

Do Croatian Banks Implement Marketing Concept?

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Abstract: In this article author presents the results of an empirical study aimed at the assessment of real state of marketing concept within Croatian banking system. State of marketing in Croatian banks is not satisfactory, but there is a rational explanation of such a situation. Croatian banks are in process of market transformation and even they realise, but slowly, the importance of 'being market oriented' They not only lack knowledge, but also real incentive to make it happen. Since the money supply is significantly lower than the money demanded, there is no increased pressure to use sophisticated marketing methods.

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Introduction

Marketing theorists and practitioners were trying for more than 3 decades to discover and estimate how marketing orientation effects the business success. Yet, for long they did not succeed in finding out the valid measure or system, despite the accented importance. No one ever has disputed interdependence of the marketing orientation level and business success (Levitt, 1960; Webster, 1988). During 1970s, the research was primarily directed toward estimation of the marketing concept's status within consumers goods industry. The adoption of marketing philosophy, as a basic business driving force, was monitored using exploratory and descriptive studies. It could not be done other way having in mind very modest adoption and adaptability of the industry to the mentioned concept. During 1980s, there were research efforts made mostly toward the discovery of valid definition for particular concepts of marketing

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theory. More attention was given to their implementation. The focus has been shifted from philosophical interpretation of the marketing concept and its adoption to the activities and behaviours in organisation that give evidence of actually implemented marketing principles and values. (Boroch, 1988). The term 'marketing orientation' has been used ever more interchangeably with the term 'market orientation'. Finally, the last mentioned has become even predominant. That resulted from the desire to underline even more that marketing activities are not a task of marketing department only, but they are a task of the all organisational levels of an enterprise, because customer satisfaction requires organised and integrated effort (Shapiro, 1988). In his article: 'The Rediscovery of the Marketing Concept', F. E. Webster Jr., (1988) claims: 'Marketing is not something what could be delegated to the small group of the managers, while the rest of the company does its 'own job'. Rather it is all business seen from customer perspective'.

The end of the 1980s and the beginning of the 1990s have witnessing the renaissance of the marketing concept. Because of that the interest to measure the market orientation is strongly growing. In 1990, Ajay K. Kohli and Bernard J. Jaworski were trying to develop a basis for systematic development of the market orientation theory, by defining the concept, illuminating the measurement problems and intending to fill out existing emptiness. They assure that until then, in reality, empirically based theory, did not even exist (Kohli, Jaworski, 1990).

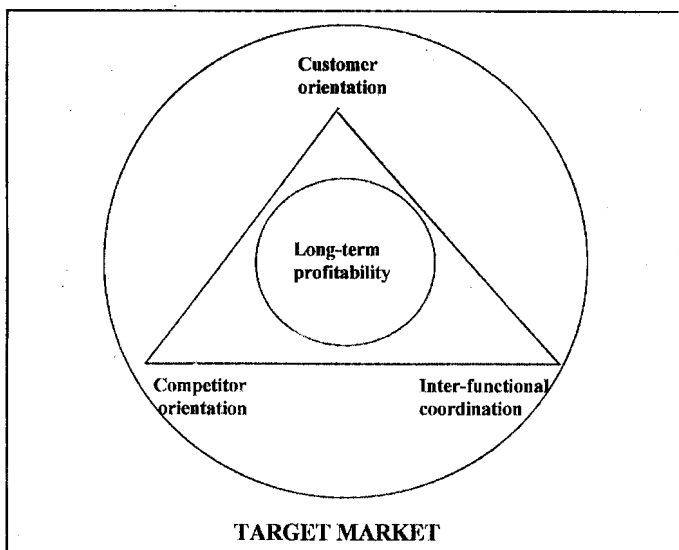
The same year, John C. Narver & Stanley F. Slater have published their work, titled 'The Effect of a Market Orientation on Business Profitability' (Narver and Slater, 1990). They, like previously mentioned authors, divide the global market orientation concept on its building components, but they introduce other variables that act as moderators in the relationship of the market orientation and business result. According to them, there are two groups of such factors: factors inherent to the company alone (e. g. relative costs and relative market share); and the market factors such as growth rate, concentration level, entrance difficulties, buyer's power, suppliers' power and the level of technological turbulence etc. As it can be seen, they deal with the components of the famous Porter model of the industry competition level (Porter, 1980).

