

## INVESTIGATING THE FITNESS OF THE MODEL OF THE IMPACT OF MARKET REQUIREMENTS AND STRATEGIC ORIENTATION ON THE PERFORMANCE OF BANK MELLI IRAN

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### ABSTRACT

*Performance is one of the most important criteria for measuring success, and a variety of factors affect this success. One of these factors is strategic orientations, but orientations do not in themselves improve the performance of the organization, but market requirements play an effective role in adopting strategic orientations. The purpose of this study is to investigate the fit of the model of the effect of market requirements and strategic consideration on the performance of Bank Mellî Iran. In the current study, in this study, to collect data, by using the stratified random sampling method, some questionnaires were distributed among 153 staff managers of Bank Mellî Iran and were collected so that we could compare the opinions of managers. Using SPSS software, the data were summarized and described using the central tendency and index of dispersion, then structural equations were drawn using PLS software, and hypotheses were tested and its validity and reliability were confirmed. The results showed that strategic orientations have a positive effect on the performance of Bank Mellî Iran. Furthermore, the obtained value of GOF is 0.35, indicating the strong overall fitness.*

**Keywords:** Strategic Orientations, Performance, Market Requirements

### INTRODUCTION

Organizations must equip their resources to realize their strategies and determine the current measures and tasks in the form of executive plans. Market requirements have a variety of effects on the performance and are dependent on the methods by which, Bank can be aligned to the environment. Through empowering the capabilities of the members and elimination of the old attitudes towards the market, daily operation evaluation, and accepting new ideas, decision-makers can identify the special needs of the customers and the competitors' actions in the Market in order to provide a stable competitive advantage for themselves.

### *Problem Statement*

Zhou et al. (2005) also point out that strategic orientations do not automatically lead to better performance, but to certain behaviors that affect performance in their own right. Therefore, market requirements are influential in strategic decisions, and because managers are responsible for implementing organizational strategies, they must be able to identify new market opportunities. In order to increase the advantage and positive competitive performance of senior management, it must effectively disseminate the culture of market orientation among organizational members and among organizational levels. Employees' understanding of the

organization's core market culture directly affects the range in which they link market-oriented behavior to the process of creating and transferring higher value to the customer (Kalli, 1992; Lam et al, 2010). Some authors believed that a special strategic orientation of an organization is what employees think must be (Litel et al., 1988; Marino and Slater, 2008). A bank can be successful that uses competent managers, various tools and facilities, and available potentials in order to the success of the complex. Bank managers must be able to identify new market opportunities and to achieve this, experts and professionals must be at the service of the collection. The bank, with the benefit of qualified managers and educated human resources, can have a permanent relationship with customers and the market and by making changes and developments, watch the community (Abbas Gholipour, 2010).

## THEORETICAL FRAMEWORK

### *Bank Performance*

Banks are financial institutions that collect assets from a variety of sources and provide them with areas that require liquidity. Banks are a vital artery for any country. Demand for a variety of banking services has risen sharply as private banks have entered the financial markets . Banks get the jumps on competition to increase the market share and benefit by using the variety of methods of performance improvement in the customer attraction. Meanwhile, evaluation of the performance of banks enjoys a special performance and has turned to one of the most important activities of the banks' managers (Sam et al, 2009). Evaluating the performance of organizations and economic enterprises and examining the results of their performance in a given period is an important and strategic process that while determining the competitive position of the organization, has a significant role in continuous improvement and increasing the quality and effectiveness of management decisions. Banks, as the most important institution of the money market, are no exception. Since the optimal functioning of banks has a significant impact on the country's economic growth and development, creating the necessary conditions and bases for improving the quality and quantity of banks' performance in the shadow of a healthy competitive environment can play a significant role in achieving goals. Banks need to use leading or future indicators to achieve better performance. Negative or retrospective indicators express only historical events, while future indicators provide conditions for performance enhancement (Coros and Linch, 1991).

### *Research Background*

Zahra Nazeri (2016), entitled "The Impact of Strategic Orientation and Marketing Capabilities on Pasargad Bank's Performance" conducted among managers of Pasargad Banks in Tehran using structural equation methods, showed that strategic orientation and marketing capabilities have a positive impact on performance.

Saeed Najafi, Hossein Sharifi, and Jaleh Najafi (2016) on "Market Orientation, Marketing Capability, New Product Performance," which shows that attraction capacity is a moderating role, market orientation is positively related to new product performance, and positive attraction capacity adjusts the relationship between the market orientation and performance of the new product.



Theodosiou et al. (2012) in a study entitled Strategic Orientations, Marketing and Performance Capabilities showed that environmental forces and organizational structures have all had a positive effect on strategic orientations and only the orientation of competitors and costs has a positive effect on performance due to mediating marketing capability variable; however, customer orientation and innovation have denied the existence of a mediating variable and have not considered it effective in improving bank performance.

Takata (2016) conducted an experimental analysis on the Japanese manufacturers in the study "The Impact of Industrial Forces, Market Orientation and Marketing Capabilities and Business Performance". The results confirm the relationship between market orientation and business performance.

Halt et al. (2005) discussed the role of market orientation in shaping the company's performance. According to these findings, both methods affect market orientation and performance, but their effects are directly based on organizational responses.

Kamsiun and Lopez (2014) conducted a research on 144 Spanish industrial companies and modeling a system of structural functions using partial least squares. The results confirmed that organizational innovation supports the development of technological innovation capabilities and that both organizational innovation and technological capabilities for products and processes can lead to the company's excellent performance.

Gardner et al. (2017) conducted an experimental analysis of 193 bank branches in the study "Reliable Leadership, Strategic Orientation, Strategy Implementation, and Organization Performance". The results confirm the relationship between reliable leadership and strategic orientation.



## RESEARCH METHODOLOGY

The present research is applied in terms of purpose and descriptive in terms of the implementation method. Methodologically, this research has been correlational. The present study examines the relationship between strategic orientation and the performance of Bank Melli Iran. Since managers are responsible for the core policies of bank branches, they were selected as the study population.

The statistical sample selected for this study was 153 managers who were selected through a stratified random sampling method from the statistical population. Research data collection tools are a questionnaire. In order to determine the validity of this questionnaire, despite the use of research, the views of experts and university professors are used. Cronbach's alpha method is also used to determine the reliability of the questionnaire. Given that the cvr coefficients of all the questions were above 49%, and also the average cvi is greater than 0.79, this indicates that the above tool is appropriate, so the validity of the content of the questionnaire is confirmed. The KMO index and the Bartlett test were used to determine the adequacy of the sample and the overall fit of the model.

### *Statistical Hypotheses of Research*

Strategic orientations have a significant effect on performance.

- 1-1- Customer Orientation has a significant effect on performance.
- 1-2- Competitor orientation has a significant effect on performance.
- 1-3- Innovation orientation has a significant effect on performance.

1-4- Cost orientation has a significant effect on performance.

## RESEARCH FINDINGS

### *The measure of Sampling Adequacy (Kaiser-Meyer-Olkin Test)*

KMO value is more than 0.7, indicating that the data are adequate for the factor analysis and Bartlett's value is significant and the data sphericity is confirmed.

**Table 1. Results of KMO and Bartlett's tests**

KMO	Bartlett's test of sphericity	Significance level
0.884	1.369	0.000

### *Naming variables in PLS*

**Table 2. Naming in PLS**

Row	Variables' name	Naming the latent variables in PLS	Naming the observed variables in PLS
1	Market Turbulence	PERTURBATION	AQ1-AQ6
2	Competition intensity	COMPETITION	BQ1-BQ6
3	Decentralization	DECENTRALIZATION	CQ1-CQ5
4	Customer Orientation	COSTUMER	DQ1-DQ6
5	Competitor orientation	COMPETITOR	EQ1-EQ7
6	Costs Orientation	COST	FQ1-FQ7
7	Innovation Orientation	INNOVATION	GQ1-GQ6
8	Performance	PERFORMANCE	HQ1-HQ4

### *Data Analysis*

In this section, we first draw the initial measurement model in the estimation of standard coefficients and then interpret the results and perform the necessary corrective actions. The initial measurement model will also be expressed in significance coefficients.



