THE IMPACT OF MARKET ORIENTATION ON ORGANIZATIONAL PERFORMANCE: EMPIRICAL EVIDENCE FROM BANKING SECTOR OF PAKISTAN

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Abstract. *The free market economy demands that organizations should be competitive. Achieving competitive advantage organization needs to adapt to the new environment and technological changes and also focus on strategies according to the market needs and wants. A dynamic organization should consider strategic orientation for achieving organizational goals. Therefore, the purpose of this study is to investigate the link between market orientation and organization performance in the banking sector of Pakistan. Total sample size consists of 200 branches of Commercial Banks of Pakistan located in Khyber Pakhtunkhwa province, was analyzed after collecting 171 questionnaires from the respondents. One questionnaire per branch from regional, senior and branch Manager is collected. Simple descriptive statistics, Pearson correlation coefficient, and regression efficient have been employed for the analysis. The results indicate that, association between market orientation and performance of the commercial banks of Pakistan is positive correlated and statistically significant. The Limitation is that convenience sampling is used for the selection of the sample; therefore future researchers may use randomized sampling techniques to have wider generalizability.*

Keywords: Market orientation, performance, commercial banks, Khyber Pakhtunkhwa, Pakistan.

Introduction

Financial system plays a vital role in the economic development of every country. A strong financial system improves performance of investment sector, saving sector, and financial intermediaries because through this organizations can manage their financial risk and mobilize their savings (Alesina & Perotti, 1996; Greenwood & Smith, 1997; Levine & Zervos, 1996). A sound financial system is important for the economic growth of a country. Financial Intermediaries consist of different institutions (Financial and Non-Financial). The banking sector is one of the important sectors in them. The economic growth of a country can be gauged from the development of the financial intermediaries; it means a well-developed financial system is the backbone of the economy of a country. Public deposits can be invested in good projects only if there exists a well-established commercial banking sector in a country. Banks are playing their role in using the deposited money into profitable investments (Podder & Al Mamun, 2004). In fact, banking sector and stock market of a country play their role in the investment sector, which bring economic prosperity and also develop financial market (Billmeier & Massa, 2009). The GDP rate was very good in 2002 and but later on it decreased in 2006 from 9 percent to 2.58 percent. But once again from 2011 onward the GDP growth rate was increased from 3.62 to 4.24 percent respectively (Source: Pakistan Bureau of Statistics). Service sector was also contributed very well in 2002 but later on its performance was weakened till 2011, but after that it again contributed in the economy of Pakistan from 3.94 percent in 2011 to 4.95 percent in 2015.Financial and insurance activities employed 0.48 percent in 2012-13 and 0.47 percent of labor in 2013-14[1].

Commercial banks of Pakistan showed good performance from 2010 to 2014 in the form of deposits (From Rs.5.4 trillion to Rs.9.4 trillion), but on the other side, the growth rate of profitability remained very low. Profit after taxation from 2006 to 2008 of commercial banks decreased from Rs.78.3 billion to Rs.43.4 billion. However, later on it increased to Rs.115.6 billion in 2011. The main factor of this increase in profitability was the economic stability, and also macroeconomic variables were under well controlled. But before 2011 the economy was not good because of many factors like high inflation rate decline in GDP rate and also the currency depreciation. Due to these factors, profitability of commercial banks dramatically decreased from Rs.121 billion to Rs.67 billion in 2009.The number of employees in the

[1] Pakistan Statistical Year Book Labor Forces Survey, 50 Years of Pakistan in Statistics Vol 2 & Vol4,**).**

banking sector was 149,432 in 2008, but later on, it reduced to140, 181 in 2010[2]. Main reasons were reported as poor human resource management, weak regulatory governance, internal factors, and corruption.