Kohli and Jaworski specifically direct the future research efforts toward market orientation in developing economies, in non-profit sector, non-traditional organisational forms, etc. In the field of banking industry there is very little research done. The reason lies in the fact that banks have adopted marketing concept with a delay of more than 30 years. For this reason this article should be taken as a modest contribution to the building of an existing theory, or its testing in conditions of transitional environment of Croatian banking.

Operational definition of Variables

For Narver and Slater (1990), market orientation is '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'. Furthermore, market orientation consists of three behavioural components (i.e. customer orientation, competitor orientation, and inter-functional co-ordination), and two decision criteria (i.e. long term focus and profitability) as represented in Figure 1.

Figure 1 - Market orientation



Customer orientation - signifies sufficient understanding of one's target buyers to be able to create superior value for them continuously. It requires that the seller knows the buyer's entire value chain. Not only today, but also how it develops through time and under the influence of internal and market trends.

Competitor orientation - means that a seller understands the short-term strengths and weaknesses and long term capabilities and strategies of both the key current and the key potential competitors.

Inter-functional co-ordination - is the co-ordinated utilisation of company resources in creating superior value for target customers at any and all points in the buyer's value chain.

Long-term focus - in relation to profits and in implementing each of the three behavioural components is required to be market oriented.

Profitability - the creation of economic wealth is an overriding objective in market orientation, thus without a positive result there is no survival on long-run. However, market orientation looks at profit as a result of superior business, i.e., as a reward for well done job of serving target market.

The results of our research can serve as a basis for comparison, as a starting point for some future longitudinal research.

Research Instrument Development

The basic research instrument used in this survey was a questionnaire. Queries in the questionnaire have been formed on the basis of extensive literature overview. However, literature normally contains explanation of the basic marketing concepts without any instruction how to use them. For this reason, knowledge acquired from the literature was supplemented with the experience of banking practitioners and experts and with personal experience of investigators who spent some time working in German bank: Sparkasse, Mainz, and also visiting a great number of domestic and foreign banks. Whole measurement instrument consists from 28 complex sets, which in the end resulted in more than 100 operational variables. Like other authors, the market orientation has been treated as one-dimensional theoretical concept, but composed from at least 4 building elements. These elements are:

1. Marketing function and its internal organisation,
2. Position of marketing function in organisational structure and its integration with other functional areas
3. Gathering marketing information and the Marketing Information System
4. Activities and behaviours that evidence implementation of marketing concept in everyday life.

First component, marketing function and its organisation, was operationalised by group of questions that search out

- a) existence of marketing department on organisational scheme of the bank and length of its existence, expressed in years
- b) number of employees with marketing duties and their educational background,
- c) marketing sub-functions and internal organisation (centralised versus decentralised), etc.

Position of marketing function on whole organisational scheme, and its integration with other functional areas shows the grade of adoption of marketing principles and values throughout the organisation, from its highest levels up to those on the lowest levels of organisational hierarchy. The degree of marketing function integration and co-ordination with other functional areas, was measured with the questions concerning: the level of organisational hierarchy marketing function occupies, immediate subordination of top marketing manager, participation of top marketing manager in board of directors or other executive committees, and also his/her participation in planning process in the bank (long-term plans vs. mid-term vs. short-term plans).

The third component of market orientation: acquisition of marketing information, was operationalised using the questions concerning:

- a) sub-functions of marketing department and their relative importance in certain bank,
- b) accents of current education in the field of marketing,
- c) ways of gathering information concerning the market trends,
- d) existence of regular and systematic gathering of other marketing data, and
- e) informational focus of the existing systems.

Activities and behaviours which evidence acquaintance with, and implementation of marketing concept are tested

- a) use of market segmentation and targeting techniques and methods,
- b) development of new products,
- c) price determination,
- d) building of new distribution channels, and
- e) communications policy of the bank.

Group of the questions about formal and permanent education in marketing, attempts to discover the sources of existing knowledge and the ways of acquiring new knowledge are also included. In the last item of the questionnaire, interviewee was asked to give his/her own opinion regarding the need and importance of marketing within Croatian banking system, having in mind current competitive situation and market trends. Intention was to get an insight into mental adoption of the concept rather than it was considered to be a measure of the real implementation in practice. However, the attitude toward marketing is essential because without mental adoption surely it will not come so soon to its implementation in real, everyday life of the bank.

Elaboration of mentioned components contain elements of client orientation, competitor orientation, inter-functional co-ordination and long term orientation.

Except items directed toward estimation of market orientation and adoption of marketing concept, questionnaire had also some identification questions like: the type of the bank, its size, the job position of the interviewee, etc.

