Banks Performance and Impact of Market Orientation Strategy: Do Employee Satisfaction and Customer Loyalty Augment this Relationship?

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ABSTRACT

Banking sector performance directly reflects the manifestation of a government vision to facilitate in infrastructure support to economic performance of a country. How efficient a banking sector is and how good the sector takes care of customers, it triggers the economic growth. This research is an effort to measure the impact of market orientation strategy adopted by Saudi Arabia banks on their business performance under the influence of mediating variable such as employee and customer satisfaction. A number of banks listed on the Saudi financial market in Saudi Arabia were included in this research and a randomly selected sample consisted of banks managers, banks employees and the bank’s customers participated in the study. 66 managers, 253 employees and 288 customers were contacted and a total of 51 managers, 201 employees and 265 customers responded accurately to form part of the research. Thereby, the response rate was 77%, 79.4% and 92% respectively. Various SPSS and Amos tools were applied to perform statistical analysis of the model and variables. Considering the results of the data, the researchers are able to draw a conclusion which is also consistent with the past similar researches that market orientation strategy has a direct and positive influence on the banks financial, operational and functional outcomes provided that employee and customer satisfaction are properly taken care of. The findings also confirmed the positive mediating role of both variables i.e., employee and customer satisfaction in this relationship.

Keywords: Performance, Satisfaction, Market Orientation, Saudi Arabia
JEL Classifications: G2, L1

1. INTRODUCTION

All companies make efforts to gain competitive advantage on the best performance of its operations to sustain in the market must adopt market orientation strategy. Aspiring leadership and excellence in market requires the availability of a set of characteristics such as; market power, focus on workers needs and fulfilling customer needs through provision of promised services (Slater and Narver, 1994). The real strength lies in these companies to adopt a market-oriented strategy and search for underlying needs (Slater and Narver, 1999). The researchers believe that the culture appears in practices not merely expressed in values and standards. This strategy is considered an embeddedness of organizational culture best take care of existing and potential customers and a continuation of the better performance of the work (Zebal, 2003).

The application of cultural values as a strategy may cater for customer care, meeting customer needs and focusing on customers in all development and improvement processes.

Market orientation strategy also seeks to address internal customers’ requirements through collecting, disseminating and sharing information (Kohli and Jaworski, 1990). This process must inculcate clear vision and goals of the organization among employees as well as precisely identifying their roles and improving their working environment so as to increase their degree of satisfaction. Satisfied workers contribute significantly in achieving organizational success by responding accurately and promptly to customer needs. Thus, a company that adopts a market orientation strategy gives high priority to its employees and customers, which leads to significantly better performance.
Does market orientation strategy improve banking sector performance? 

Given the previous discussion, following hypotheses can be drawn:

H1: There exists no statistically significant relationship between adopting market orientation strategy and improvement in the business performance.

H2: There exists no statistically significant relationship between adopting market orientation strategy and achieving employee and customer satisfaction.

H3: There exists no mediating effects of employee satisfaction on the relationship between market orientation and customer satisfaction.

H4: Market orientation strategy and business performance have no statistically significant effect on the relationship between on mediating variables.

The main reason for organizations seeking to develop and improve their operations through a range of activities lies in its desire to improve the business performance. Processes improvements show improved business performances resulting in a mix of goods and services. The performance improvement as a part of change must be positive and directed towards the achievement of the desired results. This must end up with customer satisfaction and increasing company profits. Thus, the improvement of the business performance (financial, operational, functional) cannot be achieved in isolation as it requires integration of systems, processes and linking employees, customers and stakeholders (Corbett et al., 2005). Financial performance is interpreted in the form of profit growth (Boles et al., 2001). Employee satisfaction is an expression of a feeling of importance and usefulness of the company’s employees and exploiting their ability to achieve the desires of customers and satisfy their needs efficiently (Oakland, 2005). Lings and Greenley (2005) linked market orientation with organizational culture and recommended to place customer first at the business planning phase of the organization.

Market orientation is embedded in the organizational culture to value to customers or buyers consistently (Kaynak and Kara, 2004) and helps finding the best-performing organizations (Chadam and Pastuszak, 2005). The organizational culture of reducing cost of goods for services provided or increase revenue by providing more services to customers can ensue organization growth. The impact of market orientation on organizational performance has been an interest of past researcher including (Matsuno and Mentzer, 2000; Harter et al., 2002; Homburg and Stock, 2004; Lim and Ployhart, 2006). Bunic (2007) aimed to measure the impact of market orientation on organizational performance in a sample of industrial companies and found an indirect positive relationship. Sales force as a part of usual reporting stress upon customer orientation to be made part of business processes and sales force responds accurately about the changing needs and requirements of the customers. Thus market orientation links customer satisfaction and is a measurable element (Yuksel, 2010) and has existence of positive relationship between the market orientation and satisfying the customer’s needs.