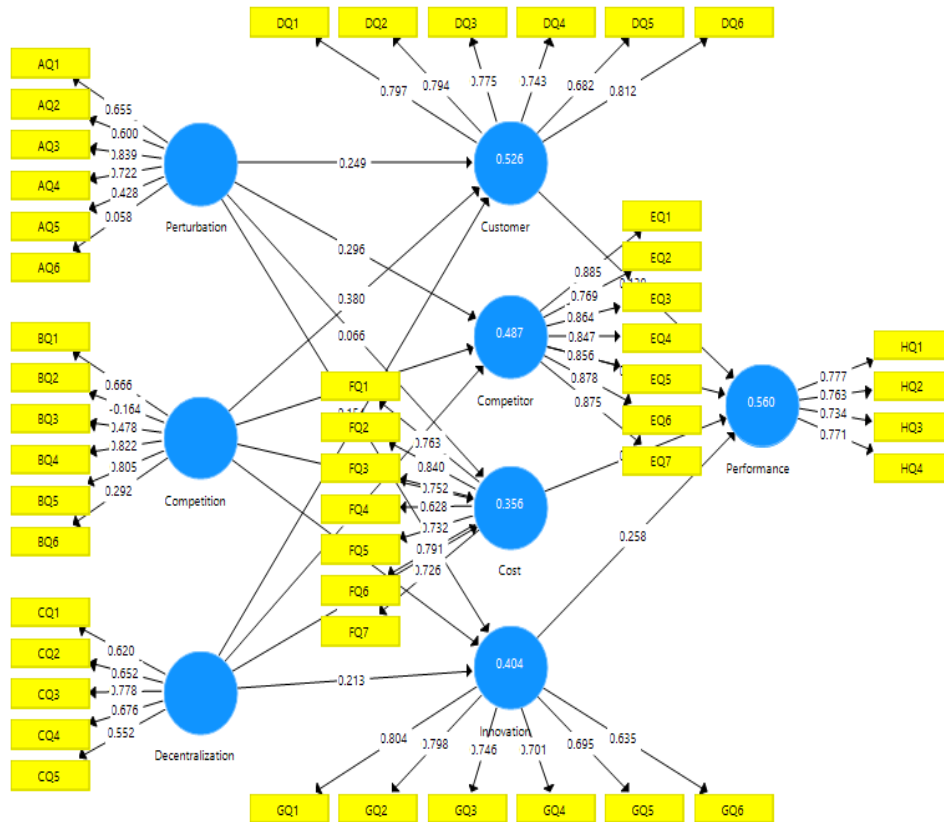


Figure 1. Initial measurement model in the estimation of the standard coefficients

