CHAPTER 2: REVIEW OF EXISTING KNOWLEDGE IN THE AREA

2.1. Introduction

In the previous chapter the need for services organizations to allow lower level unit autonomy to become more market oriented was suggested with specific reference to banking industry in India. Besides, relationships between structural variables and market orientation and that between market orientation and organizational performance were proposed to be tested. While past researches have identified relevant antecedents of market orientation and proved that superior market orientation leads to better organizational performance the current research interest is to test the above said relationships considering autonomy as an antecedent to market orientation which is considered highly relevant in services context. This chapter provides an elaborate account of the existing literature on the variables under study and of what is already known about the relationships among these variables.

2.2. Market Orientation

2.2. a. Definitions of Market Orientation

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). Their definitions of Market Orientation are 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 term profits, not just sales, should be the organizational goal.
First, in their April 1990 Journal Of Marketing article Kohli and Jaworski formally defined Market Orientation as a one dimensional construct consisting of three organization wide activities; market intelligence generation, dissemination of this intelligence across departments and the responsiveness to intelligence. Due to the intuitive logic of approach and due to the easiness of measurement many scholars have adopted this definition for Market Orientation research (e.g., Buian 1998; Cadogan et al 2002; Diamenatopoles 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).

A second approach to Market Orientation was presented by Narver and Slater. In their October 1990 Journal of Marketing article Narver and Slater defined Market Orientation as “the culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and thus, continuous superior performance for business.” They further elaborated that Market Orientation has five components: customer orientation, competitor orientation, inter-functional coordination, a long term focus and a profit focus. They also provided measure of Market Orientation. Many researchers later adopted Narver and Slater’s conceptualization and measurement approach to Market Orientation.

In a third effort Deshpande, Farley and Webster in 1993 argued Market Orientation and customer orientation as synonymous concepts and defined customer orientation as an organizational culture i.e. the set of beliefs that puts the customer’s interest first, while not excluding those of all other stake holders, such as owners, managers and employees, in order to develop a long term profitable enterprise. Their notion of Market Orientation as a culture has found acceptance among many recent authors.
2.2. b. Outcomes of Definitional Differences

Though market orientation is at the centre of the marketing thought, the disagreements on the conceptual content of market orientation construct as captured in different definitions give way for confusion. These definitional disagreements push market orientation studies into two concerns.

1. Different studies, many adopting different definitions of Market Orientation, have come to very different conclusions about the role Market Orientation has in determining business performance. For e.g. In some studies firms with high Market Orientation are actually outperformed by their less market oriented counter parts.

2. Because of these differences on what Market Orientation is, there are also differences in recommendations about how firms should go about modifying their Market Orientation Levels.

Thus managers are confused about what Market Orientation is (Day 1999) and many experience enormous difficulties in implementing and maintaining a Market Orientation (Harris, 1999). Cadogan (2002) presented a holistic picture of Market Orientation concept that integrated multilevel conceptualization of Market Orientation as given in the following paragraphs.

The above three perspectives differ in terms of extent of the market orientation’s cultural context. One view takes a philosophical perspective that considers Market Orientation as an intangible organizational state of mind which emphasizes customer oriented values, norms and beliefs, market and customer focus and customer commitment. In this view Market Orientation is more an ‘intangible’ concept- only the consequence of which are behavioral. Thus the outcome of market oriented philosophy
is organizational behavior which should be consistent with the cultural values held by
the firm and which then feeds into the firm's performance (Deshpande, Farley and
Webster 1993; Narver and Slater 1990).

Kohli and Jaworski (1990) took a behavioral stand on Market Orientation and placed
less emphasis on the state of mind or philosophy side. Their definition focused the
information processing activities that underpin Market Orientation. According to them
business is market oriented to the degree that it gathers market intelligence,
disseminates that intelligence, and also analyses and responds to that intelligence.

Jaworski and Kohli (1996, p 121) provide some justification for adopting this
behavioral perspective.

"An organization may believe something is important, but fail to act on its belief for a
variety of reasons (e.g. resource constraint). Thus from a manager's perspective, it may
be more important to focus on what an organization actually does than what it feels is
important. The choice between focusing on values/beliefs or activities/behaviors is an
important one, with direct implications for ....implementing organizational change
interventions."

Thus, according to behavioral school adoption of a marketing concept as a philosophy
doesn't necessarily mean that the firm will be market oriented in behavior. "Asking
managers whether they are customer focused is not good enough; asking them what
they do about it is preferable" (Pulendran and Speed 1996). Thus for these researchers
marketing concept is a business Philosophy and Market Orientation means specific
activities required for the implementation of that philosophy.

As an outcome of differences in conceptualization, studies of Market Orientation-
Performance relationship gave differing results. Where Market Orientation was
considered a cultural phenomenon results showed no or negative relationship; but where Market Orientation was treated as a behavior results showed positive relationships.

Therefore Cadogan (2003) attempted to integrate these definitions of Market Orientation as follows:

1. Most Abstract level of culture: - Market oriented values and beliefs. Marketing concept as a guiding philosophy. (Expressed in most organizations’ mission statements)

2. Second level: - Norms for Market Orientation that guide behaviors in specific contexts. (Largely found in policies, procedures and rules followed in decision making process and implementation.)

3. Third level: - Market Oriented artifacts; provide symbolic representation of Market Orientation in the form of stories, arrangements, rituals and language used within the firm. (Like stories about founders, success or failure stories of the past as in the case of HDFC’s H T Parekh, or SCB’s promotional success)

4. Fourth level: - Market oriented behavior; generation, dissemination and response to market information. (I.e. strategy making and implementation.)

The above conceptualization recognizes Market Orientation as multifaceted and therefore in theorizing one should say the precise level about which one is theorizing. Because, the antecedents causing ‘values and beliefs’ need not be the ones causing ‘behaviors’. In the current study researcher adopts the behavioral definition of market orientation since the current research is concerned about what is being practiced rather than knowing what is proposed to be practiced.
2.2. c. Focuses of Market Orientation

Although most scholars agree that Market Orientation is the implementation of marketing concept, they don’t agree on what the concept of ‘implementation’ really means. Different researchers define implementation in different ways. All definitions don’t place equal weighting on the core elements of marketing concept; customer focus, long term profitability and coordinated marketing.

**Customer Focus**

Among them all marketers agree that a Market oriented firm adopts or implements a customer focus either in value system or in behavior.

**Profit Focus**

Researchers like Deng and Dart (1994), Dobni and Luffman (2000) Gray and Sheelag (1998) and Thirkell and Davis (1998) conceptualized Market Orientation as involving a strong profit focus component. However, Kohli and Jaworski (1990) in line with Levitt (1969) objected strongly to viewing profitability as a component of Market Orientation. Levitt said “it is like saying that the goal of human life is eating” Kohli and Jaworski viewed profitability as a desirable outcome of a business and Market Orientation as a way of achieving a business’s desired outcomes.