A company that adopts a market orientation strategy is much aware of the needs and requirements of internal and external customers, indeed it’s linking of market orientation strategy with learning orientation (Mavondo et al., 2005). Furthermore, companies that adopt market-orientation strategy seek to harmonize the vision and objectives of their employees (Gounaris, 2006; Siguaw et al., 1993). The others researchers such Kaur et al. (2009) and Harter et al. (2002) suggested to evaluate market competition prior to placing customer first and concluded that direction of the business depended on a built-in culture to providing the best value to customers. Deshpande and Farley (1999) concluded the co-existence of customer orientation and market orientation strategy.
the banks to coincide organizational vision, employee needs and improving working environment to achieve customer satisfaction.

Several past studies have identified a positive relationship between market orientation strategy and organizational performance (Coviello et al., 2006; Haugh and Mekee, 2004; McCartan-Quinn and Carson, 2003) whilst others such as Harris (2001), Diamantopoulos and Hart (1993), Han et al., (1998) found it otherwise. In other studies, which evaluated a few segments of the business in this relationship, confirmed the confirmative significance (Ukko et al., 2007; Kumar et al., 1998). These diverse findings of the past researches strengthens our research to study and determining the nature of these relationship in Saudi Arabian banking sector as this sector and culture does not have much research literature available. Fuentes et al. (2006) recommended to implement principles of total quality management to get improvement in organizational performance by keeping strategic direction as central variable in the relationship. Sharma and Jyoti (2006) measured the dimensions and mechanisms of job satisfaction among school teachers and highlighted the customer satisfaction and employee satisfaction in adoption of market orientation strategy must go side by side. Similarities and differences between previous studies and research gap is shown below;

| Similarities | Previous studies have emphasized the positive role of the market orientation strategy on customer satisfaction
Previous studies have confirmed the existence of compatibility between the market orientation strategy and achieving employee satisfaction
Studies have confirmed the existence of a positive relationship between market orientation strategy and achieving customer satisfaction

| Differences | There is a difference between the effect of determining the degree of market orientation strategy and achieving effect on customers
There is a difference on measuring the direct impact of market orientation strategy and employee satisfaction.

| Research gap | Previous studies did not look at the direct/indirect impact of market orientation strategy on customer satisfaction
Previous studies did not look at the direct/indirect impact of market orientation strategy on employee satisfaction
Previous studies did not look at determining the effect of market orientation strategy on the business performance under employee or customer satisfaction.

5. RESEARCH METHODOLOGY

In order to measure the direct/indirect impact of market orientation strategy on the business performance by keeping employee satisfaction and customer satisfaction as mediating variable, the researchers has used the following research model as shown in Picture 1.

The researcher have relied on various past researches which support the existence of elements and their relationships and linking and designing the elements of the research model as shown in Table 1.

A questionnaire based on Likert scale was designed to measure these elements which consisted of four sections having a total of 49 items: Market orientation included 17 items; employee satisfaction had 9 items; customer satisfaction had 10 items and business performance included 13 items. Whole of the banking sector of Saudi Arabia constituted the population of the research whereas, the sample was taken from the 11 banks listed on Saudi Arabia stock exchange. CEOs of the banks, employees and customers constituted as the sampling units and for the purpose of this research, Saudi banking sector results at the end of the fourth quarter of 2012 were taken as benchmark as shown in Table 2. A total of 66 managers, 253 employees and 288 customers were contacted and 51 managers, 201 employees and 265 customers responded accurately to form part of the research. Thereby, the response rate was 77%, 79.4% and 92% respectively.

6. STATISTICAL ANALYSIS AND RESULTS

6.1. Measuring Validity and Reliability of the Variable

The researchers have applied a number of techniques and tested the degree of reliability and validity of scales for the contents and constructs Byrne (2016) which refers to its accuracy and consistency by using Cronbach’s alpha and shows the values in Table 3.

