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**Identifying Market Orientation in the Australian Funds Management**

**Industry: An Exploratory Study**

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# **Identifying Market Orientation in the Australian Funds Management Industry: An Exploratory Study**

## **Abstract**

*“Market orientation is the implementation of a corporate culture or philosophy which encourages behaviours aimed at gathering, disseminating and responding to information on customers, competitors and the wider environment in ways that add value for shareholders, customers and other stakeholders.” (Gray and Hooley , 2002).*

Market orientation has been extensively discussed in the marketing literature however few studies have examined the challenges associated with adopting this orientation from a financial services industry perspective. This paper outlines an exploratory study which examines market orientation in the funds management industry in Australia and identifies the challenges associated with its implementation, using depth interviews with senior marketing executives. The findings suggest that, despite recognition of the need for a market orientation, the industry is still relatively sales and product driven. Significant cultural and structural change within the industry and individual firms is required before market orientation can be achieved. External drivers, such as increased competition and the adoption of distribution channels which facilitate relationships with end consumers, may hasten the transition to a more market oriented industry.

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## 1.0 Introduction

The funds management industry is a significant part of the Australian economy given its size and expected growth (IBISWorld, 2006). Industry research reports have identified a number of marketing issues as strategic drivers of firm competitiveness and profitability. Although a significant amount of academic research has been undertaken in the funds management industry, particularly in the finance area, there has been little work done in the area of marketing. The 2005 *Australian Investment Management Survey* highlights the challenges of “dealing with volatile markets” (p. 13) and “responding to evolving client needs” (p. 13). The survey results also indicate that those challenges were “the greatest opportunities to investment management organisations” (p. 14). This survey also identified the industry’s key marketing opportunities as relating to attracting new clients, retaining existing clients, brand image/reputation, adapting to client needs, and entering new markets.

Further, the IBISWorld (2006) report on the funds management industry has deemed marketing-related issues to be of importance in the future outlook for the industry. Customer management issues, including retention and increased selling to existing customers, have been acknowledged as key revenue drivers. Previous research pertaining to Australian superannuation fund members identified the importance of meeting or exceeding customer expectations in order to achieve customer satisfaction, increased spending and referrals (McDonald, Vieceli and Darbyshire, 2003). Given the anticipated focus on customer management, brand management, product innovation and distribution channels for the funds management industry (IBISWorld, 2006; PricewaterhouseCoopers, 2005), the degree to

which an individual firm embraces a marketing orientation may be a key driver of their success.

Despite the perceived importance of marketing to the industry, little is known about the degree of market orientation of the firms within the industry. This exploratory study examines the extent to which firms in the funds management industry have adopted a this orientation and the factors that have encouraged or inhibited this focus.

## **2.0 Literature Review**

Market orientation is one of the most widely researched marketing applications (Flavian and Lozano 2006; Matsuno, Mentzer and Rentz, 2005; Van Egeren and O'Connor, 1998).

However, professional services firms, compared to other industries, have been late adopters of the marketing concept but are increasingly realising the importance (Van Egeren and O'Connor, 1998). Market orientation is defined as the “organisational culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and thus, continuous superior performance for the business” (Narver and Slater 1990, p. 21). These behaviours consist of three components—customer orientation, competitor orientation, and interfunctional orientation, and two decision criteria—long term focus and profitability (Narver and Slater, 1990). Kohli and Jaworski (1990) consider the collection, dissemination and response to customer and market intelligence as integral to market orientation. Gray and Hooley (2002, p. 981) encapsulate the sentiments of both Narver and Slater (1990) and Kohli and Jawarski (1990) with their definition:

*“Market orientation is the implementation of a corporate culture or philosophy which encourages behaviours aimed at gathering, disseminating and responding to*

*information on customers, competitors and the wider environment in ways that add value for shareholders, customers and other stakeholders.”*

A review of market orientation studies has demonstrated a strong and persistent correlation between marketing orientation and firm performance on all major performance indicators (Ellis, 2006). Gray and Hooley (2002, p. 982) suggest that an organisation that displays the characteristics of a market orientated approach will be more successful as they “understand their customers better and are more aware of the choices which competitors are offering them.” Sittimalakorn and Hart (2004) suggest that a market oriented firm is more likely to be aware of what customers want, and will further attempt to deliver superior customer value through product and service quality. Locating new customers demands a competitor orientation, particularly as the competitive landscape intensifies (Ozer et al. 2006). Similar to customer orientation, market intelligence relating to an organisation’s competitors is an ongoing requirement (Day, 1994). Understanding the market environment in which the organisation operates is common practice displayed by most organisations. However, generating market intelligence and being able to effectively disseminate this information throughout an organisation for the purpose of decision making, is displayed more so among organisations which are market oriented (Panayides 2004; Gray and Hooley 2002; Kohli and Jaworski 1990; Narver and Slater 1990).