The financial system of Pakistan is developing with the passage of time. Commercial banks of Pakistan are, trying their best, to improve the existing status of the Pakistani economy. It can be judged through the performance of the different institutions i.e. saving institutions, investment banks, banking sector as well as the Non-financial sector of the Pakistan. In Pakistan, State Bank of Pakistan is the regulatory Institute which oversees the overall performance of the banking sector (State Bank of Pakistan, 2009). Financial system of the country has improved after 1997 when the banking regulation was relaxed and aligned with international standards. Commercial banks of Pakistan are the back bone of the Pakistani economy, and it's also a source of employment generation for the educated youngsters. Privatization of banks, mergers and acquisitions of some banks changed the ownership structure of the banks. This was a good stage for the banking sector of Pakistan because the investor likes sound and strong national quality standards which can safeguard their investment. Investors seek good profitability and a good performance of the banking sector which can be assured by the strong financial system in a country (Ataullah, Cockerill, & Le, 2004; Burki & Niazi, 2006).

Different researchers study different determinants of profitability in different studies. Mainly they used two banking characteristics which are Internal (operating efficiency, liquidity, and credit risk) and external factors (Inflation rate, GDP growth rate, political stability, market capitalization) and they have found that these two factors have a strong association with the bank's profitability which lead further to the economic development of a country (Ali, Akhtar, & Ahmed, 2011; Ani, Ugwunta, Ezeudu, & Ugwuanyi, 2012). It has been concluded by researchers (Anbar & Alper, 2011; Eljelly, 2013; Syafri, 2012) that internal factors (cost, liquidity, and size of the banks) and external factors (real Interest rate) are contributing in earning a good profit for the bank's owners. Besides these, market orientation is also one of the internal determents that affects banks performance. However, the literature on the direct relationship between the market orientation and profitability of the banking sector is scarce. Therefore, this study is contributing in the form of

[2] State Bank Publication about the Scheduled banks.

investigating the impact of MO on organizational (Banking) performance by using subjective measures for checking the financial performance (profitability of the banks). This researcher paper is just focusing on this gape in the previous work to investigate that whether banks can also use marketing orientations as an internal factor for improving the profitability or not in Pakistan. Different authors in developed and developing countries have researched the relationship between MO and performance but are mostly in manufacturing sector with least attention to the service sector**.**

The banking sector is a special financial intermediary because of its different functions i.e. (lending and borrowing, clearinghouse and processing of information and financial knowledge for the needy parties) and its unique role in the economic growth of a country (Bossone, 2001). Furthermore, it is said that banks give social benefits to both the parties involved in the lending and borrowing process because of the economies of scale and information services to both the parties. Banks can well diversify the portfolios and can reduce the delegation cost. But due to evolution in the finance sector in the 21st century, because of higher market competition, technological advancement, and national governance quality, eroded the commercial bank's comparative advantage and now they are replaced by non-banking financial institutions which are performing very well. But still, banks are the key financial intermediary, in the sense that they create money while the non-bank financial intermediaries cannot replace them. Banks are using new technological infrastructure and also focusing on trust to satisfy and attract their customers. Furthermore, banks also promise its customers that in the case of default the bank will help them by liquidating their assets. Banks also perform the role of clearinghouse with other banks, portfolio diversification management (issuance of deposits and purchasing of securities) as well as managing the payment system of the customers (Bossone, 2001; Fama, 1980; Kareken, 1985). According to Franklin and Elena (2008) banks can perform a variety of functions, efficiently investing the depositor's money, managing their risk and improve the economy of a country which ultimately leads to the overall betterment of the financial system. Research on Banks in Pakistan is a new area because most of the banks are privatized, and they are working day and night to achieve their goals. Most of the managers are now fresh graduate, and they are aware of the new system, but in some branches still the senior managers are working who are not that much informative about the new technological advancement. Banking sector of Pakistan is one of the contributors to the country's GDP. That is why the government of Pakistan is serious in the privatization of banks, and majority of the banks are being privatized. It is really a challenging job to be successful at a stage when traditional and informal management procedures are being implemented. Multinationals banks are also working in Pakistan because they know that Pakistani market is on the base of an open market competitive policy of trade and employment (Khakwani & Case, 2012).