The values pertaining to research variable as shown in Table 3 clearly establish high validity and reliability of the research variables as these exceeded the minimum acceptable value of Cronbach’s alpha (α). Furthermore, the degree of validity also ranked high as the square roots of the values of coefficient of reliability of each measure ranged from 0.931 to 0.971.

6.2. Exploratory Factor Analysis

6.2.1. Sub variables of market orientation

This independent variable included three dimensions: Information gathering, information sharing and responsiveness. Table 4 shows statistical results of each sub variable and all values are within standard limits and strengthened their accuracy as well as adequacy of the sample size.

6.2.2. Sub variables of the business performance

Measuring the business performance (dependent variable) depended upon three types of factors namely: Financial performance,
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6.2.3. Measuring employee satisfaction
Satisfaction of the employees included (9) measures and a list of the phrases of questionnaire as intermediary between market orientation and business performance. The sample size adequacy value achieved as 0.88 degree of reliability value achieved as 0.90 which shows the validity of the variable.

6.2.4. Measuring customer satisfaction
Customer satisfaction used (10) measures and a list of phrases in the questionnaire as an intermediary variable between market orientation and performance. The results of the statistical gained a mean year (5.88) and a standard deviation of 0.77 and a factor of stability as 0.93 and the adequacy of the selected sample achieved a value of 0.79. These values strongly predicted the validity of this measure.

6.3. Model Fitness Indices
The model variables and their relationships as linked in the model have been tested by using various statistical tools such as root mean squared error, goodness-of-fit index, Chi-square test, normed fit index and comparative fit index. The resultant values as shown in the Table 6 are highly compatible for the quality fitness of the model. As the research aims to determine the direct and indirect relationship between market orientation strategy in the market and the business performance in presence of two facilitating variables, so a review of statistical results describe the fitness of the measures direct and indirect relationships as well as substantiates validity of these direct and indirect relationships of the variables.

6.4. Path Analysis: Validity of Hypotheses
Analyzing the model and proposed relationships, we see eight paths to specify the nature of relations. Table 7 shows these relationships and their resultant values to determine the validity of the hypotheses. Let’s discuss one by one each path;

Table 2: Saudi banks listed on Saudi stock exchange*

<table>
<thead>
<tr>
<th>Bank name</th>
<th>Gross profit ratio (%)</th>
<th>Growth in operating income (%)</th>
<th>Growth in operating expenses (%)</th>
<th>Profit per share</th>
<th>EPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual accounts</td>
<td>Corporate accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alriyadh</td>
<td>26.50</td>
<td>49.70</td>
<td>7.30</td>
<td>89</td>
<td>1.77</td>
</tr>
<tr>
<td>AlJazira</td>
<td></td>
<td>37.40</td>
<td>33.50</td>
<td>19.90</td>
<td>1.34</td>
</tr>
<tr>
<td>Saudi Investment</td>
<td>31.50</td>
<td>28.50</td>
<td>3.10</td>
<td>25.3</td>
<td>1.21</td>
</tr>
<tr>
<td>Saudi Hollandi Bank</td>
<td>305</td>
<td>52.03</td>
<td>10.30</td>
<td>16.10</td>
<td>2.37</td>
</tr>
<tr>
<td>Saudi Fransi Bank</td>
<td>12.50</td>
<td>57.10</td>
<td>48</td>
<td>37.10</td>
<td>2.44</td>
</tr>
<tr>
<td>NCB</td>
<td>16.60</td>
<td>48.20</td>
<td>9.60</td>
<td>16.70</td>
<td>2.42</td>
</tr>
<tr>
<td>Arab National Bank</td>
<td>29.00</td>
<td>34.40</td>
<td>3.60</td>
<td>1.70</td>
<td>2.29</td>
</tr>
<tr>
<td>Samba Bank</td>
<td>25.00</td>
<td>35.00</td>
<td>-1.1</td>
<td>-7.6</td>
<td>3.85</td>
</tr>
<tr>
<td>Al Rajhi Bank</td>
<td>68.40</td>
<td>9.50</td>
<td>14.00</td>
<td>40.90</td>
<td>3.98</td>
</tr>
<tr>
<td>Bank AlBilad</td>
<td>25.00</td>
<td>11.30</td>
<td>29.50</td>
<td>26.10</td>
<td>2.62</td>
</tr>
<tr>
<td>Alinma Bank</td>
<td>-</td>
<td>105</td>
<td>38.20</td>
<td>25.10</td>
<td>0.35</td>
</tr>
</tbody>
</table>

*Source: Saudi banking sector reports at the end of fourth quarter of 2012. EPS: Earnings per share