Though Narver and Slater originally included ‘long term horizon’ and ‘profit emphases as decision criteria in their definition of Market Orientation, they later dropped them as they found it difficult to operationalize the idea of profit orientation into the definition of Market Orientation. Two main reasons to exclude profit emphasis;

1. Firms that seek to balance profits with sales growth would be less market oriented than firms seeking profits at the expense of sales.
2. Including a profit focus to Market Orientation's domain greatly reduces the utility of Market Orientation concept for not-for-profits. Therefore if a study has based its assessment of Market Orientation in part on firm's level of profit focus, the result of the study should be ignored, since Market Orientation has been assessed as the basis of something other than the concept itself. This argument gives further reason to accept the behavioral definition of market orientation for the current research.

*Inter-functional Coordination*

Though Narver and Slater included 'inter-functional coordination' as a component of their Market Orientation definition which is more of a culture many authors disagreed. Kohli and Jaworski in their behavioral definition did not mention inter-functional coordination but considered it as an antecedent (interdepartmental connectedness and interdepartmental conflict) and thus external to Market Orientation. Hunt and Morgan (1995 p. 11) also excluded coordination from Market Orientation definition because they believed coordination helped implementation and an implementation factor should not appear in definition. However, if Market Orientation is seen as a culture consisting of values, norms, artifacts and behaviors coordination can be considered as a component of the market oriented culture which can act as an antecedent to market oriented behavior.

*Additional focuses.*

Besides customer, profit and coordination focus many other focuses have been proposed as components of Market Orientation. The most widely recognized among them is the ‘competitor orientation’ dimension. In one way marketing concept implies a competitor focus. Because marketing concept is considered to be a method by which
a firm can achieve sustainable competitive advantage (SCA), i.e. ability to offer better value to customers in comparison to competition. Kohli and Jaworski (1990) included competition in their behavioral definition by arguing that a market oriented firm generates, disseminates and responds to competitor information also. Beyond this the authors also agreed that a market oriented firm should generate, disseminate and respond to all information about market in which the firm operates or may potentially operate in, and that the information should cover the whole range of exogenous factors which may influence customer's needs and wants, now and in the future. Thus the focus is broadened from customers and competitors to business in different industries, suppliers, regulatory forces, technological changes and host of other environmental factors.

2.2. d. Need for Market Orientation

The needs and expectations of customers continuously evolve over time. Therefore there is a need for a business organization to understand and respond to the evolving customer needs. This helps the business to survive and grow over time. The company has to come out with superior quality products and services to meet the customer needs. Customer needs may change rapidly in a highly technologically turbulent environment. Fast changing technology makes the products obsolete fast. In a highly competitive environment competitors come out with better products and services at competitive prices. A firm has to keep track of the competitive environment and also respond to market place with competitive offerings. As far as a firm is concerned employee satisfaction is also a key variable to be considered. Market orientation is posited to improve employee satisfaction by enhancing the organizational commitment of the employees.
2.2. e. Features of Market Orientation

According to Shapiro (1988) Market orientation encompasses all the aspects of a company. In other words it is the responsibility of all the departments to contribute to being market oriented. It can be considered as a company wide culture and therefore a strategic orientation.

Information on all the important buying influences should permeate every corporate function. In some industries members of distribution channel may have considerable influence on the buyers' choice (e.g. dealer). In some other industries non-buying influences specify the product (for example, architects and doctors). Every department in the company should take cognizance of this fact. It requires regular cross functional meetings. For example, if R&D people come to know the way a product is used by the customer it will help them to design better products to meet the customer needs. If on the other hand, the marketing people do not part with the information, technologists may miss the opportunities. In addition the top management should meet periodically and evaluate the key points related to important buying influences. Shapiro suggests that “at least once a year, the top functional officers should spend a full day or more to consider what is happening with key buying influences”.

Strategic and tactical decisions are made inter-functionally and inter-divisionally. Conflicting interests of functions and divisions should be set aside to focus on the common goal. Divisions and functions make well coordinated decisions and execute them with a sense of commitment. Commitment is more when the one who does the implementation does the planning also. Shapiro (1988) provided the following check list to examine whether a company is market oriented. Are we easy to do business...
with? Do we keep our promises? Do we meet the standards we set? Are we responsive? And do we work together?

2.2.1. Steps to Implement Market Orientation

In their Journal of Marketing paper Gebhardt, Carpenter and Sherry (2006) developed a theoretical model to explain how firms create a market orientation. The model identifies four path-dependent stages of change. The authors opined that creating a market orientation requires dramatic changes to an organization’s culture and the creation of organizationally shared market understandings. The findings offered new insights into how organizations develop a greater market orientation, organizational change, and the nature of market orientation, including the role of intra-organizational power and organizational learning in creating and sustaining a market orientation. According to them the process of creating a market orientation occur over four distinct stages: (1) initiation, (2) reconstitution, (3) institutionalization, and (4) maintenance. These stages were explained as path dependent, and that each stage included multiple steps or activities. Besides, the following could be considered imperative in implementing a market orientation.

1. The firm should conduct regular marketing research. One of the ways to generate market related information is to conduct in-house marketing research by the marketing research department. Alternatively the firm can also by the market-related information from specialized firms engaged in conducting marketing research. Here the consideration is one of balancing the costs and benefits.

2. The dissemination of market information is also equally important. The company should design and implement a system by which every corporate officer and function has access to market research reports.

Impact of Structural Variables on Market Orientation and Organizational Performance
3. Designing and implementing an effective communication system to facilitate vertical and horizontal communication is a prerequisite for establishing good market orientation. Customer contact employees and sales people are the ones who are closest to the customers. During the normal discharge of their duties they get enormous information about the customer needs. The firm has to effectively utilize this knowledge by transmitting it to the top management as well as to the other functional departments. This type of information is very rich but relatively cheap.

4. The firm should facilitate information gathering by front line employees; for example by establishing toll free customer interaction telephone lines. This facilitates questions and comments from customers and distributors which give enormous insights into market related information.

5. High level executives need to directly interact with the customers and marketing intermediaries to get a richer flavor of market information. This can be done by customer visits, focus groups, trade show visits and dealer and retailer visits.

6. Classifying the customers in terms of their importance and concentrating on important customers. For example, it may be possible to identify certain customers in terms of volume of business and profitability. Concentrating on such customers helps the business to channelize the scarce resources of time, effort and money in most effective ways.

