THE INFLUENCE OF MARKET ORIENTATION ON BUSINESS PERFORMANCE:

THE CASE OF COMMERCIAL BANKS IN ETHIOPIA

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DECLARATION

I, the undersigned, declare that this study entitled as "THE INFLUENCE OF MARKET ORIENTATION ON BUSINESS PERFORMANCE: THE CASE OF COMMERCIAL BANKS IN ETHIOPIA" is my own work. I have carried out the research work independently with the guidance and support of the research advisor. This study had not been submitted to any degree/diploma in this or any other institution.

Name of Student: Rediet Tilahun

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CERTIFICATION

This is to certify that Rediet Tilahun has completed her thesis entitled as “THE INFLUENCE OF MARKET ORIENTATION ON BUSINESS PERFORMANCE: THE CASE OF COMMERCIAL BANKS IN ETHIOPIA” Her thesis is appropriate to be submitted as a partial fulfillment of the requirement for the Degree in Master of Business Administration in Management (MBA in Management).

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This is to certify that the thesis, "THE INFLUENCE OF MARKET ORIENTATION ON BUSINESS PERFORMANCE: THE CASE OF COMMERCIAL BANKS IN ETHIOPIA," was carried out by Rediet Tilahun under the supervision of Dr. Workneh Kassa, submitted in partial fulfillment of the requirements for the degree of Master of Business Administration in Management.

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ABSTRACT

The main objectives of the current study were three-fold; investigating market orientation strategy of commercial banks in Ethiopia; uncovering if there exists a difference among public owned and private owned banks on market orientation practice; and identifying the influence of market orientation components on business performance of commercial banks. The study mainly focused on branches operating in Addis Ababa city. Stratified method of sampling was employed to select 297 bank branch managers as a respondent from five commercial banks with response rate of 88.1 percent. The data were collected using a questioner developed by Narver and Slater (1990) (with a little extension) and checked for its internal consistency using Cronbach's Alpha test. The data were then analyzed using both descriptive and econometric analysis. The descriptive analysis confirmed that commercial banks in Ethiopia are more of customer oriented. Of the respondent's 80.1 percent, 67 percent and 63 percent of respondents, respectively, rated components of customer orientation, inter-functional coordination and competitive orientation above scale level of 4 (in the questioner, scale level 4 represents neutral while 5, 6 and 7 represents somewhat agree, agree and strongly agree). This result was re-affirmed by factorial analysis using Principal Component Analysis method. That is, customer orientation, inter-functional coordination and competitive orientation ranked first, second and third, respectively with index value of 1.44, 0.59 and 0.43. The study further constructs latent variables for customer orientation, competitive orientation, inter-functional coordination and business performance indicators that are used to undertake econometric analysis. The inferential econometric analysis using model regression confirmed private banks are customer oriented, competitive oriented and inter-functionally coordinated vis-à-vis government owned bank. Finally, a multiple linear regression on the relationship between business performance and market orientation components claimed that customer orientation and inter-functional coordination has paramount importance in determining business performance. Moreover, the auxiliary regression on this showed that private banks, large sized branches and manager with high level of education found to have a positive and significant effect on business performance. Based on the findings, the study forwarded recommendations.

Keywords: Market Orientation, Business Performance, Regression Analysis

CHAPTER ONE

1. INTRODUCTION

1.1. BACKGROUND OF THE STUDY

After the emergence of marketing concept in the early 1950's, Market Orientation has been conceptualized by different scholars in a different way. According to Chrisphine, (2014), the definition and the resulting research works on Market Orientation are generally grouped into two; cultural approach (Narver and Slater (1990)) and behavioral approach (Kohli et al (1993)). In this regard, Narver and Slater (1990) defined Market orientation as the best instrument used by business managers in gaining competitive advantage over competitive peer firms operating in the same industry. On the other hand, Kohli et al (1993) summed up the three components of market orientation developed by them, including intelligence generation, dissemination & responsiveness, to describe market orientation as the organized and structured way of identifying current and future need of customers and the respective factors affecting the needs so as to make the organization first choice by customers.

Given the fact that market orientation is determinantal in firms' growth process, Aziz and Yassin (2010) documented that company managers mostly applied the concept of Market Orientation to analyze how far their organization used marketing concepts in the day-to-day business activity. There are two widely applied methods that have been used by the literatures to measure the scale of market orientation attached to a specific firm. The measures are MKTOR (developed by Narver and Slater (1990)) and MARKOR (developed by Kohli et. al (1993)). Under the MKTOR approach, market orientation of a firm can measured by constructing three major components of market orientation; that is, customer orientation (focus on identifying what the existing as well as potential customers demand for and work in full potential towards developing the product in demand), competitor orientation (give emphasis on owning high value/best product by a firm against the same product owned by peer competitors in that specific industry) and Inter-functional coordination (focus on availing best product in a specific industry through effective coordination of all resources of a given business firm). On the other hand, the MARKOR method identified three components (which consist of 25 items) to construct a measure of market orientation of a business entity. The components of the construct include; Intelligence generation (the ability to collect and

assess the potential demand of customers), Intelligence dissemination (the capacity of intra-organization information exchange) and Responsiveness (reactions for the generated and disseminated intelligence).

Being cross-cutting in nature, since the early 1990's, market orientation has got due attention by marketing as well as academic professionals. The effect of Market Orientation on firm's business performance indicators has been emphasized by empirical research works and market orientation strategy of a firm is considered as one determinant of, along with other external factors, performance of a specific business firm. So far, in literature, there are two types of firm performance indicators: financial and non-financial performance indicators. The financial performance indicator mainly focuses on profit of a firm (return on asset and return on equity) while the non-financial performance indicator is related to satisfaction of firm stakeholders. Mark and Edward (1997) summarized different business performance indicators of a firm as profitability, customer service and retention, sales growth, new product success, growth in sales revenue, employee satisfaction, commitment and trust, overall business performance & employees' organizational commitment, innovation-marketing fit, product advantage and inter-functional teamwork, project impact performance, and new product success.

In general, empirical findings documented that a firm with greater market orientation would have expected to achieve higher business performance (irrespective of which measure used as a measure of performance) compared to its peers with lower market orientation strategies (Paloma et al., 2010). The aforementioned fact is applicable in the banking industry as well. Similarly, Wei (2008) showed a firm with market orientation behavior has a high probability of achieving success in terms of employee satisfaction, customer satisfaction, customer loyalty and innovation. Specific to the relationship between to market orientation and profitability of a business, Narver and Slater (1990) found that market orientation has positive effect on profitability of a business (both for commodity products business and non-commodity business). Contrary to this, some research findings showed that market orientation has no effect on business performance of a firm (Deshpande et al (1993), Jaworski and Kohli (1993) and Greenly (1995)). Groups of experts who believed the positive effect of market orientation on business performance, however, has concern on how the former affects the later. For instance, Mujahid et al (2019) showed the moderating role of employee orientation while discovering the impact of market orientation on firm's customer-based performance of in selected UK service industries.

The current study mainly focuses on identifying the influence of market orientation on business performance of commercial banks in Ethiopia using MKTOR approach.

1.2. STATEMENT OF THE PROBLEM

Competition, globally, in any industry has increased and become intense and expected to be higher in the future. An increase in competition so far brought the discovery of new product both in goods and service sector. For instance, though varies across the economy, the banking industry (where by intense competition prevail) introduced range of financial products throughout the time including, but not limited to, Automated Teller Machine (ATM), Internet banking, Mobile banking Islamic financial products and etc. All those product developments are believed to be related with market orientation strategy of banks operating in the industry (either serving customers with better service or winning competitors and gain higher market share in the market). As discussed by Li et al (2008) banks with best market orientation strategy end up in gaining competitive advantage over its competitors and hence become less fragile for unanticipated shocks in the economy.

The case observed globally is expected not to be different in Ethiopian banking industry. According to National Bank of Ethiopia quarterly report (2019/20 second quarter), there are 17 commercial banks operating in Ethiopia, of which 1 government owned and 16 privately owned commercial banks. Moreover, more than ten new banks are under formation to join the industry in Ethiopia including Islamic banks, mortgage bank and investment banks (e.g.: Jano Bank and Kush Bank). Therefore, in the near future the existing commercial banks in Ethiopia are expected to face intense competition which has not been observed in the past. Hence, identifying the status of commercial banks current market orientation strategy (and its effect on business performance) found to be paramount.

Moreover, as there are three dimensions/components to construct market orientation strategy of a specific firm (Narver and Slater (1990)), knowing in which sub-component a given firm achieved best and least gives a good information for business managers. For instance, some banks (in this specific study) may have best practice in customer orientation but neglecting competitor orientation and vice versa. This would lead banks to work below potential compared to competitors with better mix of customer and competitor orientation. Therefore, it is found to be important to investigate how commercial banks in Ethiopia mix their market orientation strategy.

To the best of the researcher knowledge, though there are few studies conducted regarding the impact of market orientation on business performance of commercial banks in Ethiopia (eg; Ephrem (2017), Kassie (2015), Mekonnin (2015)), they used the MARKOR approach of measuring market orientation. Hence, the current study used the MKTOR method of market orientation measure for the following two reasons; (i) previous research works documented that MARKOR approach is too narrow to represent the concept of market orientation in the sense that it only focuses on measuring information generation and dissemination process rather than measuring the reflection of managers on customer understanding and how the provide value to customers. On the other hand, MKTOR approach directly measures customer satisfaction. (ii) literature showed that MARKOR approach lacks convergent validity while measured by confirmatory factor analysis.

Moreover, previous studies in Ethiopian banking industry mainly focus on a particular case of Commercial Bank of Ethiopia (except a study by Kassie (2015) that used MARKOR scale). Therefore, the current study incorporated selected private commercial banks as a comparison with Commercial Bank of Ethiopia. Additionally, to explicitly measure the influence of Market Orientation on business performance, the influence of other control variables that are expected to have an effect on business performance should be controlled in the regression (Campo et al, 2014).However, in estimating the influence of MO on business performance of commercial banks in Ethiopia, previous studies missed to incorporate control variables (including educational level of the branch manager, size of the branch and ownership of the bank) that would help to get unbiased estimation result. The current study, therefore, incorporated selected control variables while estimating the influence of MO on business performance.

1.3. RESEARCH QUESTION

The main research question of the current study was;

- What is the market orientation level of commercial banks (along three dimension of market orientation)?
- Is there a difference on market orientation level (along the three dimensions) among public and private commercial banks in Ethiopia?
- What is the influence of customer orientation on the performance of commercial banks in Ethiopia?

- What is the influence of competitor orientation on business performance of commercial banks in Ethiopia?
- What is the influence of inter-functional coordination on business performance of commercial banks in Ethiopia?

1.4. OBJECTIVE OF THE STUDY

1.4.1 GENERAL OBJECTIVE

Upon the aforementioned stated problem, the current study mainly examined the influence of market orientation on business performance in Ethiopian banking industry.

1.4.2 SPECIFIC OBJECTIVES

More specifically, the study;

- Identify market orientation level of commercial banks (along three dimension of market orientation)
- Investigate whether there exists difference in market orientation strategy (along the three dimensions) among public and private commercial banks in Ethiopia
- Analyze the influence of customer orientation on the performance of commercial banks in Ethiopia
- Analyze the influence of competitor orientation on business performance of commercial banks in Ethiopia
- Analyze the influence of inter-functional coordination on business performance of commercial banks in Ethiopia

1.5. HYPOTHESIS OF THE STUDY

The study formulated the following hypothesis that tested throughout the analysis;

H_0^a : Customer orientation has no influence on business performance of commercial banks in Ethiopia

H_0^b : Competitor orientation has no influence on business performance of commercial banks in Ethiopia

H_0^c : Inter-functional coordination has no influence on business performance of commercial banks in Ethiopia

H_0^d : Bank ownership (private vs public) has no influence in explaining the relationship between market orientation and business performance of commercial banks

H_0^e : Educational level of the manager has no influence in explaining the relationship between market orientation and business performance of commercial banks

H_0^f : Size of the branch has no influence in explaining the relationship between market orientation and business performance of commercial banks

1.6. SIGNIFICANCE OF THE STUDY

The output of the study is helpful for the different stakeholders. First, commercial bank managers could be benefited from the result of the study as it will give them a direction to understand the level of market orientation in the banking industry. This, in turn, will help them to improve their market orientation practice in their day-to-day business activity so as to perform and thrive in the industry. Second, investors who already invested in the industry or that have a plan to invest in the sector could be benefited from this study. As investors are cautions about their investment return and the factors that has influence on the same, the result of the current study gives them a quick – view on where to re/invest their asset by referring the relationship between market orientation components and business performance of commercial banks. Finally, the current study forwards potential research gap and hence researches could take initial ideas to undertake further study on the same area.

1.7. LIMITATION OF THE STUDY

The current study mainly focuses on identifying market orientation level of commercial banks in Ethiopian banking industry and its influence on their business performance. The study was, however, undertaken on branches of selected commercial banks that were operating in Addis Ababa city only and excludes regional branches due to time and budget constraint to include regional bank branches. The data we would get from regional branches could have enriched the research further by providing unique information that is peculiar to that area.

1.8. DEFINITION OF TERMS

The meaning of important terms (in the context of the current study) is presented as follows;

Market Orientation (MO): it is a business culture in which all employees are committed to the continuous creation of superior value for customers (Narver, Slater, 1990). According to them, it is comprised of three components including customer orientation, competitor orientation and inter-functional coordination

Customer Orientation: it is a business philosophy in which a company work towards the satisfaction of customers in order to retain them for longer period of time (Narver and Slater, 1990).

Competitor Orientation: it is a business philosophy in which a company follow up every move of competitors and respond accordingly to stay in the market (Narver and Slater, 1990).

Inter-functional Coordination: it is defined as effective communication and coordination among departments of a given company towards achieving business target.

Business Performance indicator: it is an indicator used to measure the development of a given company in terms of profit, growth and expansion.

MKTOR approach: it is method used for measuring market orientation

CHAPTER TWO

2. LITREATURE REVIEW

2.1. THEORETICAL LITERATURE REVIEW

2.1.1 THE CONCEPT OF MARKET ORIENTATION

The concept of market orientation becomes acquainted with the academic literature beginning from the 1920s. In the 1950s, its application at organizational level as marketing operationalization started to emerge thereby getting the attention of top managers. Since the mid-1960s empirical computation of the impact of market orientation as well as the theory construct appeared in various empirical research (Gheysari, Roghanian and Norhalim, 2012). Predominantly there are four main theoretical perspectives which viewed market orientation from Cultural (Narver and Slater, 1990), Behavioral (Kohli and Jaworski,1990), Capability (Day (1990) and Integrationist perspective (Homburg and Pflesser, 2000). The different perspectives of market orientation are discussed below.

A. Market Orientation: Cultural Perspective

Narver and Slater (1990) conceptualized market orientation as a cultural perspective. It viewed market orientation as fundamental characteristics of organizational habit in giving efficacious and more value to consumer in order to create sustainable competitive advantage. According to the authors, creating superior consumer value essentially involves making sure that consumers' expected value derived from buying a particular product or service to be way higher than what the same consumer will get from any other alternative products and services available in the market. Moreover, they pointed out the following three behavioral components of market orientation. The first one is consumer orientation meaning creating a superior customer value through getting a better and full awareness about their current and future need. The second one is competitor orientation. This behavioral component of market orientation requires an organization/seller to understand the strengths and weakness of major competitors in the short term as well as their strategies and key capabilities over a longer time period. The third behavioral component is inter-functional coordination, which involves using the overall resources of the organization in a coordinated manner primarily to create customer superior value.

In defining the market orientation, apart from the three behavioral components of market orientation discussed above, Narver and Slater (1990) identified two conceptually strongly related (with market orientation) decision criteria. These are: long term focus and profitability. The first one, long term focuses, implies that sellers should adopt a long-term perspective in terms of profit maximization as well as applying market orientation components discussed in the previous paragraph via introducing different tactics and investment in a constant manner so that they will continuously ensure consumer superior value as well as stay ahead of their competitors. On the other hand, with regard to profitability decision criteria, the authors rather view profit as a key business objective for profit making organization while, ensuring survival by generating revenue that equate their cost for a nonprofit organization.