This is the first study to investigate overall marketing orientation in the funds management industry. Previous research has focused only on specific aspects of marketing such as customer satisfaction (e.g. McDonald, Vieceli and Darbyshire, 2003), consumer behaviour (e.g. Thomas, Rao and Javalgi, 1990), branding (e.g. Brady, Bourdeau, Heskell, 2006) and advertising (e.g. Huhmann and Battacharyya, 2005). This study responds to calls for more

research into the efforts of different types of organisations in adopting a marketing orientation (Beverland and Lindgreen, 2005). This research seeks to investigate the extent to which firms in the funds management industry have adopted this orientation and the challenges they face. In particular, this study examines how each firm's culture influences the level of market orientation, in terms of the behaviours consistent with this orientation.

### **3.0 Methodology**

This exploratory study applied an interpretative, qualitative research design using depth interviews (Strauss & Corbin, 1998). Using a theoretical sampling approach, nine large funds management companies were purposefully selected (Merriman, 2002; Patton, 1990; Straus & Corbin, 1998). These international firms represent the largest funds managers in Australia in terms dollar value managed and were located in Sydney and Melbourne. A series of semi-structured depth interviews were conducted with the senior marketing executive within each organisation such as the general manager marketing or chief marketing officer. Respondents included 5 males and 4 females with between 10 and 18 years experience in the industry. Respondents experience in their current position varied from less than one year to seven years. Five respondents had marketing qualifications, three had finance related qualifications and one was not reported. An interview guide was prepared, allowing for uninterrupted detailed discussions. This guide contained a mixture of nondirective and floating prompt questions in the "grand tour" style suggested by McCracken (1988b).

Respondents were asked to provide information regarding the structure and role of their marketing department, key influences on their marketing strategy, their understanding of the concept of market orientation, the extent to which that orientation existed within their firm

and the industry in general. Respondents were then asked to comment on, and provide examples of how the needs of customers are identified, how competitive intelligence and information on market trends is gathered, and finally how this data on customers, competitors and market trends is disseminated and used. Finally, basic demographics and company information was collected. Interviews were taped by micro cassette recorder and where this was not possible, notes were taken. Each interview lasted approximately one hour. The resulting information was grouped by statements and ideas according to common themes that emerged from the data. This approach reflected a mix of the open and axial coding approaches outlined by Strauss and Corbin (1998).

#### **4.0 Results**

This study examined the extent of market orientation within the funds management industry and the key drivers encouraging or hindering this orientation. In general, the data revealed varying levels of market orientation as evidenced by senior marketing executives' understanding of the concept and the apparent culture of these firms in relation to attitudes toward marketing, customers and a long term orientation. Further, the data showed evidence of marketing oriented behaviours suggested by the literature in terms of data collection, but limited evidence as to how it informed strategy. In general, the market orientation of the industry as a whole is limited, although individual firms do exhibit different cultural and behavioural indicators of the concept. There was unanimous recognition of the importance of this orientation due to increased competition and changes in regulation. Respondent comments such as *"Everyone is getting more marketing focused... Some companies are still primarily product focused, but it is changing"* (Respondent 2), in relation to the industry, and *"The CEO sees himself as the chief marketing officer"* (R4) in relation to a specific firm, articulated this emerging focus. In contrast, however, another respondent (R3) suggested that

*“The leadership of (company name) do not understand marketing”* indicating that this transition is far from consistent. One respondent (R7) was even more damning of the industry in general, suggesting, in response to a definition of marketing orientation presented by the interviewer, *“The concept of a formalised method being used in most financial services marketing is ‘basically laughable’. It is mostly short term responsive and thin on strategic planning.”*

Despite a relatively good understanding of market orientation articulated by respondents, and the need for it within the industry, the majority of senior marketing executives perceived both their firms and the overall industry as very product and sales driven with marketing performing a sales support role. Marketing quite often entailed producing brochures and other promotional materials; it was therefore not surprising to find that all firms had inhouse graphic design and production departments. The function of the marketing department, however, did vary across the respondent firms. One firm’s marketing area focused primarily on promotion, with strategy and sales activities undertaken by separate areas. Another marketing department was charged with identifying opportunities, creating products and developing promotion, while a third had a more strategic focus of brand building in addition to promotion. However, the concept of building a brand was not always well understood in practice, with one marketing executive (R8) commenting in frustration that the company’s branding strategy revolved around golf balls and hats with the company logo, further lamenting that marketing’s role was *“designing flyers, pretty pictures and doing conference things and conventions.”*

Given the traditional focus on short term sales results held by most firms in the industry, marketing executives felt that investing in longer term payoffs such as building brand equity would be a difficult concept to sell internally. Several respondents suggested that marketing

was often viewed as a cost centre versus the revenue generating sales side of the business. This sentiment was summarised by one executive (R7) who stated, “*Sales has always been where the value can be seen.*” The majority of firms did have processes for collecting data on customers, competition and the market environment. However, there often appeared to be a limited attempt to use that information as input to more segmented product and promotion strategies. This sentiment is encapsulated by one respondent who summarized their strategy as “*position, pitch and promote to all.*”(R2) Two respondents admitted that marketing in their firms was limited and lacked strategic focus.