7. Establish inter-functional and interdivisional coordination. An open discussion and joint decision making involving different functional areas gets the advantage of both the skills of the specialist and the impartiality of the superior.

8. Devising an incentive plan to reward the pursuit of the organization wide goal.

9. Formation of cross functional teams to represent the inter-functional points of view in achieving the tasks.
2.2. g. Antecedents and Consequences of Market Orientation

Jaworski and Kohli (1993) have identified several antecedents and consequences of market orientation. The antecedents identified are top management emphasis, risk aversion of top management, interdepartmental conflict, interdepartmental connectedness, formalization, centralization and departmentalization. A number of hypotheses were advanced related to the antecedents. They are: (a) The greater the top management emphasis on a market orientation, the greater the market intelligence generation, intelligence dissemination and responsiveness of the organization. (b) the greater the risk aversion of the top management, the lower the market intelligence generation, intelligence dissemination and responsiveness of the organization. (c) the greater the interdepartmental conflict, the lower the market intelligence dissemination and responsiveness of the organization. (d) the greater the interdepartmental connectedness, the greater the market intelligence dissemination and responsiveness of the organization. (e) The greater the formalization, the lower the intelligence generation, dissemination, and response design and the greater the response implementation. (f) The greater the centralization, the lower the intelligence generation, dissemination, and response design and the greater the response implementation. (g) The greater the departmentalization, the lower the intelligence generation, dissemination, and response design and the greater the response implementation. (h) The greater the reliance on market based factors for evaluating and rewarding managers, the greater the market intelligence generation, intelligence dissemination and responsiveness of the organization. The above hypotheses were supported by empirical evidences.
As regards the consequences of market orientation, it was hypothesized by the authors that the greater the market orientation of an organization, the higher the business performance. The effect of market orientation on business performance is moderated by market turbulence, competitive intensity and technological turbulence. The greater the market turbulence, the stronger the relationship between market orientation and business performance. The greater the competitive intensity, the stronger the relationship between market orientation and business performance. The greater the technological turbulence, the stronger the relationship between market orientation and business performance. The above hypotheses found empirical support while using judgmental measures but the relationships were weak while using objective measures like market share.

2.2. h. Measurement issues

In the first attempt to measure market orientation Narver and Slater (1990) conceptualizes market orientation as the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for the customer. They have operationalized the concepts into three behavioral components of the organization namely, customer orientation, competitor orientation and inter-functional coordination. The three behavioral components are measured on multi-item scales (20 items) and are assumed to be of equal importance and the overall market orientation is measured by averaging the scores on the three components.

Kohli and Jaworski (1993) operationalized the concept of market orientation into three activities namely market intelligence generation, dissemination and responsiveness. Market intelligence includes information on customers as well as environmental factors. Similarly responsiveness includes response design and implementation.
Operationalization resulted in a 32 item MARKOR scale, the scores of market orientation being calculated by summing the scores of the three components.

Deng and Dart (1994) after a comprehensive literature survey and field study went for a wider conceptualization of the market orientation. They have identified four dimensions of market orientation. They are customer orientation, competitor orientation, inter-functional coordination and profit orientation. Deng and Dart developed a multi item scale with 33 items; 12 items to measure customer orientation, 6 items to measure competitor orientation, 8 items to measure inter-functional coordination and 7 items to measure profit emphasis. The instrument uses a 5 point interval scale. The instrument was subjected to rigorous psychometric testing for validity and reliability.

Brenda and Sheelag (1998) developed a better measurement of market orientation in New Zealand context. They have incorporated the dimensions from the scales of Narver and Slater, Kohli and Jaworski and Deng and Dart and developed a 44 item questionnaire. They administered the questionnaire to 490 managers from different firms. An exploratory factor analysis resulted in the final selection of 20 items on the dimensions of customer orientation, competitor orientation, inter functional coordination, responsiveness and profit emphasis. The scale resulted in a more parsimonious measure of market orientation in the context of New Zealand.

2.2. i. Implications of Market Orientation

Market orientation is supposed to result in better business performance. Thus market orientation predicts business performance. Here the problem is one of defining and selecting an appropriate measure of business performance. A variety of business performance measures are possible like total profits, return on investment, return on
equity, share price index, market share etc. There is no agreement among academicians as to which measure of business performance is to be related with market orientation. Meta analysis finds that revenue based measures of performance are more correlated to market orientation than cost based ones. (Kirca, Jayachandran and Bearden, 2005)

2.2. j. Development of the Field

In a path-breaking article in Harvard Business Review, published in 1960, entitled “Marketing Myopia”, Theodore Levitt, first propounded the philosophical foundation of the market orientation called “marketing concept”. The article pointed out the deficiency in the practices followed by various US corporations due to a narrow definition of their business purposes. The approaches adopted by these corporations were based on production concept, product concept or selling concept. He suggested marketing concept as an alternative. The methodology used was inductive learning from the field.

In a Harvard Business Review article published in the year 1988 Shapiro brought out clearly the meaning of the concept market orientation. He also implicitly brought out the processes involved in making a firm market oriented through a case study. The method used is inductive learning from the field.

Kohli and Jaworski (1990) defined the concept of market orientation and proposed the relationship of market orientation with other organization related variables and proposed the managerial implications through an inductive approach of learning from the field. Narver and Slater (1990) defined and operationalized the concept and developed a scale to measure the concept. Kohli and Jaworski (1993) operationalized the concept and developed a measurement scale. Jaworski and Kohli (1993) in a separate study empirically tested the relationship of market orientation with other
organizational variables in the form of antecedents and consequences. Deng and Dart (1994) reconceptualized the concept by widening the scope and developed a more comprehensive multifactor multi-item scale for measurement of the construct.

In an attempt to reconceptualize the construct of market orientation, Cadogan and Diamantopoulos (1995) consolidated and extended the conceptualizations of Narver and Slater and Kohli and Jaworski by positing customer orientation and competitor orientation as the two dimensions of market orientation facilitated by the processes of intelligence generation, intelligence dissemination and responsiveness and superimposed the concept of coordinating mechanism on all the three processes. They further added an international dimension to the marketing orientation construct.

Brenda and Sheelag (1998) developed a scale consolidating the dimensions from the previous studies in the context of New Zealand. In an empirical work Andreassen (1994) related the concept of customer orientation with satisfaction, loyalty and reputation in the field of public sector. The study based on Oslo Kommune in Norway found that satisfaction, loyalty and reputation are the indicators of customer orientation. The study found that introducing comparable satisfaction measures may stimulate competition between various service providing bodies which will lead to efficient resource allocation.

In an attempt to study the relationship between market orientation and business performance Pelham (1997) hypothesized that product and customer differentiation has a moderating effect on the relationship. In order to study the moderating effect he classified the firm into four categories operating in different environments namely, differentiated markets, fragmented markets, commodity markets and segmented markets based on Sheth’s typology of determinants of industrial competitive structure.