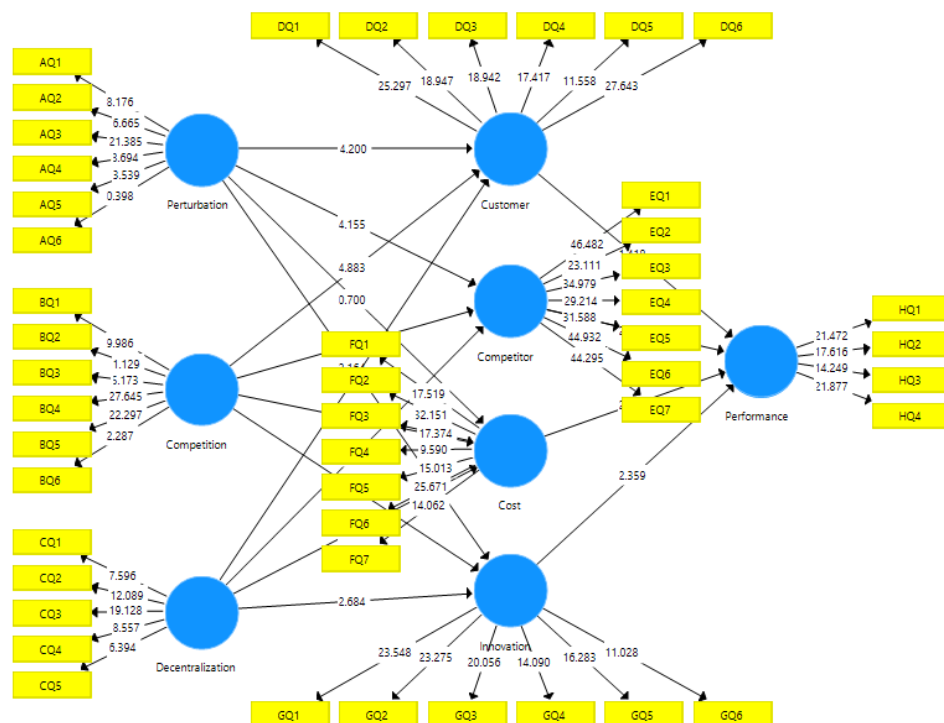


Figure 2. Initial measurement model in the significance coefficients



It must be mentioned that the measurement model is used to investigate the relationship between the latent and observed variables. In Figure 1, the numbers on the arrows between the latent and observed factor loads.

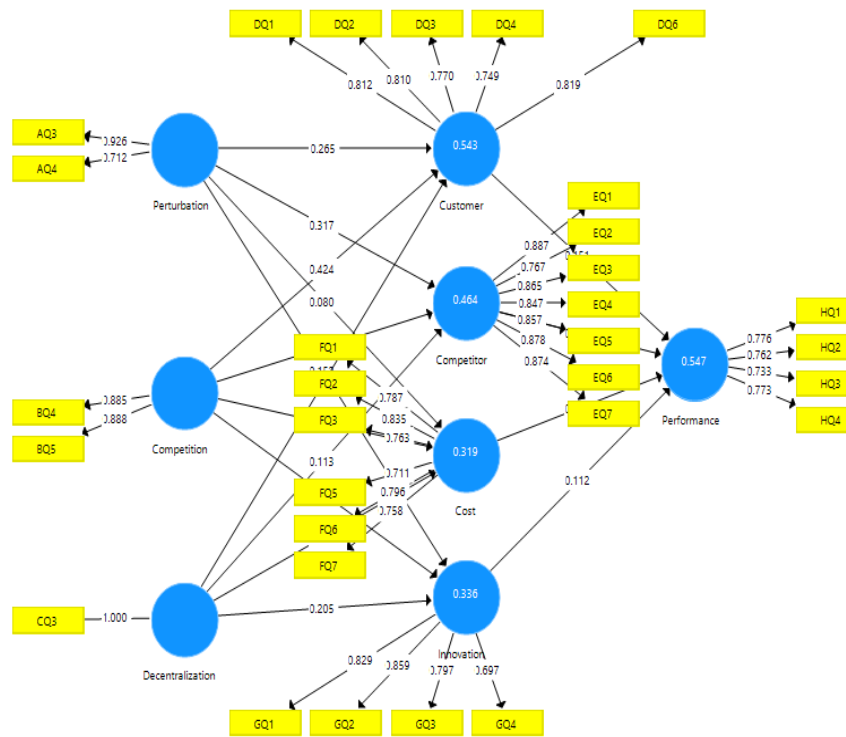


Figure 3. initial measurement model in the estimation of the standard coefficients after correcting the model

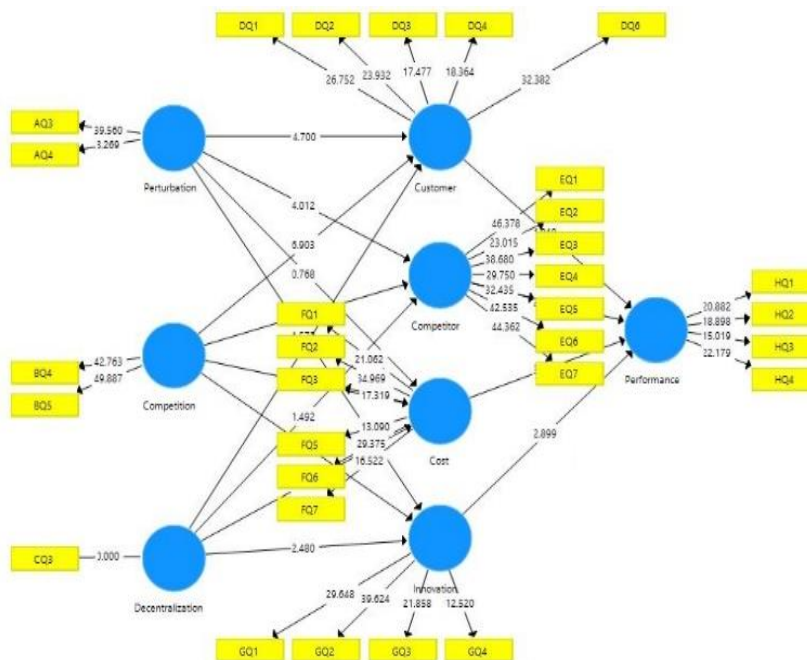


Figure 4. initial measurement model in the significance coefficients after correcting the model

