The Relationship between Extended Market Orientation (EMO) and Service Quality (Case Study: Iran Banks)

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Abstract：By entering the third millennium, we are confronting not only various changes, but also the ever-increasing speed of them; at the present time the speed of changes is so high that the ability to accompany with them is to be considered as a competitive privilege and a strength point. To continue the path very successfully, companies can't insist on their previous findings and experiences and do require new approaches in their business. Such an approach in Information Age can be definitely known as the extent of each company's perception that may play the biggest competitive privilege role of that company provided that all micro and macro activities of company are originated from it and this is actually market orientation. The need of all companies involved in economical activities to conform to market orientation (versus mono-dimensional orientations to sale or product) is a completely confirmed issue. A business can't be market oriented unless it has undertaking culture in which systematically and in an integrated way create continuous illustrated and superior value for customers and in practice all its activities related to the present factors of the company's market be organized to creating value (for the customers). The current paper explores the relationship between market orientation and service quality in Iranian banking industry because solely having a market orientation privilege and without having a relevant approach to improving service quality don't help any business to gain its desirable results. The obtained result indicates that the extent of EMO in private banks is greater than state banks and there is a straight relationship between EMO and the gap between consumer's expectation and perceived services about five quality dimensions; since in banks with high levels of market orientation, the extent of gap between customers' expectations and perceptions of received service quality in both groups of banks is smaller than the gap in the banks with moderate and low level of market orientation.

Keywords: Banking Industry, Extended Market Orientation (EMO), Service Quality, SERVQUAL

1. Introduction

In today's hospitality environment, the true measure of company success lies in an organization's ability to satisfy customers continually. Increasingly customers are demanding value for money in terms of both price and the quality of product/service being offered. In order to ensure market success, hospitality organizations of all types are being forced to stand back and take a long, hard look at the way they are currently doing business. (Gabbie and O'Neill, 1996) The Iranian Banking industry is no exception to this rule.

Exploring the relationship between extended market orientation (EMO) and service quality in private and state Iranian banking industry has been evaluated in this research project and the attempt is to achieve the following purposes:

(1)Determining the extent of EMO in private and state banking industry,(2) Analysis the gaps in both banking customer's perception and expectation with regard to SERVQUAL model, and (3) Studying the relationship between EMO and service quality in private and state Iranian banking industry

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2. Extended Market Orientation (EMO)

The marketing concept was formally introduced in the writings of McKitterick (1957) and Keith (1960). It defines a distinct organizational culture or business philosophy that puts the customer at the center of the firm's thinking about strategy and operations (Deshpande et al., 1993; Deshpande and Webster, 1989). Though the marketing concept is central to the marketing literature, very little research has been done in terms of creating a valid measurement scale and testing the construct empirically (Tse et al., 2003). In response to the operational problem of the marketing concept, Kohli and Jaworski (1990) developed the three ''pillars'' of the marketing concept into precise aspects (manifestations) of what they call a ''market orientation.'' According to Kohli and Jaworski's definition (1990), three sets of activities-intelligence generation, intelligence dissemination, and responsiveness to market intelligence-represent the operationalization of market orientation.

Meanwhile, Narver and Slater (1990) hypothesized that market orientation is a one dimensional construct consisting of three components: customer orientation, competitor orientation, and interfunctional coordination (Tse et al.,2003).They introduce effects model of relationships between market orientation, business- specific factors, market level factors and performance.

However, though similarities in definition, content, and operationalization are evident, consensus with respect to the importance and positioning of "information," "value," and "competitors" has yet to be reached (Webb et al., 2000).To respond to this confusion, Matsuno and Mentzer (2000) argued that whether or not the construct of a market orientation is equivalent to culture (as defined by Narver and Slater) or a set of behaviors (as defined by Kohli and Jaworski) is a subject of heated debate (Deshpande and Farley, 1998a, b; Narver and Slater, 1998; Narver et al., 1998). The EMO scale extends the scope of stakeholders and marketplace factors to include suppliers, regulatory aspects, social and cultural trends and macroeconomic environment as other authors acknowledge (Jaworski and Kohli, 1996; Kohli et al., 1993). Matsuno et al. (2005) defined the focal EMO construct as ''a set of intelligence generation and dissemination activities and responses pertaining to the market participants (i.e., competitors, suppliers and buyers) and influencing factors (i.e., social, cultural, regulatory and macroeconomic factors).''