Impact of Structural Variables on Market Orientation and Organizational Performance
Based on statistical (partial correlation) analysis the study concluded that industry environment (product and customer differentiation) has no significant effect on the relationship between market orientation and performance. The study pointed to the importance of treating industry environment as a complex combination of influences and market orientation should be a strong source of sustainable competitive advantage in any industry situation because of the difficulty of influencing corporate culture and the ambiguity about the value of a market orientation culture.

There have been attempts to study the application of market orientation in the context of service industries. Chang and Chen (1998) empirically examined the relationship among market orientation, service quality and profitability by conducting a study among stock brokerage firms in Taiwan. They conducted the study taking a sample of 150 units. The hypothesized relationship was that the service quality has a positive mediating effect on the relationship between market orientation and profitability. Market orientation was hypothesized to have an independent positive effect and positive effects through other mediating variables. The regression analyses confirmed the hypotheses. Market orientation was measured by modifying the Narver and Slater scale to include certain performance anticipation items.

In a study conducted among 289 managers from 67 service organizations Egeren and O'Connor (1998) established a positive relationship between market orientation and performance in service firms. The study also identified top management team group dynamics and external environment dynamism as drivers of market orientation by using a structural equation model.

In an attempt to extend the study of market orientation to the context of Australia, Pulendran et al. (2000) replicated the study by Kohli and Jaworski in Australian...
industries. They came out with similar findings related to the antecedents and consequences of market orientation. Deng and Dart (1999) in an empirical study examined the extent of market orientation among various types of industries in China and recommended market orientation as a solution to the Chinese enterprises in the current period of transition from a controlled economy to a market economy.

Table 2.1: Development of Market Orientation Field

<table>
<thead>
<tr>
<th>Stages of Development</th>
<th>Works</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emergence of Philosophy</td>
<td>Theodore Levitt (1960)</td>
</tr>
<tr>
<td>Concept specification and measurement</td>
<td>Shapiro (1988), Narver and Slater (1990), Kohli and Jaworski (1990), Deshpande, Farley and Webster (1993), Kohli and Jaworski (1993), Deng and Dart (1994)</td>
</tr>
<tr>
<td>Meta-analysis study of all market orientation performance studies.</td>
<td>(Kirca, Jayachandran and Bearden 2005)</td>
</tr>
<tr>
<td>Creating a Market Orientation: A Longitudinal, Multifirm, Grounded Analysis of Cultural Transformation</td>
<td>(Gebhart, Carpenter and Sherry 2006)</td>
</tr>
</tbody>
</table>
2.3. Organizational Performance

2.3. a. Performance Definitions

Many attempts to define and measure organizational performance drew uniformly negative conclusions about the concept (Mekoth and Barnabas 2005). Steers (1975) commented that there is only rudimentary understanding of what actually constituted the concept of organizational effectiveness. Hrebiniaic (1978) viewed measuring of performance as "a critical but problematic issue". Some researchers considered organizational performance as an "untidy concept" and even argued that the concept is not researchable, and should reside only as a conceptually rather than empirically relevant construct (Hannan and Freeman, 1977). However, there have been efforts - both postulations as well as empirical research- to define and measure organizational effectiveness.

Different schools of researchers adopted differing approaches to study and measure organizational performance. Organizational theory gives three fundamental theoretical approaches to measuring organizational effectiveness (Caruana, Ewing and Ramaseshan 1998).

1. Goal based approach
2. Systems approach
3. Multiple constituency approach

1. Goal based approach

In the goal based approach organizational performance is evaluated on the basis of self imposed objectives (Etzioni, 1964). According to organizational goal theorists the issue of specifying performance/effectiveness criteria is largely one of goal setting. Here goals refer to the "official" goal statements such as those found in articles of
incorporation, organizational chart, or whatever, is seen as naive. (Perrow 1961: Porter, Lawler And Hackman, 1976). But the empirical study of Vroom (1960) and Lawrence and Lorch (1967) suggested that strong goal consensus even among the senior management of the organization can not be assumed. However, they do not suggest what can be done if there exists disagreement of goals among the dominant stake holders.

2. Systems approach

Georgopolous and Tannenbaum (1957) improve on goal based approach in their systems approach. They viewed effectiveness within a system framework and concluded that the idea of effectiveness can be best understood in terms of productivity, flexibility, and in the absence of inter-organizational strain. At the most global level the proponents of functional analysis Parson (1960) and Lyden (1975) argue that organizational performance can be assessed based on how well an organization solves the four essential problems: goal attainment, adaptation, integration and pattern maintenance. Yuchtman and Seashore (1967) also held the systems approach to measure organizational performance. They considered that the three basic processes in an open system view of an organization - resource acquisition, transformation and disposal- are tightly interconnected. So they chose to measure effectiveness from the input acquisition angle and defined organizational effectiveness as the ability of the organization to exploit its environment in the acquisition of scarce and valued resources.

Steers (1975) classified the research literature on performance measures into those using univariate methods and multivariate methods. Though he merited the multivariate methods he criticized the lack of consensus among them and also the lack
of overlap among the variables. He observed that a more flexible and comprehensive model is required. Steers suggested that this more flexible, contingent approach (contingent since they include dynamic variables) to measure organizational performance should allow for the explicit acknowledgement of certain constraints that necessarily obstruct criteria maximization. Such constraints can be found in structure, technology, environment and membership of a given organization. He suggested a “weighted” goal optimization model where the criteria are weighted on their importance. Thus Steers, in his postulation, made an effort to bring in the multi-dimensionality of the criteria, their differences in the impact and their dynamic nature. However beyond suggesting the possible characteristics of a better model, he did not suggest any specific model nor did he support it with any empirical study. Thus the systems approach took into consideration the multiple generic performance aspects in performance measurement. However the approach was criticized for its lack of dynamism and insufficiencies by the later researchers.

3. Multiple Constituency Approach

Connolly, Conlon and Deutch of Georgia Institute of Technology (1980) in their multiple constituency approach argued that the existing approaches to organizational effectiveness were conceptually conflicting and empirically arid. They commented that many researchers appeared handicapped by the desire to produce a single effectiveness statement about any given organization. Instead, the authors proposed the multiple constituency approach to avoid the requirement for a single measure, explicitly assuming that an organization’s different constituencies will form different assessments of its effectiveness. Theirs was a view of effectiveness that allowed multiple evaluations from multiple constituencies. According to them the answer to the
question "how well an organization is performing?" is contingent on to whom ( i.e. the constituency) we are posing the question. They argued that individuals become involved with the organization for a variety of different reasons, and these reasons will be reflected in variety of different evaluations.

