



Faculty of Economics and Business

**MARKET ORIENTATION AND ORGANIZATIONAL
PERFORMANCE: THE IMPACT OF LEADER-MEMBER
EXCHANGE**

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**MARKET ORIENTATION AND ORGANIZATIONAL PERFORMANCE:
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Statement of Originality

The work described in this Final Year Project, entitled
**“Market Orientation and Organizational Performance:
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is to the best of the author’s knowledge that of the author except
where due reference is made.

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ABSTRACT

MARKET ORIENTATION AND ORGANIZATIONAL PERFORMANCE: THE IMPACT OF LEADER-MEMBER EXCHANGE

By

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Previous studies have found that market orientation is significantly related to economic performance or financial performance. This study attempts to provide an insight to how market orientation is significantly related to judgmental performance or non-financial performance in the financial services industry in Malaysia. The relationship between leader and members is examined so as to determine whether this relationship will moderate the relationship between market orientation and organizational performance in an organization. Superior-LMX is developed in this study. The finding shows that superior's emotional support and guidance directly impact subordinates' work performance and it do not moderate relationship between market-orientation and organizational performance in an organization. Based on the result, managers in financial services industry should focus on their market orientation and develop a good leader-member exchange in order to improve the organizational performance.

ABSTRAK

ORIENTASI PASARAN DAN PRESTASI ORGANISASI: KESAN PENGARUH HUBUNGAN ANTARA KETUA DAN ANLI BAWAHAN

Oleh

Bong Sheue Ehyi

Kajian sebelum ini telah mengkaji dan mendapati bahawa orientasi pasaran berkaitan rapat dengan prestasi ekonomi atau prestasi kewangan. Kajian ini ingin melengkapkan satu pemahaman bagaimana orientasi pasaran secara signifikan berkaitan rapat dengan prestasi bukan kewangan dalam industri perkhidmatan kewangan di Malaysia. Hubungan antara ketua dan ahli-ahli bawahan diperiksa untuk mengenalpasti hubungan ini akan menyederhanakan hubungan antara orientasi pasaran dan prestasi organisasi dalam sebuah organisasi. Superior-LMX dibangunkan dan dihasilkan dalam kajian ini. Hasil kajian menunjukkan bahawa sokongan emosional dan bimbingan daripada ketua secara langsung memberi kesan pada prestasi kerja ahli-ahli bawahan. Malahan ia tidak memberi kesan moderat antara orientasi pasaran dan prestasi organisasi dalam sebuah organisasi. Berdasarkan hasil kajian ini, pengurus dalam industri perkhidmatan kewangan harus memberi tumpuan pada orientasi pasaran dan menjalinkan hubungan baik antara ketua dan ahli-ahli bawahan supaya mencapaikan dan meningkatkan prestasi organisasi.

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CHAPTER ONE

INTRODUCTION

1.1 Background

Marketing is described as managerial function which is responsible for identifying, anticipating and satisfying customers' wants and needs by the Chartered Institute of Marketing and most British academic marketers (Henderson, 1998). Marketing is the process of creating value and building strong relationship with customers in order to capture value from the customers in return (Kotler, Armstrong, Hamid, Baharun, & Shamsuddin, 2008). Even though there is growing interest, there is insufficient discussion about the issue concerning the successful implementation of marketing concept. The term "market orientation" was used to implement marketing concept in the literature (Kohli & Jaworski, 1990; Narver & Slater, 1990; Shapiro, 1988). Market orientation is an organizational capability which provides organizations a competitive advantage by enabling the organization to understand and respond to market requirements (Day, 1994b; Hult & Ketchen, 2001).

The role of market orientation has been acknowledged as a major source to achieve a sustainable competitive advantage in the marketing literature (Castro, Armario, & Rio, 2005). Narver, Slater and MacLanchlan (2000) stated that competitive advantage enables the organization to produce value for customers that is rare and difficult to imitate. Deshpande and Webster (1989) indicated that the idea of market orientation is

first linked to the organizational culture literature. Therefore, market orientation is viewed as an organization culture that produces behavior to create value for customers (Narver & Slater, 1990) and also viewed as behavioral process through organizational activities (Kohli & Jaworski, 1990).

The effect of market orientation in wide range of phenomena in organizations is well documented in the marketing literature (Kirca, Jayachandran, & Bearden, 2005). In particular, researches were carried out to measure an organization's market orientation (Kohli & Jaworski, 1990; Narver & Slater, 1990), to determine and identify the antecedents and consequences of market orientation (Gebhardt, Carpenter, & Sherry, 2006; Matsuno, Mentzer, & Ozsomer, 2002); and to identify or investigate the moderators and/or mediators of market orientation-performance relationship (Slater & Narver, 1994a).

