientation gap between business service providers and their customers has on customer satisfaction.

CONCEPTUAL BACKGROUND
Theories Supporting Multiple Perspectives

Theoretical support for the importance of seeking multiple perspectives in assessing organizational phenomena can be found in three sources: The human resource literature on multi-source feedback, the services marketing literature on customer satisfaction; and finally, the market orientation literature itself. These perspectives are briefly reviewed.

Multi-source Feedback

The theory and practice of multi-source feedback involves the evaluation of one group of organizational stakeholders who rate themselves and compare their evaluations with another axial group of stakeholders. The use of multi-source feedback techniques in organizational settings is growing because of the enhanced ability of the individual, group or firm to self-monitor and correct the deficiencies that arise in a number of areas such as goal setting, skill development, behavior change, and performance improvement (London and Smither 1995). As a result, an increasing number of organizations are now using a “360” multi-source feedback approach to performance appraisal (Tornow 1993). In this approach a disparate variety of stakeholders involving management, subordinates, and customers, evaluate performance. The “360” feedback philosophy argues that different stakeholders can provide relevant, valuable, and unique information (Borman 1991). Implicit in this approach is the assumption that no single organizational point of view (e.g., company employees) can provide the information necessary to truly determine performance on a particular dimension (Bettenhausen and Fedor 1997). Thus, the application of a performance-evaluative instrument to multiple populations ought to provide a more robust assessment of phenomena, such as market orientation, and is a more reliable predictor of performance than a single perspective.

In summary, recognizing and measuring “differences” between customers and employees via multi-source evaluation provides three potential benefits. First, it facilitates
important and valuable opportunities for organizations to learn their customers’ perceptions. Second, with appropriate feedback, it enables customers to learn their business service providers’ views and thus potentially develop more realistic expectations (c.f. Ginzberg 1981; Szajna and Scamell 1993). Third, it provides a more reliable estimate of a particular phenomenon or construct.

**Customer Satisfaction Literature**

The importance of understanding the gap between different stakeholders’ perceptions is also supported in the services marketing literature on customer satisfaction. Given the complex and increasingly competitive nature of services, organizations aim to establish long-term relationships with their customer bases. In a relationship context, customers’ communications influence the service provider’s perceptions, expectations and thus (hopefully) actions. In effect, customers create expectations as to what the services will do and how they will appear (Parasuraman and Grewal 2000; Ginzberg 1981). Since companies are increasingly reliant on customers as emissaries and even co-creators of services, the view of the customer becomes very influential in the service design and delivery processes.

It has further been suggested that in order to ensure consistent service expectations and experiences over time, both parties to the service exchange should be considered (e.g. Zeithaml, Parasuraman and Berry 1990; Brown and Swartz 1989). Brown and Swartz (1989) note that,

‘The interactive nature of professional services and their often simultaneous production and consumption indicate a need to examine the perceptions of both parties involved in the service encounter (professional and client)’. (P.93)
Because the service providers’ perceptions of quality directly affect the design and delivery of the service, while the customers’ perceptions directly determine the evaluation of the service experience, the extent to which the two parties’ perceptions are mismatched can have a profound effect on the customer satisfaction response (e.g. Brown and Swartz, 1989).

Such an approach to the management of relationships where customers have an increasingly participative role in the fulfillment process, is also in line with the notion of “cocreation marketing” that involves both the marketer and the customer interacting in all aspects of the design, production, and consumption of the service (Sheth, Sisodia and Sharma 2000). Because in cocreation marketing co-operation and communication are very important, it is essential for the reality perceptions of both parties to be amply synchronized.

**Market Orientation Literature**

A review of the market orientation literature reveals that researchers initially considered and measured market orientation as a management-perceived phenomenon (e.g. Narver and Slater 1990; Kohli and Jaworski 1990). Recent thinking however, suggests that because market orientation contains a strong customer focus, a firm can be accurately described as market-oriented only when its customers perceive it as such. This view was first advocated by Desphandé, Farley, and Webster (1993) who argued that the evaluation of a firm’s extent of customer orientation should also come from customers, and not just the managers of the firm itself. Accordingly, in their recent work Steinman et al. (2000) argue that the answer to the question “what level of market orientation should a firm have?” can only be:

‘the appropriate level of market orientation is what the customer thinks it should be’. (P.110)
Because the creation of superior customer value is a central objective of market orientation (e.g. Narver and Slater 1990), any translated benefits of adopting a market orientation should also be recognized and described by the firm’s customers in value terms. In this sense, adopting solely a management-defined view of market orientation is one-sided in that it ignores the vital role that customers play in terms of value recognition (Webb et al. 2000). A basic assumption in this approach to market orientation, is that the nature and characteristics of a firm’s offerings are a direct function of the market orientation level of the firm. Thus, customers, by experiencing the product/services, especially in long-term relationship contexts, can be considered to be qualified to form opinions, and construct cognitive evaluations of the providing organization’s market orientation level.