Corrected measurement model confirms that the factor load of all questions has reached the acceptable level after the elimination of inadequate questions. Therefore, continuing the path is acceptable.

### *Reliability*

Investigating the Cronbach's alpha coefficients

**Table 3. Cronbach's alpha**

Variable	Cronbach's alpha
Performance	0.761
Competition intensity	0.728
Market turbulence	0.765
Decentralization	1.00
Customer orientation	0.852
Innovation orientation	0.809
Costs orientation	0.867
Competitor orientation	0.938
Market requirements	0.831
Strategic orientation	0.866



Alpha values above 0.7 indicate acceptable reliability. In Table 3, the highest Cronbach's alpha is related to the decentralization variable and the lowest is related to the intensity of competition.

### *Combined Reliability (CR)*

**Table 4. Combined reliability**

Variable	Combined reliability
Performance	0.864
Competition intensity	0.880
Market turbulence	0.808
Decentralization	1.00
Customer orientation	0.894
Innovation orientation	0.874
Costs orientation	0.901
Competitor orientation	0.950
Market requirements	0.896
Strategic orientation	0.904

If the CR value for each structure is above 0.7, it indicates the appropriate internal stability for the measurement models. the value of less than 0.6 indicates a lack of reliability. Table 4 shows that the combined reliability value for all variables is above 0.7.

### *Shared Reliability*

**Table 5. Shared Reliability**

Variable	Shared reliability
Performance	0.773
Competition intensity	0.728
Market turbulence	0.710
Decentralization	1.00
Customer orientation	0.854
Innovation orientation	0.831
Costs orientation	0.872
Competitor orientation	0.939
Market requirements	0.812
Strategic orientation	0.874



According to Table 5, the value of the shared reliability has been obtained higher than 0.5 for all the variables.

### *Validity*

#### *Convergent Validity*

**Table 6. the extracted average**

Variable	AVE
Performance	0.579
Competition intensity	0.786
Market turbulence	0.682
Decentralization	1.00
Customer orientation	0.628
Innovation orientation	0.637
Costs orientation	0.602
Competitor orientation	0.730
Market requirements	0.822
Strategic orientation	0.649

Table 6 shows that the AVE index is higher than 0.5 for all the research variables.

***CR>AVE:***

This index is one of the indicators for measuring convergent validity. According to this index, combined reliability for all variables should be higher than the average extracted for them. The table below confirms this.

**Table 7. Combined Reliability**

Variable	AVE	CR
Performance	0.579	0.846
Competition intensity	0.786	0.880
Market turbulence	0.682	0.808
Decentralization	1.00	1.00
Customer orientation	0.628	0.894
Innovation orientation	0.637	0.874
Costs orientation	0.602	0.901
Competitor orientation	0.730	0.950
Market requirements	0.822	0.896
Strategic orientation	0.649	0.904

### *Divergent Validity*

Divergent validity is the evaluation criterion of the fit of measurement models in the PLS method.

- *Fornell-Larcker Method*



**Table 7. Reliability measurement matrix**

	Performance	Competitor	Costs	Customer	Innovation	Market turbulence	Competition intensity	Decentralization
Performance	0.761							
Competitor	0.644	0.854						
Costs	0.673	0.626	0.775					
Customer	0.636	0.746	0.701	0.793				
Innovation	0.623	0.715	0.727	0.623	0.798			
Market Turbulence	0.420	0.575	0.376	0.578	0.424	0.826		
Competition Intensity	0.509	0.613	0.538	0.625	0.525	0.563	0.886	
Decentralization	0.201	0.338	0.325	0.463	0.372	0.302	0.324	1.00

According to Table 7, it can be seen that the numbers mentioned in the main diameter are higher than their below numbers, hence, the divergent validity of the model is confirmed.

