

**MARKET ORIENTATION AND THE DIMINISHING RETURN ON INVESTMENT IN COMMUNITY BANKS: IS
MARKET ORIENTATION, OR ANY OF ITS THREE COMPONENTS, CONTRIBUTING TO BANK
FAILURES?**

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ABSTRACT

PROBLEM AND BACKGROUNDWith a 40% reduction in the number of banks in Florida and 39% in Georgia between 2006 and 2012, the authors have looked at market orientation as a possible reason or contributor to the bank failures or success. Customers are demanding ever more at lesser cost. Competition is coming from all points on the financial services compass. Shareholders are seeking increased returns on their investment in bank equities. In addition, the financial regulators are demanding that capital be increased thus putting pressure to increase retained earnings. Additionally, consolidation is at a rapid pace either through the banks own direction or at the direction of the Federal and State regulatory authorities. It is into this fray that the authors of this article journeyed to determine if market orientation contributed to the failure of the closed banks. Prior to 2006, studies have shown an inconsistent relationship between market orientation and enhanced business performance. Numerous researchers have addressed this issue with mixed results. (Kohli & Jaworski, (1990, 1993); Narver & Slater, (1990, 1994); Desphande et al., 1993; Avlonitis & Gounaris, 1999, Chang & Chen, 1998; McNaughton et al., 2002). Some studies showed a slightly positive relationship between two of the three factors and levels of profitability, while other studies concluded there was no relationship. In 2007 the authors found a point of diminishing return on investment (4.7 on a scale of 7) when it came to customer orientation and concerns over competitive factors. To the knowledge of the authors, no research had previously been conducted to investigate at what point there is a diminishing return on an investment in market orientation. In the attempt to better understand the relationships between the factors of a customer and competitive orientations and profitability, the authors conducted another study 2011 to determine if the same point of diminishing returns held true in the reduced economic times in effect from 2008 to 2010. The results of that study showed that the point of diminishing returns moved backwards to a 4 on a 7 point scale from the previous point of 4.7 during "normal" economic times thus implying a lesser level of service and its associated costs, as the banks absorbed the expense of additional loan losses brought on by distressed economic conditions. **PURPOSE OF THE STUDY**The authors have recently reviewed the listing of banks closed by the Federal Banking Authorities, specifically the Federal Deposit Insurance Corporation. Those banks contained in our prior research that had failed were reviewed to determine if there was a relationship between Market Orientation and each of its three components and the failure of the bank. The results of the "bank failure" study are contained in this paper.

Keywords: