1.1. Introduction

Performance of organizations with multiple business units is critically dependent on effectiveness of their performance at sub-unit levels, and it is, therefore important to identify the characteristics of effective and ineffective sub-units (Gelade and Young 2005). Many studies have identified that a superior market orientation leads to effective firm performance (e.g. Slater and Narver 1994, Deng and Dart 1999, Deshpande et al. 1993). However, in a recent meta-analysis Kirca, Jayachandran and Bearden (2005) found that the association of market orientation to organizational performance was lower in services firms than in manufacturing firms. The authors explained their finding drawing arguments from previous research (Varadarajan 1985) and thereby considering market orientation a failure-prevention factor (a “hygiene” factor) in services firms and a success-inducing factor in manufacturing firms and therefore an imperative to ensure survival for services firms. The weaker impact of market orientation on performance in services was attributed to higher levels of customization and on-the-spot adaptations services require due to greater necessity for direct firm-customer interactions (Kirca et al. 2005).

Market oriented behavior expects organizations to design and implement responses to market information (Jaworski and Kohli 1993). In services, relevant customer information is very often received and responses are often expected to be designed and implemented on the spot by boundary spanning employee or units interacting with customers in service delivery process. Services by their very nature are intangible,
inseparable, variable and perishable. These characteristics of services put pressure on
the boundary spanning executives to make on-the-spot adaptations during service
delivery. One might argue that any study measuring performance implications of
market orientation in services firms should include the boundary spanning units
delivering services. A superior decision making freedom for boundary spanning units
may be expected to be essential for them to behave in a market oriented manner.
Researchers have found organizational autonomy to be related to many variables
crucial to organizational effectiveness (Dill 1958, Osborn et al. 1980, Porter 1980,
distribution of intra-organizational power, which has similar connotations as decision
making autonomy, as an essential, but overlooked, dimension in the creation of a
market orientation.

Despite its critical role in enacting a market oriented behavior the boundary spanning
operational unit has not received any special attention in market orientation studies in
services firms. Therefore, in the current study researchers measured the performance
implications of market orientation at the boundary spanning levels in retail banks. The
researcher particularly considers the impact of sub-unit autonomy on market
orientation and on performance of these units. Along with autonomy researcher also
tests the impact of decentralization, a variable that coincides and has already been
proposed to have similar impact on market orientation (Brock, 2003); and
formalization, a variable that was found to be not significant in previous researches on
market orientation and performance.
1.2 Background to the Research

1.2. a. Theoretical Background:
Meta-analysis of ‘Market Orientation-Organizational Performance’ studies (Kirca et al. 2005) observed that there existed several gaps in knowledge about the implementation of market orientation and the market orientation-performance relationship. Authors suggested that the influence of structural variables like centralization, formalization and specialization on market orientation should be further researched. The present research draws inspiration from this felt need and studies how operational unit level autonomy influence market orientation and organizational performance. While studying autonomy at operational level another theoretical concern arises as to whether autonomy and decentralization are any different. Brock (2003) postulated these as two different concepts having similar performance implications and practical connotations at lowest level of operation. However this postulation has not yet been empirically supported.

To address the above stated gaps in literature the present study develops and tests a theoretical model at the lowest level of operation in services context that explains 1) The influence of structural variables on organizational performance, 2) The extent to which Market Orientation mediates the influence of organizational autonomy on performance

1.2. b. Practical Background:
Economic reforms initiated in 1991 changed Indian economy significantly in a span of 15 years. A liberal economy open to global competition as well as encouraging privatization has so far witnessed changes in focuses, strategies and structures in many industries. Growing customer expectations and competition resulted in a shift in many
industries from a predominantly regulated and licensed seller’s market to a buyer’s market. Growth in demand coupled with increasing competition forced firms in many industries to device unconventional strategies to tap growing market potential. One such strategy that has been adopted by firms in the industry in varying degrees is the implementation of a superior market orientation. Market orientation draws its relevance from marketing concept which stipulates that to achieve sustained success; firms should identify and satisfy customer needs more effectively than their competitors (Day 1994; Kotler 2002). The post reform change dynamics in Indian economy and the resulting realization of a need for market orientation can be observed in the following example.

