The Market Orientation and Its Influence on Firms´ Competitiveness

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Abstract: - The banking sector is marked through deep structural changes as the result of the economic changes. On this ground the research of this market orientation is taken in consideration and conducted. It is an actual survey based on quality review of literature and empirical investigation with using of questionnaire. The aim of this paper is to compare market orientation of Swiss and Czech companies in banking sector and to examine statistically the degree of influence it has on competitiveness of these institutions. These objectives were fulfilled in the work.

The method to achieve the goal is quantification of market orientation by constructing its indices, based on “industry-standard”, existing scales. The data obtained this way are compared with appropriate competitiveness measures.

The paper presents findings and their interpretation. Statistical analysis led to the conclusion that Czech banks are statistically less market-oriented than Swiss banks. This work provides a basic framework for evaluation of effectiveness of the classical approaches in measuring market orientation, when applied to a banking sector. The results may serve as a new proof for existence of a relationship between market orientation and their competitiveness on mature markets.

Key-Words: - Market Orientation, Customer, Interfunctional Coordination, Competitiveness, Marketing, Banking Sector, Measurement, International Comparison

1 Introduction
Motivation to pursue this particular field of interest is the lack of sufficient research in empirical work concerning market orientation of banks. The primary goal of this paper is to examine empirically the present relationship between market orientation of banks and their financial competitiveness. The results may serve as a proof for existence of a relationship between market orientation of banks and their competitiveness on mature markets.

Hopefully this work will serve the long term goal of providing management with tools enhancing market orientation and in consequence their economic performance.

2 Market Orientation in Theory
Practical, yet somewhat abstract concept of market orientation has been troublesome to define and many approaches exist in the literature. However, they share some common elements, such as “the state of orientation” at clients, competitors and interfunctional coordination, as well as long-term survival of the company, all of which have profit maximizing in the background. Hence, as Leyland/Pitt summarized aptly, market orientation is often perceived as a management philosophy that recognizes that the customer should be the focal point of all activity in the organization [8]. It is also widely argued, that market orientation is an implementation of a marketing concept. It may be also purposeful to recall the first studies on market orientation - conducted in USA by Kohli [8]. These researches, who are probably still most acclaimed in this field, defined market orientation as “The organization-wide generation of market intelligence, dissemination of the intelligence across departments and organization-wide responsiveness to it.” Further, Narver and Slater, other landmark academics of this field, described market orientation as follows: “Market orientation contains three elements of behaviour – customer orientation, orientation on competition and interfunctional
coordination (and two decision criteria – long-term orientation and profitability).” [11] Out of a broad range of definitions, the one of Tomášková was found to be the simplest, most intuitive and effective [14]. She presents market orientation as an approach in managing, which enables decision makers to have more focus on three characteristic fields of factors, which stimulate competitiveness and generally profitability of companies. This way, market orientation proves to be rather a method of providing managers with tools to assess fields of strategy vital to the success of a company, than an abstract theoretical concept. Such a definition seems to sensibly and accurately address the very core of market orientation. When it comes to measuring market orientation, out of a broad range of instruments proposed in the literature, most stem from the milestone Narver/Slater 7- dimensional Scale, called “Market Orientation Scale” (MKTOR) or Kohli/Jaworski “Measure of Market Orientation” (MARKOR). These measures were widely used to investigate the relationship between the market orientation and competitiveness of companies (Narver/Slater, Deshpandé, Farley and Webster, Jaworski/Kohli). These authors are often cited as founders of conceptualization of measurement instruments eligible for quantifying market orientation construct. Both concepts were based on series of questions directed to firms, which addressed different aspects of market orientation of companies, answers of which were later accordingly summed/averaged. These methods were broadly copied and reshaped in order to meet new needs. Finally, other notable methods which are worth mentioning are Deshpandé/Farley (MORTN model) and Hajjat (CUSTOR model), both of which were strongly concentrated on customers [4]. It is also necessary to point out that the concept of market orientation has been also applied to banks with high degree of success. For example, research by Kock revealed differences in the antecedents of market orientation among banks in Sweden, Denmark, Finland and Norway [7]. More recently, Agti has measured market orientation of commercial banks in Jordan [1].

