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Effect of Market Orientation on Organizational Performance - Case Study: Sonarwa General Insurance Company Ltd

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Abstract: ***Companies have long known that, to be competitive, they must develop a good strategy and then appropriately realign structure, Systems, leadership behavior, human resource policies, culture, values and management processes. Doing insurance business in Rwanda is increasingly becoming a challenge to both established and newly establishing insurance organization. The country is struggling out of serious political turmoil but with a desire to get the country back to shape as demonstrated by the strategies laid down by the Rwandan Government. Multiple evidences from the strategic orientations has failed to catch up with contemporary organizational practices. Although many studies in management literature incorporated strategic orientation, the effect on organizational performance and the relationship between market orientations remains unclear. Some found positive connections between market orientations and organizational performance. The target population was SONARWA's staff and sample size was 80 potential respondents. The descriptive research approach was adopted, where semi-administered questionnaires was applied. Data collected from the field was cleaned, sorted, coded, tabulated and statistically analyzed by using SPSS. The One-Sample T test was applied to compare means computed with hypothesized means. The results obtained concluded market orientation had a significant effect on organizational performance. Thus, competitive advantage pricing and promotions had an influence on organizational performance. A researcher recommended the institutional managers to comprehend the fact that although some elements like market orientation exert a positive and significant effect on organizational performance, there are other elements which can contribute to the business performance of Insurance companies. And it was recommended that a study should be undertaken to find out ways of addressing the challenges that insurance companies are facing such that insurance company can be having a good percentage of market share and other companies are surviving on low market share for a long time without gaining.***

Keywords: Market orientation, organizational performance.

1. Introduction

The companies have long known that to be competitive, they must develop a good strategy and then appropriately realign structure, systems, leadership behavior, human resource policies, culture, values and management processes. The liberalization of trade is a declared governmental objective in Rwanda. The integration into COMESA (Common Market for Eastern and Southern Africa) and, particularly, full membership in the East African Community (EAC) as well as privatizations and sale to foreign investors of key sectors of the economy are some of the important efforts that have been realized. The insurance industry is free and continues to improve, although it remains small and poorly developed. Most insurance companies are small, making the level of risk in Rwanda high and unhinged (BTI, 2010).

Rwandan insurance sectoris well capitalized and profitable despite the low penetration rate of below 10% for middle-income countries according to recent data. The insurance sector is developing as depicted by insurance penetration, which is about 2.3% though still less than 10% average for middle income economies. The country's insurance sector rose by 12.1 percent reaching Rwf143.7 billion from Rwf128 billion by the end of December 2010 (BNR, 2010).

There are new insurance laws that are set to boost Rwanda's insurance industry and raise penetration which is currently at one percent of the nation's Gross Domestic Product (BNR, 2010). The new insurance law came into force in March 2009, and a pension reform law was adopted recently. These laws, which designate the BNR as the regulator for the insurance and pensions sectors, represent a significant step in developing regulation for this growing industry. The insurance law establishes rules for licensing, supervision, control and regulation of the insurance profession and insurance intermediaries. Several companies have yet to comply with these requirements, which may result in either consolidation or specialization in the industry but may decrease competition as barriers to entry are increased. In fact, entry of foreign insurance companies is expected (IMF, 2011).

There has been serious price-war among the eight licensed firms in the insurance sector – particularly with regard to automobile insurance. Companies engaged in predatory pricing without regard to ultimate losses or capacity to pay claims. The expertise of insurance agents and brokers is also quite low according to the insurance companies and the current insurance supervisor. This lack of capacity exacerbates the predatory pricing problems of the industry. Other weaknesses in the sector include a lack of a uniform financial statement format and instructions, lack of any investment standards – particularly in regard to diversification and anti-concentration of risk standards, allowing the combination of both life and non-life insurance in the same corporate entity, which creates opportunities for disintermediation vis-à-vis the long term nature of the life products and the short term nature of many non-life products, and lack of clear direction regarding corporate governance and risk-based management and supervision (Murgatroyd, et al., 2015).The liberalization of foreign trade is a declared governmental objective. The integration into

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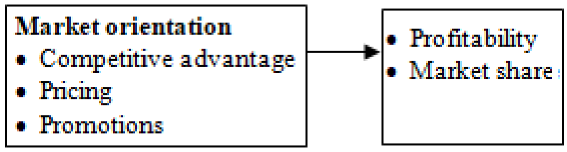
COMESA and, particularly, full membership in the East African Community (EAC) as well as privatizations and sales to foreign investors of key sectors of the economy (coffee, tea, banking, and telecommunication), are some of the important efforts that have been realized. This has opened up foreign investment in Rwanda in the banking sector despite the poor performance of economically relevant agencies (BTI, 2010).

2. Statement of the problem

The relationship between market orientation and organizational performance is influenced by many third-party variables, and the different effects of third variables may lead to different performance levels. Therefore, researches on the complex relations should be conducted in specific context(Lumpkin & Dess, 2010).Doing insurance business in Rwanda is increasingly becoming a challenge to both established and newly establishing insurance organization. This is compounded by the fact that Rwanda is a small country by geographical size and population with a rising number of insurance firms. Further, the country is struggling out of serious political turmoil but with a desire to get the country back to shape as demonstrated by the strategies laid down by the Rwandan Government (MINECOFIN, 2010). Coupling these with an increasingly crowding insurance environment creates the need for the insurance companies to come up with competitive strategies that can enable them to compete profitably and be able to survive.

Multiple evidences from strategic orientation literature indicate that theoretical development on the adoption of multiple strategic orientation has failed to catch up with contemporary organizational practices. Firstly, Kumar, et al. (2011) analyzes longitudinal data and report that organizations focusing exclusively on a single strategic orientation tend to have poor performance in long run. Secondly, Hortinha, et al., (2011) demonstrate that both market and technology orientations are equally important for exploratory innovation, which in turn leads to superior performance. Furthermore, Benson-Rea, et al. (2013) show that the increasingly dynamic business environment and strong financial pressure have driven firms to employ multiple business models simultaneously to maximize value creation. This finding is echoed by Laukkanen, et al. (2013)who suggested that the multifaceted nature of most markets of today may require that strategies are built on strategic orientation other than market orientation or, more likely, on multiple strategic orientations. As results, there have been continuous calls from empirical students to investigate multiple strategic orientations simultaneously (Canogan, 2012; Mu & Di Benedetto, 2011; Hakala, 2011). In particular, there is further need to investigate the potential interaction effects of different market orientations on organizational performance. According to research based theory, market based resources such as strategic orientations are often complementary, suggesting that they may interact and produce synergistic effects on performance (Kozlenkova, et al., 2014; Yang & Kang, 2008). Although many studies in the management literature incorporated strategic orientation, the effect on organizational performance and the relationship between market orientation remains and unclear some found positive connections between orientations and organizational performance. However, the majority of the studies only researched the direct relationship between a specific orientation and performance discarding moderating and mediating variables that potentially affect the relation between orientation and performance. Further, studies generally concentrated on the role of a particular orientation, where only a limited number of studies did analyze the interactions between strategic orientations (Hakala, 2010). However, due to scant research on interactions between strategic orientations (Mu & Di Benedetto, 2011), it is unclear whether resource complementary applies to strategic orientations.

3. Conceptual Framework



4. Literature Review

4.1. Market orientation and organization performance

For organizations to achieve superior competitive advantage, organizations must provide customers with products and services with superior value in comparison with its competitors. Market orientation is defined as "an organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and continuous superior performance for the business" (Narver, et al., 2014). It requires a company to continually adapt its business system to changing factors of the environment and new market opportunities. Market orientation is regarded as a crucial strategy or capability that helps organizations stay competitive in today's uncertain business environment (Liao, et al., 2011). Market orientation is considered both a marketing concept and a management strategy (Mokhtar, et al., 2014).

Market orientation exists on a continuum characterized by the degree to which firms acquire, disseminate, and respond to information collected from customers, channels, and competitors (Kohli & Jaworski, 2012). It is generally accepted that market orientation has some kind of effect (direct or indirect) on organizational performance. Both (Narver, et al., 2014)find evidence of direct effects, while some other studies find indirect effects (Diamantopoulos & Hart, 2014; Greenley, 2010). According to various scholars, practitioners and researchers, market oriented assists in developing marketing knowledge, superior performance and competitiveness According to various scholars, practitioners, and researchers, market orientation assists in developing marketing knowledge, superior performance, and competitive advantage.

Various definitions have been suggested for market orientation by different scholars in the marketing literature (Hilman & Kaliappen, 2014). Shapiro (1988) defined market orientation as a managerial decision making practice with a commitment shared within the organization. (Kohli &

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Jaworski (2012)referred to market orientation as the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization wide responsiveness. Narver et al. (2014) explained market orientation as composed of three dimensions: customer orientation, competitor orientation, and inter-functional coordination. According to this MO requires firms to monitor changing customer needs, determine the impact of those changes on customer satisfaction, increase the rate of product innovation, and implement strategies that build the firm's competitive advantage (Mahmoud, et al., 2016; Masa'deh, et al., 2016). The definition provided by Narver et al. (2014) is adopted in this study, where customer orientation, competitor orientation, and inter-functional coordination reflect market orientation. Customer orientation refers to finding information about customers' needs and wants for the present and future in order to provide them with superior value-added offerings (Hilman & Kaliappen, 2014). Competitor orientation refers to considering the short-range fortes and flows, and long-range abilities and tactics of existing and possible rivals to develop awareness of their information and strategies(Hilman & Kaliappen, 2014). Inter-functional coordination enables firms to pick up warning or opportunity signals, process and convert them into specific departmental deliverables, and ensures convergence of efforts.