4. The Strategic Management School

The strategic management school thinkers integrated the above three views and suggested multiple dimensions in terms of financial performance and operational performance.

a) Financial performance: Venkatraman and Vasudevan Ramanujam (1986) studied business performance as a subset of the overall concept called organizational performance. According to them the narrowest conception of business performance is to center on the use of simple outcome based financial indicators that are assumed to reflect the fulfillment of the economic goal of the firm. Typically, the Financial measures approach would be to examine such indicators as sales growth, profitability (as reflected in ratios such as return on investment, return on sales, return on equity), earnings per share, etc.

b) Operational performance: A broader conceptualization of business performance includes emphasis on indicators of operational performance (non-financial) besides financial indicators. (Hofer and Sanberg; 1987, Kaplan; 1983, Venkataraman and Vasudevan Ramanujam; 1986) Measures logically included in operational performance were market share, new product introduction, product quality, marketing effectiveness, manufacturing value added, and other measures of technological efficiency within the domain of business performance.
Though strategic management school- motivated by the belief that systematic approaches to measurement approaches are likely to lead to superior operationalizations- classified and highlighted the advantages and limitations of different measurement approaches, a long debate on which measure is more relevant- whether financial or operational- still prevailed.

5. Balanced Score Card

In 1992 Kaplan and Norton introduced the measurement tool called Balanced Score Card (BSC). They argued that the traditional financial performance measures suited the industrial era and they are out of step with the skills and competencies that companies are trying to master today. Interestingly, financial measures tell us of results of actions already taken and not of what would happen. According to them no single measure can provide a clear performance target or can focus attention on all the critical areas of business. Therefore there is need for a balanced presentation of both financial and operational measures. The BSC complements financial measures with operational measures on customer satisfaction, internal processes, and organizations innovation and improvement activities and thus provides a more holistic approach to organizational performance measurement.

BSC's strength lies in its use of both financial and non-financial measures in encouraging and rewarding employees in achieving an organization's long-term goals. Kaplan and Norton, argue that in the information age, organizations require new capabilities for competitive success, such as customer relationships, product innovation, customized products, employee skills, motivation, and information technology. By including all critical success factors in the performance measurement system, the organization will have a better idea of how to achieve its goals.
BSC complements the traditional financial perspective with other non-financial perspectives, such as customer satisfaction, internal business process, and learning and growth. It also mixes outcome measures (the lagging indicator) with performance drivers (the leading indicator) because, according to Kaplan and Norton, "outcome measures without performance drivers do not communicate how the outcomes are to be achieved." By selecting appropriate performance drivers and outcome measures, the organization will have a better idea of its potential competitive advantage.

The balanced set of performance measures tells a concise yet complete story about the achievement and performance of the organization toward its goals and provides a holistic view of what is happening in the organization. By tying these performance measures to rewards, BSC ensures that the employees will do what is best for the organization as a whole.

However an empirical study conducted by Kathy and McKay (2002) found that BSC may not be a universally applicable measure. At an automobile manufacturer, BSC successfully integrated organizational goals into the daily activities of the employees. However, in the second case, a bank replaced BSC with an alternative measuring approach because the bank found BSC inappropriate for the organizational culture it wanted to create. The researchers sited that organizations experienced such different results and levels of satisfaction due to the differences in the efficiency of the internal feedback system of the organization.

2.3. b. Performance Measures in Market Orientation Studies

Organizational performance has been measured using subjective and objective measures in market orientation-performance studies. Table 2.2 in the following page is an exhaustive list of these studies and the results as adapted from Dawes (1999).
Table 2.2: Performance Measures in Market Orientation Literature

<table>
<thead>
<tr>
<th>Study</th>
<th>Sample</th>
<th>Performance Measure</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Narver &amp; Slater</td>
<td>140 SBU’s in one corporation</td>
<td>Subjective assessment of ROA for self and competitors</td>
<td>Positive association</td>
</tr>
<tr>
<td>Deshpande et al</td>
<td>50 Japanese firms - cross industry (staff plus customers)</td>
<td>Subjective evaluation of profit, size, market share and growth compared to largest competitor</td>
<td>Positive association</td>
</tr>
<tr>
<td>Jaworski &amp; Kohli</td>
<td>222 business units from sample of US corporations across industries.</td>
<td>Subjective measure – &quot;overall performance&quot;. Objective measure – market share</td>
<td>Positive association for subjective measure but not objective measure</td>
</tr>
<tr>
<td>Slater &amp; Narver</td>
<td>140 SBU’s in 1 forest products corporation</td>
<td>Subjective evaluation of ROA, sales growth and new product success, relative to competitors</td>
<td>Positive association</td>
</tr>
<tr>
<td>Deng &amp; Dart</td>
<td>248 firms across industries</td>
<td>Subjective evaluations including financial performance, liquidity, sales volume</td>
<td>Positive association</td>
</tr>
<tr>
<td>Slater &amp; Narver</td>
<td>81 SBU’s in 1 corporation and 36 in another</td>
<td>Subjective evaluation of ROA relative to competitors</td>
<td>Positive association</td>
</tr>
<tr>
<td>Greenley</td>
<td>240 UK companies across industries</td>
<td>Subjective evaluation of ROI, new product success and sales growth</td>
<td>Association may be positive or negative, dependent on competitive environment.</td>
</tr>
<tr>
<td>Pelham &amp; Wilson</td>
<td>68 US firms across industries</td>
<td>Subjective evaluation of business position relative to expectations</td>
<td>Positive association</td>
</tr>
<tr>
<td>Pitt et al</td>
<td>1,000 firms across industries in UK and sample of Maltese firms across industries</td>
<td>Subjective evaluation of return on capital and sales growth</td>
<td>Positive association</td>
</tr>
<tr>
<td>Slater &amp; Narver</td>
<td>228 manufacturing firms across industries</td>
<td>Subjective evaluation of return on assets and sales growth relative to competitors</td>
<td>Positive association with sales growth but not profit</td>
</tr>
<tr>
<td>Balakrishnan</td>
<td>139 firms in single industry study: machine tools</td>
<td>Subjective evaluation of relative profit, satisfaction with profit, customer retention and repeat business</td>
<td>Positive association</td>
</tr>
<tr>
<td>Nagundkar &amp; Shergill</td>
<td>170 senior managers across from FMCG, durables, B2B and Services</td>
<td>Subjective Evaluation of Profitability, Sales Growth and Market Share</td>
<td>Positive Association</td>
</tr>
<tr>
<td>Avlonitis &amp; Gounaris</td>
<td>444 Greek firms across industries</td>
<td>Subjective evaluation of profit, turnover, ROI, and market share</td>
<td>Positive association</td>
</tr>
<tr>
<td>Deshpande &amp; Farley</td>
<td>82 managers in European and US companies</td>
<td>Subjective evaluation of sales growth, customer retention, return on investment, and return on sales</td>
<td>Positive association</td>
</tr>
</tbody>
</table>
Appiah-Adu | 74 Ghanaian firms across industries | Subjective evaluation of sales growth and ROI relative to expectations | Association is moderated by environment