A company success is dependent on the market orientation because through this, a company can gain competitive advantage and can position its products easily (Ahmad, Pirzada, & Khan, 2013; Davis, 1960; Narver & Slater, 1990). A business that wants to improve its performance it has to adopt market orientation. Market orientation is the core area of strategic management and marketing management. The importance of this topic can be judged from the previous literature in the form of textbooks, research papers and conferences for the last so many years (Narver & Slater, 1990).With the advancement of new technology and free social media, the nature of a business has total changed. Every organization wants to compete with its competitors in the local market as well as abroad. Service sector has been performing its contribution in the economic growth and development. This sector along with the manufacturing sector play their vital role in the economic development of a country (Awang, Ishak, Mohd Radzi, & Taha, 2008). According to Houston (Houston, 1986) marketing mix should be developed according to the situation, which can only be possible if one is willing to identify and understand their customers' needs and wants. This research is focusing on the relationship between Market Orientation and organization success in the service sector, and the banking sector has been selected as the subject of the study.

Market orientation and organizational performance relationship have been studies in many countries of the world and the result shows a significant positive relationship (Hinson & Mahmoud, 2011; Jyoti & Sharma, 2012; Kohli & Jaworski, 1990; Narver & Slater, 1990; Zhou, Li, Zhou, & Su, 2008). However, some of the researchers found no significant positive impact between these two variables (Greenley, Hooley, & Rudd, 2005; Pelham, 1997). A lot of research has been carried out between different strategic orientations in the small and medium size enterprises, especially on manufacturing firms. From the study of the extant literature it has been concluded that researchers have varying points of view. Therefore, there is a need of further this relationship in the banking sector in emerging market where few studies have been conducted. Strategy formulation and its implementation are the core areas of strategic management process. Researchers give emphasis on the implementation of market orientation along with the formulation of the strategies. Therefore, implementation of market orientation in the developing countries enhancing the performance of the business (Jabeen, et al., 2013).This study is based on the future call of different researchers who emphasis on further research on the impact of market orientation on organizational performance in emerging and developing countries like Asia and Africa (Mokhtar, Yusoff, & Arshad, 2009; Suliyanto & Rahab, 2012).

Every organization wants to enhance its performance through internal capabilities, but in Pakistan, the situation is different from other countries, and less attention is given to this approach (Ahmad, et al., 2013; Mustafa & Khan, 2005). In Pakistan, the researchers have been interested in large companies and especially in the manufacturing sector, and there is a gap for working in the service industry (Yasmin, 2008). In Pakistani context, researchers can improve the existing status of knowledge through research because there is always a chance for improvement of the businesses and the economy (Jasra, Hunjra, Rehman, Azam, & Khan, 2012). The main objective of this study is to find effect of market orientation on organizational performance. On the basis of the above discussions we are trying to find the answers to the following questions:

(a) Does competitor orientation have a positive effect on organizational performance?
(b) Does Customer orientation have a positive effect on organizational performance?
(c) Does Inter-functional Coordination have a positive effect on organizational performance?

Literature Review

The basic history of market orientation gets started after the first study in this field by Kohli and Jaworski (1990), and it was a mile stone for the 21st-century researchers to take further this topic for application in an organization. Marketing concepts start from the identification of customer needs and then, fulfilling those needs of the consumers. Market orientation is a mean or tool to satisfy those needs which are identified at the right time for the right customers (Amalia, Ionu, & Cristian, 2008). Narver and Slater (1990) define market orientation as “the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business.” Later on, the same authors in 1995 mentioned that market orientation mean a culture formation and molding of the behavior of the employees of an organization. Further, they explained that main goal of a firm should be the creation of a superior customer values and also the sustainability of those values by which customers are satisfied. The researchers consider Narver and Slater (1990) the pioneer researchers in this area who contributed a lot in the area of strategic orientation. For them, MO has three dimensions, i.e. customer orientation; competitor orientation; and inter-functional coordination.

A corporate culture should be based on the customers' needs and wants. An organization has to give respect and superior value to their customers irrespective of current customers or potential customers as well as to use the collected information about their customers in developing the marketing mix (Deshpande & Webster Jr, 1989; Hilman & Kaliappen, 2014). It means the organization should be a keen observer in studding the behavior of their current and potential buyers (Narver & Slater, 1990). Therefore knowing the customer's behavior and giving a good quality product and service to the customers is the main focus of the organizations (Suleiman Awwad & Agti, 2011).