**Market Orientation Perceptions in Relationship Marketing Contexts**

As noted by Steinman et al. (2000), market orientation and relationship marketing are conceptually related in that both constructs emphasize that the key to sustainable competitive advantage is to attract, satisfy, and retain customers through continuous needs-assessment. Relationship marketing is founded on the assumption that long-term relationships are the basis for firms wanting to satisfy their customers and thereby achieve ongoing profitability. In effect, a relationship marketing approach requires that firms act in a market-oriented fashion i.e., understand what customers need and deliver the customer value expected (Dalgic 2000; Grönroos 1995). This is especially true for business services contexts, where the personal, ongoing and highly consequential nature of the relationship between service providers and customers, makes the adoption of a market orientation particularly appropriate (and indeed necessary) for the successful implementation of relationship marketing strategies. Dalgic (1998), for instance, notes that “long-term business relationships in the industrial markets may add a different dimension to market orientation both as a long-term guiding
philosophy as well as in the practice of marketing activities through the understanding and interpretation of customers’ present and future needs” (p.56).

The typically high level and frequency of interaction in business service relationships suggests that viewing the firm activities from the customer’s perspective is not only a critical measure of performance, but also the quintessence of the marketing philosophy (e.g. Drucker 1954). Therefore, assessing a firm’s market orientation level from both the customer and the business service provider vantage is not only intuitively logical, but also necessary in order to ensure that a firm’s perceptions of reality are not out of synchronization with those of its customers (Desphandé et al. 1993).

Taking a dyadic view in evaluating a firm’s extent of market orientation points to the existence of potential differences between the self-reports of the providing firm and its customers’ evaluations. These perceptual differences constitute a market orientation gap that relates to a divergence in the “experienced” market orientation level between the two sides of the exchange and is proposed to have an important effect on the relationship. Support for this proposition can be found in literature dealing with the social motivation for engaging in relational behavior and is briefly discussed in the following section.

The Market Orientation Gap and Intergroup Behavior

Steinman et al. (2000) employ social identity theory (e.g. Tajfel 1982), a theory of intergroup relations, to explain how the social identification of customers and suppliers into separate groups leads to an “us versus them” categorization. According to the social identity theory, people impose order on the world by categorizing it in segments and accordingly, organize themselves in groups they identify with in terms of characteristics, such as service providing vs. customer organizations (Tajfel 1982; Tajfel, Billig, and Bundy 1971). Group distinctiveness is achieved through a process of social comparison, i.e., comparing one’s in-
group with other out-groups, and is thought to result in the development of favourable biases for one’s own organization (in-group) at the expense of the other organizations (out-groups) (Taylor and Moghaddam 1994). Because this type of categorization works against the development of long-term relationships (Kalwani and Narayandas 1995), firms should work towards shifting customer perceptions from an “us versus them” to a “we” attitude, in other words, towards becoming part of their customers’ in-group (Steinman et al. 2000).

Sociological reasons for engaging in relational behavior are not new to marketing. The area of consumer behavior offers abundant evidence for the influence that group membership has on the market behavior of consumers. Specifically, Sheth and Parvatiyar (1995) propose that social groups have a profound influence on the consumers’ propensity to adopt a relational market behavior. This is because group members inherently prefer to avoid conflict and as a result resort to cooperative behavior. Hence, by accepting cooperative norms consumers agree to cooperate with the interests of other members of their social group (Sheth and Parvatiyar 1995). The function of cooperative norms is also highlighted in the buyer-seller relationship literature, referring to the expectations that the two sides of the exchange have about working together to achieve goals jointly (e.g. Cannon and Perreault 1999; Anderson and Narus 1990). The social bonds that develop through the ongoing buyer-seller interaction tend to hold the relationship together and give rise to knowledge bonds, as information is exchanged and the two parties learn about each other (Wilson 1995). This trend towards buyer-seller cooperation is ever more emphasized, with recent thinking suggesting the existence of “commercial friendships” between service providers and clients (Price and Arnould 1999).