3. Service Quality (SERVQUAL)

During the past few decades service quality has become a major area of attention to practitioners, managers and researchers owing to its strong impact on business performance, lower costs, customer satisfaction, customer loyalty and profitability (Chang and Chen, 1998; Gummesson, 1998; Lasser et al., 2000; Silvestro and Cross, 2000; Newman, 2001; Sureshchander et al., 2002; Guru, 2003 etc.). There has been a continued research on the definition, modeling, measurement, data collection procedure, data analysis etc., issues of service quality, leading to development of sound base for the researchers (Seth,2005).

The most popular measure of service quality is SERVQUAL, an instrument developed by Parasuraman et al. (1985; 1988).Not only has research on this instrument been widely cited in the marketing literature, but also its use in industry has been quite widespread(Brown et al., 1993). Parasuraman et al. (1985) proposed that service quality is a function of the differences between expectation and performance along the quality dimensions. They developed a service quality model based on gap analysis. This exploratory research was refined with their subsequent scale named SERVQUAL for measuring customers' perceptions of service quality (Parasuraman et al., 1988). At this point the original ten dimensions of service quality collapsed in to five dimensions:

- Tangibles (the appearance of physical facilities, equipment, and personnel);
- Reliability (the ability to perform the promised service dependably and accurately);
- Responsiveness (the willingness to help customers and provide prompt service);
- Empathy (the provision of individual care and attention to customers); and
- Assurance (the knowledge and courtesy of employees and their ability to inspire trust and confidence).

Each dimension is measured by four to five items (making a total of 22 items across the five dimensions). Each of these 22 items is measured in two ways:

- The expectations of customers concerning a service; and

- The perceived levels of service actually provided (Ladhari, 2008).

Gap model seems to draw much support from researchers (Akan, 1995; Johns and Tyas, 1996; Johnson and Sirikit, 2002;) etc, and SERVQUAL has been used to measure service quality in various service industries; these have included: the health sector (Carman, 1990; Headley and Miller, 1993; Lam,1997; Kilbourne et al., 2004); banking (Lam, 2002; Zhou et al., 2002); fast food (Lee and Ulgado, 1997); telecommunications (Van der Wal et al., 2002); retail chain(Parasuraman et al., 1994); information systems (Jiang et al., 2000); and library services (Cook and Thompson, 2001). SERVQUAL has also been applied in various countries; these have included: the United States (Jiang et al., 2000; Kilbourne et al., 2004); China (Lam, 2002; Zhou et al., 2002);Australia (Baldwin and Sohal, 2003); Cyprus (Arasli et al., 2005); Korea (Kettinger et al., 1995); South Africa (Vander Wal et al., 2002); The Netherlands (Kettinger et al., 1995); and the UK (Kilbourne et al., 2004).

4. Hypothesis

H1: The greater the extended market orientation, the lower the gap between consumer's expectation and perceived services about tangibles dimension

H2: The greater the extended market orientation, the lower the gap between consumer's expectation and perceived services about reliability dimension

H3: The greater the extended market orientation, the lower the gap between consumer's expectation and perceived services about responsiveness dimension

H4: The greater the extended market orientation, the lower the gap between consumer's expectation and perceived services about empathy dimension

H5: The greater the extended market orientation, the lower the gap between consumer's expectation and perceived services about assurance dimension

5. Research Methodology

In this study, the scale for market orientation developed by Matsuno and Mentzer (2000) were adopted . For measuring EMO a postal survey was conducted to collect information from all private and state banks in Iran banking industry and a self-administered questionnaire, a letter, a personalized instruction cover letter explaining the purpose of the survey and a return envelope was sent to the head manager of the both category of banks branches. The head manager was treated as the key informant. This approach implicitly assumes that the key informant's individual opinion accurately provides a good indication of their organization's market orientation. Respondents were assured of their anonymity and offered a copy of the aggregate results of the survey. To further enhance the response rate, every 4 weeks after the initial mailing, a follow-up letter with a questionnaire was mailed. Forty-eight responses were received and used.