Banking and financial services have traditionally believed less in Marketing (Howcraft and Durkin, 2003). Some still believe, as observed by an executive in one of the interviews conducted by the researcher, that in financial services ‘the customer comes to you and you don’t have to go to customers and therefore marketing guys practically speaking don’t have to do anything in a bank’. Banks in India traditionally selected graduates based on their general knowledge, quantitative aptitude and English language ability rather than based on business or marketing aptitude. The staff training colleges of banks focused more on technical training in operations and procedures and neglected training in marketing. But today, banking- at least in urban India- has already moved to a predominantly buyers’ market under pressure from competition. The industry today has more multi-national corporations and private players than pre-reform. Therefore, there is an increasing realization among bankers for greater market orientation. In practice strategic orientation of the industry has changed heavily into a more market oriented one. Besides the new generation Indian banks like the ICICI...
Bank and HDFC Bank and foreign multinationals like the Citibank and the Hong Kong Shanghai Banking Corporation (HSBC) even the public sector veterans in Indian banking like the State Bank of India (SBI) and its subsidiaries have recognized the need for improved market orientation in today's competitive context.

Most marketers, as we observe of late in Indian retail banking, are convinced that a superior market orientation has many positive implications. In expectation of these positives firms make efforts to implement a market orientation. In most cases a market oriented strategy pays back in superior innovation, employee satisfaction and in turn superior financial performance and business growth. Number of empirical studies has proved that a superior market orientation reflects in superior firm performance. Therefore firms, especially in competitive markets, wholeheartedly adopt a market orientation as a strategic orientation and an imperative that should guide all activities of an organization in achieving long term organizational goals.

However, practitioners of marketing have always been concerned what factors would facilitate a superior market orientation. For example, Researchers have identified various antecedents of market orientation including top management emphasis, risk aversion, interdepartmental conflict and connectedness, and organizational systems like formalization, centralization, departmentalization and reward systems (Kohli and Jaworski 1993). In the current research autonomy a structural variable is tested at service delivery unit level as an additional antecedent to market orientation and performance. Salient characteristics of services such as simultaneity, inseparability and therefore the need for on-the-spot adaptations to customer demand provide reasons to believe that operational autonomy will have high market orientation and performance implications in services industry. 

Impact of Structural Variables on Market Orientation and Organizational Performance
Changes in strategic orientation have to be followed by necessary structural adjustments. Indian Banks have also made structural changes in the process of implementing a market orientation strategy. What structures are supportive of a market orientation and performance? Do greater operational autonomy and decentralization enable superior performance? Do they help service delivery units to be more market oriented? Answers to these questions will be relevant to decision makers.

1.3. Research Problem and Hypotheses

A research question that clearly emerges from the above said theoretical and practical contexts is “Whether a more autonomous operational level unit is also more market oriented and therefore better in performance?”

Firms that follow different business strategies adopt different structural designs (Walker and Ruekert 1987). Structural variables like formalization, centralization and specialization have been particularly found important in shaping organization’s or department’s performance (Vorhies and Morgan 2003). Structural variables were also found to be of importance in market orientation literature. Centralization, formalization and departmentalization were identified to be among other antecedents of market orientation (Kohli and Jaworski 1993). Literature provides direction to further examine the role of structural variables on market orientation and organizational performance (Kirca et al. 2005). In the current study organizational autonomy is treated along with decentralization and formalization to assess their influence on Market Orientation and performance. The definitions of these variables, the proposed relationships among them and the resultant hypotheses are given below.
1.3. a. Market orientation:

Definition of Market Orientation is deeply embedded in the Marketing Concept. Marketing Concept, first developed in the 1950s, holds that:

a. All areas of the firm should maintain a customer focus.
b. All marketing activities should be coordinated
c. Long time profits, not just sales, should be the organizational goal.