B. Market Orientation: Behavioral perspective

Another conceptualization of market orientation was cemented by Kohli and Jaworski (1990) which is known as behavioral perspective. The behavioral perspective views market orientation as organizational information processing activities focusing on specific behaviors related to market intelligence generation, dissemination and responsiveness. More specifically, it is "the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it.

According to them market orientation encompasses the following three key pillars. The first one is consumer focus, which implies researching consumer's needs and choices as well as applying market intelligence to analyze consumers' current and future demand together with other exogenous market factors such as competition, regulation, technology and the business environment. The authors also signify the importance of satisfying the needs of retailers rather than only concentrating on end consumers. Kohli and Jaworski (1990) viewed market intelligence as the basic foundation for market orientation. Accordingly, market intelligence involves generating intelligence, disseminating internally and responding accordingly to the identified needs. The second pillar is coordinated market, which requires different departments of a particular organization (not only the marketing department) to get familiar with the consumer demand and actively engage in responding to it in a coordinated manner. The third one is profitability, which is more or less engendered by the first two pillars of market orientation. Due to this particular feature, profitability is less likely considered as one part of the market orientation component.

C. Market Orientation: Integrationist perspective

Homburg and Pflesser (2000) introduced another dimension of market orientation known as Integrationist perspective by extending the work of Narver and Slater (1990). According to them, the cultural perspective has limitation including; it doesn't consider more fundamental components of market-oriented culture and unable to distinguish different layers of organizational culture (value, norm, behavior and artifacts). Hence, Homburg and Pflesser (2000) developed broader cultural perspective of market orientation by integrating different layers of organizational culture. According to the authors, market oriented organizational culture embedded four constructs: (i) organization-wide shared basic *values* supporting market orientation (including openness of internal communication and responsibility of employees), (ii) organization-wide *norms* for market orientation (including openness of market related internal communication and market related responsibility of the employees) , (iii) perceptible *artifacts* of market orientation (including organizational stories, arrangements, rituals and languages) , and (iv) the market-oriented *behaviors* (including generation of market intelligence, dissemination of market intelligence and responsiveness to market intelligence) (Homburg and Pflesser,2000). They considered norms as a guidance to market-oriented behavior within the organization whereas as values as a supportive for of market orientation. Hence, the authors argued that market orientation should be conceptualized by integrating various multi-culture layers rather than a single conceptualizing based on cultural or behavioral perspective.

D. Market Orientation: Capability perspective

Another approach of conceptualizing market orientation was developed by Day (1994) known as capability approach. In this approach, market orientation represents capability of the organization attached to market sensing and customer-linking (Day,1994). This approach assumed that organizations have a distinct capability level and, hence, an organization that has deep rooted capabilities of market sensing and customer linking would have a greater chance to win competitors over by responding for any market change. According to the author, capability of an organization should be identified and improved in order to enhance the competitive level of the company. This will include four sequential steps including (i) diagnosis of current capabilities (ii) anticipating future needs for capabilities (iii) designing a change program (iv) monitoring the progress.

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2.1.2 CONSEQUENCES OF MARKET ORIENTATION

As documented by Kirca, Jayachandran and Bearden (2005), the impact of market orientation can be viewed from four perspectives. One, from organizational performance standpoint, market orientation could improve firm performances such as profit, revenue, sales and market shares. Two, from customer point of view, market orientation improves products and service quality perception of customers, customer's satisfaction and trustworthiness. Three, innovation, market orientation enhances firm's capacity to introduce new products as well as the performance of the new products and ideas. Fourth, from employees' perspective, market orientation could enable employees to commit to the organization, bring about team spirit, job satisfaction and reduce market conflict.

According to Gima (1996), market orientation facilitates innovation through the following different channels. First, product newness channel, as market orientation require an organization to assess the needs of customer, it will facilitate innovation by minimizing the uncertainty or incompatibility associated with the introducing of new products or services. In other word, market orientation accelerates acceptance and achievement of innovation. Second, product-company fit channels; market orientation enables companies to harmonize between resources, marketing, technological skills, resources and innovation. This is because, when firms use market orientation to create connection between the company and the environment, they rely heavily on internal resources and competencies analysis, which will in turn provide companies with sustainable competitive advantage. Three, product advantage channels, market orientation improves product quality or advantage to customers. This product advantages in turn is key to product innovation. Fourth, Inter-functional teamwork channels, market orientation enhance functional integration or teamwork which is essential to innovation. Fifth, innovation performance channels, market orientation improve organizational performance thereby increases market success and innovation project performance impact.

While, Dobni and Luffman (2003) pointed out that the interrelationship between market orientation behavior, action (such as with respect to differentiation, innovation, focus and cost leadership) and situational contextual variables (such as competitive intensity, technology & market dynamics, product and service dynamic) determine performance or return on investments (Dobni and Luffman, 2003).

2.1.3 MEASURING MARKET ORIENTATION AND BUSINESS PERFORMANCE

I. Measuring Market Orientation

There are two mostly used methods of measuring market orientation in the academic literatures. These are MARKOR and MKTOR Scale which were developed based on Kohli and Jaworski (1990) and Narver and Slater (1990), respectively. These scales are questionnaire that measures to the level of adoption of market orientation behavioral components discussed in the previous sections.

I.1. MKTOR Scale

As discussed by Charles, Joel and Samwel (2012), MKTOR methods involve designing a questionnaire comprising fifteen items about the three dimensions of market orientation behaviors namely Customer Orientation, Competitor Orientation and Inter-functional Coordination. Of the fifteen items, six items (questions) correspond to Customer Orientation, four items about Competitor Orientations and the remaining five questions about Inter-functional Coordination. Each question has 7 response options (Likert scale), ranging from strongly agrees (7) to strongly disagree (1) to measure how much respondent agrees or disagree about a particular item.

Customer Orientation

Given the fact that customer is the base for the very existence of a company, managers strictly follow the need and satisfaction of customer. With regard to this behavioral components of market orientation, the following sequence of questions are designed by MKTOR method: One, whether or not the organization measures customer satisfaction frequently or not; Two, whether or not customer satisfaction is the key driver of business objective or not; Three, the level of attention given to after-sales service; Four, how much the organization is committed towards fulfilling customers' needs through self-monitoring and evaluation; Five, whether the organization relies on understanding customers need to get an advantage over competitors; Six, whether or not the organization's business strategies are centered at rising customer value.

Competitor Orientation

With respect to the second behavioral market orientation components, competitor orientation, the questionnaire comprises the following four sequences of items. The first item asks responds whether or not the top management discus the strong point and weakness of competitors on a regular basis. The second items aim to get information with respect to the company's track record in responding to competitive actions in a timely manner. The third item asks respondent whether or not sales people exchange information about competitors. The last items ask respondent whether or not customers will be targeted when the organization get chance for competitive advantages.

Inter-functional coordination

Similarly, in relation to the last behavioral components of market orientation– Inter-functional coordination, the following five questions/items are identified. One, whether the top managers visit customers in each business function on a regular basis or not; Two, to what extent the business functions in the organization are well integrated to meet the targeted market needs; Three, the extent to which mangers clearly understand the role of employee to value of customers; Four, as to what extent information associated with customers are easily and freely communicated within all over the organization; Five, whether resources are freely shared across business entities or not (Charles, Joel and Samwel, 2012). Note that also that some researcher uses 14 MKTOR Instruments items (see Philip et al. 2017).

I.2. MARKOR Scale

As Protcko and Dornberger (2014) documented, MARKOR scale similarly constructed by interviewing mangers about key components of market orientation identified by Kohli and Jaworski (1990) namely intelligence generation, intelligence dissemination and responsiveness. For the three components of market orientation, a total of twenty-one items were identified, of which seven items corresponds to intelligence generation component, 5 items for intelligence dissemination component and the remaining 9 items for responsiveness component. Each item has 5 response options (Likert scale), ranging from strongly agrees (5) to strongly disagree (1) to measure how much respondent

agrees or disagree about each particular item. More details about those 21 items discussed by Protcko and Dornberger (2014) presented below in the paragraphs following.

With respect the first behavioral components of market orientation identified by Kohli and Jaworski (1990), i**ntelligence generation,** the following sequence of questions/items are designed: One, the frequency at which analysis about customers need is conducted; Two, the capacity of relationship between customers and the service department; Three, the ability of the organization to adopt to change in customers preference; Four, the frequency at which analysis about product quality is conducted; Five, the extent to which the company adopt to changes in environment; Six, the frequency at which the company assess the impact of changes in business environment; seven, understand change or shits in the environment such as regulation, competition, technology and regulation.

Similarly, with regard to the second market orientation component, i.e., **intelligence dissemination**, the following five items identified. One, the rate of occurrence of market information exchange within the organization; Two, the level of information exchange between sellers across the organization units; three, does customer satisfaction data shared across each firm level; four, data sharing ability about competitors' strategies on a regular basis; five, ability of the whole organization to quickly respond to important things happened in key market or customers.

Likewise, in relation to the third market orientation component, i.e., **responsiveness**, the following nine items identified. First, the level of attention given to the action of competitors; Second, the level of attention given to customers' needs; Three, the number of times the product is reviewed against customers' needs; Four, the ability of the organization to respond to change in business environment through planning in a coordinated manner across departments; five, how quick the organization implement to respond to competitors; six, the coordination ability across different units in the organization; seven, how much attention is given to customers' complaints; eight, the ability of the organization to quickly implement marketing plan; nine, the performance of departments to improve or modify goods and service for customers (Protcko and Dornberger, 2014 and see also Jaworski and Kohli, 1993).

II. Measuring Business Performance

In measuring business performance, Protcko and Dornberger (2014) used a five-point Likert scale of subjective measures of business performance. Accordingly, respondent was asked to respond to the following two questions. One, asking respondent to rate the financial performance of the organization specifically with respect to the growth of market share, the volume of sale, return on investment (ROI), return on equity (ROE) and income using 1-5 rating scale; Two, the second items ask respondent about the non-financial aspect of organizational performance specifically asking how successful is the organization in satisfying customer satisfaction, in retaining existing customers, in attracting new customers, in building positive image about the company as well as the general performance of the company.

Likewise, with respect to performance construct, Dawes (1999) similarly used a Likert scale ranging from 1 to 7 to questions about market share, profit, revenues and cost reduction. But later cost reduction and market share questions dropped as Cronbach's alpha measures reveal absence of internal consistency. Moreover, according to the author, the vast majority of literatures studying the relationship between market orientation and business performance use subjective measures owing to the following substantial reasons. One, business organizations often might not be willing to disclose the actual business performance data owing to confidentiality as well as sensitivity of some data from commercial point of views. Two, in analyzing the link market orientation and business performances such as profit, using subjective measures could be more suitable compared to objectives measures. This is because the level of profit in a particular organization could be why higher or lower than others in the industry due to factors other than market orientation and hence could mask or distort the true linkage between the former and the later. Subjective measures could solve this kind of problem because respondents often consider the business performance of their organization relative to the industry when responding to questions. The third reason comes from the drawback of using objective data itself. Objective measures such as business profitability might not show the actual financial well-being of the organization as profitability might vary depending on investment whose effect can only be seen in the long run. An example of this kind of investment could include investment in research and development or marketing activities. Four, a number of empirical researches have already provided evidence on the presence of strong correlation between subjective and objective measures.

III. Factor affecting business performance

Literatures documented various variables, in addition to market orientation strategy, that have an effect on business performance of a firm. These variables include but not limited to firm age, ownership structure of the firm, educational level and experience of manager, etc.

Age of firm and Business Performance: The effect of age of a firm on business performance has been discussed with mixed results. According to learning by doing hypothesis, productivity of a firm increases with age of the firm implying a monotonic relationship between firm age and performance. This is expected to hold given firms would learn more from past experiences. In support of Learning by doing hypothesis, Coad et al (2013) showed that older firms in Spanish perform better than younger firms as the former gets cumulative experience, increased productivity, larger size, lower debt ratio and ability to convert sales growth into profit growth. Similarly, Llaboya and Ohiokha (2016) found out the positive relationship between company age and profitability in 30 Nigerian companies. On the other hand, Barron et al (1994) predicted the negative relationship between age of a firm and performance in credit unions of New York City. Specifically, they showed that older firms (vis-à-vis younger firms) wouldn't fit to a changing business environment.

Education level of the manager and business performance: previous studies documented the positive effect of education on business performance. For instance, according to Jimenez et al, (2015) education has an enhancing effect on manager's entrepreneurship skill by increasing self-confidence, human capital and lower perceived risk and this directly translated to improved business performance (Shabbir et al,2016).

CEO tenure and Business performance: Cucculelli (2018), using innovation as performance indicator, showed that innovation at firm level is highly dependent on the CEO's tenure level. According to him, irrespective of the age of a firm (new entrant or aged firm), a firm with tenured CEO has a higher probability of innovation. On the other hand, the Leader life cycle hypothesis discussed the non-linear relationship between CEO's tenure and performance of company. The hypothesis predicted that after some years of CEO tenure, performance of a firm tends to reduce as the commitment of the CEO diminishes along the years.

Ownership of firm and Business performance: Company's mostly owned by private, government or foreign entities. The difference in ownership resulted in different level of firm performance. In most cases, public owned firms found to be less efficient (profitable) than their

private counter-parts. For instance, Micco et al (2007) estimated the effect of bank ownership on profitability of a bank in developing and developed economies. According to the result, stated owned banks in developing countries found to be less profitable than private banks as public banks are devised for political manipulation by the government. Similarly, Hernandez et al (2000) found the unfavorable effect of public ownership on efficiency of Spanish manufacturing industry.

Size: The positive effect of size of a business on performance has been confirmed by different researchers. This group of researchers pointed out the importance of economies of scale in minimizing the average operating cost of the company that will come with increased size of a given business. Hence, a business with larger size is expected to have a superior business performance vis-à-vis small counter-parties.

2.2. EMPIRICAL LITERATURES REVIEWS

There are a number of empirical studies who have examined the potential link between market orientations on business performance. In the paragraph below, we have discussed some of these studies.

Slater and Narver (2000) examined the relationship between market orientation and business profitability. The aim of study was to see whether the positive relationship between market orientation and business profitability Narver and Slater's (1990) can be replicated a sample of broad products and service in a wide range of industries. The study used a questionnaire distributed to chief market officers, general managers and chief human resources management. They asked the manager about their assessment with regard to the return on investment of the company over the past three years in relation to key competitors using Likert scale range 1-5, where 1 and 5 representing far below and far exceeding, respectively. Similarly, market orientation also computed using 13 items Likert scale ranging from 1-5, where 1 and 5 corresponds to not descriptive and very descriptive, respectively. Once the data is collected coefficient of α computed for the market orientation scale and found to be greater than the 0.7 cutoff points. Furthermore, the study included other control variables namely relative size, relative cost position, competitor concentration, market growth, buyer's power and technology changes, where all data collected using 1-7 Likert scale. With respect the relationship between market orientation and business profitability, using OLS model and stepwise regression mode, the study found a market orientation coefficient of 0.662 in the first model and 0.737 in the second model. This coefficient was slightly higher than what Narver and Slater's

(1990) has found — 0.501 for OLS model. Furthermore, a pairwise correlation coefficient between market orientation and profitability computed and the study found 0.362 while Narver and Slater's (1990) found a very similar coefficient of 0.345 (Slater and Narver, 2000).

Similarly, in analyzing the relationship between market orientation and business performance in US small and medium sized manufacturing firms, Pelham (2000) collected data through 1-7 range Likert scale and the simple average of the response corresponding to each measure of construct is used for all construct except for market orientation where a total sum of each market orientation question is used as the score for the construct. With regard to performance measures respondent were asked to evaluate their firm performance relative to competitive performance with respect to sales effectiveness, growth/share and profitability. While, market orientations items selected from Jaworski and Kohli (1993) and Narver and Slater (1990). The questionnaire items measuring the relevant construct were tested for reliability, convergent and discriminatory validity using coefficient alpha and factor analysis while measurement model also tested using LISREL. The study not only found a positive relationship between market orientation and business performance in US small and medium sized manufacturing firms but also the impact of market orientation was found to be stronger than firm sizes, strategy selection as well as the industry characteristics (Pelham, 2000).

Okikiola et al. (2016), on the other hand, explored the relationship components of between market orientation and business performance in small sized hotels in Nigeria. The study used correlation and regression analysis on data collected through 248 questionnaires distributed (with a response rate of 76.2%) across selected hotels in Lagos metropolis. In collecting data, the respondent was asked to rate a total of 25 items corresponding to market orientation and business performance using a 5-point Likert scale, where 1 and 5 refers to disagree and strongly agree, respectively. However, prior to collecting the full sample data, the study conducted a pilot study to examine the reliability of the questionnaire with 20 responds chosen from 3 hotels. Accordingly, Cronbach coefficient alpha calculated for the variables namely customer orientation, competitor orientation, inter-departmental coordination and market orientation and business performance and found a value greater than 0.6, which the author claim acceptable minimum level based on Hair et el., (2010). With regard to the methodology, the study applied descriptive statistics particularly frequency and simple percentage as well as Pearson correlation and regression analysis. According to the estimated result, consumer orientation is found to be significant determinants of the performance in the selected

hotels. On the contrary, inter-functional coordination and competitor orientation component of market orientation was found to be less significant in determining the hotel's performance (Okikiola et al., 2016).

Likewise, Protcko and Dornberger (2014) explored the impact of market orientation in business performance in the Tatarstan (Russia) knowledge intensive companies. The dependent variable, indictor of business performance relative to competitors, computed by the authors using 7-point Likert scale comprising of 11 items. For the independent variables, MARKOT scale adopted from Kohli, Jaworski and Kumar (1993) is used. Accordingly, a 5-point Liker scale questionnaire is distributed comprising 7 items corresponding to intelligence generation components of market orientation, 9 for responsiveness and 5 items for intelligence dissemination. Initially, three tests were conducted before the main analysis. The first one is normality test tested using Kolmogorov-Smirnov test. The second one is construct reliability test tested using Cronbach's Alpha. The third and the final one is correlation analysis conducted using Pearson Coefficient. The Cronbach's alpha computed for all the market orientation components and business performance indictors turned out to be higher than 0.7. The correlation analysis, on the other hand, suggested the presence of significant correlation between all indictors (market orientations components and business performance indictors) with the exception of intelligence dissemination and financial business performance. Moreover, regression analysis is conducted where business performance is regressed on market orientation components. The result indicated that market orientation is significantly and positively correlated with business performance.

Sisay et al (2017) discussed the relationship between market orientation and firm performance in the context of cooperatives (29 Seed Producer Cooperatives) operating in developing countries (Ethiopia). They used four components of market orientation (customer orientation, competitor orientation, inter-functional coordination and supplier orientation) as independent variable. On the other hand, financial performance, Customer satisfaction, Business performance and livelihood performance were considered as a dependent variable. By employing multiple linear regression analysis, they confirmed the positive and significant effect of customer orientation, inter-functional coordination and supplier orientation on business performance of seed producer cooperatives in Ethiopia.

Tessema (2012), by developing market orientation of pastoralists, investigated the effect of market orientation on livelihood performance (expectation about increasing herds, ability to send children to school, ability to engage in other economic activities like crop farming and petty trading and income generated from livestock production) of two pastoralist regions of Ethiopia (Yabello and Kereyu Fentale). To contain the effect of different variables on performance indicator, the author included different control variables including area dummy, market interaction, family size and perceived rainfall. Upon on this, the study documented the positive significant effect of two components of market orientation (customer orientation and inter-functional coordination) on livelihood performance of pastoralists and sustainable utilization of resources (pasture and water) by pastoralists. The effect of competitor orientation on business performance, however, found to be insignificant due to the fact that actors in the study became network players (the use of mobile phone to collect market information).

With regard to the impact of market orientation on the performance of the banking sector, Udoyi (2014) explored their possible relationship taking the case of Commercial Banks in Kenya. In determining whether there exists a relationship between market orientation and performance in the banking sector, the author collected data through questionnaire distributed to 43 commercial banks operating in Kenya. Bank performance questionnaire comprises 10 items (namely about predicting about future trend, resolving problems, enhancing about management development, growth in profit after tax, overall bank performance and success, improvement in long term performance, improvement in short term performance, sales growth, market share change, and evaluating alternative based on relevant information). Similarly, market orientation component data is collected using 5-point Likert scale. The analysis of the study comprised three steps. First, using descriptive statistics to report a summary statistic about data collected. Second, the correlation between market orientation and bank performance examined using Pearson's Product Moment Correlation. Third, regression analysis is applied to examine the impact of market orientation on business performance. The analysis from both the correlation and the regression analysis supported the positive impact of market orientation on business performance in commercial banks in Kenya.

Mahmoud et al. (2016), on the other hand, investigated the association between market orientations, innovation and learning orientation, as well as the impact of market orientation, innovation and learning orientation on the performance of the banking sector in Ghana. In this regard the study put forwarded the following conceptual framework. Market orientation is assumed to affect

learning orientation directly while affecting innovativeness both directly and through its impact on learning orientation. Innovativeness, in turn, hypothesized to business performance. The analysis similarly confirmed the presence of positive and significant association between market orientations and innovation as well as a significant the significant impact of learning orientation on innovation. The estimated result also suggested the presence of a significant positive impact of market orientation on business performance via innovation channel.

While Bouranta et al. (2005) focused the analysis on the role of internal marketing in affecting market orientation and subsequently bank performance. The study was conducted in Greek Banks collected survey data from the human resource manages. The study successively tested the hypothesis whether or not internal marketing is associated with market orientation and business performances. With respect to data about internal marketing a 15-point Likert questionnaire is adopted from Money and Foreman (1995) and Money and Foreman (1996). Similarly, to collect data corresponding to market orientation a 7-point type Likert questionnaire was adopted from Narver and Slater (1990). The study identified three dimensions for both internal marketing (strategy, policy and tactics) and market orientation components (customer orientation, competitor orientation and employee orientation). The correlation analysis conduct between the two dimensions particularly the factor strategy is found to significantly correlate with the customer orientation component. Similarly, internal marketing orientation which encompasses vision, development and reward also found so strongly correlate with components of market orientation namely Customer Orientation, Competitor Orientation and Inter-functional coordination. On the contrary, the effect of internal market orientation on business performance didn't found to be statistically insignificant. According to the authors, this could be because the prolonged effect of internal marking on Banks who have adopted internal marketing culture earlier.

A study by Zhou et al (2017) showed that environmental factors play a greater role in mediating the customer (& competitor) orientation – business performance relationship. Specifically, in economically developed markets with good local business conditions, abundant resource and demanding customers, a hotel with higher customer orientation (than competitor orientation) found to be desirable. On the other hand, in developing economy with poor local business condition and scarce resource a hotel with competitor orientation (via-a-vis customer orientation) strategy is preferable.

With respect to the impact of market orientation on business performance, there are also few studies conducted in the case of Ethiopia, which includes a study by Kassie (2015), Mekonnin (2015) and Belayneh (2017). Kassie (2015) examined the relationship between market orientation and business performance in Ethiopia's banking sector taking into account three public banks and 15 private banks. The study found that market orientation has a direct moderate effect on business performance (with a regression coefficient of 0.36) while, a relatively higher indirect effect through market orientation impact on marketing resources which in turn affect the business performance (with a regression coefficient of 0.91). Moreover, the study found divergent difference between public and private banks. The data collected showed that both the levels of market orientation and business performance in the public banks were found to be higher than private banks. A t-test result also suggested the presence of statistically significant difference between the private banks and public banks in terms of market orientation, market resources and business performance.

Mekonnin (2015) analysis, on the other hand, merely focused on the customer orientation aspect of the market orientation components. Similarly, in terms of geographical coverage unlike Kassie (2015), this study concentrated on Eastern Hararghe Commercial Bank of Ethiopia alone. The study used questionnaire to gather data from branch managers, accountants, Bank customers as well as customer officers. To analyze the data collected, the author used ANOVA analysis particularly the analysis of variance$-R^2$and correlation analysis. According to the estimated result, customer orientation is found to positively associate with business performance.

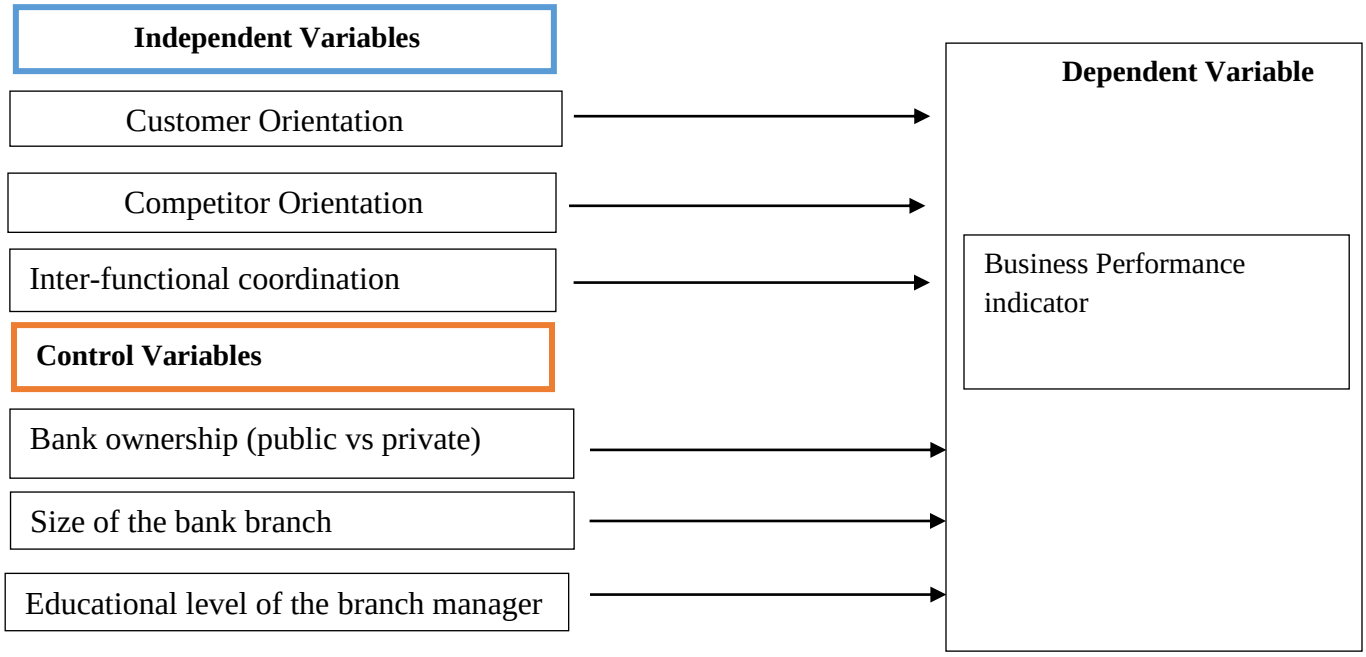
Belayneh (2017) similarly examined the impact of market orientation on business performance in Commercial Bank of Ethiopia. With respect to market orientation indictor the study used MARKOR scale through 11 items corresponding to intelligence generation, intelligence dissemination and responsiveness, measured using 5-point Likert scale. Similarly, with regard to business performance, 11 items measured by 5-point Likert scale corresponding to both financial and non-financial indicators are used. With respect to data analysis, the correlation analysis between components of market orientations and business performance revealed the presence significant positive association. Moreover, a linear regression analysis is conduct between the components of market orientation and both financial and non-financial indicators of business performance specifically usingR^2, the estimated beta coefficient and the measure of statistically significant level$-\rho$. The result showed that the variation in business performance explained by the variation in market orientation was high enough (R square 0.869). Similarly, when the dependent variable is

measured by financial business performance indicators, the estimated beta coefficient for intelligence generation, intelligence dissemination and responsiveness were found to be 0.914, 0.934 and 0.915, respectively. Likewise, when the dependent variable is measured using non-financial business performance indicators, the estimated beta coefficient for intelligence generation, intelligence dissemination and responsiveness were found to be 0.843, 0.905 and 0.882, respectively. The p-value corresponding to the estimated beta coefficient was found to be within the acceptable ranges.

2.2.Conceptual Framework

Based on literatures, the current study developed the following conceptual framework which is used to test the relationship between market orientation and business performance in Ethiopian banking Industry.

Figure 1: Conceptual framework of the study



Source: Own review

CHAPTER THREE

3. RESEARCH METHODOLOGY

As discussed in the introduction part, the current study aimed to investigate market orientation strategy of commercial banks operating in Ethiopia and its influence on business performance of respective commercial banks. This section, hence, discusses the process of conducting the current study including; research design, data type & source, target population, sample design & size, technique of sampling, method of data collection and analysis.

3.1. Research Design

While conducting a particular research, the researcher should select and follow suitable form of research design among various types of research design (e.g.; Quantitative (Descriptive, Correlational, Experimental, Diagnostic, and Explanatory) and Qualitative (phenomenology, ethnography, grounded theory and case study). In this particular study, the researcher aims to investigate the level of commercial banks market orientation strategy and its influence on business performance. Therefore, the study employed a blend of descriptive and correlational research design. The former design is used to uncover the status of commercial banks market orientation strategy while the latter is used to help to establish the influence of market orientation components on commercial banks business performance indicators.

3.2. Type and Source of Data

The study mainly used primary type of data that was collected from branch manager of selected commercial banks (sample units). Branch managers were requested to fill a questioner that is used to construct market orientation variable as well as business performance indicators (see section 3.5).

3.3. Sampling Design

3.3.1 Target Population

Branches of commercial banks operating in Addis Ababa city was considered as the population of the study. According to National Bank of Ethiopia data (2020), currently there are 2126 branches operating in Addis Ababa city.

3.3.2 Sampling Method

Collecting data from all 2126 branches would be time consuming. When we have larger population, it is advisable to draw samples that would represent the whole population using appropriate sampling method (Taherdoost, 2016). To collect representative data from targeted population, this particular study employs stratified sampling. The type of ownership is used as an anchor to classify commercial banks into two groups (strata); Public Bank and Private Banks. Proportionate Stratified type of sampling is used as it give us a room to have a representation from both public bank and private banks in the sample. Taking samples from public and private banks helped us to investigate one of the objectives poses by this study; that is, whether there exists significant difference of market orientation strategy (and its influence on business performance) among public and private banks. Moreover, within private banks, it helped us to take samples from both old established and newly established private banks. On the other hand, in the latter case, respondents from public bank, old established private banks and newly established private banks were selected randomly.

Accordingly, the samples were drawn from Commercial Bank of Ethiopia (CBE), Awash International Bank (AIB), Dashen Bank (DB), Debub Global Bank (DGB) and Enat Bank (EB). CBE represents public bank; AIB and DB represents old established private banks while DGB and EB represents newly established banks. Currently, according to National Bank of Ethiopia data, CBE, AIB, DB, DGB and EB have 375,196, 158, 46 and 30 branches, respectively in Addis Ababa city.

3.3.3 Sample Size Determination

In order to select the optimal and representative number of respondents to be included in the sample, the current study applies the formula developed by Yamane (1973). According to Yamane (1973), within finite population the sample (N) and allowable error (e), the optimal sample size (n) can be calculated using the following formula.

$$n = \frac{N}{1 + Ne^2}$$

While determining the sample size, the current study took 5 percent of allowable error (95 percent confidence of not committing error) as a rule of thumb. Therefore, by applying the above formula the current study set 337 samples (bank branches) out of the 2126 bank branches. That is;

$$\frac{2126}{1 + 2126(0.05)^2} \approx 337$$

To match the number of respondents with Yamane's criteria, proportional number of samples were considered from each bank. In choosing the proportion for sampled banks', we calculate the share of sampled banks' branches from the total number branches of those banks. With this formula CBE, AIB, DB, DGB and EB takes 46percent, 24 percent, 20 percent, 6 percent and 4 percent share, respectively. By applying the calculated share of each bank and the determined size of sample using Yamane formula (337 branches), we determined the number of branches that were sampled from each bank. Accordingly, 157, 82, 66, 19 and 13 respondents were selected from CBE, AIB, DB, DGB and EB, respectively.