***Reflective Measurement Model Test***

**Table 8. Measurement model quality**

Variable	1-SSE/SSO
Performance	0.284
Competition intensity	0.350
Market turbulence	0.350
Decentralization	0.350
Customer orientation	0.317
Innovation orientation	0.194
Costs orientation	0.175
Competitor orientation	0.309
Market requirements	0.350
Strategic orientation	0.284

According to Table 8, the quality index of the measurement model for all variables is moderate and strong, which indicates the appropriate quality of the reflective measurement model.

***Research Hypotheses Test***



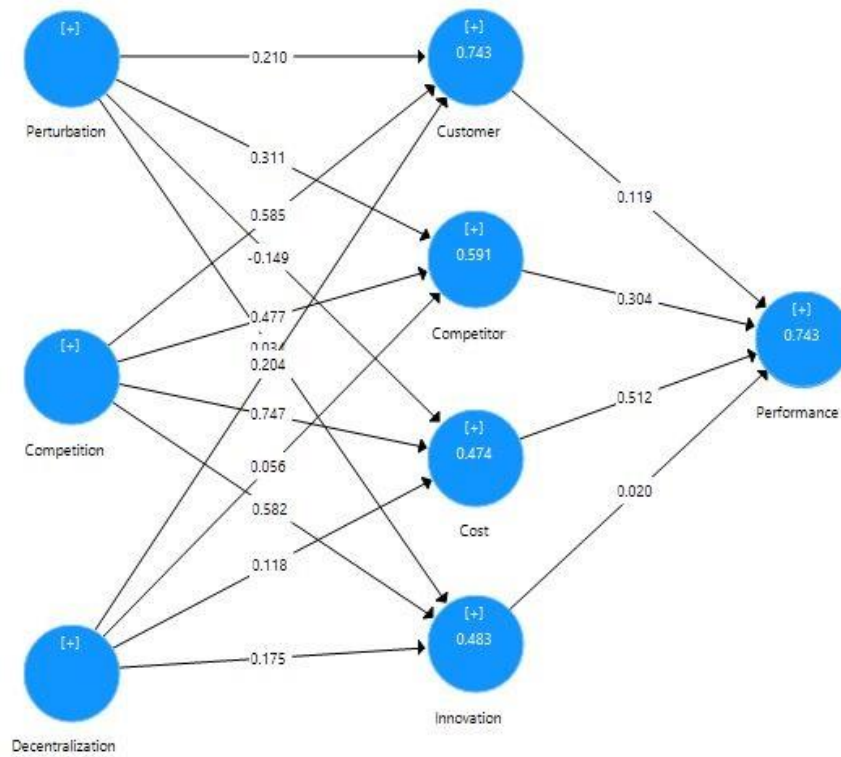


Figure 5. Structural Modeling in the estimation of weights

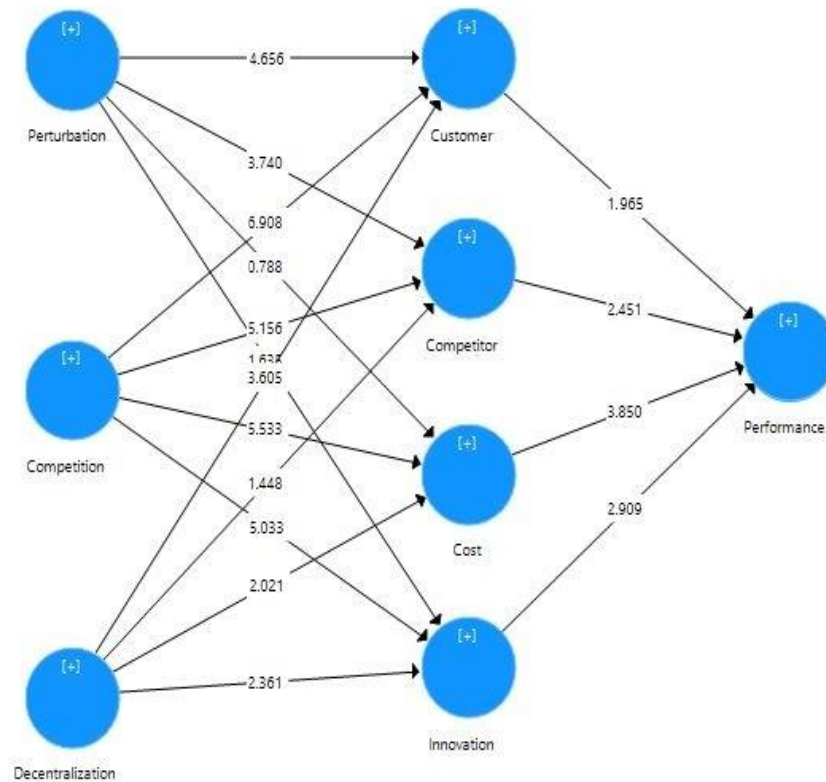


Figure 6. Structural modeling in the significance of the path coefficients

### Significance Text

In this section, according to the two values of the t-statistic and path coefficient, we examine the hypotheses and accepting or rejecting them.

Table 9. Significance Test of t-statistics

	Customer Orientation	Innovation Orientation	Costs Orientation	Competitor Orientation	Strategic Orientation	Performance
Market Turbulence	4.656	1.638	0.788	3.740	2.705	
Competition Intensity	6.908	5.033	5.533	5.156	5.657	
Decentralization	3.605	2.361	2.021	1.448	2.358	
Customer Orientation						1.965
Innovation Orientation						2.909
Costs Orientation						3.850
Competitor Orientation						2.451

Strategic Orientation						2.216
Market Requirements					3.573	

***Main Hypothesis: Strategic Orientations have a significant effect on performance.***

The main hypothesis of the study based on the effect of strategic orientations on performance is accepted, given that its t -value is outside the range of 1.96 and -1.96, at the confidence level of 99%. On the other hand, the intensity of the impact of strategic orientations on performance is 0.23 and its direction is positive. Therefore, it is predicted that in a larger sample of the same variable population, strategic orientations will have a positive and significant effect on performance.

- ***Sub-Hypothesis (a): Customer Orientation has a significant effect on the performance.***

The sub-hypothesis (a) of the study based on the effect of customer orientation on performance is accepted, considering that its t -value is outside the range of 1.96 and -1.96, and the confidence level of 99%. On the other hand, the intensity of the impact of customer orientation on performance is 0.11 and its direction is positive. Therefore, it is predicted that in a larger sample than the same variable population, customer orientation will have a positive and significant effect on performance.