Esslemont & Lewis | 3 surveys each using cross-industry NZ samples | ROI and change in ROI | No association

Ruekert | Two SBUs in one large corporation | Selected one SBU with low ROI and one with high ROI. | Positive association

Diamantopoulos & Hart | 87 UK firms – cross industry | Sales growth and average profit margin compared to industry average | Positive association


Au & Tse | 41 Hong Kong hotels and 148 New Zealand hotels | Hotel occupancy rates | Weak association

Tse | 13 Hong Kong property developers | Financial data supplied by external organization | No association

Dawes (1999) analyzed the results of a set of previous studies that used multiple measures of performance with an intention to assess the strength of association between both subjective and objective measures of performance. A summary of previous research is given below.

Table 2.3: List of Studies measuring Strength of Association

<table>
<thead>
<tr>
<th>Study</th>
<th>Sample</th>
<th>Strength of association (between subjective and objective performance measures ($r$))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dess &amp; Robinson</td>
<td>26 US manufacturing firms</td>
<td>Between $r=0.48$ to $r=0.61$</td>
</tr>
<tr>
<td>Pearce, Robbins and Robinson</td>
<td>97 US manufacturing firms</td>
<td>Between $r=0.74$ to $r=0.77$</td>
</tr>
<tr>
<td>Covin, Slevin and Schultz</td>
<td>91 US manufacturing firms</td>
<td>$r=0.44$ (only one performance variable used, namely sales growth).</td>
</tr>
<tr>
<td>Hart &amp; Banbury</td>
<td>720 US firms across various industries</td>
<td>Between $r=0.44$ to $r=0.55$ when whole sample analyzed. Up to $r=0.99$ when only examining firms within a specific industry.</td>
</tr>
</tbody>
</table>

These studies were however confined to the US and all except one to manufacturing sector. Dawes conducted a more elaborate study in Australian context with larger
sample representing multiple industries and all sizes of organization using both subjective and objective measures to assess performance.

The objective performance measure was the current and previous years’ ROI in percentage terms. For the subjective measures two two-item scales were used that asked for performance of both current and the previous financial year.

Please rate the overall financial result for your firm

Please rate the Return on Investment or Return on Assets of your firm

The correlations between the measures are given below.

<table>
<thead>
<tr>
<th>Measure</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Subjective Assessment of financial performance, current year (average of two items)</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Subjective Assessment of financial performance, previous year (average of two items)</td>
<td>0.64</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Objective (ROI) figure for current year</td>
<td>0.51</td>
<td>0.65</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>4 Objective (ROI) figure for previous year</td>
<td>0.58</td>
<td>0.48</td>
<td>0.86</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Table 2.4 Correlation between Subjective and Objective Measures

All correlations are significant at p<0.05. The results confirm earlier findings that there are strong correlations between objective and subjective performance measures. In this study the correlation between the current year objective and subjective measures is 0.51, and between the previous years' subjective and objective measures it is 0.48. Thus it was concluded that subjective performance measures of profitability are positively correlated with objective measures. In the current study researcher uses subjective measure of performance using revenue (sales growth, market share) as well as profitability (profits) measures.
2.4. Structural Variables

The structural variables under consideration in the current study are organizational autonomy, decentralization and formalization.

2.4. a. Autonomy

Brock (2003) reviewed the use of autonomy in organizational literature and dealt with definitional and methodological issues. According to the author autonomy may be defined as the degree to which one may make significant decisions without the consent of others and the construct could be analyzed at two levels namely; 1) Autonomy of individuals within an organization and 2) Autonomy of an organization or its a sub-unit.

Many researchers have studied autonomy at individual level. Dill (1958) proposed that higher autonomy was associated with less complex task assignment, lower risk, more control over information flow, and more formalized interaction. Turner and Lawrence (1965) observed autonomy to be a requisite task attribute that promotes job satisfaction and lower absenteeism among employees. Porter et al. (1975) considered autonomy to be a human need. Osborn et al. (1980) observed that low autonomy is associated with low quality of work life, though it may vary among people. Nielson and Pederson (2003) found that giving front line employees more decision-making autonomy helps competitiveness of the firm.

While studying at an organizational level the organization may be rated according to its degree of autonomy. This would be especially relevant in the case of organizations falling as part of a large corporation, or a fraternity that is a part of national fraternity. Datta et al, (1991) defined organizational autonomy as day-to-day freedom to manage. In Aston studies centralization and low autonomy were strongly related to
standardization of personal procedures, low functional specialization, percentage of subordinates and percentage of non-workflow personnel (Holdaway 1975). Research has been done on the autonomy of various units within multinational corporations. Vachani (1999) found that subsidiary autonomy was greater in certain functional areas (like marketing and personnel) than in others (R&D and finance).

Patterson and Brock (2002) did word counting on a sample of articles to indicate that contemporary authors seem to indicate a trend towards concepts related to autonomy rather than control. Autonomy may have desirable outcomes in the right context. Autonomy promotes positive motivation, performance, satisfaction, absenteeism and turnover. It was also observed that as a unit head or CEO represents the unit or organization his/her autonomy would be analogous to organizational autonomy.

2.4. b. Autonomy and Decentralization

Autonomy refers to the extent of decision making authority wielded by a given position, person, or organization. In evaluating autonomy we ask the question, “How much of decision making authority does X have?”

Centralization concerns the locus of decision-making authority in an organization—the extent to which decision making is concentrated in a single point or diffused through the organization. A decentralized organization is one in which power is dispersed among many individuals. (Mintzberg 1989, p.105)

Though these constructs may coincide and have similar connotations, they often differ and imply varying organizational outcomes. We may affirm that given reliable and valid measures, effective strategic contingencies 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 also that centralization and low autonomy are different. The Diagram (figure 2.1) depicted below explains the difference between autonomy and decentralization.

Thus in B autonomy and decentralization coincide; but in D they don't. In A autonomy and centralization coincide; but in C they don't. Therefore one can clearly ascertain that autonomy and decentralization are two different constructs and that autonomy may not be treated as a surrogate to measure

<table>
<thead>
<tr>
<th>Organization</th>
<th>Description of Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Autonomous and Centralized</td>
</tr>
<tr>
<td>B</td>
<td>Autonomous and decentralized</td>
</tr>
<tr>
<td>C</td>
<td>Low autonomy and centralized</td>
</tr>
<tr>
<td>D</td>
<td>Low autonomy and decentralized</td>
</tr>
</tbody>
</table>

**Figure 2.1: Depiction of Differences between Autonomy and Decentralization at AB Ltd.**

Autonomy and Decentralization for Four hypothetical Organizations

Impact of Structural Variables on Market Orientation and Organizational Performance
centralization and vice versa. However, as in the case of subunit B autonomy and decentralization coincide at the lowest level in an organization. Therefore, in common usage decentralization may be considered the extent to which operators are autonomous. The term operator autonomy thus is analogous to decentralization; conversely low operator autonomy could indicate centralization.

2.4. c. Measurement of Autonomy

Inkson (1970) used a 23 item questionnaire to measure autonomy. Intended responses to the measurement items were either 'Yes' or 'No'. This questionnaire did not capture the possibility of decision making freedom which was neither absolute nor non existent. Moreover, autonomy was used as a measure of centralization (Pugh, 1968) or concentration of authority (Inkson 1970) in studies these studies. However, autonomy and centralization are two different concepts. Hackman and Lawler (1971) measured workers autonomy on a seven point scale. Sims et al (1976) studied autonomy and other dimensions of job characteristics with their Job Characteristics Inventory (JCI), a five point scale questionnaire. The last two studies however treat individual autonomy and not organizational autonomy.

The instrument measuring autonomy in Inkson et al. (1970) is similar to that measuring centralization in Pugh et al. (1968). Though similar instruments were used these two studies succeeded in differentiating between autonomy and centralization as follows: Centralization was measured by asserting the level at which the decisions were made. Autonomy was how many decisions could be made at a given position or person. Thus centralization was a characteristic of the entire structure of an organizational unit- a more generalized measure, where as autonomy was a reading of decision making authority at a specific location.
Inkson, Pugh, and Hickson (1970) established the reliability and validity of short forms for the measurement of four previously established dimensions of organizations—two contextual: technology, dependence and two structural: structuring of activities, concentration of authority. According to the authors an organization lacks autonomy if decisions are taken at a level of authority out-with the organization’s structure. The organization’s autonomy score was measured based on the number of decisions, from a set list of 22 items, which are taken at a higher level of authority. Higher the number greater the concentration of authority and in turn lesser the autonomy. This measurement appears to have two problems. One, it equates autonomy to centralization. The second, It does not account for partial autonomy i.e. a degree of freedom one might have in making specific decisions which ranges between no freedoms to full freedom.

Lioukas, Bourantas, and Papadakis (1993) studied state owned enterprises (SOEs) at Greece and found that the state control on SOEs has positive relationship to the dependence of SOEs on the State for resources and negative relationship to market competition and demand unpredictability. They treated autonomy as the discretion of the SOE management vis-à-vis the state authorities. The following dimensions operationalized state autonomy:

1. Total state control
2. Control on strategic issues
3. Control on output decisions
4. Control on resource mobilization issues:
   i. Control on human resources
   ii. Control on financial resources
   iii. Control on purchasing decisions
All the six except output decisions were composite variables consisting of many distinct measures referring to all partial controls. Each was measured in a five-point Likert-type scale ranging from 1 (full autonomy) to 5 (very tight control). Control was operationalized by the researchers on various functional dimensions. In the present study autonomy is proposed to be operationalized on the same line.

Thus the previous studies treating organizational autonomy are found to be having definitional or measurement problems with the concept. In the current study researcher accepting the definition of Brock developed a measurement scale for organizational autonomy. Literature on scale development along with procedure followed for scale development in the present research is explained below.

2.4. Literature on Measurements, Scales, and Scale Construction

Measurement is one of the fundamental activities of any science. Measurement consists of two basic processes called conceptualization and operationalization, then an advanced process called determining the levels of measurement, and then even more advanced methods of measuring reliability and validity.

Conceptualization is the process of taking a construct or concept and refining it by giving it a conceptual or theoretical definition. Ordinary dictionary definitions will not do. Instead, the researcher takes keywords in their research question or hypothesis and finds a clear and consistent definition that is agreed-upon by others in the scientific community. Sometimes, the researcher pushes the envelope by coming up with a novel conceptual definition, but such initiatives are rare and require the researcher to have intimate familiarity with the topic. More common is the process by which a researcher notes agreements and disagreements over conceptualization in the
literature review, and then comes down in favor of someone else's conceptual definition. It's perfectly acceptable in science to borrow the conceptualizations and operationalizations of others. Conceptualization is often guided by the theoretical framework, perspective, or approach the researcher is committed to.

Operationalization is the process of taking a conceptual definition and making it more precise by linking it to one or more specific, concrete indicators or operational definitions. These are usually things with numbers in them that reflect empirical or observable reality. They're what link the world of "ideas" to the world of everyday "reality". It is more important that ordinary people would agree on the indicators than those inside the enterprise of science. One imperative at this stage is to ensure a fairly good epistemic correlation, which is nothing but the goodness-of-fit between the operationalized and construct definitions for of a scale.

A level of measurement is the precision by which a variable is measured. For more than half a century, with little detraction, science has used the Stevens (1951) typology of measurement levels. There are three vital things to remember about this typology: (1) anything that can be measured falls into one of the four types; (2) the higher the type, the more precision in measurement; and (3) every level up contains all the properties of the previous level. The four levels of measurement, from lowest to highest, are: Nominal, Ordinal, Interval, and Ratio. The nominal level of measurement describes variables that are categorical in nature. The characteristics of the data one is collecting fall into distinct categories. If there are a limited number of distinct categories (usually only two), then it is a discrete variable. If there are an unlimited or infinite number of distinct categories, then it is a continuous variable.
The ordinal level of measurement describes variables that can be ordered or ranked in some order of importance. The interval level of measurement describes variables that have more or less equal intervals, or meaningful distances between their ranks. The ratio level of measurement describes variables that have equal intervals and a fixed zero (or reference) point. Advanced statistics require at least interval level measurement, so the researcher always strives for this level, accepting ordinal level (which is the most common) only when they have to. Variables should be conceptually and operationally defined with levels of measurement in mind since it is going to affect how well one can analyze the data later on.

Reliability and Validity are essential for any research study to be faithful. Reliability means that the findings would be consistently the same if the study were done over again. Validity refers to the truthfulness of findings; i.e., whether it measures what it is to measure. A study can be reliable but not valid, and it cannot be valid without first being reliable.

2.4. d. 1 Construct definition

Psychometric literature recommends construct definition as the first step in scale development. Therefore, drawing from existing literature researcher specified what organizational autonomy is (Brock, 2003; Inkson et al., 1970; Sims et al. 1976) and at the same time differentiated it from other related constructs (Brock, 2003). Autonomy is defined as the degree to which one may make significant decisions without the consent of others (Brock, 2003). Autonomy in the current context is treated as autonomy of an organizational subunit and not that of the whole organization to which the subunit is a part. Thus the unit of analysis is the subunit and the autonomy of a
subunit is considered as the freedom the head of the subunit has in making decision without consulting others external to the subunit. Autonomy is conceptually and practically different from other structural variables such as decentralization and empowerment. The following illustration depicts how autonomy is different from other related concepts and how they might as well coincide at the lowest level of operation. Letters A B C D represent four subunits/subunit managers. Board/CEO/Owner is considered external to the subunit and an autonomous subunit is one wherein the manager has freedom to make decisions that are significant to the functioning of the subunit.

2.4. d. 2 Content or Face validity

Face validity demands that on the surface the scale items should appear consistent with the theoretical domain of the construct i.e. items generated should tap the domain of the construct. Judges with expertise in the literature shall screen items, and several pilot tests on samples from relevant population shall be conducted to trim the items and to refine the pool of items.

Items were generated from junior and middle level executives working in various service organizations. These were executives working at lower or middle managerial levels in various organizations and were participants of an executive development programme. They were asked to list down all decisions that could be taken by a manager with independent responsibility of a business unit in a services firm. 95 items were generated in total. 9 items that were to be obviously out due to duplication or being out of domain of the construct were deleted. Balance 86 items were presented to a panel of four experts with experience in banking and financial services industry ranging from fifteen years to twenty eight years. They were asked to select only those
items from the list they found to be relevant to a branch manager in a bank. Experts also were briefed as to the need for presenting items the shortest and simplest manner possible to ensure easiness in response as well as reliability. Researcher retained all items that were selected at least by one of the expert which resulted in 22 items. These items were further pruned by an expert who worked in banking and as well had academic research interest. Four items were dropped by the expert resulting in 18 pruned items.

<table>
<thead>
<tr>
<th>Setting monthly targets</th>
<th>Recruiting service staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing territories</td>
<td>Promoting staff</td>
</tr>
<tr>
<td>Pricing of services</td>
<td>Creating a new job</td>
</tr>
<tr>
<td>Sales/marketing agents</td>
<td>Dismissing a staff</td>
</tr>
<tr>
<td>Marketing budgets</td>
<td>Remunerating staff</td>
</tr>
<tr>
<td>Cost of customer acquisition</td>
<td>Training needs and methods</td>
</tr>
<tr>
<td>To sanction loans</td>
<td>Allocating work among available personnel</td>
</tr>
<tr>
<td>To decide on resource acquisition procedures</td>
<td>Advertising or other means of promotion</td>
</tr>
<tr>
<td>Service quality standards to be maintained</td>
<td>New product or service introduction</td>
</tr>
</tbody>
</table>

2. 4. d. 3 Scale Dimensionality

A constructs domain may be one-dimensional or multi-dimensional. The scale or subscales used to operationalize the construct is expected to reflect the hypothesized dimensionality. Since managerial decisions in a business organization could be classified based on managerial functions such as planning, organizing, staffing, directing and controlling or along business functions such as Finance, Human Resource, Marketing, Production etc. the scale items were expected to belong to any one or a few of these functions. The scale’s empirical factor structure could therefore be reflecting these dimensions. To confirm this expected dimensions a factor analysis
was conducted using SPSS software. Results of the factor analysis are given in Part I of Chapter Four.

Rotated component Matrix showed that the items loaded on three major components. Items loaded together on any one component reflected a high business-functional similarity. Therefore the components were labeled along the business function to which the decisions primarily belonged. Thus six items loaded on component one was labeled as Marketing Autonomy, the seven items loaded on component two together was labeled Personnel Autonomy and the last component comprising five items was labeled Goal Setting Autonomy.

2. 4.d. 4 Measurement Reliability

There are two broad types of reliability in psychometric literature;

1. Test-retest: - the correlation between the same person’s score on the same set of items at two points in time. It is not done in majority of scale development exercises.

2. Internal consistency: - Items comprising a scale or subscale should show high levels of internal consistency. Commonly used criteria for assessing internal consistency are individual corrected item to total correlations, the inter item correlated matrix for all items or for items proposed to measure a given scale dimension, and a number of reliability coefficients.

The most widely used internal consistency reliability coefficient is the Chronbach’s alpha. Reliability results for the entire scale as well as for the sub-scales are given in Part I of Chapter Four.

2. 5 Literature on Mediation and its Testing

A mediator, also known as an intervening or process variable, is a variable that fully or
partially accounts for the relationship between an independent variable and a dependent variable (See Fig 2.3). In other words, a mediator represents a path through which a major effect of the independent variable reaches the dependent variable. If the postulation that the mediating variable is causally related to the outcome is correct, something that substantially changes the mediating variable will, in turn, change the outcome (Baron & Kenny, 1986). Complete mediation is the case in which the independent variable (IV) no longer affects the dependent variable (DV) after the mediator (M) has been controlled and so path c' is zero. Partial mediation is the case in which the path from IV to DV is reduced in absolute size but is still different from zero when the mediator is controlled.

An example may be given: if market orientation is a complete mediator of the autonomy-performance relationship, then something that can negatively influence market orientation will cause a negative effect on the impact of autonomy on performance as well. In the partial mediation case, autonomy's impact on performance wouldn't be fully suppressed due to the lack of market orientation. The difference between full and partial mediation is schematically shown in figure 2.3. The practical significance of a mediating relationship like this is that IV becomes a less relevant predictor of DV as the mediating role of M becomes significant (Asher, 1976; James & Brett, 1984).

![Figure 2.2 (The Main Effect)](image-url)
The first step in mediation is to show that the predictor variable $X$ is related to the outcome variable $Y$. If this first analysis is not significant, then one must stop looking for a mediated relationship also. The second step is to show that the distal predictor ($X$) predicts the mediator ($M$). At this stage, for $M$ to mediate, there should at least be a correlation between $X$ and $M$. If $X$ exerts its effect through $M$ then if one control for $M$, the $X$ variable should no longer be related to $Y$. In other words, in the combined regression equation $Y = a + b_1 M + b_2$, $b_2$ should emerge as statistically insignificant and $b_1$ significant. Also, the variance explained by the model implied by the above equation should be significant, overall. Looking at figure 2.3, the amount of mediation is $c-c'$. Also, the indirect effect of the IV on DV is, $a*b$. 

Figure: 2.3 (Mediation Effect)

Figure: 2.4 (Full and Partial Mediation)