Although market orientation leads to greater customer satisfaction and organization commitment of employees, there is no empirical testing on this relationship. However, market orientation may have a strong or weak effect on business performance which depends on environment conditions such as competitive intensity, technologic turbulence and market turbulence (Houston, 1986; Jaworski & Kohli, 1993). Market orientation literature argues that products which are produced from organization should reflect the customer preference and market demand (Slater & Narver, 1995). Knowledge and responses to market demands related to business performance is explained by market orientation. Empirical studies indicated that there is a positive significant between market orientation and various outcome such as financial performance, innovativeness and organizational learning (Baker & Sinkula, 1999; Greenley, 1995;

Han, Kim, & Srivastava, 1998; Jaworski & Kohli, 1993; Narver & Slater, 1990; Ruekert, 1992).

Some US firms reported that there are direct links between levels of market orientation and performance (Jaworski & Kohli, 1993; Narver, Park, & Slater, 1990; Narver & Slater, 1990; Ruekert, 1992). In investigating the market orientation-business performance link, they are influenced by four moderators, such as market turbulence, technological turbulence, competitive intensity, and performance of the economy, and it was also suggested that national economy and culture may have impact on market orientation (Kohli & Jaworski, 1990). However, subsequent work showed that they are irrespective of the first of these three variables (Jaworski & Kohli, 1993).

Leaders are the core and spirit of organizations. They not only manage the organization's affairs but also lead the subordinates by communicating the organizational goals, visions and ideas to them. The effects of leaders' behavior and attitudes influence the leaders to lead their subordinates to accomplish organizational goals (Dansereau, Graen, & Haga, 1975). An approach to understand how leaders behave can affect their subordinates is by focusing on dyadic relationship between leaders and their subordinates (Dansereau, et al., 1975).

Leader-member exchange (LMX) means that leaders treat their subordinates with different types of exchange relationship and the quality of these relationships will affect the leader and member's attitude and behavior (Gerstner & Day, 1997; Liden, Sparrowe, & Wayne, 1997; Sparrowe & Liden, 1997). Empirical research demonstrated that LMX has significant influence on task performance, employee satisfaction, employee turnover and also organizational commitment (Gerstner & Day, 1997).

1.1.1 The Malaysian Scenario

In the service organizations in Malaysia, most of the organizations have started to consider that quality is an essential part in their business plan in order to meet the challenges in their competitive environment. One of the studies explored the relationship between total quality management (TQM) practices and service quality as well as the relationship between TQM practices and market orientation (Samat, Ramayah, & Mat Saad, 2006). According to Samat, Ramayah and Mat Saad (2006), the independent variables of TQM practices that are customer-focused followed by employee empowerment showed a positive relationship and have a greater impact on the market orientation. Customer orientation is one of the dimensions on the market orientation. Therefore, the customer focus has been considered by many researchers as the most basic aspect of the market orientation (Heiens, 2000; Deshpande & Farley, 1998). While employee empowerment enables employees to increase their productivity, performance and service quality have an impact on market-oriented behavior in organizations (Samat, et al., 2006).

The market research on customers' expectation and controlling of the customer satisfaction can bring improvement in the customer satisfaction (Khong & Nair, 2006). When the customers' expectations are known, the organization can understand their needs and demands. Once the organization evaluate and monitor the level of the customer satisfaction, the customer retention rate will be increased. The ability of the organization to understand the customers' needs and demand is important in the competitive environment (Khong & Nair, 2006).

In the Malaysian manufacturing organizations, the five factors of market orientation which contribute to critical success are market focus, market planning, market action, market coordination and market feedback (Mohd Mokhtar, Yusoff, & Arshad, 2009). Market action and market planning are positively related to the financial performance. Market action is an action where the organization needs to respond the market changes in the business environment and also to the competitors' price changes in the market (Mohd Mokhtar, et al, 2009). Through these actions, the detecting of the customer product preferences, competition, technology and regulation in the industry is easy to find out. Market planning involved the planning to study the market trend by conducting the analysis of the market needs and also the business environment (Mohd Mokhtar, et al., 2009). According to Mohd Mokhtar, Yusoff and Arshad (2009), the result showed that the relationship between the performance of the Malaysian manufacturing and market orientation supported previous studies which reviewed that not all market orientation has direct effect on organizational performance in developing countries. This is because of the differences in term of economic structure, regulation of government, competitive environment and people in one particular country (Yoon & Lee, 2005).

In the Malaysian organizations, LMX quality, supervisory communication and team-oriented commitment existed in the group level (Abu Bakar, Mustaffa, & Mohamad, 2009). The managers are encouraging his or her subordinates' commitment to the team. This is because the commitment to the team is related to the superior-subordinate relationships quality and communication. However within the Asian context, the supervisor's behavior and employee services quality only existed at the individual

level compared to group level (Hui, Chiu, Yu, Cheng, & Tse, 2007). Current investigation suggests that LMX quality, supervisory communication and team-oriented commitment in Malaysia organization are present at the group level (Abu Bakar, et al., 2009).