Firms in the funds management industry consist of traditional funds managers and those who have extended into funds management from the life insurance industry. Firms with an insurance background were perceived as having a stronger customer orientation, perhaps given their historically strong sales focus. However, it was also suggested that one of the factors that inhibited a more developed level of market orientation was related to the sales background of senior management. This firm was actively recruiting marketers from the FMCG area in recognition of that industry’s stronger marketing focus.

Several respondents expressed a sense of frustration that having a market orientation in this industry was difficult or more complex because of reliance on intermediaries, and this strategy could lead to channel conflict. However, there seems to be increasing focus within the industry on the end consumer and one firm (R3) identified this group as their principal focus, suggesting that their marketing *area “has to create more consumer pull.”* Other factors limiting the adoption of a stronger market orientation included the structure and culture of the organisation and the short term sales focus. For example, if the leadership of the firm, and particularly the CEO, were not marketing focused, this was perceived to influence

the extent of market orientation. The predominantly sales and finance backgrounds of many senior managers was seen to contribute to this situation. One respondent (R9) summarized this cultural clash when he described his interpretation of market orientation as “*A marketing led organisation as opposed to a finance led organisation with a marketing function*”, later commenting “*There is not one head of any Funds Manager who is marketing oriented in Australia. Most of them have come from the other side of the business.*” Another marketing executive (R7) was even more forceful when suggesting, “The product and business groups are mostly financially trained people who rarely even like the idea of marketing” and described the attitude held by sales people and financial advisor toward marketing as “*hostile*”.

The tension between sales and marketing within organisation was often exacerbated by structure. It was rare for sales and marketing to report to one sales and marketing director, with sales often operating quite separate to marketing. In one instance, the marketing department reported to sales. A common view of many of the executives was expressed by a respondent (R5) who stated with some degree of exasperation, “There is always some sales/marketing friction.” Even when operating in an organization with a structure that encouraged an alignment between the two functions, one respondent admitted (R2), “We currently have about one-third of our people who think in terms of an alignment; one-third who think marketing should tell sales what to do and one-third who think marketing is there to support sales.”

Finally, almost all marketing executives believed that changes to the industry would ultimately lead to a great degree of market orientation and more critical role for marketing. This change was likely to occur in the face of greater competition, more focus on the end

consumer, particularly using online channels and ... One respondent (R7) summarized this view by saying:

*“There is a growing move towards dealing with investors more directly in most companies – via an online operation. Marketing – understanding customers better and developing better long term relationships and having better offers is going to be more important.”*

## **5.0 Summary and Conclusion**

The findings from this exploratory study suggest that the funds management industry as a whole is moving slowly toward a market orientation, however there is evidence to suggest that some key players are more sophisticated in their marketing efforts and therefore are further along in embracing this position. One of the key inhibitors to change is the culture and structure of individual firms and the industry in general. The culture and leadership of the organization play a key role in adopting a marketing orientation (Homburg and Pflesser, 2000; Kennedy, Goolsby and Arnould, 2003). The industry as it currently stands is still quite entrenched with short term product and sales focused short term strategies that have served these firms well in the past. This is consistent with the literature that suggests that business-to-business firms, in comparison to consumer marketers, are “less marketing oriented in culture and behavior” and more likely to maintain a sales focus (Gournaris and Avlonitis, 2001, p.373). Marketers in these firms appear to recognize the need to be more market oriented and strategic with regard to developing their brand and long term customer relationships, but are thwarted by the organisation’s tendency to relegate marketing to brochures and sales support. Research suggests that implementing such an orientation requires marketers to transcend the marginalized role attributed to marketing by forming relationships

with key stakeholders and using marketing research to influence the organisation's leadership (Beverland and Lindgreen, 2005). In addition, credible leadership endorsement is required to effect a change in orientation as well as customer data to support the need for this change and an interfunctional 'connectedness' (Kennedy et al., 2001, p.78).

For the funds management industry, external drivers, such as changes in legislation, increased competition and emerging use of direct distribution channels to develop relationships with end consumers, may hasten the transition to a more market oriented industry. Market orientation has been found to be particularly critical in dynamic environments (Homburg and Pflesser, 2000). Limitations of this study include the focus on one industry at one point in time. In addition, at this exploratory stage only senior marketing executives were interviewed. Future studies could consider views other senior executives within the organisation. Future research could also focus on a longitudinal study to understand the process involved in the transformation to a market oriented firm and industry.

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