Questions were of mixed form offering multiple-choice or open-ended questions. Few questions were formulated as a Likert scale with three or five degrees. We used also questions that ask interviewee himself to bring out marketing activities his/her bank does, ranking them simultaneously according to their relative importance in the bank. Intention of such, and also some other questions, with hidden purpose, was to get an insight into the fact how well interviewee really knows basic marketing concepts, i.e. to enable him/her to guess an 'appropriate' answer.

Verbal and content validity of the questionnaire was tested using the pilot study that involved 10 banks.

The Sample

Determination of appropriate sample size and sampling method is extraordinary important part of every research. Depending on appropriate selection and representation of the sampling units depends also on the reliability with which one can count the future use of the research results. In this project, determination of representative sample as well as the sampling method used was not a problem. At the time of the research, whole population of Croatian banking institutions was 50 commercial banks, and 100 savings institutions. Due to a small number of relevant units, we have included into research all 50 banks and 50 savings institutions. The addresses of banks and data about their top management have been taken from the *Lista hrvatskih banaka* (List of Croatian banks), published in Newsletter of Croatian National bank. The same data for savings institutions has been acquired from money market in Zagreb.

In the beginning of 1996, questionnaire together with the accompanying letter signed by the governor of the National Bank, was mailed to all the banks. Certain number of mailing sent to the savings institutions returned immediately because they might have changed the address or stopped their business. Such addresses have been simply replaced with new ones. Four weeks after first mailing, came 22 answers, from 100 mailed questioners. Until middle of the March came 7 more. Wishing to achieve greater response rate, two additional mailings with a new accompanying letter, and some telephone calls were made. By the end of May 1996, 48 questioners from banks and 20 from savings institutions, which means 96 per cent response rate for the first, and 20 per cent for the second came back altogether. Two banks which failed to respond even after additional effort to contact them, and due to failure to find any information on their financial results, the same have been dropped from

survey presuming that despite their recent registration with the National bank, they did not start their business, as yet. In spite of the response rate of 20 per cent by savings institutions, the great number of questions remained unanswered. We presume that reason might be in the fact that they do not know the subject very well, or they lack real interest for the surveyed subject (also one of the indicator of their market orientation). Because of that it was impossible to make a valid statistical analysis for a rather big number of studied components. It led us to treat the savings institutions as a separate sample, and to analyze only those answers which could be of a certain degree of reliability. Even deficient analysis of the savings institutions, gives us some indication of the status of the marketing concept at their end rather having an alternative solution of excluding them completely from consideration.

Analysis of Collected Data

After having on hand all needed data from secondary and primary sources, analysis could be done. Data analysis, as well the whole process of collection has been administrated by the author personally. In this way some of possible threats to the validity were eliminated. In this case, one may think of the 'researcher bias'. It normally comes out when more persons with different expertise take part in the project, as they might have different understanding of some open questions, etc.

In previous market orientation research, authors have used many different approaches and methods. Mostly, they have used subjective methods. Considering the answers to particular components of market orientation, they normally assigned to each research participant certain general or overall 'estimates'. Such estimates could be expressed using numbers in the form of indexes, or by doing a comparison and ranking.

In our research, quantitative analysis has been done using statistical software 'StatView', while qualitative analysis has been done by using content analysis of answers by open questions and doing interpretation of the answers to the questions with hidden goals. The result of the qualitative analysis was also a personal estimate of the market orientation level of individual bank, and the whole banking system.

Results

48 banks and 20 savings institutions took a part in the research. As per their size, banks were classified into three groups: big, middle and small. Corresponding to that classification in Croatia, at the beginning of 1996 there have been 5 big, 26 middle

sized and 17 smaller banks. All savings institutions are money institutions of very small size and limited financial strength.

In most cases questionnaire was filled out by the bank director personally, or by manager of particular business sector, or department that supervises some of marketing tasks. It means that there was a high interest level for research subject. Otherwise, the questionnaire would have been forwarded to some person on lower level of organisational scheme, having an excuse based on lack of time or existence of more urgent tasks to be done.

The assumption about high interest level, is based also on the answers to the last item on questionnaire. This item asks respondent to give his/her opinion regarding the role of marketing in Croatian banks, having in mind actual situation of the banking sector and economy in general. Of all answers 64.6 per cent fall into category 'marketing is essential' and 35.4 per cent in 'marketing is desirable'. In case of savings institutions these numbers were 60 per cent and 38 per cent, while one respondent 'could not precise his attitude'. Following are the results of each component of market orientation separately.

Marketing Function and its Internal Organisation

In 25 per cent of banks and 65 per cent of savings institutions there is no marketing department, or respondent does not think that any marketing tasks have been done. Only 9 banks have some type of marketing department, while in 27 it does not exist, but some marketing tasks are done.

No one of savings institutions has separate marketing department. In only 7 of them some marketing tasks are done. In banks, marketing department (or under some other name) exists in range from 1 to 22 years. Only one bank has advertising unit longer than 11 years, while in other banks marketing office has been formed during last 3-5 years. The mean for whole banking sector is 7.4 years, but we should point out to a big variation within the sector so that standard deviation is even 8.6.

Marketing tasks have been done in units that carry different names (or sometimes it is one person only). Some of the names used: informational and marketing expert, market communication office, centre for public relations, promotional unit, marketing unit, marketing tasks, etc. In great number of banks marketing tasks are duty of the administrative offices, or department for planning and analysis.

Regarding the internal organisation of marketing unit, prevails the form of unique function without recognition of sub-units that would do specific marketing tasks as market research, advertising, etc. All jobs are done within only one unit. On average, marketing 'departments' have 3.7 persons, but again by very high standard deviation of 4.4 persons. Mode or most frequent value is 1, and a measure of central tendency,

median is 2. No one of savings institutions have a separate marketing department, so there are also no data about the number of people employed within them.

Only 4 per cent of all persons which do marketing jobs, or which are supposed to do them, have also formal education in marketing. 37 per cent of such persons have their background in other business disciplines, while 33 per cent are person that have acquired their education within some other parts of social and human sciences.

Only in 10 banks, employees had had an opportunity to take a part in some kind of continuous education in the field of marketing. In 25 banks there was no such opportunity, but it is planned in the future. In the rest 13 banks, there is no permanent education, and it was not even planned. The same data for savings institutions are 17 per cent, 42 per cent and 63 per cent.

An interesting fact is that even in 58 per cent cases of banks, and 30 per cent by savings institutions, employees in marketing department have acquired their knowledge about marketing, exclusively by self-education. Accents of existing education was mostly on promotional activities and public relations, and to a very modest extent on development of new services, market research and sale-orientation.

Position of marketing unit in the whole organisational scheme

The significance and attention given to marketing tasks in any bank could be seen most easily looking at the position of marketing department within whole organisational scheme. If this department was put closer to the top management, it tells that it has generally greater significance for that bank.

Before we look at numbers, it is essential to learn that a number of banks and savings institutions, which do not have a separate marketing unit, answered to this question. We presume that they wanted to indicate that the organisational level at which some of marketing tasks have been done in their organisation.

36 per cent of banks and 67 per cent of savings institutions indicated that marketing tasks by them have been done on the top management level. In 27 per cent of banks and 11 per cent of savings institutions these tasks are in the domain of middle management, while in the rest of 37 per cent of banks, and 22 per cent of savings institutions these tasks have been done on operational level only.

Subordination of the highest level marketing manager, is also an indicator of the degree of market-orientation. In all responses we got, marketing manager was subordinated either to the top executive manager or to his assistant. On the other hand, in 64 per cent of banks, and 80 per cent of savings institutions marketing manager does not take a part on the board or other top management committee.

In 36 per cent of banks, where marketing managers took a part in top level activities they normally do it in loan committees, executives committees and board of directors.

Considering the field of planning activities, marketing managers and employees are mostly limited to the short- and middle term plans. Only in 21 per cent of banks and 33 per cent of savings institutions, the marketing personnel takes part in long-term planning.

From the data that are related with decisional characteristics, it could be seen that marketing does not have a big impact in decision making of high significance. In 74 per cent of banks, marketing function is organised as staff function, and not as a line function. This means, that in such an organisation, marketing department or his employees have only counselling role without decision right or the possibility of exercising the control over implementation of certain activities.

Marketing Information Acquisition

Information about clients, competitions, trends in external environment and others, are essential element of market orientation. Without valid information it is very difficult or even impossible to create and to sell services based on customers' needs and wishes. Despite this fact, in 72 per cent of Croatian banks and 84 per cent of savings institutions there is no system for collection and analysis of marketing data. However more than 52 per cent of banks and 30 per cent of savings institutions are planning to build such system. Banks, and savings institutions are, as a source of the relevant data, are using mostly external data, at lower levels internal secondary data, or combination of both types. Primary research was rarely done either by banks or savings institutions. Informational significance of existing system is as follows: in first place there is 'market trends', then with significantly lower ponder there are 'competitors', 'new products', 'costs', etc. From six categories offered, 'customers' are on the 4th place. Completely the same order was observed by savings institutions.