3.4. Data Collection Instrument

The data on dependent variable (business performance indicator), independent variables (market orientation indicator) and control variables (Type of the bank, Tenure, Educational level of the branch manager and size of the branch) is collected using a questioner (see Annex 1 for the questioner). The data on market orientation indicator is collected using a questioner (16-item) developed by Narver and Slater (1990). Generally, as discussed in the literature part, there are two types of constructs which has been used to measure the level of market orientation in a given firm: MKTOR scale and MARKOR scale. In this study, we use MKTOR scale. This scale found to be advantageous given its simplicity and statistical construct validity. The MKTOR scale is comprised of three components: Customer orientation (6-items), Competitor orientation (5-items) and Inter-functional coordination (5-items). The 16-items are represented by 7 Likert-scale. Deshpande and Farley (1998) confirmed the reliability and validity of MKTOR scale.

Moreover, in the questioner, branch managers were requested to give information on their education level, years of experience, size and perceived performance of the branch against growth in deposit mobilization, growth in market share, growth in profit and growth in expansion of branches. The performance indicators were based on 7 Likert-scale ranging between very bad performances (1) to very good performance (7).

3.5. Method of Data Analysis

The data is, then, analyzed using descriptive and statistical analysis. The descriptive analysis is used to summarize the data using simple statistical indicators. On the other hand, the statistical analysis is employed in order to see the relationship between market orientation (along the three

components) and commercial banks performance indicators using multiple linear regression analysis. The model that is used to analyze the quantitative data takes the following form;

$$BP_i = \alpha_1 CuO_i + \alpha_2 CoO_i + \alpha_3 IC_i + \alpha_4 BO_i + \alpha_5 size + \alpha_6 edu_i + e_i$$

Where;

BP_i is Business performance of the bank branch

CuO_i is Customer orientation of the bank branch

CoO_i is Competitor orientation of the bank branch

IC_i is Inter-functional Coordination of the bank branch

BO_i is Ownership of the bank represented by dummy variable

1 if the bank is public

0 if the bank is private

$size_i$ is size of the bank branch

edu_i is educational level of the branch manager

α_1,α_2,α_3,α_4, α_5, α_6, are coefficients to be estimated

e is the error term of the regression equation

The statistical analysis is done using Statistical Package for Social Sciences (SPSS) software.

3.6. Ethical Consideration

The current study fulfilled the ethical considerations of undertaking a research project. First, participants were informed about the objective of the study and they were told that their response will be kept confidential during and after completion of the study. In this regard, during data collection, questioners were coded by the researcher to make respondents un-identifiable by any other stakeholder except the researcher. Furthermore, the data was collected from interested participants only and they were informed that they are free to withdraw their participation whenever they felt inconvenient. Finally, the researcher properly acknowledged all sources cited in the study. The researcher acknowledged all sources cited in the study and list of references is attached.

CHAPTER FOUR

4. DATA ANALYSIS AND DISCUSSION

As discussed in chapter one, the main objective of the current study is to investigate market orientation strategy of commercial banks in Ethiopia and to determine its influence on commercial banks business performance. Accordingly, in this section, we presented summary statistics of variables, market orientation strategy of commercial banks, regression result on the relationship between market orientation and business performance of commercial banks in Ethiopian banking industry.

4.1. DESCRIPTIVE ANALYSIS

4.1.1 Response Rate

A total of 337 questioners were distributed to branch managers of Commercial Bank of Ethiopia, Awash International Bank, Dashen Bank, Debub Global Bank and Enat Bank with respective amount of 157, 82, 66, 19 and 13. As shown in table 1 below, of the total distributed questioners, 297 respondents properly filled and returned the questioner which resulted in 88.1 percent response rate. Though there is no internationally agreed level (cut-off point) on the acceptable level of response rate, USA government surveys considered 75 percent response rate as a good response rate (Saldivar, 2012). Hence, in our case, the response rate of 88.1 percent found to be acceptable in producing representative sample.

Table 1:Response rate of respondents

Particulars	Questioners distributed	Questioners returned	Response Rate (in percent)
Commercial Bank of Ethiopia	157	157	100%
Awash International Bank	82	53	65%
Dashen Bank	66	55	83%
Debub Global Bank	19	19	100%
Enat Bank	13	13	100%
Total	337	297	88.1%

Source: Survey result

4.1.2 Respondents Demographic Characteristics

In the current study, the demographic factors of the respondents included educational level of the manager and work experience of the respondent. Ownership (government owned or private owned), age and size (Small, Medium and Large) of the bank branch are also considered as demographic factors. Below, we presented and discussed the demographic characteristics of respondents.

Educational level: As shown in table 2 below, majority of branch managers found to have Bachelor degree (56.2 percent) followed by Master's degree (42.8 percent) and PhD (1 percent).

Experience of the respondent in the banking industry: Respondents were requested to indicate their working experience in the banking industry. According to the survey result, 45.5 percent and 31 percent of respondents have 6 to 10 and 11 to 15 years of experience, respectively. On the other hand, only 2 percent and 1 percent of respondents have less than 5 years of experience and more than 25 years of experience, respectively (Table 2).

Experience of the respondent as a manager: Respondents were also asked to indicate their experience as a branch manager. The survey result shows that majority of respondents (96.6 percent) have a managerial experience between 0 to 10 years. More specifically, 76.4 percent and 20.2 percent of respondents worked as a manager for 0 to 5 years and 6 to 10 years, respectively. Moreover, none of respondents have managerial experience more than 16 years (Table 2).

Years of Operation of the branch: As it is indicated in table 2, 88.9 percent of surveyed branches operated for less than 30 years. More specifically, 55.9 percent, 17.5 percent and 15.5 percent of the surveyed branches has been operating for 0 to 10 years, 11 to 20 years and 21 to 30 years, respectively (Table 2).

Size of the branch: In banking operation, branches have different size depend on their activity extending from level 1 to level 4. In this particular study, we classify branch size into small, medium and large and respondent were asked to indicate size of their respective branch. As shown in table 2, majority of branches have medium size followed by large size and small size by comprising 47.8 percent, 31 percent and 21.2 percent of the surveyed branch, respectively.

Ownership of the bank: bank ownership is classified into government owned and private owned. Of the total sample 52.9 percent and 47.1 percent of branches are owned by government and

private entities, respectively. This indicates some level of randomization of sampling in data collection.

Table 2:Summary of respondents' demographic characteristics and composition

Demographic Variables		**Frequency**	**Share (in percent)**
Educational level of the manager	Bachelor Degree	167	56.2%
	Master's Degree	127	42.8%
	PhD	3	1.0%
	Sub-total	297	100%
Experience of the manager at the bank	0 – 5	6	2.0%
	6-10	135	45.5%
	11-15	92	31.0%
	16-20	45	15.2%
	21-25	18	6.1%
	25-30	1	.3%
	Sub-total	297	100.0%
Experience of the manager as a branch manager	0 – 5	227	76.4%
	6-10	60	20.2%
	11-15	9	3.0%
	16-20	0	0.0%
	21-25	1	.3%
	25-30	0	0.0%
	Sub-total	297	100.0%
Ownership of the bank	Private Owned	140	47.1%
	Government Owned	157	52.9%
	Sub-total	297	100.0%
Years of operation of the branch	0-10	166	55.9%
	11-20	52	17.5%
	21-30	46	15.5%
	31-40	12	4.0%
	41-50	6	2.0%
	51-60	12	4.0%
	61-70	3	1.0%
	Sub-total	297	100.0%
Size of the branch	Small	63	21.2%
	Medium	142	47.8%
	Large	92	31.0%
	Sub-total	297	100.0%

Source: SPSS output based on survey result

4.1.3 Reliability/Internal Consistency Test

In this study the dependent variable (business performance) and independent variables (Market orientation components) are constructed using a questioner. Hence, we checked for the internal consistency of the constructs using Cronbach Alpha. The dependent variable is represented by four items while the independent variables are represented by sixteen items in three major groups. The groups include customer orientation (six items), competitor orientation (five items) and Inter-functional coordination (five items). For each item of dependent and independent variables, the researcher conducted Cronbach alpha test of construct reliability and summary of the test result is presented in the table below. As shown in table 3, each construct item found to have a Cronbach alpha greater that 0.8 which is above the threshold level of 0.7 confirming reliability of the questioner items used in collecting the data.

Table 3:Summary of Reliability Test Result

Items by group	**Cronbach's Alpha**	**N of items**
Dependent Variable		
Business Performance	0.85	4
Independent Variables		
Customer Orientation	0.82	6
Competitor Orientation	0.86	5
Inter-functional Coordination	0.79	5
Total	0.91	20

Source: SPSS output based on survey data

4.1.4 Respondents' perception on Market Orientation

This section summarizes the survey result on perception of respondents/bank managers regarding components of market orientation (i.e., customer orientation, competitor orientation and inter-functional coordination). Respondents were asked to rate each of the item using seven scale liker-scaling which extends from strongly disagree (1) to strongly agree (7). More specifically, the responses were coded as; 1 "Strongly disagree", 2 "disagree", 3 "Somewhat disagree", 4 "Neutral", 5 "Somewhat agree", 6 "Agree" and 7 "Strongly agree".

4.1.4.1 Customer Orientation

Following previous researches, the current study used six items to represent customer orientation dimension of market orientation. Accordingly, respondents were asked to reflect their perception on each item and summary of the result is presented in table 4. Generally, on average, 29.8 percent, 28.8 percent and 21.5 percent of respondents agree, strongly agree and somewhat agree with items that comprised market orientation. This indicates that 80.1 percent of respondents, on average, rated components of customer orientation above scale level of 4. For instance, respondents were asked "whether his/her branch frequently measures their customer satisfaction" (item 1). The survey result shows that 25. 3 percent, 24.2 percent and 20.9 percent of respondents respectively agree, somewhat agree and strongly agree in measuring their respective customer satisfaction which implies due attention has been given by branch managers regarding their customer satisfaction (Table 4).

In the second item, respondents were asked "if they consider customer satisfaction as their business objective". According to the survey data, 42.4 percent, 26.9 percent and 17.5 percent of managers strongly agree, agree and somewhat agree, respectively, in considering customer satisfaction as a key business objective. This show managers intention to work towards providing quality service and satisfy their respective customer. This argument is further reinforced in the response for item 5. Item 5 asked respondents to rate their opinion "if their activity relies on understanding customers need". On this regard, 34.7 percent, 31 percent and 22.2 percent of respondents respectively agree, strongly agree and somewhat agree in anchoring their business activity with the need of customers (Table 4).

The third item asked respondents to rate their opinion "if employees in the branch exert maximum effort to create value for customers". As indicated in table 4, 35.7 percent, 29.3 percent and 22.2 percent of respondents, respectively, agree, strongly agree and somewhat agree in observing the maximum possible effort of employees to create value for customers. This could entail the motivation of employees in retaining customers through creating value on the same.

Table 4:Summary of respondent's response on customer orientation items

Customer Orientation items		Strongly disagree	Disagree	Somewhat Disagree	Neutral	Somewhat agree	Agree	Strongly Agree
My branch measures customer satisfaction frequently	Count	4	7	30	47	72	75	62
	Share (%)	1.3%	2.4%	10.1%	15.8%	24.2%	25.3%	20.9%
My branch considers customer satisfaction as the key driver of business objective	Count	3	5	13	18	52	80	126
	Share (%)	1.0%	1.7%	4.4%	6.1%	17.5%	26.9%	42.4%
Employees in My branch exerts the maximum effort to create value for our customers	Count	0	4	12	22	66	106	87
	Share (%)	0.0%	1.3%	4.0%	7.4%	22.2%	35.7%	29.3%
My branch is committed towards fulfilling customers' needs through self-monitoring and evaluation	Count	2	5	11	27	69	107	76
	Share (%)	.7%	1.7%	3.7%	9.1%	23.2%	36.0%	25.6%
My branch relies on understanding customers need	Count	2	8	10	16	66	103	92
	Share (%)	.7%	2.7%	3.4%	5.4%	22.2%	34.7%	31.0%
My branch/bank rewards employees or managers who are committed to customer satisfaction	Count	23	13	31	42	58	60	70
	Share (%)	7.7%	4.4%	10.4%	14.1%	19.5%	20.2%	23.6%
Average share (%)		**1.9%**	**2.4%**	**6.0%**	**9.7%**	**21.5%**	**29.8%**	**28.8%**

Source: SPSS output based on survey data

The fourth item of customer orientation asked respondents "if the branch regularly self-monitor and evaluate their respective performance so as to fulfill customer needs". In this respect, 36 percent, 25.6 percent and 23.2 percent of respondents, respectively agree, strongly agree and somewhat agree with the question in hand (Table 4). This indicates the effort of surveyed branches to undertake corrective measures on service delivery so as to fulfill need of their respective customers.

In the sixth item respondents were asked "if their bank has a reward scheme for employees that are committed to satisfy their customer". Like the aforementioned items, most of respondents found in the scale above 5. Specifically, 23.6 percent, 20.2 percent and 19.5 percent of respondents strongly agree, agree and somewhat agree, respectively (Table 4). Awarding best performing

employees indicate the general future of most banks in which they base their business activity on understating and fulfilling customer needs.

4.1.4.2 Competitor Orientation

Like customer orientation, competitor orientation dimension of market orientation constituted different items. In the case of competitor orientation, the dimension is represented by five different items. Each item of competitor orientation was rated by respondents and summary of the result is presented in table 4. Generally, as indicated in table 5, 63 percent of respondents rated each component of competitor orientation, on average, above scale level of 4. This is found to be lower than the rate attached to customer orientation (80.1 percent). The rating of each component of competitor orientation is discussed below.

In item 1, respondents were asked to rate "if managers regularly review the strength and weakness of competitors". In this regard, 25.9 percent and 21.5 percent of respondents respectively agree and strongly agree on the follow-up activity of top managers regarding the strength and weakness of competitors. On the other hand, as shown in table 5, substantial number of respondents (20.2 percent) restrain themselves to agree on the follow-up activity of top managers which could entail the presence of moderate information gap regarding the strength and weakness of competitors (relatively less attention given to competitors vis-à-vis customers).

The second component of competitor orientation asked respondents about the "responsiveness of their branch for any competitive action taken by competitors". The result shows that 63 percent of managers has been practicing competitive reaction for every competitive action by the competitors. Specifically, 23.6 percent, 22.2 percent and 17.2 percent of respondents rate the question as somewhat agree, agree and strongly agree, respectively. However, like item 1 of competitor orientation, significant number of respondents (17 .8 percent) neither agree nor disagree on the responsiveness of their bank for competitive action of competitors. Moreover, 10.4 percent of respondents disagree on the same question (Table 5).

Table 5:Summary of respondent's response on competitor orientation items

Competitor Orientation items		Strongly disagree	Disagree	Somewhat Disagree	Neutral	Somewhat agree	Agree	Strongly Agree
Top management of the bank review the strength and weakness of competitors on a regular basis	Count	7	5	32	60	52	77	64
	Share (%)	2.4%	1.7%	10.8%	20.2%	17.5%	25.9%	21.5%
My branch/bank timely responded for any competitive action taken by competitor banks	Count	8	18	31	53	70	66	51
	Share (%)	2.7%	6.1%	10.4%	17.8%	23.6%	22.2%	17.2%
The Research and Development (Planning) department of our bank regularly exchange information for branch managers regarding competitor's status	Count	18	20	29	65	67	58	40
	Share (%)	6.1%	6.7%	9.8%	21.9%	22.6%	19.5%	13.5%
My branch/bank regularly look for opportunities to gain an advantage over our competitors	Count	5	5	24	53	65	87	58
	Share (%)	1.7%	1.7%	8.1%	17.8%	21.9%	29.3%	19.5%
My branch tries to predict the behavior of our main competitors	Count	7	7	49	54	62	73	45
	Share (%)	2.4%	2.4%	16.5%	18.2%	20.9%	24.6%	15.2%
Average share (%)		**3.0%**	**3.7%**	**11.1%**	**19.2%**	**21.3%**	**24.3%**	**17.4%**

Source: SPSS output based on survey data

In the third item of competitor orientation, respondents were asked about "the frequency of information received from research (planning) department of their bank regarding status of competitor's". According to the survey data, 55.6 percent of respondents indicated that they regularly receive information about competitor's status. On the other hand, 21.9 percent of respondents neither agree or disagree on the same question (Table 5).

The fourth and fifth component of competitor orientation focuses on whether the branch/bank pro-actively take measures over competitors. In item 4, respondents were asked "if the branch/bank look for opportunities to gain an advantage over competitors". In this regard, 70.7 percent of respondents rated the question in favor of pro-active measure. Specifically, as shown in table 5, 21.9 percent, 29.3 percent and 19.5 percent of respondents respectively somewhat agree, agree and strongly agree on the question. Moreover, of the respondents, 17.8 percent of mangers neither agree or disagree on the same question.

In item 5, respondents view regarding "their activity on predicting the behavior of competitors" was asked. According to the survey data, 60.6 percent of respondents rated the question supporting predictive nature of their branch about competitor's behavior. That is, 20.9 percent, 24.6 percent and 15.2 percent of respondents respectively rated the question as somewhat agree, agree and strongly agree (Table 5).

4.1.4.3 Inter-functional Coordination

The third dimension of market orientation, inter-functional coordination, comprised five different items. Like the above two dimensions, respondents were also asked to rate components of inter-functional coordination based on 7 Liker-scale. The result of respondents rating is summarized and presented in table 5. As shown in table 5, 67 percent of respondents rated each component of Inter-functional coordination, on average, above scale level of 4. This is found to be marginally higher than the rate found in competitor orientation (63 percent) and significantly lower than customer orientation (80.1 percent). Below we discussed respondents rating of inter-functional coordination components item by item.

Item 1 of inter-functional coordination asked respondents "whether top managers from each business unit coordinated to visit their customers". According to the survey result, 52.9 percent of respondents support the argument (strongly agree, agree and somewhat agree) while 21. 2 percent of respondents has no clue whether top managers undertook this particular activity or not (Table 6).

The second item of inter-functional coordination focuses on "whether there exists an integrated system across the departments while serving target markets". As indicated in table 6 below, 55 .2 percent of respondents claim for (somewhat agree, agree and strongly agree) the existence of coordination among departments while 27.9 percent of respondents found to be indifferent to answer the question. However, 16.8 percent of respondents collectively claim against (somewhat disagree, disagree and strongly agree) the existence of coordinated work across departments during service delivery to target market.

Table 6:Summary of respondent's response on Inter-functional coordination items

. Inter-functional Coordination items		Strongly disagree	Disagree	Somewhat Disagree	Neutral	Somewhat agree	Agree	Strongly Agree
Top managers of the bank regularly visit our current and prospective customers	Count	22	24	31	63	66	61	30
	Share (%)	7.4%	8.1%	10.4%	21.2%	22.2%	20.5%	10.1%
All of our departments like product development, Research and Planning etc are integrated in serving the needs of our target markets	Count	7	12	31	83	58	70	36
	Share (%)	2.4%	4.0%	10.4%	27.9%	19.5%	23.6%	12.1%
In my bank, all departments and branches share necessary information for each other	Count	4	10	27	45	79	72	60
	Share (%)	1.3%	3.4%	9.1%	15.2%	26.6%	24.2%	20.2%
In my bank, coordinated activities across departments created a higher customer value	Count	5	8	27	48	80	77	52
	Share (%)	1.7%	2.7%	9.1%	16.2%	26.9%	25.9%	17.5%
I, as a manager, clearly understand the role of employees in valuing our customers	Count	5	3	12	23	39	90	125
	Share (%)	1.7%	1.0%	4.0%	7.7%	13.1%	30.3%	42.1%
Average share (%)		**2.9%**	**3.8%**	**8.6%**	**17.6%**	**21.7%**	**24.9%**	**20.4%**

Source: SPSS output based on survey data

The third item of inter-functional coordination seeks to know "If there exists information sharing across departments and branches". The survey result shows that 71 percent of respondents collectively indicated (somewhat agree, agree, strongly agree) the existence of information sharing practice across departments and branches. On the other hand, 13.8 percent of respondents collectively deny the practice of information sharing across departments and branches while 15.2 percent of respondents became indifferent to answer the same question. The survey result, in general, indicated the presence of inter-functional coordination in Ethiopian banking industry while sharing necessary information across departments and branches within a bank.

In the fourth item of inter-functional coordination, the question would like to know the perception of the respondent whether s/he can observe the impact of coordinated work within the branch on creating higher customer value. Hence, the respondents were asked to rate "whether coordinated activities across departments created higher customer value". As indicated in table 6 above, 70.4 percent of managers collectively reported (somewhat agree, agree and strongly agree) the positive impact of coordinated activity across departments on achieving higher customer value. Contrary to this, 13.5 percent of respondents ignored the positive impact of coordinated activity on gaining higher customer value while 9.1 percent of respondents restrain to agree or disagree on the

same question. In general, on average, most of surveyed mangers found to observe the favorable impact of coordinated work on bringing higher customer value.

The focus of the fifth item of inter-functional coordination is on understanding the perception of the manager about the importance of owning committed employee. This will help us to indirectly measure the importance of employees in achieving higher inter-functional coordination within the branch. Hence, respondents were asked "If they understand the role of employee in valuing customers". According to the survey result, 85.5 percent of the respondents collectively answered the question in favor of employees' role in creating inter-functional coordination. Only 6.7 percent of respondents collectively disregarded the role of employees in forming a coordinated working environment (Table 6).

4.1.5 Performance of Commercial Banks

The business performance of surveyed commercial banks is proxied using indicators including deposit mobilization performance of the branch, market share growth of the branch, profitability growth of the branch, expansion of the branch. Respondents were asked to rate each of the indicators using seven scale liker-scaling ranging from very bad performance (1) to very good performance (7). Specifically, the responses were coded as; 1 "very bad performance", 2 "bad performance", 3 "Somewhat bad performance", 4 "Neutral", 5 "Somewhat good performance", 6 "good performance" and 7 "very good performance". Survey result on business performance indicators is presented in table 5 and discussed below.

As shown in table 7 below, most of surveyed banks reported good business performance in terms of deposit mobilization growth, market share growth, profitability growth and expansion during the period they had worked with the branch. Generally speaking, 87 percent of respondents collectively found to rate, on average, each of indicators above score level of 4. Specifically, 49.2 percent, 27.5 percent and 10.3 percent of respondents, on average, reported very good performance, good performance and somewhat good performance, respectively (Table 7).

Table 7:Summary of respondent's response on Business performance indicators

Business Performance items		Very bad performance	Bad performance	Somewhat bad performance	Neutral	Somewhat good performance	Good performance	Very good performance
Deposit of my bank shows improvements from year to year	Count	3	6	4	17	31	95	141
	Share (%)	1.0%	2.0%	1.3%	5.7%	10.4%	32.0%	47.5%
Market share of my bank shows growth from year to year	Count	8	9	12	29	33	79	127
	Share (%)	2.7%	3.0%	4.0%	9.8%	11.1%	26.6%	42.8%
Profitability of my bank has increased from year to year	Count	4	5	11	21	32	78	146
	Share (%)	1.3%	1.7%	3.7%	7.1%	10.8%	26.3%	49.2%
My bank has made increased expansion from year to year	Count	4	3	8	10	26	75	170
	Share (%)	1.4%	1.0%	2.7%	3.4%	8.8%	25.3%	57.4%
Average share (%)		**1.6%**	**1.9%**	**2.9%**	**6.5%**	**10.3%**	**27.5%**	**49.2%**

Source: SPSS output based on survey data

4.2. MARKET ORIENTATION OF COMMERCIAL BANKS IN ETHIOPIA: USING FACTOR ANALYSIS

The descriptive analysis in section 4.1.4.1; 4.1.4.2 and 4.1.4.3 give a preliminary result regarding market orientation of commercial banks in Ethiopian banking industry. The analysis showed that respondents' perception regarding customer orientation found to be higher followed by inter-functional coordination and competition orientation. That is; 80.1 percent, 67 percent and 63 percent of respondents, on average, rated respective components of customer orientation, inter-functional coordination and competitive orientation above score level of 4. This could entail us that commercial banks in Ethiopian banking industry are more of customer oriented.

In order to confirm this preliminary result, we conducted a factor analysis using Principal Component Analysis (PCA) method. This method is widely used by social science researchers. In the PCA method, items of the latent variable (in our case Market Orientation) are repressed into smaller number of items (components) which could parsimoniously represent the latent variable. In the current study, we have 16 items that are believed to represent market orientation. Hence, by applying PCA method, we first, minimized the number of items into three components and then compare the resultant components in terms of their contribution for market orientation. Below, we presented the steps followed to compute PCA and the result of Principal Component Analysis.

4.2.1 Pre-test of the data

In order to conduct factorial analysis, structure of the data has to be checked if it is suitable to undertake the analysis. There are two method of checking this: Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO-MAS) and Bartlett's test of sphericity. The first one checks whether or not the sample size is sufficient enough to perform factor analysis. In this test the value close to 1 indicate the possibility of running factor analysis (Cerny and Kaiser, 1977). On the other hand, Bartlett's test of sphericity checks if samples are from population with equal variance (homoscedasticity assumption) (Arsham and Lovric, 2011). In Bartlett's test of sphericity, the null hypothesis is the correlation matrix of variables is an identity matrix. Hence, rejection of the null hypothesis confirms the possibility of undertaking factor analysis using the underlying data.

Following this, we tested for suitability of the data using KMO-MAS and Bartlett's test of sphericity. The result of the test is presented in table 8. As it is shown in the table below, the test result of KMO found to be 0.9 which is above the minimum requirement level of suitability (0.6). Moreover, the Bartlett's test of sphericity rejects the null hypothesis with 1 percent significance level. Complementing the two results, anti-image correlation matrix[1] result (as shown in annex 2) confirmed the suitability of the data for factor analysis. As indicated in annex 2, the diagonal elements of the anti-image correlation matrix found to be higher than 0.5. Hence, the test results supported the possibility of conducting factor analysis.

Table 8:KMO and Bartlett's test result for market orientation components

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.897
Bartlett's Test of Sphericity	Approx. Chi-Square	2392.373
	df	120
	Sig.	.000

Source: SPSS output based on survey data

[1] Anti-image matrix contains the negative of partial correlation coefficients and covariance. A good factor model will have smaller off-diagonal elements and higher diagonal elements

4.2.2 Factor analysis of market orientation components

Once the suitability of the data is checked, we can directly proceed to factor analysis using PCA. In order to determine the parsimonious number of components that will be selected as a major explanatory factor of the latent variable (market orientation), PCA computes Total Variance Explained based on Eigen values [2]of each component. The PCA by default ignore components that have an Eigen value less than 1 as the value below unity implies the low significance of the component. The result of Principal Component Analysis is presented in annex 3. As it is indicated in the annex only 3 components found to have Eigen value greater than unity. The three components explained 61.57 percent of variation of the latent variable (Market orientation) (last column of annex 3). More specifically, 23.2 percent, 20.9 percent and 17.5 percent of latent variable variation is explained by component 1, component 2 and component 3, respectively (annex3, column 9).

To further confirm the result of Total Variance Explained, we produced Scree plot which plots total variance explained (Eigen value) vis-à-vis components number. The Scree plot shows the relationship between extracted components of the latent variable and their respective Eigen value. The graph is easily interpreted as; "the first component always has highest total variance while the last component has the lowest variance". This implies; components that are connected in flat line considered as less important in explaining the latent variable and vice versa. As shown in annex 4, component 1, 2 and 3 found to be important factors reinforcing the result of Total Variance Explained.

4.2.3 Item-wise identification of Market orientation components

As indicated in section 4.3.2. the variance of latent variable (market orientation) is highly represented by three components. Hence, in this section, we presented the composition of the identified three components using Varimax method. The Varimax analysis is part of the Principal Component Analysis and it produces rotated component matrix that will help us to clearly observe the items included in each of the extracted significant components. The result of the analysis is presented in annex 5. Of the 16 items of market orientation, 15 items found to be significant to be included either of the three extracted components.

[2] Eigen values tells us about the total amount of variance that can be explained by a given component.

According to the result indicated in annex 5, six items, five items and four items were found to be included in component 1, component 2 and component 3, respectively. As illustrated in section 4.3.3, component 1, 2 and 3 respectively explained 23.2 percent, 20.9 percent and 17.5 percent variation of the latent variable (market orientation). Annex 5 shows which items are included in which component. For instance, of the total six items included in component 1, five of them are represented by customer orientation dimension of the latent variable. On the other hand, component 2 is highly represented by competitive orientation dimension of market orientation (4 items out of the total 5 items). Moreover, the third component found to be represented by Inter-functional coordination.

4.2.4 Composite Index of market orientation components

By using the information in section 4.3.2 and 4.3.3, we computed composite index for each dimension of market orientation. The indexes are then used to rank components of market orientation based on their value. The composite index of each component is computed as follows; first, we extracted three components using PCA as it is discussed in section 4.3.2. Second, we computed the weight of the three extracted components from Total Variance Explained result shown in annex 3 last column (by dividing percent of variance of the component to cumulative percent of variance). Accordingly, the weights attached to the components found to be 0.38 (= 23.2/61.6), 0.34 (=20.9/61.6) and 0.28 (= 17.5/ 61.6) for component 1, component 2 and component 3, respectively. Third, weights of components are, then, cross-multiplied by each coefficient found in rotated component matrix to get weighted coefficient of each item. Finally, we separately added the items in their respective sub-groups to find the index value of each dimension and then ranked the dimension based on their value (Table 9). As shown in the table below, customer orientation ranked first followed by inter-functional coordination and competitor orientation. This result confirms the role of customers (vis-à-vis competitors) in shaping day to day business activity of commercial banks in Ethiopia.

Table 9:Rank of market orientation components based on constructed composite index

Dimension	Index value	Rank
Customer Orientation	1.44	1
Competitor Orientation	0.43	3
Inter-functional coordination	0.59	2

Source: Own computation based on SPSS result

4.3. MARKET ORIENTATION OF COMMERCIAL BANKS: GOVERNMENT OWNED BANKS VS PRIVATE BANKS

Section 4.3 discussed the general market orientation strategy of commercial banks irrespective of ownership structure. In this section, we analyzed if there exists a difference in market orientation strategy of commercial banks across government owned and private owned banks. Hence, we employed simple linear regression model for each dimension of market orientation and computed three different model. The result of the regression is presented and discussed below.

4.3.1 Customer orientation and Ownership of a bank

In the current study, the relationship between customer orientation and ownership of a bank is investigated by regressing the former variable on the latter. To do so, we first extracted a latent variable Proxying customer orientation from the 6 items discussed in the previous section. The extraction of customer orientation variable passed the necessary requirements (see annex 7). Regarding the ownership structure of sampled branches, respondents were asked to indicate their branch/bank as government owned and private owned. Hence, the ownership variable entered into SPSS in terms of dummy variable. The dummy variable is represented as;

Ownership of a bank = 1 if the bank is government owned

0, if the bank is private owned

Hence, to see if there exist a difference among government owned and private owned banks regarding their customer orientation level, we run a model by treating customer orientation variable as a dependent variable and ownership variable (dummy variable) as an independent variable. The model result is presented in table 10.