Accepting that the successful continuation of business relationships can be socially motivated and even lead to commercial friendships, offers additional support to the view that in long-term relationships customers may identify their service providers as constituents of
their own social group (or in-group). This is of great interest to marketers, given that customers are likely to comply with the in-group norms, so that they may attain the value and benefits associated with cooperation, avoid conflict and reduce perceived risk (e.g. Sheth and Parvatiyar 1995). Furthermore, because an in-group will form its own distinct identity and values (Tajfel 1982), the reality perceptions or “worldviews” of group members are likely to converge over time. This point is supported by the research of Steinman et al. (2000) who found that over time the market-oriented interaction between suppliers and their customers creates shifts in both parties’ perceptions of a consensual evaluation of the supplier’s market orientation level. In addition to relationship length, they found that relationship importance also causes market orientation perceptions to converge, due to the interdependence the two parties develop, as each in-group member relies on the other to achieve goals.

In summary, integrating social identity theory in a relationship marketing context suggests that the categorization of customers and providers into different groups leads to an “us versus them” attitude, which may work against the development of long-term relationships and market orientation. Because market orientation contains a strong customer value focus, applying the market orientation gap concept provides a meaningful way of studying “us versus them” as opposed to “we” perceptions. Finally, empirical research (e.g. Steinman et al. 2000) has shown that certain relationship features can influence provider and customer organizations to think of themselves as parts of the same in-group and as a result, cause market orientation perceptions to converge.

Looking beyond the relationship antecedents of the market orientation gap, we now turn our attention to the issue of consequences. The question of interest is, what is the impact of a market orientation gap between business service provider and customer perceptions on relationship outcomes? We propose that the presence of a market orientation gap affects the
service provider–customer relationship and manifests in differential customer satisfaction. This relationship is now formally specified.

**The Market Orientation Gap and Customer Satisfaction**

Market orientation and relationship marketing are inherently interrelated through the notion of customer satisfaction: customer satisfaction is at the heart of the marketing concept (Patterson, Johnson and Spreng 1997), while a satisfied customer is the prerequisite for a long-term relationship (Grönroos 1990). The development of long-term relationships in business service contexts suggests that customers are not only in a proficient position to evaluate the market orientation level of their service provider, but are also likely to form expectations regarding the level of market-oriented interaction in the relationship. In turn, customer assessments of the providing organization’s extent of market orientation have been shown to influence satisfaction (Webb et al. 2000). Based on this, we propose that disparities between the service providers’ and customers’ perceptions concerning the provider’s market-oriented behavior should have a unique effect on the satisfaction response, over and above any direct effect that customer perceptions of the provider’s market orientation may have on satisfaction (cf. Webb et al. 2000). This is illustrated in Figure 1 and formally presented in Hypothesis 1.

\[ H_1: \text{The gap between customers and providers perceptions of market orientation will have a unique effect on the satisfaction response, over and above any direct effect that customer perceptions of the provider’s market orientation may have on satisfaction.} \]

----Figure 1 goes here----

Support for this hypothesis can be found in two sources. First, because market orientation and customer satisfaction are linked together through the concept of value
creation (Webb et al. 2000). In the market orientation literature the creation of superior customer value is a central tenet (e.g. Narver and Slater 1990), whereas in the customer satisfaction literature, value creation strategies are considered instrumental in building customer satisfaction (Woodruff, Schumann and Gardial 1993). Because customers tend to view service providers and other aspects of their environment differently than providers do themselves, service providers must work towards getting in tune with customers view factors such as (1) the current needs of customers (what they value) and (2) the customers’ satisfaction with the ability of the provider to meet those needs and create value for them (extent of market orientation) (Flint, Woodruff and Gardial 1997). Being out of tune, i.e., a mismatch of views about the level of value that service providers think they deliver and what customers actually experience, can lead to unrealized customer expectations and therefore, dissatisfaction.

Second, because a small market orientation gap, i.e. a convergence in customer and provider evaluations, implies that a perceptual shift has occurred so that the service provider and customer organizations view themselves as “we” rather than as “us versus them”, a favorable predisposition towards the service provider will be created (e.g. Taylor and Moghaddam 1994). Because “we” is emotionally significant and valued, any market-oriented activities and actions conducted to meet customer needs will be judged with an upward bias (Steinman et al. 2000) and are likely to increase satisfaction with the relationship.

Thus, we formally hypothesize the following relationship:

H2: The smaller the gap between customers and providers perceptions of market orientation the higher the level of customer satisfaction.

The market orientation literature (e.g. Narver and Slater 1990; Kohli and Jaworski 1990) suggests that there are three equally important prerequisites for the creation of superior customer value. The first two, information acquisition and dissemination (Kohli and Jaworski
1990), focus on understanding what customers value, and in this sense overlap with the dimensions of customer and competitor orientation proposed by Narver and Slater (1990). The third prerequisite, organization-wide responsiveness focuses on the co-ordination of organizational activities for delivering superior value to customers and overlaps with the inter-functional co-ordination dimension of market orientation proposed by Narver and Slater (1990). In this study treatment of market orientation is more in line with the Desphandé et al. (1993) suggestion that it is part of an overall corporate culture and should also be customer defined. For this reason, we adopt the Narver and Slater (1990) dimensions because they effectively represent market orientation as an organizational culture and have been shown valid when applied to customers (e.g. Webb et al. 2000). Adopting a multi-dimensional construct of market orientation points to the existence of potential gaps between customers and providers perceptions across all three dimensions, i.e., customer orientation, competitor orientation and inter-functional co-ordination. Given that all three dimensions are critical and irreducible components of the market orientation construct we propose that each of these three gaps will impact customer satisfaction. Formally:

\[ H_3: \] The customer-provider gaps on each of the three dimensions of market orientation (i.e. customer orientation, competitor orientation and inter-functional co-ordination) will each have a significant impact on customer satisfaction.

**METHOD**

**Sample**

In order to meaningfully measure the market orientation gap, a research setting where both sides of the service exchange were in a qualified position to assess the market orientation level of the provider was required. The corporate banking domain provides such a context, because of the importance of the service to both parties, the frequency and high level of personal interaction involved in the service encounters, and the development of close
relationships between providers and customers over time (Wright and Howcroft 1995). Moreover, because financial services firms compete in a market with generally undifferentiated products, creating superior value for their corporate clients is a primary competitive weapon (e.g. Day 1999), thereby making the market orientation level of the service firm easily observable to customers.

In terms of research design, we used a method similar to that employed by Brown and Swartz (1989), who employed a convenient sample of thirteen physicians in private practice and their patients for a gap analysis of professional service quality. Similarly, for this study we used a convenient sample of eight relationship managers and their respective corporate banking customers, where each customer represented a separate organization with which the service providers had an active and direct business relationship. Moreover, following the procedure of Narver and Slater (1990), who used strategic business units (SBUs) of a single major corporation as sampling units in their study, the eight relationship managers came from different SBUs of a major international bank. The SBU’s are in the corporate division of the bank, they are geographically dispersed and can be described as relatively autonomous organizational units with distinct business strategies serving different types of corporate customers, therefore, in line with the SBU definition provided by Aaker (1988).

**Procedure**

Due to confidentiality issues financial institutions do not disclose any information about their customers. For this reason, we provided the customer questionnaires to the relationship managers, who in turn signed a cover letter endorsing the study and mailed the envelope to all their corporate customers. All completed questionnaires were returned directly to the relationship managers and were subsequently collected from them. Of the 105 customers contacted, 65 responded and 64 questionnaires proved usable for the analysis,
yielding an overall effective response rate of approximately 61%. In addition, each relationship manager completed and returned a questionnaire similar to the one his/her customers received.

**Measures**

**Market Orientation**

Customers and relationship managers were asked to respond to a series of statements regarding the market orientation level of the service-providing firm. The items measuring market orientation were adopted from the original Narver and Slater (1990) scale. Each statement was assessed using a 7-point scale ranging from “1=strongly disagree” to “7=strongly agree”. For the customer questionnaire, the eleven items that comprise the market orientation scale are from Webb et al. (2000), originally adapted from Narver and Slater (1990), and are considered both relevant to the research context and meaningful when applied to customers. For the relationship manager questionnaire, we used an identical set of market orientation items to the one their customers received, with minor phraseology changes, so that a direct comparison between the service providers’ and customers’ perceptions could be carried out.

**Customer Satisfaction**

Treatment of customer satisfaction in this study is in line with the definition of overall or cumulative satisfaction, that is, “an overall evaluation based on the total purchase and consumption experience with a good or service over time” (Anderson, Fornell, and Lehmann 1994, p.54). According to Garbarino and Johnson (1999) this is an aggregate construct that sums satisfaction with specific products or services of the firm over time, as well as satisfaction with various other facets of the organization – in this instance, satisfaction with the relationship. Because the eight relationship managers and their customers had an already
established business relationship, satisfaction was measured as the customer’s general level of satisfaction with the business relationship, i.e., based on all past experiences they had with the service-providing organization.

Moreover, given recent thinking concerning confused aggregated satisfaction data distribution functions (Estelami & De Maeyer 1997), and the exclusion of any cognitive comparative component in this study, overall customer satisfaction was measured using a seven-point visual representation scale, thus emphasizing the affective nature of the construct (Anderson and Narus 1990).

