

**MARKET ORIENTATION AND ORGANIZATIONAL
PERFORMANCE: EMPIRICAL EVIDENCE FROM
SMES MALAYSIA**

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ABSTRACT

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The purpose of this research is to investigate the relationship between market orientation and performance and its effects on the overall organizational performance of the Malaysian SMEs industry. Using the Malaysian SMEs industry's as a primary research target, this study will use the "contingency-structure-output" framework (Fiedler, 1967). Employing factor analysis and the Linear Structural Relations method for verification, we hope the results will contribute something important since we postulate that there is a significant relationship between market orientation and organizational performance. We argue that the degree of SMEs market orientation will depend on nine sets of antecedents (Jaworski and Kholi, 1993). Besides, the relationship between SMEs market orientation and performance is hypothesized to be moderated by environmental factors (Narver and Slater, 1994).

Keywords: *Market Orientation, Organizational Performance, SME*

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Introduction

Since Malaysian SMEs are a vital component of the country's economic development (SMIDEC, 2002), this study tries to investigate two important areas of research streams; firstly, dealing with SMEs market orientation with major antecedents and independent variables and the secondly, deal with organizational performance which is focus on the overall contribution to SMEs performance. The meaning and nature of market orientation and its effect on performance have been the subject of extensive discussion over the last three decade (e.g. Kelley, 1990; Narver and Slater 1990; Kohli and Jarworski 1990; Ruekert, 1992; Jaworski and Kholi 1993, 1996; Pitt, Caruana and Berthon 1996; Wu, Jyh-Jeng, 2004; Blankson, C. and Cheng, J.M.S, 2005). For an even longer period a substantial body of literature on market orientation-performance has been published (e.g. Felton, 1959; Messikomer, 1987; Payne, 1988; Shapiro, 1988). For the most part, however, the two research streams have progressed independently of each other.

The research interest here is not to challenge previous findings but to ask, in view of the research showing that organization performance is affected by the extent to which an organization is market oriented, whether performance is also affected by an organization's market orientation. More specifically, we introduce the concept of SMEs market orientation and test its relationship to overall organization performance. The argument proposed here is that due to the unique aspects of the SMEs experience, market orientation should positively affect the key organization performance, as well as building the customer relationship, loyalty, retention, and customer lifetime value. Furthermore, this positive impact is only possible if the antecedent factors of developing and managing a strong market orientation function is present in the SMEs organization.

Contribution of this study is not only focusing on conceptual, but brings the valuable implication to the marketing practitioner. Most studies of both market orientation and performance have been carried out in the United States (Bozeman, B. and Coker, K. (1992) or other Western countries such as Britain and Canada (Greenley, G.E. (1995), Australia (Caruana *et al.* (1997) and other countries in Europe (Pitt, L., Caruana, A. and Berthon, P.R. (1996), Hong Kong (Jimmy & Ellis, (1998) and Au, A.K.M. and Tse, A.C.B. (1995) and China (Yau, O.H.M. (1988). There has been very little empirical research on the market orientation – organizational performance of firms from Asian countries. This study helps to correct this deficiency by focusing on SME's firms from Malaysia.

Research objectives

The purpose of this research is to assess the patterns of market orientation-performance within the SMEs operated in Malaysia. More specifically;

1. To investigate the effect of market orientation to the organizational performance. [1]
2. To investigate how the antecedents affect market orientation in SMEs industry. [2]
3. To determine the relationship between market orientation and organizational performance (SMEs). [3]
4. To investigate how the moderating factors affect the relationship between market orientation and organizational performance. [4] and
5. To assess the appropriateness of the latter framework in the SMEs industry (*market orientation (MO)-organizational performance (OP) framework*).[5]

Mostly scholars' attention has focused on the definition, measurement, and impact of a market orientation. Attention has also focused on organizational drivers of market orientation and its enhancements (Jaworski and Kohli, 1993 & 1996). Therefore, below are the list of variables (*table 1*) and theoretical framework for this study (*Figure 1*).