- ***Sub-Hypothesis (b): Innovation Orientation has a significant effect on performance.***

Sub-hypothesis (b) of the study based on the effect of innovation orientation on performance is accepted, considering that its t -value is outside the range of 1.96 and -1.96, and at the confidence level of 99%. On the other hand, the impact intensity of innovation orientation on performance is 0.02 and its direction is positive. Therefore, it is predicted that in a larger sample than the same variable community, customer orientation will have a positive and significant effect on performance.

- ***Sub-Hypothesis (c): Costs orientation has a significant effect on performance.***

The sub-hypothesis (c) of the study based on the effect of cost orientation on performance is accepted, given that its t -value is outside the range of 1.96 and -1.96, and at the confidence level of 99%. On the other hand, the impact intensity of cost orientation on performance is 0.51 and its direction is positive. Therefore, it is predicted that in a larger sample than the same variable society, cost orientation will have a positive and significant effect on performance.

- ***Sub-Hypothesis (d): Competitor orientation has a significant effect on performance.***

The sub-hypothesis (d) of the study based on the effect of competitor orientation on performance is accepted, considering that t -value is outside the range of 1.96 and -1.96, at the confidence level of 99%. On the other hand, the impact intensity of the competitor's orientation on performance is 0.30 and its direction is positive. Therefore, it is predicted that in a larger sample than the same variable community, the direction of the competitor will have a positive and significant effect on performance.

***Model fitness evaluation criteria (measurement, structural and general model)***



*Evaluation Criteria of the fit of the measurement model section***Table 10. Communality Values**

Variable	Communality
Performance	0.773
Competition intensity	0.728
Market turbulence	0.710
Decentralization	1.00
Customer orientation	0.854
Innovation orientation	0.831
Costs orientation	0.872
Competitor orientation	0.939
Market requirements	0.812
Strategic orientation	0.874

Table 10 shows that the communality values obtained for all the variables are higher than 0.5.