RESULTS

Sample Bias

The external validity of research findings can be compromised if a sample is systematically biased in terms of key variables. Thus, prior to the main body of the analysis, patterns of mean, median, skewness and kurtosis were examined for each variable according to convention (Ghiselli, Campbell, and Zedeck 1981). No threats to validity were found. Additionally, in order to test for sampling bias, an ANOVA was conducted by using customer satisfaction (as dependent variable) against demographic categories (independent variable). Four categories make up the respondents’ demographic profile in terms of position in the organization: Managing Directors (19%), Financial Managers (63%), Accounting (7%), and Other (11%). The results indicated no significant differences across the categories on the customer satisfaction variable.

Confirmatory Factor Analysis

Before hypothesis testing, the underlying dimensions of the market orientation construct were explored, specifically with the objective of confirming the three-factor
structure proposed by Narver and Slater (1990). To this end, a confirmatory factor analysis (CFA) was conducted on the market orientation data from the customer sample using the AMOS SEM package. The three factor inter-correlated model (Model 1) illustrated in Figure 2 was tested, where CustOrt corresponds to customer orientation, CompOrt to the competitor orientation, and FnCord to inter-functional coordination. The indicators are prefaced with a “c” (for example c_fncor1) to indicate that the customer market orientation items were used.

There are a number of tests to ascertain whether the structural equation model (SEM) model fits the observed data. The chi-square test provides a statistical test of the null hypothesis that the model fits the data, and generally a chi-square ($\chi^2$) divided by the degree of freedom (df) < 4 is deemed appropriate and < 2 ideal. In addition, four fit indices are typically used to identify overall goodness of fit: (1) root mean residual (RMR), where a figure < .08 is advised, (2) goodness of fit index (GFI), where a score of > .90 is preferred, (3) adjusted goodness of fit index (AGFI), where again a score of > .90 is advised, and (4) comparative fit index (CFI), where >.90 is stipulated.

Model 1 yielded a $\chi^2 = 73.54$ (df = 41) $p = .001$, RMR = .08, CFI = .92, with a GFI = .83 and AGFI = .72. These figures give somewhat mixed signals. The chi-squared statistic is significant (indicating poor fit), although the $\chi^2 / df$ is < 2. The GFI and AGFI figures are low, while the CFI statistic of .92 is more promising - Bentler (1990) suggests that CFI values exceeding 0.95 indicate a good fit, while a CFI score of between .90 and .95 represent adequate fit. Finally, the RMR at .08 is just acceptable. The standardized regression weights for Model 1 are shown in Figure 4.

Bentler and Cho (1988) recommend that in structural equation modelling at least a five-to-one sample size to parameter estimate should be observed. Thus, given the equivocal results for Model 1, a technique of partial disaggregation was used to offset the effect that low sample size to parameter estimate ratios has on the calculation of the chi-squared statistic.
(e.g. Bagozzi and Foxall 1996). The procedure of partial disaggregation involves the formation of new indices by summing items on a random or stepwise basis within each construct to form pairs or higher clusters of composite indices. The procedure in this case was simply that for each of the archetypes the first and second items, third and fourth items, and fifth and sixth items were each respectively combined to form new variables. The partially disaggregated model (Model 2) is depicted in Figure 3.

The statistics for Model 2 were as follows: $\chi^2 = 23.57$ ($df = 17$) $p = .10$, RMR = .09, CFI = .97, GFI = .91, AGFI = .81. Most of these figures suggest that the model fits the data fairly well. The chi-squared statistic is not significant, and once again the $\chi^2 / df$ is < 2. Moreover, both the GFI and CFI statistics indicate acceptable fit. The RMR figure is somewhat marginal, and only the AGFI statistic suggests a degree of model misspecification. The standardized regression weights for Model 2 are shown in Figure 5. The correlations between the three factors are also shown in Figure 5, and accord with the inter-factor correlations in Model 1 (Figure 4).

Finally, for purposes of comparison we also tested a single factor representation of the market orientation construct (cf. Narver and Slater, 1990: 25). The single factor model yielded the following statistics: $\chi^2 = 121.73$ ($df = 44$) $p = .00$, RMR = .11, CFI = .83, GFI = .74, AGFI = .62, and in disaggregated form: $\chi^2 = 53.36$ ($df = 20$) $p = .00$, RMR = .18, CFI = .89, GFI = .82, AGFI = .67. These figures suggest that a single factor model does not fit the data well.

