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Market Orientation and Organizational Performance of Financial Institutions in United Arab Emirates

Syed Najaf Ali Shah & Suchi Dubey
Shaheed Zulfikar Ali Bhutto Institute of Science and Technology, Dubai campus, UAE
E-mail: snajafshah@yahoo.com, suchie.dubey@gmail.com

Abstract

Modern market researchers have worked a lot on Market Orientation. Market Orientation involves gathering intelligence about customers, competitors, channels, intermediaries etc. and disseminating that intelligence through various functions of an organization for implementation. It is generally assumed that a greater emphasis on Market Orientation can enhance Organizational Performance. There are various aspects of Organizational Performance which can be broadly categorized into financial and nonfinancial performance. Financial performance involves variables like ROA, ROE, ROI, EPS, Dividend yield etc. these variables can be easily and objectively measured through financial statements. Nonfinancial performance involves variables like customer satisfaction, quality of product, care for environment, care for society etc. these variables are qualitative in nature and cannot be objectively measured. This research has studied the nature of relationship between Market Orientation and Organizational Performance specially in the financial sector of the UAE and the analysis reveals a strong positive correlation between Market Orientation and different measures of financial performance namely Profitability, Business size, Market Share and Growth. This research can serve as a base for future studies in other sectors of the UAE economy.

Keywords: Market Orientation, Organizational Performance, Financial Institutions, UAE

Market Orientation

Management researchers (e.g. Dobni and Luffman, 2003; Hult and Ketchen, 2001) and marketing researchers (Jowarski and Kohli, 1993) have suggested that Market Orientation is a major source of competitive advantage. In the contemporary business environment, rivalry and competition among the business firms has reached unprecedented heights and acquiring and sustaining competitive edge has become a key to survival for most of the firms. It is also claimed that Market Orientation plays an important role in the performance of business firms (Kirca, Jayachandran and Bearden, 2005). Market orientation provides an additional strategic dimension and is a fundamental approach to understanding markets (Vorhies, Morgan and Mason, 2009). The concept of Market Orientation is quite old but it has received new support by Kohli and Jaworski (1990) and Narver and Slater (1990). It is claimed that Market Orientation provides better understanding of the environment and business that adopts Market Orientation can satisfy the customer needs in a better way (Blesa and Bigne, 2005). A recent analysis seems to be supporting a positive, robust and significant link between Market

Orientation and organizational performance (Kirca et al. 2005). Market Orientation is a source of competitive advantage (Jaworski and Kohli, 1993). Firms using Market Orientation perform better because they better understand their customers, rivals and channels (Hult and Ketchen, 2001). It is claimed that Market Orientation and market capabilities can act together to enable the organization to perform better than its competitors (Day, 1994; Eisenhardt and Martin, 2000). Market Orientation can result in better customer relationship which can enhance performance outcomes like sales, growth, market share and profits (Crosby, Evans and Cowls, 1990; Morgan and Hunt, 1994).

Moreover many researchers have concluded that Market Orientation has a strong and positive impact on performance (Deshpande, Farley and Webster, 1993; Jaworski and Kohli, 1992; Narver and Stater 1990; Ruckert, 1992). However, due consideration should be given to the specific firm capabilities used to implement Market Orientation into the target market. Market capabilities can be observed at different levels in the business and many of these capabilities cross different functional areas (Eisenhardt and Martin, 2000). Capabilities associated with the implementation of market resources exploitation are normally linked with the marketing function (Daneels, 2007). This aspect has led many authors to believe that marketing capabilities are also positively related with business performance. Vorhies et al. (2009) have taken this as one of the main hypotheses of their research and had concluded that there is a significant direct relationship between firm’s marketing capabilities and performance assessed in both subjective and objective ways. Now the question arises about capabilities. What are the capabilities and which one of them is used by market oriented firms to deploy their resources? It is not possible to enumerate all possible capabilities, because every business develops its own set of capabilities that is rooted in the realities of its competitive market, past commitments and anticipated requirements (day, 1994). In addition, a modest but growing body of empirical evidence supports the proposition that market orientation is positively associated with superior performance (Deshpande et al. 1993).

The review of literature available on the market orientation depicts that there seems to be a very significant positive correlation between Market Orientation and superior corporate performance but much of the evidence remains anecdotal or speculative (Han, Kim and Srivastava, 1998). Although the importance of Market Orientation has been widely accepted and it is also assumed to have a direct relation with success and performance, the discordant findings on the nature of Market Orientation-performance relationships have somewhat limited its value for managers (Greenly, 1995).