3 Firms’ Competitiveness

Competitiveness theory is a very broad, interdisciplinary area of research and every researcher (or school of research) pays particular attention to different aspects, which implies existence of numerous competitiveness definitions. If we were to build the simplest definition, one could say that competitiveness is an advantage of a company over its competitors. This trivial observation can be found in most, if not all, definitions. For example, Mikoláš defines competitiveness as the difference between the real economic profit of the firm and its potential in comparison to its competition. According to another Czech researcher straightforward, yet effective definition, competitiveness is firms’ ability to achieve market success, while selling and acting in a competitive environment. [2]

According to Michael Porter analysis of market orientation represents the crucial element of a successful business and usage of this methodology can lead to gain a comparative advantage to market competitors. Rivera et al. has defined market orientation as a strategy used to reach a sustainable competitiveness [13]. Previous and current empirical studies in the scope of the market orientation present different degrees of the dependence between market orientation of companies and their success/performance. For example, the influence of market orientation on new product success was confirmed by Tong/Wong [15]. According to Chalupský et al., market orientation has positive influence on maintain and increase market share [6]. Hence, the relationship between new product development and market share has been confirmed by many studies. To present a counter example, empiric research by Greenley led him to the conclusion of lack of direct relationships between market orientation and measures of corporate performance [5].

Very little research has been conducted on market orientation measures and their influence on competitiveness in the case of banks. No research was found, which would take into consideration both Swiss and Czech banks. As already argued by Bhuian, it is also noteworthy that very little empirical investigation of market orientation-performance linkage in the developing country context has been conducted [3]. Based on above arguments, hopefully this scope of interest will be especially purposeful and beneficial to marketing science.

The literature reveals diverse methods that are used to approximate or measure competitiveness. Zairi considers benchmarking as “the best tool for measuring competitiveness” [16]. Blažek shows two categories of such methods: financial (hard) and non-financial (soft). Some of the popular methods are: P/E, EFQM, Altman Z-Score, Competitive position, Market share, Kralicek Quick test, model PERMANENT, Balanced Scorecard or 5-force Porter model. For the purpose of this study,
financial indicators will be used to keep the study practice - and performance – oriented [10].

4 Measurement Methodology
The banks were divided into three size groups: small, medium-sized and large. A total of 240 individual observations (137 Swiss and 103 Czech) were collected. After elimination of institutions where respondent answered less than 80% of questions, 92 answers from 17 Swiss institutions and 74 Czech from 13 banks were available for further analysis.

Two types of data were gathered: Likert-type market orientation measures and competitiveness measures. The first type of information was gathered directly from firms’ employees who were asked to fill in a questionnaire consisting of questions on three respective fields composing market orientation of a company: 12 concerning internal factors, 10 external factors and 11 its competitive environment. Questions were based on well-established core repertoire of questions used by previous researches. The answers were expressed in 5 stage Likert scale. Second type of data was gathered from firms’ financial statements. There are: total assets book value, ROAE, ROAA, book value of equity, yearly profit and cost-income ratio. In order to inquire the relationship between competitiveness and market orientation measures, a series of regressions using Ordinary Least Squares method was run.

5 Conclusion
The examination of market orientation and competitiveness of Swiss and Czech banks leads to interesting observations. Probably the most important result is the strong resistance to changes in statistical approaches relation between market orientation measures and equity/total assets ratio in Switzerland. Simple statistical analysis revealed existence of two different clusters, with market orientation behaving differently in each of them. The existence of two groups of huge corporate banks and private/cantonal banks is no surprise. This division of the market is observable even from a customer perspective. However, the behaviour of market orientation measures in both groups is most interesting. In a sector of medium-sized and small banks, which do not specialize in transnational activity, only a weak significant relationship exists between market orientation measures and market share based competitiveness measures. This may suggest that market in this sector is weakly saturated and competition is far from intense.

As regression of both data clusters produces very good results, it suggests strong relationship between market orientation and market share based on competitiveness among the tree top banks. The expected strong relation among big banks has been verified. As only three international corporate banks are active in Switzerland, recommendation of broader research in broader international field seems to be plausible.

Results seem slightly different for Czech banks. In general, Czech banks are significantly less market oriented than the Swiss. Ones moreover, no strong statistical relationship has been found between their market orientation and competitiveness.

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