In conclusion, the generally acceptable fit statistics for the three factor disaggregated model and the fact that it clearly fits the data better that a single factor representation, leads support to the first order, three factor structure of market orientation comprising customer orientation, competitor orientation and inter-functional coordination proposed by Narver and Slater (1990).
Reliability

Reliability statistics are provided in Table 1. The standard Cronbach Alpha is augmented by both composite reliability and variance extracted scores (cf. Fornell and Larcker 1981; Hair et al. 1995). The variance extracted score is recommended to be >.50. However, this is a conservative test and the score may often drop below .50 when other reliability measures are demonstrating adequate reliability (Fornell and Larcker 1981). For the composite reliability statistic, scores of >.70 are recommended (Carmines and Zeller 1988).

As can be observed two of the three construct indicators, namely customer orientation and interfunctional coordination, demonstrate acceptable levels of reliability. Competitor orientation, however, shows marginal reliability, and may be due to the fact that only two items were used to measure the construct. These results yield generally positive findings for the psychometric properties of the instrument.

Hypothesis Testing

The hypotheses (H₁) that the gap between customers and providers perceptions of market orientation will have a unique effect on the satisfaction response, over and above any direct effect that customer perceptions of the provider’s market orientation may have on satisfaction was examined by means of multiple linear regression. Hierarchical method of entry was employed with customer satisfaction as the dependent variable. The market
orientation gap was calculated by taking the difference between a customer’s market orientation score and the corresponding relationship manager’s market orientation score. The model tested is specified below and the results of the regression appear in Table 2:

\[ CS = b_0 + b_1 \times \text{MO}_\text{Cst} + b_2 \times \text{MO}_\text{Gap} + e \]

Where \(CS\) is customer satisfaction; \(\text{MO}_\text{Cst}\) the customer’s perception of company market orientation; and \(\text{MO}_\text{Gap}\), the gap between service provider and customer perceptions of company market orientation.

----Table 2 goes here----

The results of the regression suggest that both customer perceptions of market orientation (\(b = 1.03, t = 4.23, p < .00\)) and the gap between service provider perceptions and customer perceptions of market orientation (\(b = -.98, t = -3.80, p < .00\)) significantly impact overall levels of customer satisfaction. Support for \(H_1\) is found in the communality analysis, which reveals that 9% of the variance in customer satisfaction is uniquely explained by the gap between service provider and customer perceptions of market orientation. The variance inflation factor was just over one, indicating that multicolinearity was not a problem.

Table 1 also offers support for \(H_2\). The beta coefficient for the market orientation gap was negative (\(b = -.98\)) and the term significant (\(t = -3.80, p < .00\)) indicating that the smaller the gap between customers and providers perceptions of market orientation the higher the level of customer satisfaction.

To explore the relative influence of each of the market orientation component gaps on customer satisfaction a second regression was run with the three market orientation component gaps (customer orientation gap, competitor orientation gap, and interfunctional
coordination gap) as independent variables (entered as a block in the regression) and customer satisfaction as the dependent variable. The model tested is specified below and the results of the regression appear in Table 3.

\[
CS = b_0 + b_1 \cdot \text{Cst\_Gap} + b_2 \cdot \text{Cmp\_Gap} + b_3 \cdot \text{Fnc\_Gap} + e
\]

Where CS is customer satisfaction; Cst\_Gap, the gap between service provider and customer perceptions of company customer orientation; Cmp\_Gap the gap between service provider and customer perceptions of company competitor orientation; and Fnc\_Gap the gap between service provider and customer perceptions of company inter-functional coordination.

---Table 3 goes here---

Table 3 offers support for H_3 (that the customer-provider gaps on each of the three dimensions of market orientation will each have a significant impact on customer satisfaction). Each term in the regression is significant (customer orientation gap (b = -.85, t = -5.84, p < .00), competitor orientation gap (b = -.47, t = -4.60, p < .00) and inter-functional co-ordination gap (b = -.47, t = -4.97, p < .00)) and negative (the smaller the gap the greater the customer satisfaction). From the standardized beta the relative impact of each of the market orientation gaps’ impact on customer satisfaction can be observed. The customer orientation gap had the largest impact (std b = -.53), followed in order of magnitude of impact by the inter-functional coordination gap (std b = -.46) and the competitor orientation gap (std b = -.43). In each case the variance inflation factor was just over one, indicating that multicolinearity was not a problem.

DISCUSSION
The results elicit some interesting observations. First, the gap between customers and providers perceptions of market orientation has a unique effect on the satisfaction response, over and above that of the direct effect that customer’s perceptions have on satisfaction. Clearly both effects (direct and gap) need to be considered in the management of customer satisfaction. Second, inconsistencies in providers’ and customers’ perceptions of market orientation negatively impact customer satisfaction. Third, although, the customer orientation gap has the largest impact on satisfaction, both inter-functional coordination and competitor orientation gaps also have a significant effect; furthermore, all have similarly sized betas and thus similar magnitude of effect. Thus, we may conclude that the entire market orientation gap has an overall impact on customer satisfaction, and that there is likely to be synergy between high levels of each. Becoming more customer oriented, without concomitant enhanced inter-functional coordination and competitor orientation, may not produce the overall gains in customer satisfaction as managing all three elements of market orientation.