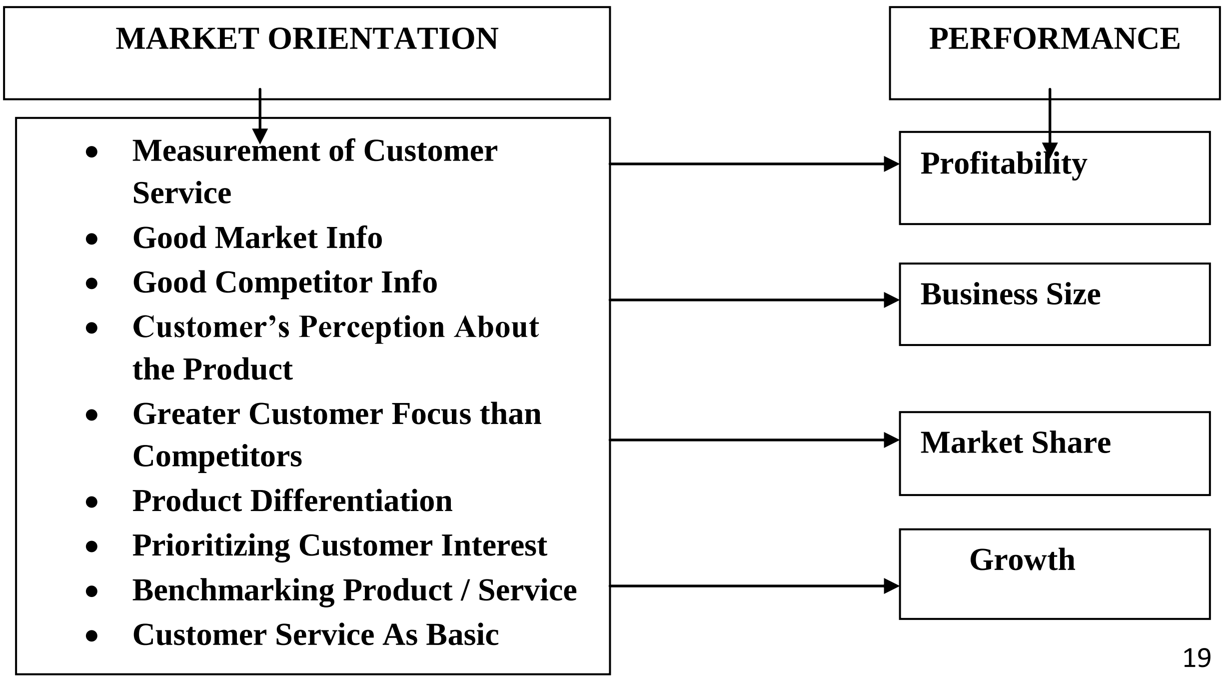
Despite the importance of market orientation to modern business, the market orientation literature lacks systematic effort to develop valid measures of market orientation (Kaynak and Kara, 2004). Moreover, most of the researchers are based on developed economies and hence are sometimes inconsistent with the findings of the market orientation studies in developing countries (Malik and Naeem, 2009). To fill this gap, a study was undertaken by Keelson (2012) to test the applicability of the market orientation framework in Ghana. The results of the study indicate a functional relationship between external antecedents and market orientation and the performance of the firms is significantly related with all the market orientation components. Furthermore, it is suggested that market orientation influences the economic as well as non-economic performance of listed companies in Ghana (Keelson, 2012). Daud, Remli and Muhammad (2013) undertook a similar research in Malaysia. The aim of the study was to examine the relationship between market orientation and performance of “Takaful” in Malaysia. The scope of the research was very narrow because it was specifically focused on a particular business. However, the results show a positive relationship between market orientation and performance.

Organizational Performance

This study aims at measuring the correlation between Market Orientation and Organizational Performance. Performance is a fairly broad concept and its meaning changes in accordance with user's perspective and needs (Lebas, 1995). Traditionally performance has been assessed through financial statements and in accounting terms (Avci, Madanoglu and Okumus, 2011). In case of listed corporation, accounting data and related financial statements are readily available in published form but in case of non-listed companies or small business ventures (in sole proprietorship and partnership), financial data is normally treated as confidential information. Most of the times, respondents are reluctant to disclose actual figures. But performance is not limited to financial aspect only (Sink and Tuttle, 1989). Particularly in the service sector, non-financial performance should receive serious consideration (Law, Cooper, Strong, Stewart, Rigby and Letts, 1996). Financial performance can be objectively measured through accounting ratios but non-financial performance has to be measured in subjective terms. A number of authors have defended the adequacy of subjective measures as opposed to objective ones (Pertusa-Ortega, Molina-Azorin and Claver-Cortes, 2010). Study by Richard et al. (2009) reveals a multidimensional conceptualization of organizational performance. Performance can be regarded as a comparison of the value created by a firm with the value expected by the owners (Alchian and Demsetz, 1972). Performance can be financial performance or operational performance (Venkataraman and Ramanujam, 1986).

Performance can also be distinguished from financial and non-financial aspects (Homburg, Hoyer and Fassnacht, 2002). Nonfinancial organizational performance is defined as the organization's effective marketing activities and can be evaluated through customer satisfaction, customer loyalty, customer benefit and market share. Out of all these components, only market share can be measured in quantitative terms, whereas all the elements of financial performance can easily be measured quantitatively.

Conceptual Framework: Market Orientation and Organizational Performance Model



Based on the above model, following four Hypotheses are developed
Ha_1 Market Orientation and Profitability have positive correlation.
Ha_2 Market Orientation and Business Size are positively related.
Ha_3 Market Orientation and Market Share are positively related.
Ha_4 Market Orientation and Growth of the firm have positive correlation.

Research Methodology

Research Design: To assess the level of application of market Orientation in the local market, the methodology of primary research is selected. A questionnaire which is developed by Deshpande et al. (1993) for a similar research is used for this research. The sample space is the set of marketing executives in the financial sector comprise of banking and insurance sector. The financial has been chosen to keep the research focused and manageable within the constraints of research. Questionnaire was served to a convenience sample of 200 marketing executives. The nature of the data is qualitative, hence, the respondents will be asked to rate their organizations on a scale of 1 to 5 with respect to market orientation and from 1 to 3 with respect to performance.

Research Instrument: After going through the literature review and the scales developed by a number of marketing researchers like Jaworski and Kohli (1993); Narver and Slater (1995) and Deshpande et al. (1993), the research instrument of Deshpande et al.(1993) was chosen since it seemed comprehensive and manageable in given context. Moreover, it was found that this instrument has used many western researches successfully producing the valid results. Its two parts have been selected one is related with marketing orientation comprising 9 questions whereas the second part is for measuring the organizational performance which is based on 4 questions. The marketing orientation part is to be measured by on a scale of 1 to 5 while organizational performance part has scale of 1 to 3.

Findings

This study is aimed at indicating the relation between Market Orientation and Organizational Performance. Market Orientation has several underlying variables like customer orientation, competitors' intelligence, dissemination of gathered information etc. various elements of Market Orientation were probed and their average score was used as a single variable termed as Market Orientation.

Table 1 shows the means and standard deviations of all the five variables in a summarized form. All these values have already been discussed in the previous tables.

Table 1: Descriptive Statistics

	Mean	Std. Deviation	N
Market Orientation	3.6244	.92131	121
Profitability	1.9256	.85796	121
Business Size	2.0579	.83962	121
Market Share	1.8926	.88319	121
Growth	1.8595	.90651	121

Table 2

Case Processing Summary

		N	%
Cases	Valid	121	100.0
	Excluded[a]	0	.0
	Total	121	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.958	.960	13

The cronbach's alpha is .958 which is excellent as per Sekaran & bougie (2009) which ensures the internal consistency of the response.

Table 3

Correlations

		Market Orientation	Profitability	Business Size	Market Share	Growth
Market Orientation	Pearson Correlation	1	.746**	.745**	.683**	.684**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	121	121	121	121	121
Profitability	Pearson Correlation	.746**	1	.827**	.858**	.801**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	121	121	121	121	121
Business Size	Pearson Correlation	.745**	.827**	1	.829**	.788**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	121	121	121	121	121

Market Share	Pearson Correlation	.683**	.858**	.829**	1	.814**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	121	121	121	121	121
Growth	Pearson Correlation	.684**	.801**	.788**	.814**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	121	121	121	121	121

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

In the table 3, the cross correlation is shown between the variables. The correlation between Market Orientation and other variables were separately calculated and discussed in the previous sections. The correlations between various elements of performance are significantly positive. High level of positive correlations shows the relevance of various measures of performance because they all are moving in the same direction.

Table 4
Descriptive Statistics

	Mean	Std. Deviation	N
Market Orientation	3.6244	.92131	121
Overall Organizational Performance	1.9277	.80715	121

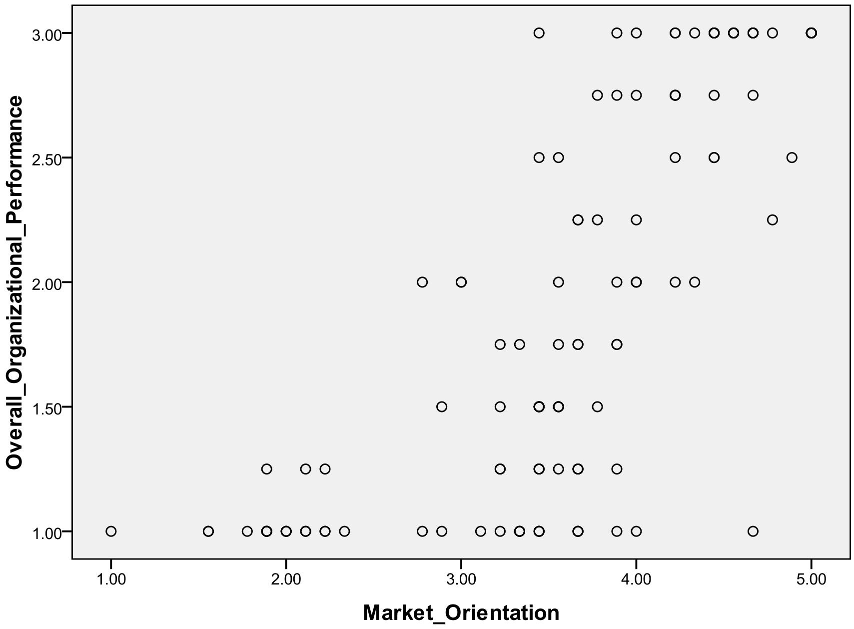
In table 4, overall organizational performance is taken as a single variable. This variable is in fact the weighted average of all the four measures. The overall organizational performance has a mean score of 1.9277 with a standard deviation of 0.80715.

Table 5
Correlations

		Market Orientation	Overall Organizational Performance
Market Orientation	Pearson Correlation	1	.766**
	Sig. (2-tailed)		.000
	N	121	121
Overall Organizational Performance	Pearson Correlation	.766**	1
	Sig. (2-tailed)	.000	
	N	121	121

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

Table 5 shows the correlation between Market Orientation and Overall Organizational Performance. The coefficient of correlation is 0.766 positive which means there is a strong positive relationship between the two variables. There was no specific hypothesis for this variable. This is rather a confirmatory test for all the hypotheses tested above.



Correlation between Market Orientation and Overall Organizational Performance

Figure 2

This scatter diagram shows the relationship between Overall Organizational Performance and Market Orientation. The trend line has a positive slope showing the fact that the two variables are moving in the same direction.

Conclusion & Recommendations

Traditionally business organizations used to be product oriented. They specialized in the product they could produce most efficiently and then tried to find market for the product. Then firms moved towards market orientation and tried to find out what was demanded by the market and then produced accordingly. During the past few decades, market orientation gained much importance. Management researchers in various parts of the world have suggested that Market Orientation is one of the major sources of competitive advantage. Almost all the researchers agree that Market Orientation plays a vital role on the performance of business organizations but they differ on the definition of Market Orientation and its elements. On the other hand, Organizational Performance is also viewed from different perspectives. It can be divided into many subgroups like financial and nonfinancial, economic and noneconomic etc. performance can be measured using different tools and by evaluating different indicators.

The study has accepted all four hypotheses related with the ascertaining the positive relationship between four indicators of market orientation viz. business size, profitability, market share and growth. The study also measures the relationship between market orientation and overall organizational performance and found a positive correlation for same. However study has its own limitations. The Market Orientation has been taken as a single variable (the mean score of nine different aspects) whereas all the elements are capable of being analyzed individually and only the financial performance was stressed due to the case of objective measurement.

In spite of the above mentioned limitations, this study provides evidence of application of Market Orientation in the local economy. The results show a strong positive correlation between Market Orientation and Organizational Performance and as such the findings of the research can help, on one hand, the marketing executives of progressing business firms and on the other hand, this research can provide a base for further researches in related fields.

Also Market Orientation has been used as a single independent variable throughout this research. Whereas there are various distinct components of Market Orientation and each of those components is capable of affecting the performance indicators. For the sake of data collection, questions were framed on various aspects of Market Orientation but for the sake of simplicity, the mean score of those questions has been taken as a single variable, namely Market Orientation. Also more emphasis was given to the financial performance because it was more transparent and objective. As far nonfinancial performance is concerned, the views of marketing executives may be highly subjective and may not depict a true and reliable picture of the state of affairs.

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