*Evaluation Criteria for the Structural Section*

- *The criterion of the Coefficient of Determination (R Squares of R<sup>2</sup>)*

**Table 11. Determination Coefficient**

Variable	Determination Coefficient (R <sup>2</sup> )
Performance	0.54
Customer Orientation	0.54
Innovation Orientation	0.33
Costs Orientation	0.32
Competitor Orientation	0.46
Strategic Orientation	0.41

Three values of 0.19, 0.33, and 0.67 are the criterion for the weak, moderate, and strong values of R<sup>2</sup>. The values reported for the determination coefficient are approximately moderate. The results showed that 54% of the variations of the performance of branches is determined through the strategic orientations. The determination coefficients also indicate that 41% of the variations of the strategic orientations are influenced by the market turbulence, competition intensity, and decentralization, and other variations of the strategic orientations are related to other factors.

*Predictive Communication (Q<sup>2</sup>)*

Table 12. Q<sup>2</sup> Criterion

Variable	Q <sup>2</sup> Criterion
Performance	0.284
Customer Orientation	0.317
Innovation Orientation	0.194
Costs Orientation	0.175
Competitor Orientation	0.309
Strategic Orientation	0.248

Three values of 0.02, 0.15, 0.35, are the weak, moderate and strong power of the prediction, respectively. In Table 12, variables of customer orientation, and competitor's orientation have more power for prediction and other variables have moderate power for prediction.

#### *Evaluation criterion for general fit*

$$GOF = \sqrt{\text{COMMUNALITY} \times R^2}$$

$$GOF = \sqrt{0.83 \times 0.43} = 0.35$$

According to the above equation, the value of the GOF is calculated. The obtained value of the GOF is 0.35, indicating the strong general fit.



#### DISCUSSION AND CONCLUSION

The effect of strategic orientations on the tested performance shows that the variable of strategic orientations has a positive and significant effect on performance directly. Therefore, the intensity of the impact of strategic orientations on performance and its direction is positive. Therefore, strategic orientations that are appropriate to environmental conditions and organizational characteristics can maximize the bank's performance.

The effect of customer orientation on the tested performance shows that the customer orientation variable has a direct and significant effect on performance. Therefore, the results indicate that the managers of Bank Melli Iran consider customer retention and constant communication with the customer and valuing and respecting the opinions and ideas of customers as the best marketing style and prioritize the customer's complete satisfaction with the bank. Therefore, a customer-oriented strategy will have an impact on the performance of Bank Melli Iran.

The effect of innovation orientation on the tested performance shows that the variable of innovation orientation directly has a positive and significant effect on performance. Therefore, the results indicate that the managers of Bank Melli Iran will be able to respond to environmental challenges by faster and better innovation than non-innovative banks, which will increase the bank's performance. As a result, they have to be flexible and accepting changes in order to create or maintain a competitive advantage, so innovation orientation will have an impact on the bank's performance.

The effect of cost orientation on the tested performance shows that the cost orientation variable directly has a positive and significant effect on performance. Therefore, the results indicate that the managers of Bank Melli Iran consider the creation and maintenance of a cost-effective system with appropriate output to be effective in achieving the desired performance, so the cost strategy will have an impact on the bank's performance.

The effect of competitor orientation on the performance tested shows that the variable of competitor orientation has a direct and significant effect on performance. Therefore, the results indicate that the managers of Bank Melli Iran, in order to survive, need to evaluate the continuous performance of their branches compared to their competitors. Thus, the central competitor's strategy will have an impact on the bank's performance. The results of this study are consistent with the results of Saeed Najafi et al. (2016), Takata (2016), Halt et al. (2005) and Gardner et al. (2017), Kamisun and Lopez (2014). Therefore, the managers of the Melli Bank of Iran in the face of market turbulence agree with the development of a strategy in the field of customer management and competitors in improving the performance of the bank. They have also considered the use of customer strategies to be innovative and cost-effective in decentralizing conditions in improving the bank's performance. Finally, in order to make strategic decisions in the field of customer management, competitors, innovation, and cost, the intensity of competition is effective in improving the performance of the bank.

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