Table 10:Regression model result on customer orientation and bank ownership relationship

Dependent Variable: Customer Orientation		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
Independent Variable	(Constant)	.226	.083		2.727	.007
	Ownership of the bank	-.427	.114	-.213	-3.751	.000

Source: SPSS output based on survey data

Interpretation of the model:

The coefficient of independent variable found to be negative and significant implying that public banks are less market oriented vis-à-vis private banks. The result confirmed the existence of significant difference in customer orientation level among government owned and private owned commercial banks in Ethiopia (Table 12). The detailed result of the model diagnosis is presented in annex 10. As indicated in annex 10, the model is free from autocorrelation problem. That is, the model has a Durbin-Watson value of 1.82 which is found in the acceptable threshold level of no-autocorrelation (the range is between 1.5 and 2.5).

4.3.2 Competitor orientation and Ownership of a bank

Following the same procedure of section 4.3.1, we run a model on competitor orientation [3](dependent variable) and bank ownership variable (independent variable; dummy variable) so as to investigate if there exists a difference among government owned and private owned commercial banks on how they perceive their competitors in their business decision. The regression result is displayed in table 11.

Table 11:Regression model result on Competitive Orientation and bank ownership relationship

Dependent Variable: Competitive Orientation		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
Independent Variable	(Constant)	.180	.083		2.158	.032
	Ownership of the bank	-.341	.115	-.170	-2.969	.003

Source: SPSS output based on survey data

[3]The construction of competitive orientation variable passed the necessary requirements (see annex 8).

Note: see annex 11 for the detail of model diagnosis result. As indicated in the annex 11, the model is free from auto-correlation problem (Durbin-Watson static is 1.86).

Interpretation of the model

The coefficient of the independent variable found to be negative and significant implying that private commercial banks are competitor oriented than public banks.

4.3.3 Inter-Functional Coordination and ownership of a bank

The same step used in section 4.3.1 and 4.3.2 is applied in this section to uncover the relationship between inter-functional coordination[4] and bank ownership structure. Hence, we regressed Inter-functional coordination variable on bank ownership structure of the bank and the model result is summarized in table 12.

Table 12:Regression model result on Inter-Functional Coordination and bank ownership relationship

		Unstandardized Coefficients		Standardized Coefficients		
Dependent Variable: Inter-Functional Coordination		B	Std. Error	Beta	T	Sig.
Independent Variable	(Constant)	.148	.084		1.760	.080
	Ownership of the bank	-.279	.115	-.140	-2.420	.016

Source: SPSS output based on survey data

Note: see annex 12 for the detail of model diagnosis result. As indicated in the annex 12, the model is free from auto-correlation problem (Durbin-Watson static is 1.87).

Interpretation of the model

The coefficient of the independent variable found to be negative and significant implying that private banks are inter-functionally coordinated vis-à-vis public bank.

All in all, the result through 4.3.1 to 4.4.3 suggested that private banks are more market oriented (along three dimension of market orientation) than government owned bank.

[4]The construction of inter-functional coordination variable passed the necessary requirements (see annex 9).

4.4. MARKET ORIENTATION AND BUSINESS PERFORMANCE: REGRESSION ANALYSIS

4.4.1 Construction of Business performance variable

In this section, we investigated the influence of market orientation components on business performance of commercial banks using a multiple regression model. In this model the dependent variable is Business performance indicator while the three dimensions of market orientation is considered as independent variable. Moreover, other control variables are considered in the model including ownership of a bank, size of a bank, and educational level of the bank manager.

Like the independent variables, the dependent variable was represented by four different items. In other words, respondents were requested to rate their respective branch business performance using four different questions (including deposit growth, profit growth, market share growth and expansion (see annex 1 for questioner items). As it would be less-formal to directly enter the responses in the regression, it is found to be necessary to construct latent variable for business performance indicator (as the same way we did for customer orientation, competitive orientation and inter-functional coordination in the section through 4.3.1 to 4.3.3). To construct the latent variable, we first checked for suitability of the data for factor analysis using Kaiser-Meyer-Olkin measure of sampling adequacy and Bartlett's test of sphericity. The rule to decide the suitability of the data is discussed in section 4.3.1. The test result is presented in table 13.

As it is shown in the table 13, the test result of KMO found to be 0.78 which is above the minimum requirement level of suitability (0.6). Moreover, the Bartlett's test of sphericity rejects the null hypothesis (of identity matrix) with 1 percent significance level. Complementing the two results, anti-image correlation matrix result (as shown in annex 6) confirmed the suitability of the data for factor analysis. As indicated in annex 6, the diagonal elements of the anti-image correlation matrix found to be higher than 0.5. Hence, the test results supported the possibility of conducting factor analysis. As the test passes the requirement, we then created a latent variable to proxy business performance variable.

Table 13:KMO and Bartlett's Test Result for Business Performance

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.777
Bartlett's Test of Sphericity	Approx. Chi-Square	527.852
	Df	6
	Sig.	.000

Source: SPSS output based on survey data

4.4.2 Model Regression result

In chapter one, we formulated three hypothesis that has to be tested regarding the relationship between market orientation components and business performance of commercial banks in Ethiopia. The hypotheses include; (i) customer orientation has no effect on business performance; (ii) competitor orientation has no effect on business performance and (iii) inter-functional coordination has no effect on business performance. Hence, we run a multiple linear regression model by treating the business performance as a dependent variable and market orientation components as an independent variable. The model result is presented (table 16 -table 19) and discussed below.

The result of the regression found to be interpretable as the model passes all the diagnostic test including F-test (overall all model significance (table 14)), Autocorrelation test (table 15), Multicollinearity test (table 16) and Heteroscedastic test (figure 3).

F-test: Overall all significance of the model is tested using F-test. In this test the null hypothesis assumes; "all coefficients are insignificant" while the alternative hypothesis assumes "at least one variable can predict the dependent variable". Hence, rejection of the null hypothesis means the model is fit to explain the dependent variable. The ANOVA table is used to check whether the model can predict the dependent variable (in our case, business performance of commercial banks). As shown in last column of the ANOVA table, we reject the null hypothesis at 1 percent significance level ($P<0.01$) implying the model is fitted.

Table 14:ANOVA analysis result [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	60.823	3	20.274	25.259	.000[b]
	Residual	235.177	293	.803		
	Total	296.000	296			

a. Dependent Variable: Business Performance

b. Predictors: (Constant), Inter-Functional Coordination, Customer Orientation, Competitive Orientation

Source: SPSS output based on Survey data

Test of Autocorrelation: One of the basic assumptions of Classical Linear Regression Model is no-autocorrelation. Though the problem is prominent in time series data, we could not ignore its presence in cross-sectional data. If there is autocorrelation problem in cross-sectional data, it will automatically alter method of model specification. As we are run a linear regression model, we should check for the absence/presence of autocorrelation to confirm, the model specification was correct. We used Durbin-Watson test of Autocorrelation and the result is presented in table 15. As shown in the model summary table (table 15), the model is free from Autocorrelation problem (Durbin-Watson statistics of 1.75[5]). This indicate that the linear approximation of the relationship between dependent and independent variables found to be superior vis-à-vis non-linear specification.

Table 15:Model Summary report

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.453a	.205	.197	.89590839	1.759

Source: SPSS output based on Survey data

Test of Multicollinearity: Multicollinearity referrers the presence of inter-relationship among independent variables. The presence of high Multicollinearity across independent variables will create a problem in model estimation. Hence, we tested for Multicollinearity using Variance Inflation Factor (VIF) and the result summary is displayed in table 16 below. The rule to decide the presence/absence of Multicollinearity using VIF is;

VIF > 10, Multicollinearity

< 10; No Multicollinearity

The result of VIF test shows that the model is free from Multicollinearity problem.

[5] Durbin-Watson static range between 0 and 4. The statistic around 2 indicate the absence of autocorrelation

Table16:Summary of VIF test for Multicollinearity

Variable	Collinearity Statistics	
	Tolerance	VIF
Customer Orientation	.548	1.824
Competitive Orientation	.476	2.099
Inter-Functional Coordination	.459	2.177

Source: SPSS output based on survey data

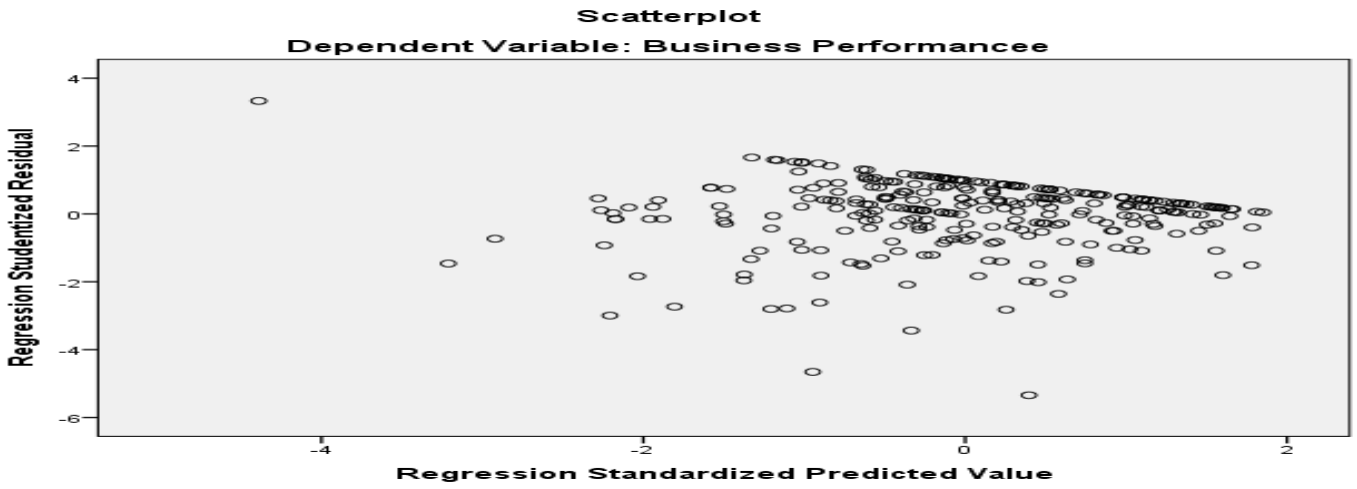
Test of Heteroscedasticity: Assumption of homoscedastic is another assumption in Classical Linear Regression Model. It assumed that variance of error term to be similar across observations and shouldn't depend on independent variables. The violation of the assumption will result in heteroskedasticity of variance across observations which would result in biased estimation result. The absence/presence of heteroskedasticity in the model can be checked by plotting residuals on predicted value of the dependent variable. The decision rule is;

If plots; follow same pattern (heteroskedasticity problem)

; don't follow same pattern (no heteroskedasticity)

As shown in figure 2 below, the dots don't strictly follow the same pattern implying absence of heteroskedasticity problem in the current model.

Figure 2: Scatter plot of heteroskedasticity



Source: SPSS output based on survey data

The Model

The aforementioned diagnostic test confirmed that the model is plausible to discuss about the relationship between business performance and market orientation components. Table 17 below summarized the regression result.

Table 17: Model regression result: Business performance and market orientation components [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.000	.052		.000	1.000
	Customer Orientation	.181	.070	.181	2.578	.010
	Competitive Orientation	.096	.075	.096	1.270	.205
	Inter-Functional Coordination	.238	.077	.238	3.102	.002

a. Dependent Variable: Business Performance
Source: SPSS output based on Survey data

Interpretation of the Model

- ***Customer orientation***: the coefficient of customer orientation found to be positive and significant implying that a unit increase in customer orientation level of branch will improve branch's business performance by 0.18 unit.
- ***Competitive orientation***: the coefficient of competitive orientation found to be insignificant implying that competitive orientation has no influence on business performance of commercial banks.
- ***Inter-functional coordination***: the coefficient of inter-functional coordination found to be positive and significant implying that a unit increase in inter-functional coordination level of branch will improve branch's business performance by 0.24 unit.
- According to the model, Inter-functional coordination plays prominent role in influencing business performance of a bank followed by customer-orientation. Hence, a branch with higher inter-functional coordination score will have a better performance output vis-à-vis other counter party.

4.4.3 Auxiliary Regression result

The above model is estimated without considering any control variables that would have an effect on business performance. Hence, we add different potential variables as a control variable in estimating the relationship between business performance and market orientation components. The

variables include bank ownership structure, size of the branch and educational level of the manager. In model iteration bank ownership structure, size of the branch and educational level of the manager found to be significant hence we selected a model that has three independent variable and three control variables (bank ownership, size of the branch and educational level of the manager). The result of the model is presented in table 18 below.

Table 18:Auxiliary model regression result: Business performance and market orientation components [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.000	.052		.000	1.000
	Customer Orientation	.181	.070	.181	2.578	.010
	Competitive Orientation	.096	.075	.096	1.270	.205
	Inter-Functional Coordination	.238	.077	.238	3.102	.002
	Educational level of the manager	.187	.102	.097	1.835	.068
	Ownership of the bank	-.260	.108	-.130	-2.401	.017
	Size of the branch	.126	.074	.090	1.697	.091

a. Dependent Variable: Business Performance
Source: SPSS output based on Survey data

Interpretation of the model

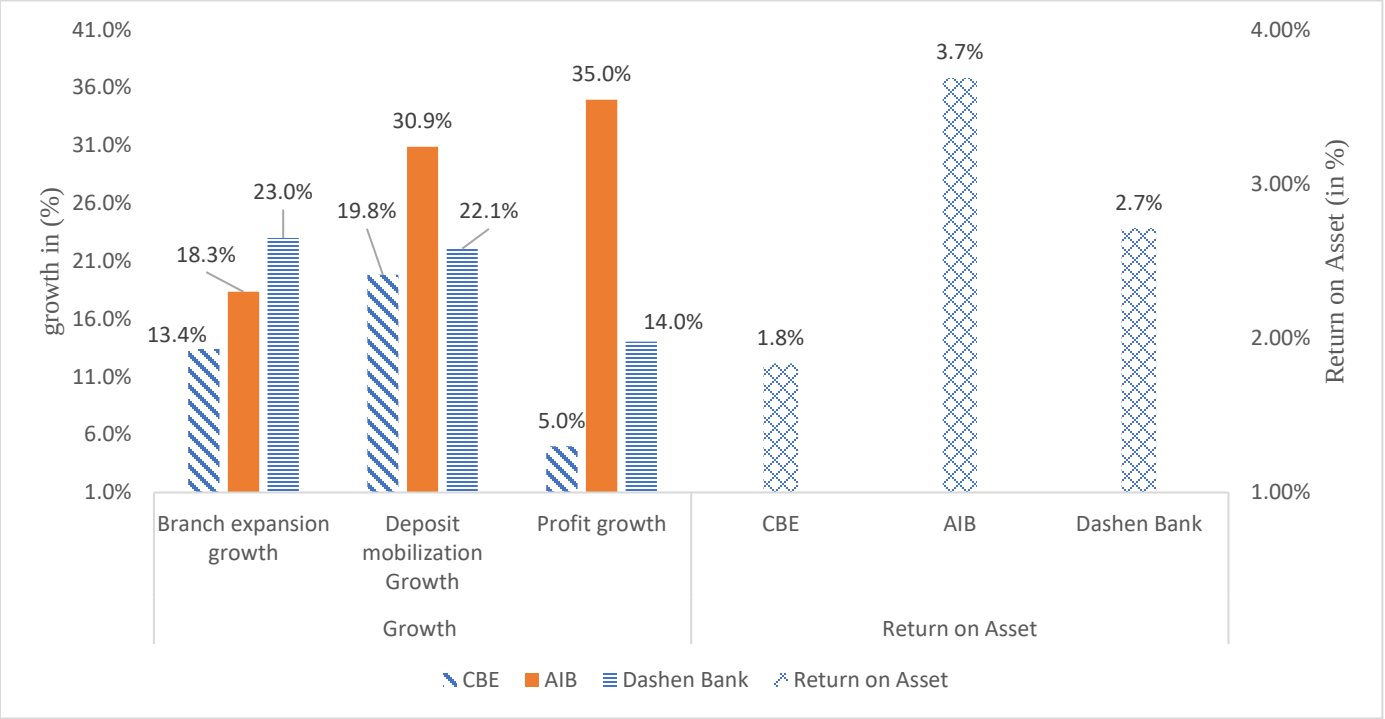
As indicated in the model result, last column of the table, independent variables and control variables found to be significant (at 5 percent significance level) except competitive orientation. More specifically,

- ✓ ***Customer orientation***: the coefficient of customer orientation found to be positive and significant implying that a unit increase in customer orientation level of branch will improve branch's business performance by 0.18 unit.
- ✓ ***Competitive orientation***: the coefficient of competitive orientation found to be insignificant implying that competitive orientation has no influence on business performance of commercial banks.
- ✓ ***Inter-functional coordination***: the coefficient of inter-functional coordination found to be positive and significant implying that a unit increase in inter-functional coordination level of branch will improve branch's business performance by 0.24 unit.