Market Orientation's conceptual content had divergent development. The foremost contributors to this development were Narver and Slater (1990), Kohli and Jaworski (1990) and Deshpande, Farley and Webster (1993). In their April 1990 Journal of Marketing article Kohli and Jaworski formally defined Market Orientation as being a one dimensional construct consisting of three organization wide activities; market intelligence generation, dissemination of this intelligence across departments and the responsiveness to intelligence. As per this definition market orientation entails (1) one or more departments engaging in activities geared toward developing an understanding of customers' current and future needs and the factors affecting them, (2) sharing of this understanding across departments, and (3) the various departments engaging in activities designed to meet select customer needs. Due to the intuitive logic of approach and due to the easiness of measurement later scholars adopted this definition for Market Orientation research (e.g., Bhuian 1997; Cadogan et al. 2002; Diamantopoulos and Hart 1993; Homburg and Pflesser 2000; Kwon and Hu 2000; Pitt, Carvana and Berthon 1996; Pulendran, Speed and Widing 2000; Raju, Lonial and Gupta 1995; Vorhies and Harker 2000). In almost all these studies researchers were particularly concerned about measuring the performance implications of market orientation.

Impact of Structural Variables on Market Orientation and Organizational Performance
However, meta-analysis of these market orientation-performance studies revealed a weaker association between the constructs in services context in comparison to manufacturing context (Kirca et al. 2005). These earlier studies considered market orientation a strategic orientation at firm level and did not take into account the lowest level of operation while measuring the constructs. Salient features of services sector demand a consideration to lowest level units of operation while studying performance implications of market orientation. Therefore the present study is operationalized at the service delivery unit level wherein researcher measures performance implications of Market Orientation at retail bank branches, and propose that;

**H1: the higher the market orientation of a branch, the better its performance.**

1.3. b. **Structural variables:**
Structure follows strategy (Chandler, 1962). Firms that follow different business strategies adopt different structural designs (Walker and Ruekert, 1987). Structural variables like formalization, centralization and specialization have been particularly found important in shaping organization’s or department’s performance (Vorhies and Morgan, 2003). Structural variables were found to be of importance in market orientation literature as well. For example, organizational variables like centralization, formalization and departmentalization have been identified among other antecedents of market orientation (Kohli and Jaworski, 1993). Literature provides direction to further examine the role of structural variables on market orientation and organizational performance (Kirca et al. 2005). Therefore in the current study organizational autonomy is considered along with decentralization and formalization to assess their influence on Market Orientation and performance.
1. 3. b. 1. Autonomy

Autonomy is defined as the degree to which one may make significant decisions without the consent of others (Brock 2003). Brock also suggested that the construct might be analyzed at different levels.

1. Autonomy of individuals within an organization
2. Autonomy of organization or its sub-unit

An organization may be rated according to its degree of autonomy. It is especially relevant in the case of units falling as a part of a large organization, or a fraternity that is a part of national fraternity and could be studied in relation to their performance. In the present study autonomy is treated as the autonomy of a sub unit within an organization i.e. branch of a bank.

Autonomy at operational unit level can be of particular importance in services firms because services are inseparable from the service provider, require direct customer interaction and require adaptations at the point of delivery (Zeithaml et al. 2008). A superior market orientation of these operational units might anticipate a higher level of autonomy since market orientation is all about designing and implementing responses based on market information. This higher level of autonomy and market orientation would in turn result in superior unit performance. Hence;

H2: Higher the autonomy greater the market orientation and performance of branches.