Those firms that are committed to considering the strategies of their rivals and to gain the competitive advantage, they have to constantly monitor and evaluate the competitor tactics before launching new products or rendering services (Olson, Slater, & Hult, 2005; Pérez-López, Peón, & Ordás, 2005). Competitor orientation is the second dimension of market orientation that affects the performance of the organization. It means that organizations have to know their strengths and weaknesses in short run and also to focus on the capabilities and strategies in long run of their competitors/rivals (Bing & Zhengping, 2011; Grawe, Chen, & Daugherty, 2009; Narver & Slater, 1990; Awwad & Agti, 2011; Zhou, et al., 2008). According to Narver and Slater (1990), competitor's orientation helps the organization in the identification of strengths and weakness, as well as behaviors of their competitors. Further, it could also help them to find out as to how their competitors respond to different strategies by which they are attracting and targeting their customers. Therefore, it could be conclude that it's one of the strongest dimensions of market orientation and by this mean, an organization can innovate its products and can secure a sustainable position in the market by considering the scanned information about their competitor (Dawes, 2000; Grinstein, 2008). An organization should try to take rapid and informed decision otherwise the competitor can attract their existing as well as a potential customer because of delay in policy making and implementation.

The third dimension of market orientation is focusing on the coordination, dissemination, and sharing of the information, among the different units/departments of the organization. These all areas, units, and departments are trying their level best to serve the customers and to give them superior value (Awwad & Agti, 2011). Human capital is one of the important resources of the organization such like finance which is the back bone. As customers are the kings, but also no one can deny that employees being the important pillars of the organization, because the profitability and customer satisfaction depend on the performance and satisfaction of the employees (Chen & Quester, 2006; Reynolds & Beatty, 1999). If employees are satisfied, especially in the service industry, because they are mostly directly in contact with the customers, then they will be committed to achieving the goals of the company effectively and efficiently (Reynolds & Beatty, 1999). Banking is also service industry, and usually, customers prefer those banks in wherein they find well-behave staff and who cooperate with them. Therefore, employee's satisfaction is important, otherwise dissatisfied employees can badly affect the performance of the banks.

This study used organizational performance as a dependent variable. It's the comparison between two values, one is related with the firm side, which they create and another one is the value which is received by the customers in return for payment (Alchian & Demsetz, 1972). Different researchers have different opinions regarding the measurement instruments. Therefore, most of them used different tools for the evaluation of the firms either through the financial or non-financial measure. A unanimous measure could not be used for measuring the performance of the organization (Bing & Zhengping, 2011). In this study, the researchers used the study of Kirca, Jayachandran and Bearden (2005) who used different measures for the performance measurement. These are mentioned here for detail, firs one is used customer satisfaction, innovations and employee's satisfaction. These are non-financial measures which can also be used in this paper. But other researchers have also checked the relationship between financial measure and firm performance. We can conclude that researchers can use either financial indicator, non-financial indicator or both of them in combination for measuring and evaluating the organizational performance. Currently, many researchers used objective indicators such as ROI, ROE, return on sales (ROS), as well as others i.e. market share, and net profit (Awang, et al., 2008).

Conceptual Framework

Market orientation and organizational performance relationship have been studies in many countries of the world and the result shows a significant positive relationship (Hinson & Mahmoud, 2011; Jyoti & Sharma, 2012; Kohli & Jaworski, 1990; Narver & Slater, 1990; Zhou, Li, Zhou, & Su, 2008). So, market orientation has positive effect on organizational performance. On the basis of above in-depth literature review, following conceptual framework have been developed.

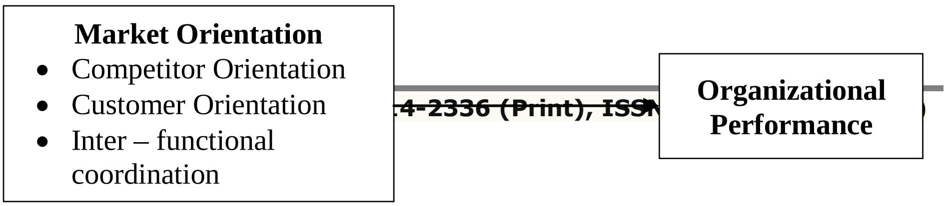

Figure 1 Conceptual Framework

Hypotheses

Hypothesis 1: Competitor orientation is positively associated with organizational performance.

Hypothesis 2: Customer orientation is positively associated with organizational performance.