- ✓ ***Educational level***: the coefficient of educational level found to be positive and significant. The educational level variable is represented by categorical variable ranging from 1 to 3. 1 if the respondent is BA degree holder, 2 if the respondent is Master's degree holder and 3 if the respondent is PhD holder. Hence, moving from 1 to 2 to 3 implies an increase in respondents' education level. Therefore, citrus paribus, an increase in education level of a branch manager will enhance business performance level of a branch by 0.19 unit.

- ✓ ***Size***: the variable is represented by categorical variable with three hierarchal values. The values attached with the variable are 1, 2 and 3 if the branch is small sized, medium sized and large sized, respectively. Hence moving 1 to 2 to 3 indicates an increase in size of the branch. Therefore, a positive and significant coefficient of size variable claims that; other things remain constant, an increase in size of branch would result in an increase in business performance of a branch by 0.13 unit
- ✓ **Ownership of a bank**: the coefficient of the variable found to be negative and significant. As it is discussed in the above section, ownership of a bank is represented by a dummy variable taking a value of 1 if the bank is government owned and 0 if the bank is private owned. Hence, a negative and significant coefficient of bank ownership implies that private banks have a better business performance vis-à-vis government owned bank. To verify if this is true, we cross-check the result with the secondary data collected from commercial banks annual report. A time series data (from 2015 to 2020) on performance indicator of commercial banks were collected from Commercial Bank of Ethiopia (government owned bank), Awash International Bank (private owned bank) and Dashen Bank (private owned bank). Though our model result is based on branch level data, we use bank level data to triangulate the result of the model. This is done because secondary data on performance indicator is not available at branch level. Hence, the data on deposit, profit and branch is collected from each bank and the data is then transformed into growth indicator so as to compare commercial banks performance in terms of growth. The data summary is presented in figure 3 below. It should be noted that the growth data in figure 3 is the average value for the period extending from 2016 to 2020 (see Annex 13 for yearly data).

Figure 3: Performance indicator of selected commercial banks (average of 2016-2020 periods)



Source: Own computation based on Commercial banks data (annual report)

As illustrated in figure 3, in all business performance indicators, the two private banks recorded a better result vis-à-vis Commercial Bank of Ethiopia. For instance, during 2016-2020 periods profit, deposit and branch number of Awash International Bank (Dashen Bank) had grown, on average, by 35 percent (14 percent), 30.9 percent (22.1 percent) and 18.3 percent (23 percent), respectively. However, during the same period, CBE's profit, deposit and branch number had grown, on average, by 5 percent, 19.8 percent and 13.4 percent, respectively. Moreover, looking into profitability indicator of the banks, during 2016-2020 periods, the average Return on Asset of AIB (Dashen Bank) and CBE stood at 3.7 percent (2.7 percent) and 1.8 percent, respectively (Figure 3). This summary analysis strengthens the finding of the above model that confirms private banks are better in business performance indicators vis-à-vis government owned bank.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION

The main objectives of the current study were three-fold; identifying the market orientation strategy of commercial banks; investigating if there exists a difference among government owned & private owned banks on their market orientation level and determining the effects of market orientation on commercial banks business performance. Hence, in this section summary of findings, conclusion and recommendation is presented. Moreover, the study insights issues that could be dealt in future research.

5.1. SUMMARY OF FINDINGS

The study is mainly conducted to investigate the influence of market orientation on business performance of commercial banks while identifying the market orientation strategy of commercial banks across the samples. In line with this, the study applied both descriptive and inferential/econometric analysis using data collected through questioner from 297 branches operating in Addis Ababa city. Initially it was planned to collect data from 337 respondents, however, only 297 questioners were returned which resulted in 88.1 percent response rate (a rate considered as representative to undertake analysis). The collected data was checked for reliability/internal consistency using Cronbach's Alpha test. The test result showed that the data collected using the underlying questioner exhibited internal consistency.

The composition of the respondents showed that; 42.8 percent, 56.2 percent and 1 percent of respondents were Bachelor degree, Master's degree and PhD holders, respectively. In terms work experience, majority of respondents have 6 to 15 years of experience. That is, 45.5 percent and 31 percent of respondents have 6 to 10 and 11 to 15 years of experience, respectively. Moreover, respondents experience as a manager is highly composed by managerial experience of less than ten years (96.6 percent). Regarding branches composition in terms of size, years of operation and ownership; medium sized branches, branches less than 10 years of operation and government owned bank comprised 47.8 percent, 55.9 percent and 52.9 percent of the total samples, respectively.

The result of the descriptive analysis regarding perception of respondents regarding customer orientation (six-items), competitive orientation (five-items) and inter-functional coordination (five

items) showed that respondents are more of customer-centric. That is, of the respondent's 80.1 percent, 67 percent and 63 percent of respondents, respectively, rated components of customer orientation, inter-functional coordination and competitive orientation above scale level of 4 (in the questioner, scale level 4 represents neutral while 5, 6 and 7 represents somewhat agree, agree and strongly agree). In relation to business performance indicator four items were used to represent the performance variable (deposit mobilization growth, market share growth, profitability growth and expansion). Based on the survey, majority of respondents (87 percent) reported a better business performance by rating each item above score level of 4 (in the questioner scale 5, 6 and 7 represents somewhat good performance, good performance and very good performance).

Furthermore, the factor analysis using Principal Component Analysis (PCA) method is applied to rank commercial banks perception of market orientation components (customer orientation, competitive orientation and inter-functional coordination). To do so, the study first checked suitability of the data to undertake factor analysis using Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO-MAS) and Bartlett's test of sphericity. Both test results confirmed the possibility of undertaking factor analysis. Hence, the PCA was conducted to find reduced components of market orientation items. Based on the result, composite index was constructed for each component and the composite index was used to rank market orientation components. Accordingly, customer orientation, inter-functional coordination and competitive orientation ranked first, second and third, respectively with index value of 1.44, 0.59 and 0.43. This re-affirms the summary result of descriptive analysis.

Regression analysis was employed to investigate whether there exists a difference among government owned bank and private banks regarding their market orientation practice. Hence, three different regressions were undertaken. In all the three regressions, the independent variable was represented by ownership dummy variable taking the value 1 if the bank is government owned and 0 if the bank is private owned. On the other hand, the dependent variables (customer orientation, competitive orientation and inter-functional coordination) were constructed using Principal Component Analysis (PCA) method. Linear regression model was, then, conducted to see the relationship between components of market orientation and bank ownership structure. The coefficient of ownership dummy variable found to be negative and significant in all three models

which confirmed that private banks are market oriented (in terms of customer orientation level, competitive orientation level and inter-functional level) vis-à-vis government owned bank.

Finally, the study employed a multiple linear regression model to uncover the influence of market orientation components on commercial banks performance. In the multiple linear regression, we first regressed business performance indicator on three components of market orientation. Moreover, we executed auxiliary regression that incorporated control variables. The result of the two models confirmed that customer orientation and inter-functional coordination has a positive and significant effect in determining business performance of commercial banks. Furthermore, the auxiliary regression confirmed the positive and significant effect of branch size, educational level and private ownership (of a bank) on business performance.

5.2. CONCLUSION

The findings of the current study showed that commercial banks in Ethiopia are more of customer oriented. This entails that commercial bank's business model is towards attracting and maintaining customers. Furthermore, according to the finding of the study, there exists a difference among government owned and private owned banks in the adoption of market orientation strategies. That is, in all dimension of market orientation indicators (customer orientation, competitive orientation and inter-functional coordination), private banks found to be market oriented compared to government owned bank. The result of the regression analysis on the effect of market orientation on commercial banks business performance claims that customer orientation and inter-functional coordination has a significant and favorable effect on commercial banks business performance. This shows the importance of valuing customer and creating efficient internal working environment so as to gain competitive advantage and achieve a better business performance position. In continuation of this, private banks found to have better business performance vis-à-vis government owned bank implying efficiency of private banks in converting the inputs into output. Moreover, size of the branch and educational level of the manger has a significant effect on business performance. More specifically, increased size of a branch and improved educational level of a manager would bring a better business performance.

5.3. RECOMMENDATION

Based on the findings of the study, the following recommendations are forwarded;

The study indicated that inter-functional coordination has a paramount importance in determining commercial banks business performance. Hence, branch managers should implement strategies that could enhance collaboration across departments/functions of a branch. Moreover, commercial banks should strive hard to find a new and maintain existing customers through introduction of new products and services as the result of the current study confirmed the positive impact of market orientation on business performance of commercial banks. Though the current study indicated the less importance of competitor orientation on influencing business performance, commercial banks should be cautious in their future business activity to consider competitors move as new and specialized commercial banks (like Islamic banks, Investment banks and Mortgage banks) are on the way to join the banking industry.

The result of the study, further, showed that a government owned bank found to be inferior (vis-à-vis private banks) in terms of market orientation practice which can be considered as one factor for the bank to record a lower business performance indicators compared to private banks. Hence, the government owned bank should improve its adoption of market orientation strategy (customer orientation, competitive orientation and inter-functional coordination) as it will help the bank to increase its efficiency and hence performance.

One of the finding showed that increased branch size has a positive effect on business performance of commercial banks. Therefore, bank branches should either increase their efficiency (to gain economies of scale) or implement best work practice of large sized branches so as to improve their respective branch business performance.

Finally, Commercial banks should create favorable working environment that will give managers a room to advance their level of education as the result of the current study confirmed the positive and significant effect of manager's education level on bank's business performance. Doing this will help managers to grasp a contemporary theoretical and practical skill on their specialization and this in turn will help them to contribute for the bank growth.

5.4. FURTHER RESEARCH AGENDA

The study, furthermore, suggests the following issues to be addressed through further research. First, the current study is conducted in cross-sectional data setup. Hence, to see how market orientation of commercial banks evolves overtime, it would be nice to analysis using a panel data setup (by incorporating time series version of the collected data or by collecting data of the same cross-section over different time horizon). Second, the current study focused on sample of branches operating in Addis Ababa city, hence in the future, by incorporating samples from different regions, it will be possible to investigate regional difference (if any) on market orientation practice of branches. Third, the finding of the current study showed that private banks are market oriented compared to public bank. Hence, in future research, it will be nice to identify the backing reasons for the situation using statical analysis.

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ANNEXURES

Annex 1: Questioner format

Market Orientation and Business Performance - QUESTIONER

Target Respondents: To be completed by Branch Manager/ Customer Service Manager

Purpose: the information gathered through this questioner will be used as part of empirical research into "The effect of market orientation on business performance of commercial banks in Ethiopia".

Confidentiality: Please note that the responses you provide are completely anonymous and confidential. The research outcome will not include reference of any individuals. The compiler of the questioner has sole ownership of completed questioner and the questioner will be automatically destroyed after completion of the research.

Notice: The Questioner has two parts and it will take approximately 20 minutes to complete. When in doubt about any aspect of the questioner, or if you would like more information about it, you can reach the researcher by phone number: 0930329273/ 0911156180

Thank you for taking the time to complete this questioner!

Part I: Background Information

These questions are related with your educational level, years of experience ,,,,,

1. What is your educational level? ☐ Bachelor ☐ Masters ☐ PhD
2. How many years of experience you have in the banking industry? ……
3. How many years of experience do you have as a Branch Manager / Customer Service Manager?.....
4. What is the ownership of your bank? ☐ Government owned ☐ Private
5. Year of establishment of your branch? …… E.C
6. What is the level of your branch in terms of size?

☐ Small branch ☐ medium branch ☐ large branch

Part II: Survey Questioner

The table below contains questions regarding market orientation strategy adopted in your branch. Each question has 7 response options, in the right-hand side of the table, which ranges from 1 to 7. 1 represent **Strongly disagree** while 7 represents **strongly agree** and when you move from 1 to 7, it means you are agreeing for that particular question. For each question, please circle only one option that best describes your view.

Customer Orientation

Statement	**Response Options** (**Strongly Dis-agree** → **Strongly Agree**)						
My branch measures customer satisfaction frequently	**1**	**2**	**3**	**4**	**5**	**6**	**7**

Statement	**Response Options**						
	Strongly Dis-agree						**Strongly Agree**
My branch considers customer satisfaction as the key driver of business objective	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Employees in My branch exerts the maximum effort to create value for our customers	**1**	**2**	**3**	**4**	**5**	**6**	**7**
My branch is committed towards fulfilling customers' needs through self-monitoring and evaluation	**1**	**2**	**3**	**4**	**5**	**6**	**7**
My branch relies on understanding customers need	**1**	**2**	**3**	**4**	**5**	**6**	**7**
My branch/bank rewards employees or managers who are committed to customer satisfaction	**1**	**2**	**3**	**4**	**5**	**6**	**7**

Competitor orientation

Statement	Response Options						
	Strongly Dis-agree						Strongly Agree
Top management of the bank review the strength and weakness of competitors on a regular basis	1	2	3	4	5	6	7
My branch/bank timely responded for any competitive action taken by competitor banks	1	2	3	4	5	6	7
The Research and Development (Planning) department of our bank regularly exchange information for branch managers regarding competitor's status	1	2	3	4	5	6	7
My branch/bank regularly look for opportunities to gain an advantage over our competitors	1	2	3	4	5	6	7
My branch tries to predict the behavior of our main competitors	1	2	3	4	5	6	7

Inter-functional coordination

Statement	Response Options						
	Strongly Dis-agree						Strongly Agree

Top managers of the bank regularly visit our current and prospective customers	**1**	**2**	**3**	**4**	**5**	**6**	**7**
All of our departments like product development, Research and Planning etc are integrated in serving the needs of our target markets	**1**	**2**	**3**	**4**	**5**	**6**	**7**
In my bank, all departments and branches share necessary information with for each other	**1**	**2**	**3**	**4**	**5**	**6**	**7**
In my bank, coordinated activities across departments created a higher customer value	**1**	**2**	**3**	**4**	**5**	**6**	**7**
I, as a manager, clearly understand the role of employees in valuing our customers	**1**	**2**	**3**	**4**	**5**	**6**	**7**

Business Performance

The table below contains questions regarding business performance of your branch in terms of deposit mobilization, market share growth and profit growth for the period you have worked in the branch. Each question has 7 response options, in the right-hand side of the table, which ranges from 1 to 7. 1 represent **very bad performance** while 7 represents **very good performance** and when you move from 1 to 7, keep in mind you are saying the performance is improved. For each question, please circle only one option that best describes your view.