Activities and Behaviour that Support the Implementation of Marketing Concept

Previous three components tested the existence of formal presumptions for implementation of marketing principles and procedures. Fourth component of market-orientation focuses on the real marketing activities, i.e. on their application within whole banking business. This part of questionnaire contained a lot of open

questions, i.e., questions without offered answer options. Qualitative-quantitative analysis of the data resulted with following results:

Average number of performed activities or marketing tasks in banks is 1.9, but there is also a big variation between banks. Standard deviation is 2.4. The range of jobs done is from 0 to 9, but it should be known that 90 per cent of banks fall into category 'up to 5 tasks'. This indicates relatively poor use of marketing activities, but having in mind the general state of the banking sector and economy, it does not surprise us. Ranking marketing activities done in specific bank, we see that public relations take first place. Then comes promotion or better say advertising. On significant distance are market research, services development, environment analysis, sponsoring, publicity, correspondence, customers visits, etc. Similar situation was in savings institutions.

We would like to remind here that almost the same state could be found in foreign banks, in their the first phase of marketing development, but it was 30 to 40 years ago when banks limited with regulation, and in conditions of scarce competition strongly used public relation and promotion wishing to build and keep their image. During such times, image was the only possible dimension for differentiation between banks.

Despite the fact that no bank did mention market segmentation as a specific marketing task, they do it in reality. However it is done in its simplest way, based on socio-demographic and geographic variables. Most frequently mentioned market segments are: small and middle sized enterprises, citizen, big enterprises, manufacturers, farmers, hospitality industry, export, trade, kids and youth, renters, etc. savings institutions mostly serve small and middle sized enterprises, citizens and handicrafts.

On an average, banks offer only 10 complex services to citizens and 9.5 to enterprises. By savings institutions these values are 3.9 and 3. Also here we have a huge variation in supply (offer). Respondents were asked to enclose to the questionnaire list or a catalogue of their most important services. In most of cases they did not do so. However, analysing received supplements it could be noticed that all banks offer very similar services, what means that there is no significant differentiation. Further, it could be noticed that the problem of proper definition exists. Sometimes it is a complete service, while at other times it is only a part of whole delivery process or transaction connected with the service. What could be seen on first sight is extraordinary poverty of the offer, especially if we compare service mix of Croatian banks with foreign bank of similar size and structure. Offer of foreign banks, on average contains 100 to 300 complex service packages.

In this part of questionnaire we also included items that search out responsibility for new services development and responsibility for pricing. In both cases, these strategically important elements of marketing mix are left out of marketing responsibility. They are taken care of in different sectors or departments of banks.

For example, care for product development is in the sphere of retailing sector, investing and development sector, sector for development and economics, or corporate business. Prices are in the domain of the highest managerial levels of the bank which base their decision on the analysis done by department for planning and analysis, accounting, development, economics, etc. In savings institutions, both of these elements are exclusively in the domain of top management.

Promotion is next important element of marketing mix. Croatian banks are doing it, in the first place, using local and national press and radio, and rarely using TV or own publication. Significant promotional element is sponsoring and attending different trade shows and fairs. Savings institutions are using almost the same promotional mix, but with significantly lower frequency.

Distribution channels are also composing part of banks' marketing instruments. Domestic banks, in comparison to foreign banks, employ on an average two different distribution channels, while savings institutions limit themselves on only one way of service delivery - personal selling. Except personal selling in branches some banks are using also automated teller machines, field force, direct marketing methods, etc. It is interesting to notice that one respondent answered this question telling that distribution channels of his institution are business secret.

Overview of mentioned four components of market-orientation intended to secure a general insight into state of marketing concept within Croatian banking sector. Previously considered numbers and facts indicate that bank marketing, in Croatia is in its first phase of development and by its characteristics it does not differ in so much from early beginning of marketing concept implementation in banks of developed countries. The only difference is the fact that marketing happened there or started there 40 or more years ago. Appearance of foreign banks on Croatian financial market, stresses even more the necessity of greater efforts in the field of adoption of marketing principles. As previous results show, existence of formal conditions for implementation of marketing principles alone does not guarantee a real market-orientation of the bank.

Last 5 years have experienced noticeable change in respect of mental adoption of marketing as important business function within the bank. However, there is still much to be done in the domain of planning, integration of marketing function with other business functions and especially in the field of practical use of marketing concept.

Such a big qualitative change should be approached without any additional delay and with full responsibility. Just to remind here, in some countries as in Italy, process of market transformation has begun before more than 3 decades, but it is not finished yet.

Reliability and Validity of Measurement

Every research is exposed to a number of factors that contribute to existence of measurement errors. The term reliability is used to nominate the grade of variable error of measurement i. e., 'to what extent some research is free from random error?' On the other hand, the term validity is used to indicate the grade of absence of consistent or systematic error. Reliability level is improved by careful creation of measurement instrument and its testing. In our research, for estimation of reliability level we used two methods: pilot study and estimate of internal consistence. Pilot study tested comprehension of the questions, their logical content and alike, while the latter estimated average inter-correlation between points assigned to individual items of multidimensional concept of market-orientation and overall sum. Based on pilot study we have done needed verbal improvements and corrections. Internal consistency analyses gave us reliability coefficients, so called 'Cronbach's α '. For first component of market-orientation that coefficient is 0.84, for second 0.83, for third 0.9, and for fourth component it is 0.73. So, the average $\alpha=0.82$. That value is significantly over conventionally determined standard of 0.65, that is considered to be the lower limit of acceptable reliability.

Valid measurement are those that involve least possible systematic error. There are three types of validity: content validity, construct validity and criterion validity. Estimation of content validity, as most used form of verification in applied market research, consists of usually systematic, but also subjective appropriateness of measuring instrument for intended purpose. As we stated earlier, content analysis of the questionnaire was tested in pilot study. Also, having in mind that respondents showed a high degree of co-operation, it could be one indicator of their approval of measurement instrument. In contrary case, it could happen that respondent refuse taking part in a research or does not take it for serious because they do not consider the questionnaire being significant and valuable enough. Criterion validity consists of two variables: convergent validity and predictive validity. Convergent validity searches out to what extent results of our study are convergent to results based on some other measuring instrument. Since, in Croatia there was no other study in the field, it was impossible for us to compare results of this study with results of other research.

Predictive validity declares to what extent given results could be used for projection of trends of some variables in the future. In marketing, researcher asks himself most of the time: 'Based on indicators of attitudes, contained in measuring instrument, could we predict future purchases?' Alike, in our research the question could be formulated as: 'Will today's attitudes of bank directors have any impact on development and adoption of marketing concept throughout whole banking system, in near future?' We think that attitudes shown, together with accomplishment of other

assumptions (sharper competition, for example), are significant indicator of what is going to happen.

Criterion validity relates to comprehension of factors important for certain measurement. By estimation of this type of validity, it is not always enough to know is used measure is good, but it is also necessary to know why it is good. This requires from the researcher to have a solid knowledge of the theory and the concept's nature, and also what type of relations that concept has with related concepts. Taking into account the fact that market-orientation concept is already well known abroad, this research was not directed towards theory building, but more toward theory testing. For this sake, it was not necessary to test criterion validity using rather complex statistical methods like the 'multitrait-multimethod' matrix that tests convergent and discriminative validity.

One question that might arise, regarding our research is: How well did we test market-orientation concept? Having in mind that to its elaboration preceded very extensive overview of existing literature and previous research, we feel free to think, that we did not make any significant oversight, at least not intentionally.

Conclusion

The current state of marketing in Croatian banks is at a very low level. In reality, we are almost 50 year behind the US and 30 year behind European banks. There are a number of reasons for such a state. Yet, most important one stems from the lack of competition and the absence of a market economy. In times, when banks represented only extended hand of the State it was not necessary to take a special care about customers. Moreover, it could be irrational. With adoption of market economy, the role of banks in our society has completely changed. They have become autonomous and independent, but also fully responsible for their own business failures or successes.

Under influence of growing competition, either by establishment of new domestic financial institutions or by arrival of foreign banks, it became recognised that business results could be achieved only by servicing the market with quality products and services, and also by recognition and consideration of ever more sophisticated clients' needs. Owing to the still not balanced forces of supply and demand on money and capital markets, marketing could not express its full potential within Croatian banking sector yet, as it does normally in developed countries of the West. However, the time of market and marketing recognition is coming soon. This research is also a small step in that direction.

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