To achieve superior competitive advantage, organizations must provide customers with products and services with superior value in comparison with its competitors. Market orientation (MO) is defined as "the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business" Narver et al. (2014). It requires a company to continually adapt its business system to changing factors of the environment and new market opportunities. Companies should also defend their market position to rival firms, and potential new entrants. This requires understanding of the industry the company operates in and its macro-environment.

Proponents of this perspective acknowledge the importance of resources and activities for cashing in on environmental opportunities. Companies must therefore keep the strengths and weaknesses of their business system in mind; however, it should not limit the potential of the opportunities. Market-oriented companies are often the first to realize that new resources and/or activities need to be developed and, therefore, are better positioned to build up a competitive advantage over its rivals (Johnson, et al., 2011). When companies are not able to attain resources and/or activities themselves, it can use external sources. Options are, for example, strategic alliances, mergers or acquisitions (Hagedoorn & Duysters, 2012).

Rooted in extensive MO literature is the distinction between three behavioral components of the MO construct: customer orientation, competitor orientation and inter-functional coordination (Kohli & Jaworski, 2012). It is concerned with all the activities involved with gathering and understanding information about the customers and competitors in the target market and disseminating this information throughout the organization (Narver, et al., 2014).

5. Research Methodology

This researcher used a descriptive research design, where qualitative and quantitative approach were applied. In quantitative approach, the researcher collected data from employees of SONARWA General Insurance Company. Qualitative was used through interviews and documentation from the existing reports and books, in order to describe the real effect of strategic orientation organizational performance.

The target population was 120 people who were comprised of SONARWA General Insurance company's employees.

By using Slovin's formula, a sample size of 80 potential respondents were selected. Purposive and Simple Random Sampling techniques was applied to select the respondents in the focused departments directly involving in the implementation of strategic orientation.

The main instrument used for collecting data was questionnaire which was comprised of open and closed ended questions. Interview and documentary technique were used in data collection.

The researcher gave questionnaires to research supervisors and other experts in order to verify whether it was consistent with what it was expected to measure and to achieve high level of reliability a researcher made sure that the questionnaires were filled in her the presence to ensure that the right people were the ones who participated in study.

The data was analyzed by using Statistical package for social sciences (SPSS) was used in data analysis in both descriptive and inferential statistics. Descriptive statistics involved description of data using statistics such as means, standard deviations and percentages while inferential statistics included using t-tests for relationship purposes.

6. Findings and interpretation

6.1. Market orientation and organizational performance

The results obtained, using the one-sample T test in 95% confidence interval with the Test Value= 3, the hypothesized population mean against which the variables was compared.

The Competitive advantage: The results obtained showed than the mean difference is greater than 0, which implied that the calculated mean was greater than 3 (Mean>3; P-value<0.05) and a Standard deviation of 0.354. This evaluated the statement "Competitive advantage can influence the organizational performance" to be confirmed by SONARWA General Insurance Company Ltd.

Pricing strategy: The mean from the results obtained was greater than 3 (Mean>3; P-value<0.05) with 0.587 of Standard deviation. This came to confirm that the statement "The Pricing strategy can influence an organizational

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performance of SONARWA General Insurance Company Ltd" was accepted.

Promotion strategy: The research findings obtained showed that the computed Mean Difference was positive (Mean difference>0) which implied that the mean was greater than 3 (Mean>3; P-value < 0.05) with 0.470 of Standard deviation. However, the statement "promotion strategy influences organizational performance" was accepted. The results are shown below:

Table 4-1: Market orientation - descriptive statistics

	N	Mean		Std. Deviation	Variance
	Statistic	Statistic	Std. Error	Statistic	Statistic
Competitive advantage	72	3.96	0.042	0.354	0.125
Pricing strategy	72	3.78	0.069	0.587	0.344
Promotion strategy	72	4.68	0.055	0.47	0.22
Valid N (list wise)	72				

Source: research, 2018

Table 4-2: Market orientation -One sample T test

	Test Value = 3					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Competitive advantage	23	71	0	0.958	0.88	1.04
Pricing strategy	11.248	71	0	0.778	0.64	0.92
Promotion strategy	30.371	71	0	1.681	1.57	1.79

6.2. Challenges faced by the company in implementation of strategic orientation

The competition of health insurance companies here in Rwanda keeps on increasing. This increase in competition stimulates some challenges. Among the challenges, there was low cost of services offered by competitors, loss of customers to other companies, competitors offer a wider range of services, the entrance of new companies to the market, threat of being taken over by a competitor, price wars with competitors, wider branch networks of competitors, Challenges from the major customers, challenges from competitors' marketing activities and the dominance of few competitors in the market as shown on the figure below.