Statement	**Response Options** (**Very Bad** → **Very Good**)						

Deposit of my bank shows improvements from year to year	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Market share of my bank shows growth from year to year	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Profitability of my bank has increased from year to year	**1**	**2**	**3**	**4**	**5**	**6**	**7**
My bank has made increased expansion from year to year	**1**	**2**	**3**	**4**	**5**	**6**	**7**

Thank you for your kind cooperation

Annex 2: Result of Anti-image covariance and variance matrix of market orientation components[a]

		CUO1	CUO2	CUO3	CUO4	CUO5	CUO6	COO1	COO2	COO3	COO4	COO5	IFC1	IFC2	IFC3	IFC4	IFC5
Anti-image Covariance	CUO1	.487	-.187	.018	-.055	-.032	-.001	.052	-.094	.029	-.004	-.039	.010	-.094	-.010	-.087	.124
	CUO2	-.187	.463	-.054	.030	-.115	-.095	-.043	.032	.012	.005	-.023	.009	.019	.056	.035	-.147
	CUO3	.018	-.054	.538	-.147	-.080	.034	-.032	.019	.056	-.022	-.031	.037	-.057	-.035	-.056	-.001
	CUO4	-.055	.030	-.147	.455	-.143	-.056	.017	-.005	-.020	-.016	.014	-.009	.008	-.048	.060	-.080
	CUO5	-.032	-.115	-.080	-.143	.371	-.014	.022	-.026	-.021	-.030	-.014	.009	.040	-.020	-.031	-.042
	CUO6	-.001	-.095	.034	-.056	-.014	.652	-.053	-.032	-.074	-.008	-.035	-.034	.046	.023	-.063	.033
	COO1	.052	-.043	-.032	.017	.022	-.053	.475	-.172	.020	-.116	-.029	.053	-.074	-.021	-.001	-.004
	COO2	-.094	.032	.019	-.005	-.026	-.032	-.172	.365	-.151	.036	-.012	-.045	.028	-.053	.026	-.026
	COO3	.029	.012	.056	-.020	-.021	-.074	.020	-.151	.381	-.146	-.033	-.049	-.085	.070	-.015	.056
	COO4	-.004	.005	-.022	-.016	-.030	-.008	-.116	.036	-.146	.409	-.062	-.084	.062	-.097	.028	-.034
	COO5	-.039	-.023	-.031	.014	-.014	-.035	-.029	-.012	-.033	-.062	.535	.015	-.075	.005	-.084	-.067
	IFC1	.010	.009	.037	-.009	.009	-.034	.053	-.045	-.049	-.084	.015	.534	-.188	-.019	-.085	.032
	IFC2	-.094	.019	-.057	.008	.040	.046	-.074	.028	-.085	.062	-.075	-.188	.510	-.071	-.014	-.031
	IFC3	-.010	.056	-.035	-.048	-.020	.023	-.021	-.053	.070	-.097	.005	-.019	-.071	.465	-.156	-.044
	IFC4	-.087	.035	-.056	.060	-.031	-.063	-.001	.026	-.015	.028	-.084	-.085	-.014	-.156	.450	-.106
	IFC5	.124	-.147	-.001	-.080	-.042	.033	-.004	-.026	.056	-.034	-.067	.032	-.031	-.044	-.106	.550
Anti-image Correlation	CUO1	.870[a]	-.394	.035	-.116	-.076	-.002	.108	-.222	.068	-.009	-.075	.020	-.188	-.021	-.186	.239
	CUO2	-.394	.847[a]	-.108	.066	-.278	-.173	-.091	.078	.030	.011	-.047	.018	.040	.121	.077	-.291
	CUO3	.035	-.108	.916[a]	-.297	-.179	.058	-.063	.044	.123	-.046	-.057	.069	-.108	-.071	-.114	-.002
	CUO4	-.116	.066	-.297	.899[a]	-.348	-.104	.038	-.012	-.048	-.038	.028	-.019	.017	-.104	.133	-.160
	CUO5	-.076	-.278	-.179	-.348	.921[a]	-.028	.052	-.070	-.057	-.077	-.031	.019	.093	-.048	-.077	-.092
	CUO6	-.002	-.173	.058	-.104	-.028	.946[a]	-.095	-.065	-.148	-.015	-.059	-.058	.079	.042	-.117	.055
	COO1	.108	-.091	-.063	.038	.052	-.095	.891[a]	-.414	.047	-.264	-.057	.106	-.150	-.044	-.001	-.008
	COO2	-.222	.078	.044	-.012	-.070	-.065	-.414	.874[a]	-.406	.093	-.027	-.102	.065	-.129	.064	-.058
	COO3	.068	.030	.123	-.048	-.057	-.148	.047	-.406	.855[a]	-.371	-.073	-.108	-.193	.166	-.036	.122
	COO4	-.009	.011	-.046	-.038	-.077	-.015	-.264	.093	-.371	.900[a]	-.133	-.180	.137	-.222	.065	-.072
	COO5	-.075	-.047	-.057	.028	-.031	-.059	-.057	-.027	-.073	-.133	.964[a]	.028	-.144	.011	-.172	-.123
	IFC1	.020	.018	.069	-.019	.019	-.058	.106	-.102	-.108	-.180	.028	.899[a]	-.361	-.038	-.173	.059
	IFC2	-.188	.040	-.108	.017	.093	.079	-.150	.065	-.193	.137	-.144	-.361	.878[a]	-.145	-.028	-.059
	IFC3	-.021	.121	-.071	-.104	-.048	.042	-.044	-.129	.166	-.222	.011	-.038	-.145	.910[a]	-.342	-.087
	IFC4	-.186	.077	-.114	.133	-.077	-.117	-.001	.064	-.036	.065	-.172	-.173	-.028	-.342	.900[a]	-.214
	IFC5	.239	-.291	-.002	-.160	-.092	.055	-.008	-.058	.122	-.072	-.123	.059	-.059	-.087	-.214	.882[a]

a. Measures of Sampling Adequacy(MSA)
Source: SPSS output based on Survey data

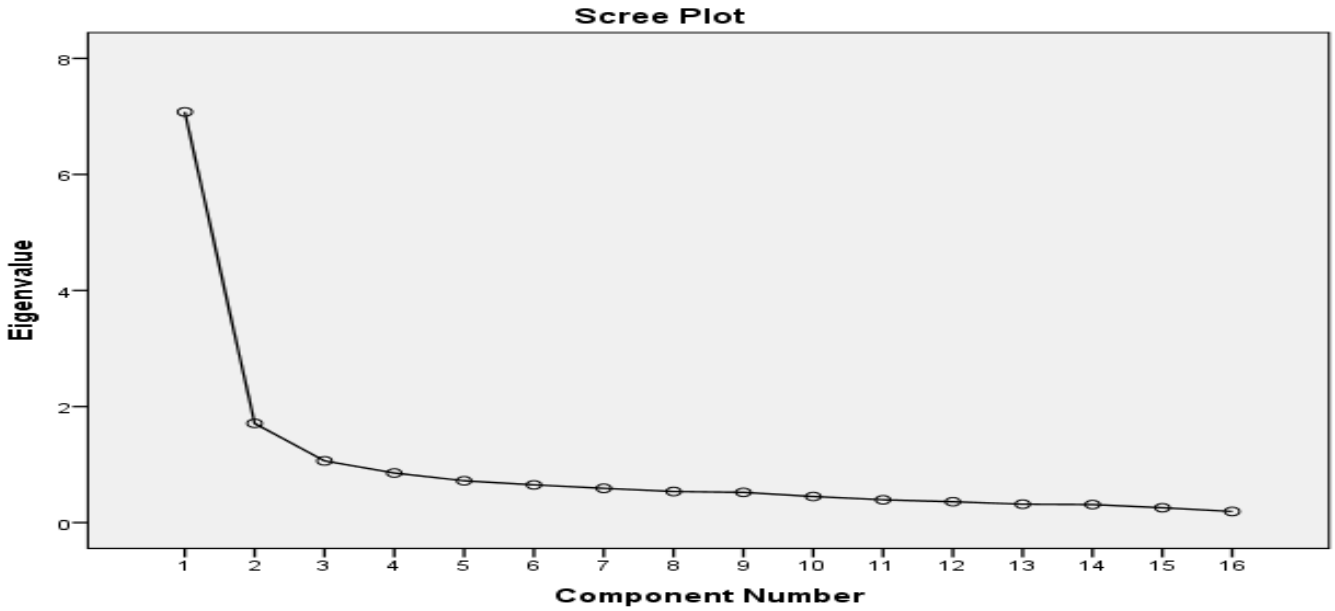
Annex 3: Summary result of factor analysis using PCA: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	7.08	44.23	44.23	7.08	44.23	44.23	3.71	23.18	23.18
2	1.71	10.69	54.92	1.71	10.69	54.92	3.35	20.91	44.09
3	1.06	6.65	61.57	1.06	6.65	61.57	2.80	17.48	61.57
4	0.85	5.34	66.91						
5	0.72	4.50	71.40						
6	0.65	4.06	75.47						
7	0.59	3.69	79.16						
8	0.54	3.35	82.51						
9	0.52	3.26	85.77						
10	0.45	2.81	88.58						
11	0.39	2.46	91.03						
12	0.36	2.24	93.28						
13	0.32	1.98	95.26						
14	0.31	1.94	97.20						
15	0.26	1.60	98.81						
16	0.19	1.19	100.00						

Extraction Method: Principal Component Analysis.

Source: SPSS output based on Survey data

Annex 4: Scree plot of market orientation components



Source: SPSS output based on Survey data

Annex 5: Result of Rotated Component Matrix for market orientation components [a]

Item code	Items	Component		
		1	**2**	**3**
CUO5	My branch relies on understanding customers need	.785		
CUO2	My branch considers customer satisfaction as the key driver of business objective	.754		
CUO3	Employees in My branch exerts the maximum effort to create value for our customers	.724		
CUO4	My branch is committed towards fulfilling customers' needs through self-monitoring and evaluation	.721		
IFC5	I, as a manager, clearly understand the role of employees in valuing our customers	.656		
CUO1	My branch measures customer satisfaction frequently	.515		
COO3	The Research and Development (Planning) department of our bank regularly exchange information for branch managers regarding competitor's status		.808	
COO2	My branch/bank timely responded for any competitive action taken by competitor banks		.765	
COO1	Top management of the bank review the strength and weakness of competitors on a regular basis		.656	
CUO6	My branch/bank rewards employees or managers who are committed to customer satisfaction		.654	
COO4	My branch/bank regularly look for opportunities to gain an advantage over our competitors		.612	
IFC2	All of our departments like product development, Research and Planning etc are integrated in serving the needs of our target markets			.720
IFC3	In my bank, all departments and branches share necessary information with for each other			.692
IFC4	In my bank, coordinated activities across departments created a higher customer value			.673
IFC1	Top managers of the bank regularly visit our current and prospective customers			.663
COO5	My branch tries to predict the behavior of our main competitors			

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 6 iterations.

Source: SPSS output based on survey data

Annex 6: Result of Anti-image covariance variance matrix of Business performance components [a]

Particulars		Deposit of my bank shows improvements from year to year	Market share of my bank shows growth from year to year	Profitability of my bank has increased from year to year	My bank has make increased expansion from year to year
Anti-image Covariance	Deposit of my bank shows improvements from year to year	.546	-.096	-.079	-.194
	Market share of my bank shows growth from year to year	-.096	.493	-.228	-.003
	Profitability of my bank has increased from year to year	-.079	-.228	.386	-.165
	My bank has make increased expansion from year to year	-.194	-.003	-.165	.507
Anti-image Correlation	Deposit of my bank shows improvements from year to year	.832[a]	-.186	-.171	-.369
	Market share of my bank shows growth from year to year	-.186	.766[a]	-.521	-.007
	Profitability of my bank has increased from year to year	-.171	-.521	.737[a]	-.373
	My bank has make increased expansion from year to year	-.369	-.007	-.373	.788[a]

a. Measures of Sampling Adequacy(MSA)

Source: SPSS output based on Survey data

Annex 7: KMO and Bartlett's test result for customer orientation

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.840
Bartlett's Test of Sphericity	Approx. Chi-Square	665.304
	Df	15
	Sig.	.000

Source: SPSS output based on survey data

Annex 8: KMO and Bartlett's test result for competitive orientation

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.808
Bartlett's Test of Sphericity	Approx. Chi-Square	646.685
	Df	10
	Sig.	.000

Source: SPSS output based on survey data

Annex 9: KMO and Bartlett's test result for inter-functional coordination

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.782
Bartlett's Test of Sphericity	Approx. Chi-Square	457.511
	Df	10
	Sig.	.000

Source: SPSS output based on survey data

Annex 10: Diagnosis of regression model on the relationship between customer orientation and bank ownership

Annex 10.1. Test result of overall fitness of the model (F-test): ANOVA result [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13.473	1	13.473	14.067	0.000
	Residual	282.527	295	.958		
	Total	296.000	296			

a. Predictors: (Constant), Ownership of the bank

Dependent Variable: Customer Orientation

Source: SPPS output based on survey data

Annex 10.2. Result of autocorrelation test [a]

Model	Durbin-Watson	Decision
1	1.826	No-autocorrelation

a. Predictors: (Constant), Ownership of the bank

Dependent Variable: Customer Orientation

Source: SPPS output based on survey data

Annex 11: Diagnosis of regression model on the relationship between competitive orientation and bank ownership

Annex 11.1. Test result of overall fitness of the model (F-test): ANOVA result [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.586	1	8.586	8.813	0.003
	Residual	287.414	295	.974		
	Total	296.000	296			

a. Predictors: (Constant), Ownership of the bank

Dependent Variable: competitive orientation

Source: SPPS output based on survey data

Annex 11.2. Result of autocorrelation test [a]

Model	Durbin-Watson	Decision
1	1.855	No-autocorrelation

a. Predictors: (Constant), Ownership of the bank

Dependent Variable: competitive orientation

Source: SPPS output based on survey data

Annex 12: Diagnosis of regression model on the relationship between inter-functional coordination and bank ownership

Annex 12.1. Test result of overall fitness of the model (F-test): ANOVA result [a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.762	1	5.762	5.857	0.016
	Residual	290.238	295	.984		
	Total	296.000	296			

a. Predictors: (Constant), Ownership of the bank

Dependent Variable: inter-functional coordination

Source: SPPS output based on survey data

Annex 12.2. Result of autocorrelation test

Model	Durbin-Watson	Decision
1	1.866	No-autocorrelation

a. Predictors: (Constant), Ownership of the bank

Dependent Variable: inter-functional coordination

Source: SPPS output based on survey data

Annex 13: Business performance indicator of selected commercial banks (2016-2020)

Annex 13.1: Commercial Banks deposit mobilization performance (2016-2020)

Particulars	Deposit (in millions of Birr)					Growth (in %)				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Commercial Bank of Ethiopia	289,633.0	365,101.9	451,857.6	542,393.0	596,683.0	19.2%	26.1%	23.8%	20.0%	10.0%
Awash International Bank	24,236.0	32,783.9	45,906.0	62,464.0	74,266.0	24.2%	35.3%	40.0%	36.1%	18.9%
Dashen Bank	22.8	27.8	35.987	44.722	53.494	15.2%	21.9%	29.4%	24.3%	19.6%

Source: Own computation based on Commercial Banks annual report data

Annex 13.2: Commercial Banks profit performance (2016-2020)

Particulars	Profit (in millions of Birr)					Growth (in %)				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Commercial Bank of Ethiopia	12.168	12.504	10.0061	15.699	14.061	-4.2%	2.8%	-20.0%	56.9%	-10.4%
Awash International Bank	986.0	1,350.0	1,964.0	3,344.0	3,600.0	14.5%	36.9%	45.5%	70.3%	7.7%
Dashen Bank	951.00	980.00	1,143.00	1,279.00	1,790.00	3.2%	3.2%	3.6%	4.5%	4.0%

Source: Own computation based on Commercial Banks annual report data

Annex 13.3: Commercial Banks Branch number (2016-2020)

Particulars	Number of Branches					Growth (in %)				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Commercial Bank of Ethiopia	1,150	1,310	1,375	1,578	1,825	17.7%	13.9%	5.0%	14.8%	15.7%
Awash International Bank	240	316	366	410	465	18.8%	31.7%	15.8%	12.0%	13.4%
Dashen Bank	220	303	373	413	423	41.0%	37.7%	23.1%	10.7%	2.4%

Source: Own computation based on Commercial Banks annual report data

Annex 13.4: Commercial Banks Profitability performance: Return on Asset (2016-2020)

Particulars	Profit (in millions of Birr)				
	2016	2017	2018	2019	2020
Commercial Bank of Ethiopia	2.4%	2.2%	1.0%	2.0%	1.5%
Awash International Bank	3.2%	3.2%	3.6%	4.5%	4.0%
Dashen Bank	3.3%	2.8%	2.5%	2.3%	2.6%

Source: Own computation based on Commercial Banks annual report data