Table 1: List of variables

Construct	Variables	Adapted from
Contingency Antecedents (9 items)		
	1. Management commitment Jaworski & Kohli (1993)	Kohli & Jaworski (1990);
	2. Management perception Jaworski & Kohli (1993)	Kohli & Jaworski (1990);
	3. Top management emphasis Kohli (1993)	Kohli & Jaworski (1990); Jaworski & Kohli (1993)
	4. Top management risk aversion	Guonaris and Avlonitis (1997)
	5. Interdepartmental conflict	Harris and Piercy (1997)
	6. Interdepartmental connectedness Jaworski & Kohli (1993)	Kohli & Jaworski (1990);
	7. Formalization (1997)	Liu (1995); Guonaris and Avlonitis
	8. Centralization Jaworski & Kohli (1993)	Kohli & Jaworski (1990);
	9. Reward system Jaworski (1990)	Ruekert (1992); Kohli &
Structure (IV) Market orientation (3 items)		
	1. Customer orientation	Narver & Slater (1990)
	2. Competitor orientation	Narver & Slater (1990)
	3. Interdepartmental coordination	Narver & Slater (1990)
	4. <i>Environment orientation</i>	<i>(under study)</i>
	5. <i>Supplier-dealer orientation</i>	<i>(under study)</i>
Moderator (4 items)		
	1. Market turbulence	Jaworski & Kohli (1993)
	2. Competitive intensity	Jaworski & Kohli (1993)
	3. Technological turbulence	Jaworski & Kohli (1993)
	4. Buyer power	Slater & Narver (1994)
Output (DV) Organizational Performance (9 items)		
	1. Customer satisfaction Narver & Slater (1994)	Day and Wensley (1998);
	2. Customer contact Hanson (2000)	Walker & Ruekert (1987) and
	3. Service quality	Heskett <i>et al.</i> (1994)
	4. The ability to new product development Hanson (2000)	Walker & Ruekert (1987) and
	5. Employee satisfaction Ruekert (1987)	Kohli & Jaworski (1990), Walker &
	6. Sales growth rate	Walker & Ruekert (1987)
	7. Market share	Walker & Ruekert (1987)
	8. Average return of sales	Walker & Ruekert (1987)
	9. ROA	Guo (2002) and Agarwal <i>et al.</i> (2003)

Research Questions and Hypotheses

The central question to be explored is whether or not the direct association between the two (market orientation (MO) and organizational performance (OP) is meaningful and necessary. It is nice to know the MO and OP are correlated, but it is more important to understand how they are correlated.

Research Question One: How does Market Orientation affect SMEs Performance?

1.1: *The greater the Market Orientation of an organization, the higher its performance*

Research Question Two: Do moderators, such as market turbulence, competitive intensity, technological turbulence and buyer power strengthen the relationship between market orientation and SMEs performance?

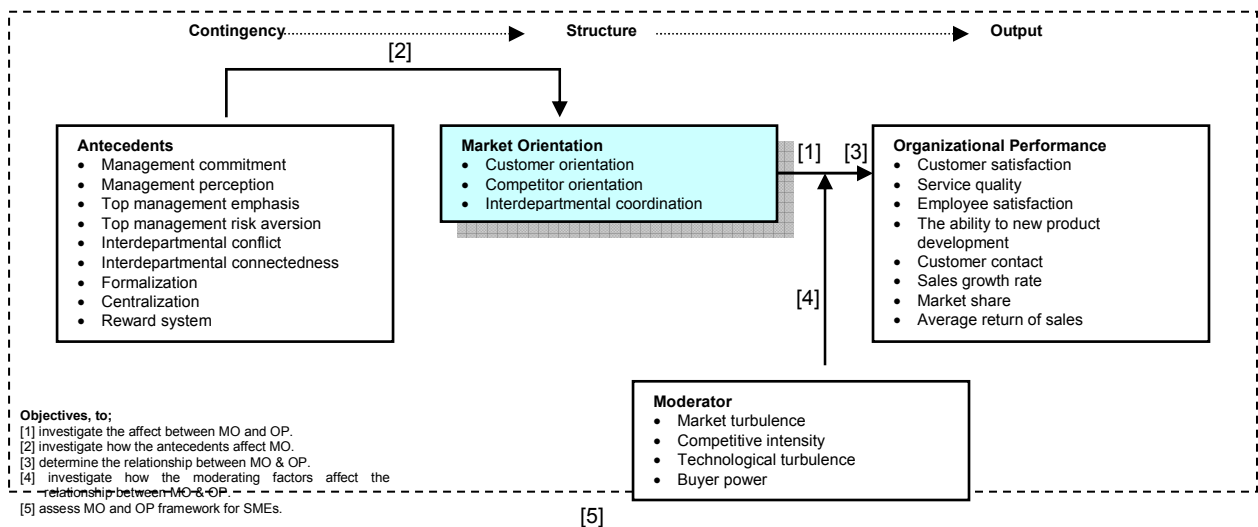
2.1: *The greater the market turbulence, the stronger the relationship between market orientation and SMEs performance.*