Table 3: Results of reliability and validity test

<table>
<thead>
<tr>
<th>Construct</th>
<th>Number of items</th>
<th>Cronbach’s alpha</th>
<th>Composite reliability</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market orientation</td>
<td>17</td>
<td>0.921</td>
<td>0.92-0.83</td>
<td>0.971</td>
</tr>
<tr>
<td>Business performance</td>
<td>13</td>
<td>0.872</td>
<td>0.87-0.79</td>
<td>0.931</td>
</tr>
<tr>
<td>Employee satisfaction</td>
<td>10</td>
<td>0.935</td>
<td>-</td>
<td>0.931</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>9</td>
<td>0.901</td>
<td>-</td>
<td>0.940</td>
</tr>
</tbody>
</table>

Statistical significance leve (5%). AVE: Average variance extracted
The path-1 shows direct relationship between market orientation strategy and business performance. Here significance value is 0.05 > β = 0.79, this confirms the validity of the first hypothesis.

The path-2 shows a direct relationship between market orientation and achieve employee satisfaction and the significance value 0.05 > (β = 0.37) that mean the validity of second hypothesis.

The path-3 shows the direct relationship between market orientation and customer satisfaction. The significance value 0.05 > (β = 0.59) that means the health of the second hypothesis.

The path-4 was tested positive at significance 0.05 > (β = 0.52) that means the validity of the relationship employee satisfaction and business performance.

The path-5 shows the direct relationship between employee satisfaction and customer satisfaction, which was tested positive at a significance value 0.05 > (β = 0.62), this means that the relationship between customer satisfaction is linked directly to achieving satisfaction of the employees of banks.

The path-6 shows the direct relationship between customer satisfaction and the business performance which was tested positive at significance 0.05 > (β = 0.86). The relationship between customer satisfaction and business performance found positive.

The path-7 shows the indirect relationship between market orientation through the satisfaction of employees and the business performance was tested positive at significance value 0.05 > (β = 0.23) and the achieved impact value $0.521 \times 0.373 = 0.231$ indicates the indirect effect of the relationship and validates the fourth hypothesis.

The path-8 shows the indirect relationship between market orientation through customer satisfaction and business performance was found positive at a significance value 0.05 > (β = 0.45) and resultant impact value $0.861 \times 0.292 = 0.449$ indicates the indirect effect of the relationship.

It is evident that mediating variables (employee satisfaction and customer satisfaction) in between the relationship market orientation strategy and business performance have a positive effect which proves fourth hypothesis as the impact value was $(0.37 \times 0.62 \times 0.86 = 0.197)$.

### 6.5. Results of the Model

Statistical results and findings of this research are in line with the past studies regarding mediating roles of employee and customer satisfaction (Jyoti and Sharma, 2012; Yuksel et al., 2010; Sharma, 2007; Grönroos, 1991) specifically positive impact of market orientation strategy on business performance (Yuksel et al., 2010; Arbore and Busacca, 2009). In order to analyze the business performance of banks in the Saudi banking sector, researchers has relied on several reports including bank annual reports, regulator reports as well as stock market authority reports published time to time from 2012 and onward. Bank AlBilad achieved growth in profits 25.7% in 2012 as compared to 2011 thus achieving profit share amounted to SAR 2.62 per share, followed by Bank AlJazira profit growth rate as 109.1% in 2012 as compared with 2011 and profit share was SAR 1.34 per share. Similarly, it was
assessed that individuals in whole of the banking sector obtained 32.4% of the profit share, rest was for the corporate sector. The review of the financial indicators that reflect the operational and financial performance of the banks let us conclude that the bank that expanded during the past period had achieved a remarkable operational performance, improved customer relations with reduced customer complaints as well as achieved high business participation, professionalism, lower employee absenteeism rates and low employee turnover. These parameters highlight both employee and customer satisfaction as evident from the mean values 5.75 and 5.66 respectively. The researchers recommend the banks to adopt a market orientation strategy as it has both direct and indirect positive impact on financial, operational and functional performance of the banks. Market orientation strategy also facilitates to developing a reliable information collecting system both internally and externally so as to keep customer and employee loyalty intact by timely resolving serious issue as well as sharing the solutions. A transparent system evolves to be believed in by both customer and employee. The researchers believe that market orientation strategy can ease out local competition by gaining customer loyalty as well as facilitates bank growth locally and internationally.

### REFERENCES


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