Hypothesis 3: Inter-functional coordination orientations are positively associated with organizational performance.

Research Methods

For the present study, population of the study is commercial banks in Pakistan. In this study, only commercial banks are considered because commercial banks are more professionals and taking too much interest in the economy of the country. So, the roles of commercial banks are more vital that's why in this study only commercial banks have been focused. While sample consists of commercial banks in Khyber Pakhtunkhwa, Pakistan. In this studyconvenience sampling technique is used to collect the data. The sample size of the study is 200 which has been taken through the use of online sampling calculator. These calculators are specifically designed to calculate sampling size scientifically. Ten commercial banks from the State Bank of Pakistan have been selected on the on the basis of market capitalization. The survey was conducted between March and June 2017 in Pakistan. The questionnaire has been modified according to the banking sector. The managers were contacted through the third party. The senior, branch managers and regional level managers are the chosen respondents in the study. The questionnaire was sent to the branch, senior and regional managers of the selected banks. The instrument for the paper data collection was decided after doing a literature survey in this field. The researcher adapted (Narver & Slater, 1990) questionnaire with some changes in few questions for the purpose to cover the service sector and for capturing the point of view of managers regarding the three aspects of the market orientation. Total 15 items cover the market orientation which is further divided into three dimensions of competitor orientation having 04 items, customer orientation having 06 items and inter-functional coordination consist of 05 items; whereas organizational performance has 16 items. The organizational performance is subdivided into customer satisfaction having 05 items, innovation having 03 items, service quality has 04 items, and the most important dimension of organization, employee satisfaction having 04 items are considered in the data collection. Furthermore, the scales used for organizational performance are adapted from Homburg and Rudolph (2001) for customer satisfaction from Athanassopoulos, Gounaris, and Stathakopoulos (2001) for innovation and quality from Caruana (2002). The remaining scales used are from Weiss (1967) for employee's satisfaction. Five-point Likert scale has been employed with 1 = strongly disagree to 5 = strongly agree. It means that if this value is higher than the market orientation will be higher. The collected questionnaires which finally used in the analysis were171, showing a response rate of 85.5 percent. SPSS 21 has been used for the analysis, and the reliability and validity are checked for further analysis which shows a satisfactory result. Simple regression and correlation (Pearson) are used for analysis which is based on the assumptions of the basic regression. All the correlation coefficients were statistically significant at 0.05 significance level. Therefore, the conclusion can be drawn that there is a positive relationship between market orientation and banks performance. These results are in line with the previous studies in other sectors. Therefore, the research could conclude that market orientation is positively associated with firm performance. However, there are some variables which are not considered in this study, for example, a size of the banks, country of origins, the level of experience of the managers and the location of the bank branches. Therefore, these factors can be considered in future research.

Econometric Model

In this study, simple regression model has been used. The econometric model of this study is mentioned below.

$$Y = \alpha + \beta(x)$$

Results

Table 1 summarizes analysis about the market orientation and the banking sector performance. To check the reliability of data, Cronbach's Alpha test is applied. Table 1 shows that the reliability estimates, which are within the acceptable level which means that the data are reliable for further statistical examination.

Table 1: *Means, Standard Deviations, Correlations, and Reliabilities (N=171)*

	Mean	**S.D**	**Comp. Orient**	**Cust. Orient**	**Int-func Coord.**	**Perform**
Competitor Orientation	4.13	0.542	(0.634)			
Customer Orientation	4.05	0.473	0.699**	(0.616)		
Inter-functional Coordination	4.01	0.674	0.583**	0.643**	(0.816)	
Performance	4.03	0.587	**0.839****	**0.694****	**0.755****	(0.919)

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

Furthermore, the descriptive statistics and correlation matrix show that the mean values of market orientation i.e. Competitor orientation (Comp Orient), Customer orientation (Cust. Orient) and Inter- Functional Coordination is slightly higher than the neutral value of the scale (3 on 5 points Likert scale), suggesting that the independent variables are affecting the organizational performance. As reported, standard deviation values are also a good one, and near to zero value, it suggests that most of the respondents have uniformity in their opinions. Therefore, on the basis of these results one can generalize the findings. Furthermore, market orientation dimensions are all statistically significantly correlated with the dependent variable, which indicates that that MO dimensions are interacting with the performance. Correlation coefficients values between performance and Competitor orientation is (0.839), Customer orientation is (0.694), and Inter- Functional Coordination is (0.755).All these values are positive and statistically significant which support all hypothesis of this study.

