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THE EFFECT OF MARKET ORIENTATION ON BANKER'S PERFORMANCE IN MALAYSIA

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Abstract

The purpose of this study is to investigate the effect of market orientation on banker's performance. This study was greatly motivated by the inconsistent findings in the contemporary literature regarding the relationships between market orientation and performance. Due to these inconsistencies, a new research stream emerged which suggests investigating the effect of market orientation that may better explain the nature of the link. This study followed a rigorous process to establish the construct validity of the measure by employing CFA using SPSS statistical software packages. The findings of this study revealed that market orientation was significant predictor of banker's performance. This study, however, supported the premises of resource-based theory confirming the importance of market orientation for any successful bank branch managers. Therefore, it is strongly suggested that market orientation should be developed in prior to banker's performance.

Keywords: Banks, Market Orientation, Performance, Managers.

Introduction

Banking industry has become more market oriented. Banks are important for efficient funds transfers within the economy, and one of the most protected and generously subsidized sectors (Kolar, 2006) in Malaysia. According to Kotler (1994) banks involvement in marketing were as a conception of advertising and sales promotion rather than adopting marketing concepts and adopting marketing as a business philosophy. Baker (1993) found out that a clear lack of a marketing approach was evident at the level of organization-wide philosophy and on the functional level which encompasses planning and utilization of marketing tools. However, banks have faced numerous changes during past decades. One of the most important trends in general was deregulation of the banking sector which increased different risks and market competitiveness (Kolar, 2006). The rapid information technology development and increasing in non-banking competition has put pressure on the market efficiency of the banks, while customers become more active and empowered. Banks were forced to be more flexible, more innovative and more market oriented to respond efficiently to these trends (Kolar, 2006). Bank management theorists acknowledged this need and emphasized the development of the marketing function as one of the key areas in which successful banks will distinguish themselves in the future. Greenbaum and Thakor (1994), for instance, suggest that better market responsiveness and customizing offers to customer needs are increasingly important for success in the financial sector. Canals (1993), in analyzing competitive strategies of European banks, also emphasizes the importance of different market-driven strategies that should provide added value through segmentation, innovation, more efficient marketing practice or additional services.

Literature Review

The role of market orientation as a major source of achieving sustainable competitive advantage seems to be widely accepted since there are a large number of studies confirming that market orientation associates positively with various dimensions of firm performance (Dobni & Luffman, 2003; Homburg & Pflesser, 2000; Jaworski & Kohli, 1993; Matsuno & Mentzer, 2000; Pelham, 2000; Ruekert, 1992; Slater & Narver, 1994, 2000) including a meta-analysis providing a positive, significant, and robust link (Kirca, Jayachandran, & Bearden, 2005). However, another group of studies report no significant relationship (Deshpande, Farley, & Webster, 1993; Diamantopoulos & Hart, 1993; Greenley, Hooley, & Rudd, 2005; Han, Kim, & Srivastava, 1998; Pelham, 1997; Siguaw, Simpson, & Baker, 1998), or find mixed results (Greenley, 1995; Jaworski & Kohli, 1993), showing that perhaps the relationship is more complex than a directly linked linear one (Hult & Ketchen, 2001). Few studies have addressed the possible consequences on the effect of market orientation on the level of employees (Jaworski & Kohli, 1993; Ruekert, 1992; Lings, 2000; Piercy et al., 2001; Kennedy et al. 2002). Thus, market orientation as a critical organizational resource for an employee level success is very plausible and persuasive yet how to deploy this important intangible asset to obtain better firm rents has not been fully explored. Currently, banks have become increasingly market oriented and are pursuing proactive policies in the marketplace, bringing contemporary marketing tasks on to the bank agenda (Howcroft & Durkin, 2003). Therefore, market orientation and issues related to its conceptualization, measurement, implementation, antecedents and consequences, have become prominent topics in the banking sector (Slattery & Nellis, 2005; Lancaster & van der Velden, 2004; Nielsen et al., 2003; Papasolomou- Doukakis, 2002).

Hypotheses

Marketing literature has acknowledged the role of market orientation as a major source of achieving a sustainable competitive advantage (Castrol et al., 2005). Market orientation always been important and useful as an intangible factor which affects the firm performance (Homburg et al., 2003, Piercy et al., 2002). According to Blankson and Cheng (2005), the marketing concept holds that the key to organizational success is through the determination and satisfaction of the needs, wants and aspiration of target markets. Benito and Benito (2005) claimed that market orientation to improve performance independently of the cultural conversion of the organization marketing concept philosophy, at least at the operations and production functional area. Previous research has found that market orientation has significant effect on bank performance. (Jaworski & Kohli, 1990; Soehardi, Hart & Tagg, 2001). This indicates that bank managers should periodically review fundamental shifts in banking industry to contribute to bank performance. Research has underlined the importance of market orientation as an antecedent to improved organizational performance and profitability (Farrell et al., 2008; Gonzalez-Benito et al., 2009; Subramanian et al., 2009; Silva et al., 2009; Qu, 2009; Van Raaij & Stoelhorst, 2008), particularly in the financial services industry (e.g. Dwairi et al., 2007).

Methodology

The hypothesis was tested using questionnaire administered to a sample of 228 bank branch bank branch managers in Malaysia. The survey questionnaire in this study was developed to assess the relationship between market orientation and bankers' performance. Each item on market orientation constructs of the questionnaire survey requires participant to respond: 5 (strongly agree), 4 (agree), 3 (neutral), 2 (disagree), and 1 (strongly disagree), while on a construct of performance, participants is required to respond to the following; 5 (Extremely strong), 4 (strong), 3 (neutral), 2 (weak), and 1 (extremely weak) using a Likert scale of 1 to 5 There were three sections in the questionnaire. Section one consists of twenty seven (27) items questionnaire adapted from Kohli and Jaworski (1993) that measured the market orientation. Section two measured the individual performance of the branch managers with five (5) items questionnaire adapted Pearce and Porter (1986). Final section of the questionnaire consists of seven (7) questions representing a demographic profile querying participants about their gender, age, education, ethnic, position held in the bank, length of time in current position and length of time working in the bank. The collected data were analyzed using the SPSS software. Descriptive statistics were used to analyze the characteristics of the respondents, including frequency tables, means and measures of validity. Multivariate techniques employed for this study are correlation and multivariate regression analysis. Regression results demonstrate the significance of each independent variable and their associated effect on the dependent variable. Correlation analysis was performed to determine if there is a strong correlation among various variables.

Results

Means, standard deviations, and correlations are presented in Table 1. To test the reliability of the constructs, reliability analysis was conducted using SPSS. To assess the validity of the constructs, principle components (exploratory) factor analysis with VARIMAX rotation, also using SPSS, was conducted. Factor loadings were determined by forcing the items into a factor. Table 2 displays the reliability and factor analysis results. To test the reliability of the constructs, an analysis of the Cronbach was conducted. The reliability coefficients for this exploratory study ranged from 0.844 to 0.855, all within acceptable ranges described in the literature. Hair et al. (2010) stated that items loaded at 0.50 or better with their corresponding constructs, which is considered very significant. Thus, convergent validity was confirmed. The hypothesis stated that there is a significant relationship between market orientation and banker's performance. Table 3 displays the result of the hypothesis, the t-value is 6.006 at $p< 0.05$, based on this result obtained, the hypothesis is supported. It can be inferred that the more bank managers apply market orientation in the bank the greater the performance of banker's. The strength of the relationship is measured by ($\beta = 0.387$), meaning that market orientation is a crucial predictor of banker's performance.

Discussion

The study found that market orientation plays an important role in the branch managers performance. Top management behavior of top managers such as board of directors, chief executives, and top echelon executives have emerged as one of the most important factors in developing market orientation (Felton, 1959). Kohli and Jaworski (1990) noted factors such as risk aversion, upward mobility, education, and attitudes of top management toward change as inhibiting market orientation. Jaworski and Kohli (1993) cited top management behaviors such as low risk aversion and emphasis on and commitment to market orientation as related to higher levels of marketing orientation in organizations. Market orientation is also crucial for service firms. In order to be competitive, service firms must be market oriented in which market orientation has previously been linked to positive organizational performance. A bank which is market oriented is likely to improve its innovation capacity and performance. It is recommended that banks, wishing to improve their performance, work to implement a market-oriented culture within the bank. Employees should also be encouraged to develop customer focus, access the customer needs as well as use the information to provide better service quality. It is believed that the managers in banks could benefit from the findings by adopting a more systematized view of their market orientation and their future development. Knowledge from this study can provide managers with an enhanced ability to design their services much more efficiently and make decisions regarding alternatives and priorities. The ability of the organizations to understand and respond to customers needs' is important factors for quality successes (Blanchard & Galloway, 1994).

Limitations and implications for future research

This research has established an important discovery on the relationship market orientation and banker's performance of the banks in Malaysia. However, there are some limitations of the research that may have implications for the future research. Firstly, this study employed cross sectional sample of banker's in Malaysia which might haves some lagged effect relationships. Future research should involve collecting data on a longitudinal basis in order to draw causal inferences. Second, the study relies on self reported by the branch manager of the banks. Data tend to be more positive and may not always be completely truthful. Future studies should investigate the implementation of market orientation within banks in an attempt to be more directly measure the effect of those being implemented. Third, the study measure unidimension in defining market orientation. Future research should measure each dimension of the variables to provide further insight.

Conclusions

The study was conducted to test the effect of market orientation and banker's performance in Malaysia. The hypothesis about relationships of its antecedents (market orientation) and its consequences (banker's performance) was supported. The finding of this study provide support that bank branch managers in Malaysia are endow with market orientation in managing the branch to sustain competitive advantage and improve their performance. This proves that marketing skills and culture could improve performance. These findings may contribute to the management of banks to encourage the understanding and implementation of market orientation among bank branch managers. In the pursuit of competitive advantage, investments of time and money in marketing skills should be considerate in relation to the bank branch manager resources. This will help the banking industry to survive in the competitive market environment and the change of bank customer's service demand.

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