Service quality was operationalized according to SERVQUAL by Parasuraman et al. (1985; 1988), and 400 customers were randomly selected equally from both of private and state banks. Seventy-three percent responses were received and used.

6. Results

The results of this investigation about private and state banks showed that there are gaps in the customers' expectations of services and services delivered to them by the banks in IRAN in all five service quality dimensions. In private banks as to the relative importance of each of these dimensions, assurance was proved to be the most important dimension, followed in order by reliability, responsiveness, and tangible. Empathy was known to be the least important dimension. Moreover, the largest gap between the expectations and perceptions was in assurance dimension, and the smallest gap between these areas was associated to the tangible dimension; and in state banks as to the relative importance of each of these dimensions, reliability was proved to be the most important dimension, followed in order by responsiveness, assurance and empathy. Tangibles were known to be the least important dimension. Moreover, the largest gap between the expectations and perceptions was in reliability dimension, and the smallest gap between these areas was associated to the empathy dimension.

The obtained result from the population of this research indicates that the extent of EMO in private banks is greater than state banks and there is a straight relationship between extended market orientation and the gap between consumer's expectation and perceived services about five quality dimensions; since in banks with high levels of market orientation, the extent of gap between customers' expectations and perceptions of received service quality in both groups of banks is smaller than the gap in the banks with moderate and low level of market orientation.

7. Discussion

Examination of the findings and the obtained results of the hypotheses culminated in directing the research path to deep analysis of the expected relationships and also the approved or rejected relationships in the research hypotheses. Considering the literature and the framework of the research and also based on the reported results by the authors and specialists, the most important of which were explained in detail in the previous sections, the first step of a firm to get close to market orientation was expected to be the organization on a set of behavioral and cultural principles to satisfying customer better than competitors. Naturally, the firms which have succeeded in the modification of their customer's needs and wants and the culture in direction of becoming market oriented must have achieved more optimized conditions in the service quality's dimensions. Therefore, the results of this research confirm the need of a favorable and facilitating internal environment of market orientation (as a cultural pre–requisite) based on Slater and Narver's notions (1990) and also appropriate and progressive actions (extended market orientation (EMO) as a behavior resulted from the organizational culture) based on Kohli and Jaworski's notions (1990) to achieve higher levels of service quality measured by the gap between customer's expectation and perceptions. Since market orientation as the implementation of marketing concept is defined and operated by satisfying the customers and on the same basis market oriented companies are the companies which are more successful in satisfying the customers' needs and desires, therefore the result of applying such an approach can be estimated in higher level of service quality which has been measured by customers in all qualitative aspects in service companies and less gap between customers' expectations and perceptions is expected.

8. Suggestions

The existing gaps in different aspects of service quality of Iranian banks are less in banks in which their managers are more interested in market orientation comparing the other banks. Thus it can be recommended to different banks of this research's statistical society that in order to decrease the gaps and subsequently improve the quality level of services, the useful mechanisms should be pursued more seriously toward market orientation. At the other hand in today's competitive market, for being market oriented firm concentrating on a single dimension would lead to no success. No firm would succeed in market orientation by applying a mere cultural approach and paying attention to the internal environment and ignoring the external environment and the firm's decisive measures or by a mere behavioral approach while paying attention to some activities without preparing the necessary cultural pre-requisites or by concentrating on just the competitors and the customers instead of a continuous monitoring of all the external factors. Successful firms according to the finding of this research would be competent and perpetual in obtaining an optimized level of extended market orientation and a high quality services.

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