Table 2: *Regression between Market Orientation and Performance (N= 171)*

Model	**R^2**	**Adjstd. R^2**	**β**	**T**	**Sig.**
Customer Orientation	0.703	0.703	0.839	20.011	.000
Competitor Orientation	0.482	0.482	0.694	12.537	.000
Inter-functional Coordination	0.570	0.570	0.755	14.957	.000

Dependent Variable: Performance

Regression analysis is used for further investigation to check the influence of MO on banking performance. Table 2 is about the regression analysis, the value of R^2 shows the effect of customer, competitor and inter-functional coordination on the dependent variable i.e. performance. The values of R^2 are 0.703, 0.482 and 0.570it means these dimensions of MO have a significantly positive effect on firm performance. On the other side, no change was found in the values of R^2 which can be seen in the above table that both values are the same (R^2 and Adjusted R^2). The standard coefficients values are (β=0.839; p-values=.000) and the t-statistics (20.011) for customer orientation, (β=.694; p-values=.000) and t-statistics (12.537) for competitor orientation and (β=.755; p-values=.000) and t-statistics value (14.957) for inter-functional coordination is statistically positive at 95% level of significance. Therefore, the empirical data support all the hypotheses which mean that market orientation is influencing performance of the selected banks in Khyber Pakhtunkhwa.

Conclusion and Discussion

This study focused on the market orientation and its impact on the performance of the commercial banks of Pakistan. This study has checked and investigated the relationship between MO and banking sector performance. The purpose was to find out if managers are practicing market orientation concept when they are developing their policies or not. Non-Probability sampling (Convenient) is used for data collection purpose, and total 171 completed questionnaires have been used for the analysis. The results reveal that market orientation has a positive and significant effect on the performance of the commercial banks of Pakistan. Every dimension of the MO has a positive impact on the bank performance, which shows that all three dimensions of the MO are very important for the bank's managers to improve the performance of their businesses. The results are also in concord with the previous studies which give credence to the findings of the current study.

The results of the current study are in line with the previous studies (Akman & Yilmaz, 2008; Amirkhani & Fard, 2009; Aziz & Yassin, 2010; Long, 2013; Wang, Chen, & Chen, 2012). Bottom-line is that banking sector are using MO strategy in their operations, which reflect their concerns of understanding their customers, focus on competitors' policies; and that they collect information and then disseminate the same with the other concerns departments. Also, the organizations have to focus on the coordination and trust building among the employees so that organization can achieve their goals effectively.

Implications of the Study

The results also reveal that commercial banks in Pakistan are implementing marketing concepts in their operations. These banks managers are aware of the importance of the marketing field in the banking sector. Therefore, these managers are more concerned about the employee's satisfaction, which are the main source for creating customer satisfaction, innovations and good quality products for the customer. Most of the banking staff is fresh graduate who are aware of the importance of the customers' needs and wants, and also know how to effectively handle them. Therefore, they are more market oriented and give importance to the market orientation in their banks.

The results of this study have implications for policy makers. These results provide fruitful information regarding the different dimensions of market orientations along with organizational performance. Every manager can take help from these different MO dimensions and can focus on the service qualities and satisfaction of their customers and employees. These managers can easily understand how to improve their performance through innovations in their products and their market share in the industry. With this, it can be concluded that either market orientation is affecting the performance on both measures (financial and non-financial) or any one of them.

Limitation and Future Directions

The study is not without limitations like all other social science research, like convenient sampling which has very restricted generalizability, small sample size, and individual perception of the respondents. Besides, the study used only one scale for measuring the relationship between MO and performance, however, different scales at the same time can be employed. Furthermore, this study only deals with the subjective part of the firm performance; therefore future researchers can take the financial part of the firm performance or both of them. These limitations can be addressed in future. This study considers only market orientation as an effective strategic orientation to influence the performance of commercial banks in Pakistan; therefore other researchers can also use more than one strategic orientation and can take other scheduled banks for future study.

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