1.2 Problem Statement

Job satisfaction affects employee performance and it has received more attention in literature. There is perceived importance for service manager to pay attention to employee satisfaction because satisfied employee will deliver a high service quality to the customer (Berry, 1981; Boshoff & Tait, 1996; Bowen, Schneider, & Kim, 2000; Hallowell, Schlesinger, & Zornitsky, 1996; Hartline & Ferrell, 1996; Heskett, Sasser, & Hart, 1990; Rust, Stewart, Miller, & Pielack, 1996; Schlesinger & Zornitsky, 1991; Schneider, Parkington, & Buxton, 1980; Tornow & Wiley, 1990). Few studies indicates that there are strong correlation between employee attitudes and customer satisfaction (Bernhardt, Donthu, & Kennett, 2000; Tornow & Wiley, 1990). Furthermore, Schneider and Goldstein (1995) suggested that employee groups contribute to the organizational climate and thus affect customer and employee satisfaction and also customer orientation. Positive and satisfactory organizational climates enable employees to be more responsive to their organizational and customer goals while negative organizational climate prohibit customer satisfaction and service quality (Schneider & Bowen, 1995).

Tornow and Wiley (1990) had studied relationship between customer satisfaction, employee attitudes and organizational performance in a large, multinational computer organization. They found that there is a positive relationship of employees' perceptions of their organization's culture toward the organizational performance measures. Employee satisfaction with pay and benefits showed negative relationships with the organizational performance and these elements of job satisfaction were less effective to deal with organizational success. Organization effectiveness depends on employee understanding customers value and understanding the form of employee-performance goals and expectation (Crom, 1994; Heskett, Jones, Loveman, Sasser, & Schlesinger, 1994). There are significant positive relationships between employee attitudes (organization's human-resource practices) and customer attitudes (service they received). The same kind of organization practices will affect service quality received by customers and also affect how employees are treated (Bowen & Schneider, 1988; Schneider, et al., 1980).

Some studies investigated that increased person-organization (P-O) fit lead to increase job satisfaction of employees and decrease the intent of turnover (Kristof-Brown, Zimmerman, & Johnson, 2005; Verquer, Beehr, & Wagner, 2003). There are two variables that researchers studies as to why employees voluntarily leave organizations. They are job satisfaction and perceived job alternatives (Hulin, Roznowski, & Hachiya, 1985). Mosbely (1977) indicated that job dissatisfaction lead to a series of cognitive evaluations, starting from initial thoughts of leaving the job followed by comparison of the current job and a possible job alternative, and lastly the intention to leave the organization.

Other than that, most of the previous studies of market orientation and firm performance showed that there is positive relationship between each of them in large organizations (Balakrisnan, 1996; Jaworski & Kohli, 1993; Narver, Slater, & Tietje, 1998; Narver & Slater, 1990). Pelham (2000) stated that market orientation was positively related to marketing/sales effectiveness, growth/share, and gross profit in small and medium size manufacturing firms. Pelham (2000) argued that market orientation provide more competitive advantages for small firms as compared to large firms. Jaworski and Kohli (1993) stated that interdepartmental conflict inhibits the development of market orientation. The departments in the organizations are less likely to share information on customer requirements to satisfy their needs and expectations (Jaworski & Kohli, 1993). Besides that, limited information sharing will reduce the customer and competitor orientation of employees and lack to provide superior value to customer due to restrain of coordination of resources (Jaworski & Kohli, 1993).

On the other hand, the interpersonal conflict may influence the relationship between the supervisors and their subordinates (Rahim, 2001). The interpersonal conflict is known as the conflict between two or more organizational members from the same or different hierarchical levels in an organization. The conflict of this type also related to conflict between the supervisors and subordinates (Rahim, 2001).

Due to many problems faced by managers or supervisors inside the organizations, the factors which influenced the performance of organizations have to be found or determined in order to enable organizations to sustain a good position and compete with global organizations.

1.3 Research Objectives

It is important to study the organization performance. In this case, the service firm is the main industry that will be studied especially the financial services industry.

1. To examine the impact of customer orientation toward the organizational performance
2. To investigate the impact of competitor orientation toward the organizational performance
3. To find out the impact of interfunctional coordination toward the organizational performance
4. To look at the moderate impact of affect dimension of the LMX on the relationship between the market orientation and organizational performance
5. To determine the moderate impact of loyalty dimension of the LMX on the relationship between the market orientation and organizational performance
6. To determine the moderate impact of contribution dimension of the LMX on the relationship between the market orientation and organizational performance
7. To examine the moderate impact of professional respect of the LMX on the relationship between the market orientation and organizational performance

1.4 Research Questions

The research is conducted to examine the organizational performance. Therefore, the research questions are as below:

1. Will customer orientation influence organizational performance (productivity, employee satisfaction, client satisfaction, and service quality)?
2. Will competitor orientation influence organizational performance (productivity, employee satisfaction, client satisfaction, and service quality)?
3. Will interfunctional coordination influence organizational performance (productivity, employee satisfaction, client satisfaction, and service quality)?
4. Will affect dimension of the LMX moderate the relationship between the market orientation and organizational performance?
5. Will loyalty dimension of the LMX moderate the relationship between the market orientation and organizational performance?
6. Will contribution dimension of the LMX moderate the relationship between the market orientation and organizational performance?
7. Will professional respect of the LMX moderate the relationship between the market orientation and organizational performance?