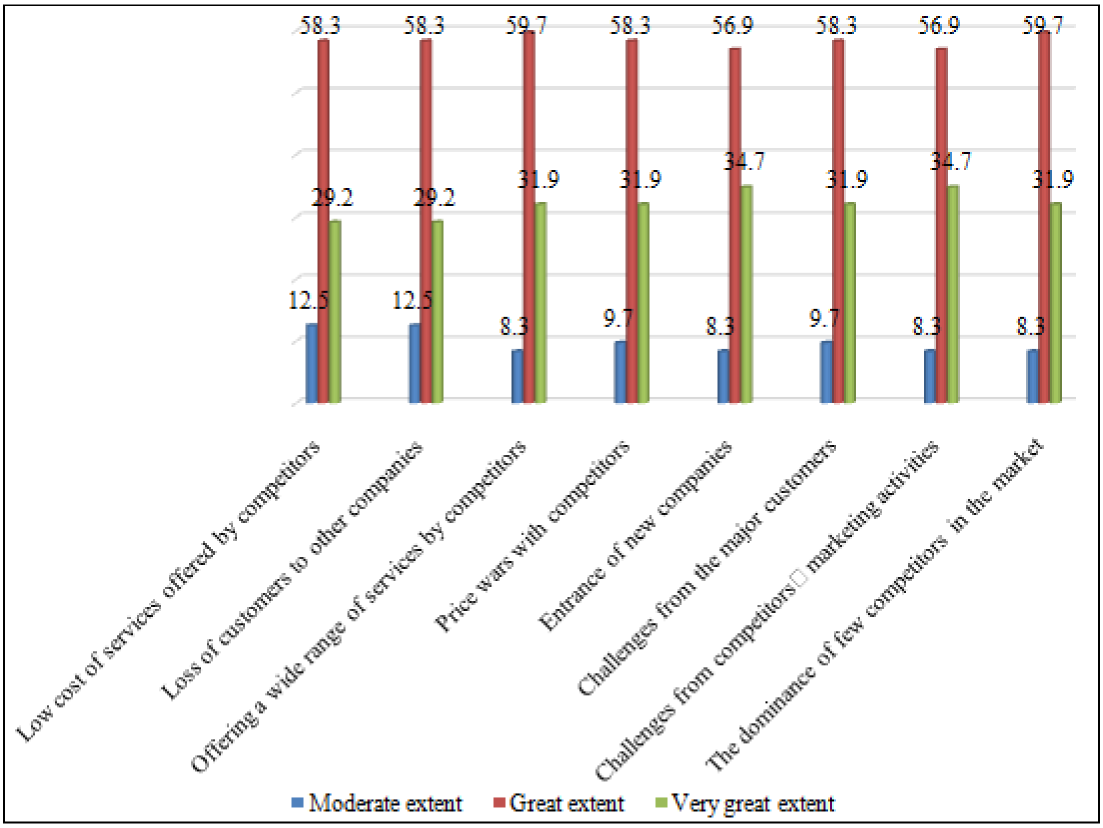

Figure 4-1: Challenges faced in implementation of strategic orientation
Source: research, 2018

7. Discussions of the results

Hence, the research findings demonstrated that market orientation had positive and significant contribution to the organizational performance. In existing reviews, many scholars tried to demonstrate the positive effect of market orientation on organizational performance. Market orientation exists on a continuum characterized by the degree to which firm acquire, disseminate and respond to information collected from customers, channels, and competitors (Kohli & Jaworski, 2012; Kothari, 2014). It is generally accepted that market oriented has some kind of

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direct or indirect effect on organizational performance. All Narver, et al., (2014); Kohli & Jaworski (2012) find the evidence of direct effects while some other studies find indirect effects (Diamantopoulos & Hart, 2014; Greenley, 2010).

8. Conclusion

Companies have long known that to be competitive, they must develop a good strategy and appropriately realign structure, systems, leadership behavior, human resource policies, culture, values and management processes. Strategic management is important because it results in higher organizational performance. It requires that managers examine and adapt to business environment changes, it coordinates diverse organizational units, helping them focus on organizational goals and it is very much involved in the managerial decision-making process. In the competitive environment of the insurance company, it is very important for a company to be looking forward to the factors of organizational performance. The central theme of this research was to examine the market orientation on organizational performance. On the basis of the study findings, it is hereby concluded that the market orientation had significance on business performance of SONARWA General Insurance Company Ltd.

9. Recommendations

It is further recommended that a study should be undertaken to find out ways of addressing the challenges that insurance companies are facing such that insurance company can be having a good percentage of market share and other companies are surviving on low market share for a long time without gaining.

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