1. 3. b. 2. Decentralization

Centralization refers to whether decision authority is closely held by the top managers or is delegated to middle and lower level managers. Centralized structures are primarily found to be useful in stable and noncomplex environments (Olson, Walker...
and Reukert1995). In contrast decentralized organizations are found to be good in generating innovative ideas from a variety of groups within the organization and more effective in non-routine and complex environments. A market oriented behavior may be expected to demand a decentralized decision making system. Banking industry in India is gradually shifting from a stable non complex business environment to more complex environment due to privatization and globalization. Decentralization is identified to be an antecedent of market orientation and is one among the structural variables inversely influencing performance (Kohli et al. 1993). Therefore;

**H3: Higher the decentralization, higher the market orientation and performance of the branches**

1. 3. b. 3. *Autonomy vs. Decentralization*

Though autonomy and decentralization may coincide and have similar connotations, they often differ and imply varying organizational outcomes. We may affirm that given reliable and valid measures, effective market orientation for a decentralized unit will differ from that for an autonomous unit, and similarly for a centralized versus a low autonomous organization. That would mean autonomy and decentralization are different and that centralization and low autonomy are different.

Centralization/decentralization can be measured by asserting the level at which the decisions are made and autonomy by the extent of decisions that can be made at a given position or person. However, Brock (2003) postulated that decentralization and autonomy at operational level would practically mean the same. In other words these are two different concepts but would have similar implication or practical connotations while treated at the lowest level of operation in any organization. In the present study where autonomy is measured at the branch level this postulation is tested. Hence;
H4: There is no significant difference between decentralization and branch autonomy.

1.3. b. 4. Formalization

Formalization refers to the existence of norms and the extent to which norms have to be strictly adhered to. It refers to the degrees to which rules define roles, authority relations, communications, norms and sanctions, and procedures (Hall, Hass and Johnson 1967). Formalization is reported to have inverse relationship to information utilization (Deshpande and Zaltman 1982). Since banks deal with money of the public and are regulated by Central Bank scope for higher levels of formalization exists. In the present study researchers seek empirical evidence for the association of formalization with market orientation in the context of retail banking. Hence;

H5: Higher the formalization, lower the market orientation of the branch.

However, contrary to postulation, Jaworski and Kohli (1993) did not find any significant relationship between formalization and market orientation. They gave an alternate interpretation that the emphasis on rules is less relevant than the precise nature of the rules in an organization. Hence it is possible for firms to device and to enforce rules that facilitate market orientation rather than hinder it.

1.3. c. Organizational Performance

Many attempts to define and measure organizational performance have drawn uniformly negative conclusions about the concept. All measures from Etzioni’s goal based approach (1964) to Kaplan and Norton’s Balanced Score Card (1992) have been vulnerable to criticisms. Some researchers considered organizational performance as an “untidy concept” and even argued that the concept is not reseachable, and should
reside only as a conceptually rather than empirically relevant construct (Hannan and Freeman, 1977). However, Performance is the most studied dependent variable in organizational literature. In the present study researcher measures business performance through subjective assessment of sales growth, market share and overall performance of bank branches in comparison to competition in the territory of operation. Market orientation of branches is postulated to have direct impact on their performance. Market orientation is about sourcing relevant market information, disseminating the information within the organization to relevant individuals and groups and designing and implementing responses based on the information. Such an orientation is expected to result in superior customer satisfaction which in turn could result better performance. Researchers have reported positive impact market orientation has on organizational performance (Narver and Slater 1990; Lusch and Laczniak 1987). In the present study this impact is tested at the boundary spanning operational unit levels in service organizations. Therefore the hypothesis to be tested is;

H6: Higher the Market Orientation of a branch, better its Performance

1. 4. Proposed Model

The stated relationships among variables (hypotheses) are developed into a conceptual model. The model primarily has three independent variables classified as the structural variables. They are organizational autonomy, decentralization and formalization. Market orientation is treated a variable dependent on structural variables and as an independent variable directly impacting as well as carrying the impact of organizational autonomy on organizational performance. As is the case in most management research organizational performance is treated as a final dependent
variable. The validity of this model is proposed to be tested and interpreted in the present research. The conceptual model is presented in figure 1 below.