Implications

In terms of managerial implications, the results of this study suggest that the gap approach can be a valuable tool for identifying differences between business services providers’ and customers’ perceptions of market orientation. Moreover, addressing the market orientation gap seems a logical basis for formulating strategies to enhance customer satisfaction. Of real interest to management is how to change perceptions of “us versus them” (a wide market orientation gap) to “we” (consensus of market orientation perceptions), in other words, how to move away from transactional standpoints toward collaborative perspectives. Closing the gap can be achieved by (1) adjusting the market-oriented behaviors of the service provider to be consistent with customer expectations and (2) by managing customer expectations.
Altering the service provider behaviors involves assuming a genuine market-oriented organization where customers’ views are regularly monitored, information is openly shared and response to customer needs and competitor activity is swift. Although most organizations would recognize the advantages that come from being close to their customers, aligning the market orientation level according to customers’ expectations would still represent a significant challenge to most firms. A first step in this direction would be to regularly audit customers and management perceptions of market orientation and to calculate the respective gaps in order to find the areas of strongly differing opinions. A second step is to engage the entire organization in the customer value delivery process by widely sharing customer knowledge and empowering all functions to contribute to the creation of value. Finally, it is necessary to integrate and align the processes that span inter-functional boundaries and link the firm with its customers, so that customer requirements are quickly apparent to all functions and well-defined procedures are in place for responding to them.

Altering customer expectations can on the one hand, come through carefully managing marketing communications to customers and on the other, through pursuing closer collaborative relationships that maximise exchange of information, facilitating mutual understanding and producing better informed expectations. The latter might be achieved through a number of mechanisms. First, by actively striving to become a member of the customer’s in-group and, thus, influencing norms and values. The use of managed user group communities on the Internet (such as those established by Heineken and Disney) is one such illustration. Kelly (1999), for example, refers to certain groups of customers as “hobby tribes”, often a company’s most devoted customers, who will continually engage the firm in a dialogue to ensure that it is pursuing the path they wish it to follow. Second, in service markets, firms can capitalize on the reality that a service encounter is also a social encounter (cf. Day 2000). Third, firms can pursue co-creation marketing strategies that allow customers
to participate in the service design and delivery process, resulting in enhanced levels of information exchange, thus once again facilitating mutual understanding and more informed levels of expectation.

In terms of research implications, the present study extends our understanding of market orientation, and specifically the utility of taking multiple perspectives on the construct (cf. London and Smither 1995). Second, it deepens our understanding of the impact that such a gap has on the key dependent variable of customer satisfaction. Finally, the current research points to potentially fruitful avenues for further research. First, research could explore the impact that the customer-provider gap has on other key relationship outcomes and wider business performance variables. Second, investigators might focus on the role that relationship type and context plays in affecting the provider-customer market orientation gap and its effect on satisfaction. Third, inspection of the gap over time and its impact on customer satisfaction would strengthen our understanding of the causal nature of the relationship. Finally, it would be of great interest to research, which factors, other than the “us versus them” attitude that was employed as a theoretical foundation in this study, can result in a gap in perceptions? For instance, although an organization might be trying to create a “we” attitude between itself and its customers, it may lack the implementation capabilities necessary to carry out such a schema. Additional research would be particular useful to identify these factors.

**Limitations**

A first limitation of this study is that it is cross sectional. The way that the market orientation gap was measured is static, in that it merely reflects a relationship between service provider and customer perceptions, given a certain level of market orientation at a specific point in time. In order to reduce the gap, the actual level of market orientation must first
change, so that new evaluations can emerge. Hence, to better understand the market orientation gap and its impact on relationship outcomes, dynamic measurements are needed to track changes over time.

Second, caution is warranted with respect to the findings and implications of our study, as the sample we used is rather small for the analysis. However, the simultaneous study of providers’ and customers’ perceptions poses a pressing demand for the support and co-operation of service providing institutions in giving access to their customers and an inherent difficulty in collecting the data.

Finally, with respect to industry effects, although the study was restricted in only one context, Steinman et al. (2000), building on Capon, Farley and Hoenig (1996), conclude that industry has little or no effect on the measurement of the market orientation gap.

**Conclusion**

This study is in line with recent thinking of taking multiple perspectives when assessing the market orientation level of an organization. We found that service firms should fruitfully “mind the gap” arising from inconsistencies in market orientation assessments between the firm’s self-reports and their customers’ evaluations, because it is related to customer satisfaction. Moreover, we found that the three gaps associated with the three components of market orientation also have a negative relationship with customer satisfaction, suggesting a synergistic effect between high levels of each. Reducing the gap between the service providers’ and customers’ perceptions can be achieved by altering the provider’s market-oriented behaviors and/or by managing customers’ expectations. Greater perception consistency leads to a more positive satisfaction response and enhances the likelihood that a long-term provider-client relationship will develop.
References


Figure 1: Relationship Between Constructs

MO_Cst = customer perception of company market orientation
MO_Gap = gap between service provider perception of company market orientation and customer perception of company market orientation
Figure 2: Confirmatory Factor Model - (Model 1)
Figure 3: Partially Disaggregated Confirmatory Factor Model (Model 2)
Figure 4: Model 1 - Showing Standardized Loadings

Test of significance on unstandardized parameters showed all were significant at $p < .05$
Figure 5: Model 2 - Showing Standardized Loadings

Test of significance on unstandardized parameters showed all were significant at $p < .05$
<table>
<thead>
<tr>
<th>Construct Indicators</th>
<th>Cronbach Alpha</th>
<th>Composite Reliability</th>
<th>Variance Extracted</th>
</tr>
</thead>
<tbody>
<tr>
<td>CustOrt</td>
<td>.89</td>
<td>.89</td>
<td>.58</td>
</tr>
<tr>
<td>FnCord</td>
<td>.88</td>
<td>.87</td>
<td>.70</td>
</tr>
<tr>
<td>CompOrt</td>
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<td>.65</td>
<td>.49</td>
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Table 2: Regression – MO Gap and Customer MO on CS

<table>
<thead>
<tr>
<th>Dependent Variable: CS</th>
<th>Partial Correlation</th>
<th>Part Correlation</th>
<th>VIF†</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent variables</td>
<td>UnStd Beta (b)</td>
<td>Std. Error</td>
<td>Std Beta</td>
</tr>
<tr>
<td>MO_Cst</td>
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<td>.45</td>
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<tr>
<td>MO_Gap</td>
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<td>-.41</td>
</tr>
<tr>
<td>Overall F</td>
<td>51.83</td>
<td></td>
<td></td>
</tr>
<tr>
<td>p</td>
<td>&lt; .000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>df</td>
<td>(2, 61)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R</td>
<td>.79</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>.63</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adj R²</td>
<td>.62</td>
<td></td>
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</table>

Commonality Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>R² unique contribution‡</th>
</tr>
</thead>
<tbody>
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<td>MO_Cst</td>
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</tr>
<tr>
<td>MO_Gap</td>
<td>.09</td>
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<tr>
<td>Total unique</td>
<td>.20</td>
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<tr>
<td>Common</td>
<td>.43</td>
</tr>
<tr>
<td>Total R²</td>
<td>.63</td>
</tr>
</tbody>
</table>

† VIF = Variance inflation factor
‡ Based on change in R², when variables are entered last into the regression equation. Note that this is also equivalent to the square of the part correlation coefficient.
Table 3: Regression – MO Component Gaps on CS

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>UnStd Beta (b)</th>
<th>Std. Error</th>
<th>Std Beta</th>
<th>t</th>
<th>Sig.</th>
<th>Partial Correlation</th>
<th>Part Correlation</th>
<th>VIF†</th>
</tr>
</thead>
<tbody>
<tr>
<td>CST_GAP</td>
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<td>.15</td>
<td>-.53</td>
<td>-5.84</td>
<td>.00</td>
<td>-.60</td>
<td>-.51</td>
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<tr>
<td>CMP_GAP</td>
<td>-.47</td>
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<td>-.43</td>
<td>-4.60</td>
<td>.00</td>
<td>-.51</td>
<td>-.40</td>
<td>1.14</td>
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<tr>
<td>FNC_GAP</td>
<td>-.47</td>
<td>.10</td>
<td>-.46</td>
<td>-4.97</td>
<td>.00</td>
<td>-.54</td>
<td>-.43</td>
<td>1.12</td>
</tr>
</tbody>
</table>

| Overall F            | 23.46          |
| p                    | < .000         |
| df                   | (3, 60)        |
| R                    | .74            |
| R²                   | .54            |
| Adj R²               | .52            |

† VIF = Variance inflation factor
Footnotes

1 The misspecification intimated by some of the test statistics may be a function of the small sample size. For even in the partially disaggregated models, the five-to-one sample size to parameter estimate recommended by Bentler and Cho (1988) is not reached.