![Proposed Conceptual Model](image)

**Figure 1.1: Proposed Conceptual Model**

### 1.5. Objectives of the Study

The broad objectives behind testing the proposed model in the current study are two:

a. To contribute to the existing body of knowledge in market orientation domain about the impact of structural variables on market orientation and performance

b. To suggest practically relevant measures as to what structural variable related decisions would facilitate a superior market orientation and performance in retail banking.

These broad objectives can be further detailed into the following sub-objectives

c. To ascertain whether the decision making freedom (autonomy) of bank branches have any impact on their Market orientation and in turn on their performance

d. To ascertain the impact of decentralization on market orientation and organizational performance in retail banking context
e. To ascertain the impact of formalization on market orientation and organizational performance in retail banking context

f. To establish whether autonomy and decentralization have similar performance implications

g. To assess the impact of market orientation on organizational performance in the retail banking context in India so as to propose the importance of market orientation in services context.

h. To contribute insights, through discussion, that would facilitate decision making related to market orientation and performance in the retail banking context.

1. 6. Outline of the Report

The first chapter of this thesis - i.e. the current chapter- introduces the research problem with its theoretical and practical relevance. It also explains the logic behind the choice of services sector and particularly Indian retail banking industry for operationalizing the study. The chapter also accounts the relationships among the variables under consideration and the resultant hypotheses. These linkages among variables are built into a theoretical model.

The second chapter comprehensively discusses in detail the relevant existing literature and academic debate on the research problem in consideration. Researcher draws from past research findings across the world to find support for the postulations and propositions made in present research.

Third chapter of this thesis details the research methodology adopted in the present study. The chapter explains the logic behind the choice of research paradigm, research design used and research tools used for capturing relevant data and for analyzing the same.
Fourth chapter contains analyzed output of the study with interpretations. Output of analysis is presented in the same order as the hypotheses are stated. The interpretation following the output comments to what extent the analysis supports the hypothesis tested and the analytical model proposed.

Conclusions on the research questions, conclusions on research problem, implications for theory, implications for practice, and directions for future research are discussed in the fifth or final chapter.

1.7 Delimitations of Scope and Key Assumptions

a. Units of analysis for the current study are organizational sub-units at boundary spanning levels and not the entire organization. Specifically in this case the unit of analysis is the branch of a bank and not the entire bank. Therefore, conclusions from the study will have to be seen applicable within the purview of the branches and not the entire organization.

b. Market orientation could be defined in many other ways than the one accepted for this study. Definitional differences might result in differing implications for the same construct. In definition and measurement market orientation is treated as market oriented behavior. The other prominent view of market orientation as an organizational cultural construct is not considered for the current study. Rational for accepting or rejecting specific definition is detailed in the following chapter on literature review.

c. Banking industry belongs to services sector. Though the industry shares features common to other services businesses findings in banking
industry need not necessarily be directly extendable to other services businesses.

d. The empirical study is conducted in Karnataka, India. All respondents were drawn from the state of Karnataka in India and therefore a limited geographic scope. However, all banks in India operate within the broad policies laid down by the Central Bank of the country and most of the banks have national operations resulting in almost the same banks competing in majority of states. Therefore findings of this study could be considered viable for generalization across different states of India.

e. The study assumes that subjective measurement of structural variables under study in the current context is more relevant. In the case of market orientation-performance relationship the subjective measures are assumed not to differ significantly from objective measures. Rationales behind these assumptions are explained in the following chapter.

f. As the data on autonomy, market orientation and organizational performance were gathered from the same group of respondents i.e. branch managers the element of common method variance should be accounted for. Practical difficulty in gathering information on various branches from higher levels in all the banks studied prompted the researcher to collect all data from the same source.