2.2: *The greater the competitive intensity in the market, the stronger the relationship between market orientation and SMEs performance.*

2.3: *The greater the buyers power in the market, the stronger the relationship between market orientation and SMEs performance.*

2.4: *The greater the technological turbulence, the weaker the relationship between market orientation and SMEs performance.*

Figure 1: A Conceptual Model of Market Orientation (MO) – Organizational Performance (OP) (MOOP Model)



Research Question Three: How do management commitment to SME’s operations and management perceptions toward SME’s profitability and growth affect the degree of market orientation?

3.1: *The greater management commitment to SME’s operations, the greater the level of market orientation.*

3.2: *The greater the management perceptions toward SME’s profitability and growth, the greater the level of market orientation.*

Research Question Four: How do antecedents, such as management emphasis on market orientation, top management risk aversion, interdepartmental conflict, interdepartmental connectedness, formalization, centralization and reward system affect market orientation in the Malaysian SME's business context?

4.1: *The greater the top management emphasis on being market orientated, the greater the level of market orientation.*

4.2: *The greater the interdepartmental connectedness, the greater the level of market orientation.*

4.3: *The greater the reliance on the market based reward systems, the greater the level of market orientation.*

4.4: *The greater the top management risk aversion, the lower the level of market orientation.*

4.5: *The greater the interdepartmental conflict, the lower the level of market orientation.*

4.6: *The greater the formalization, the lower the level of market orientation.*

4.7: *The greater the centralization, the lower the level of market orientation.*

Literature Review

Market orientation

In recent years, the increased interest in market orientation and what it involves has led several writers to describe its operational definition as a "construct", and the majority of researchers have derived their definitions from the two most familiar conceptualizations, formulated more than a decade ago by Kohli and Jaworski (1990) and Narver and Slater (1990). Whether or not market orientation directly affects performance, or affects performance via other variables, has also invoked much academic discussion (Han *et al.*, 1998). However, most scholars agree that market orientation is one of the important variables. As defined by Narver and Slater (1990) market orientation consists of three behavioral components – (1) customer orientation, (2) competitor orientation, and (3) inter-functional coordination – and two decision criteria, (1) long-term focus and (2) profitability." Several studies have confirmed a positive relationship between market orientation and organizational performance (Narver and Slater, 1990; Pitt, Caruana & Berthon, 1996; Wu, Jyh-Jeng, 2004). Market orientation is a concept that is believed to have far-reaching effects on organizations as it influences how employees think and act. According to Deshpande' *et al.* (1993), define customer orientation "as the set of beliefs that puts the customer's interest first, while not excluding those of other stakeholders such as owners, managers, and employees, in order to develop a long-term profitable enterprise." Besides, market orientation represents superior skills in understanding and satisfying customers (Day, 1992). Slater and Narver (1995) said "market orientation is valuable because it focuses the organization on first, continuously collecting information about target customers' needs and competitors' capabilities and second, using this information to create continuously superior customer value".

Organizational performance

It is acknowledged that performance is a multidimensional construct, consisting of two broad measures: judgmental performance (e.g. customer service loyalty) and objective performance (e.g. ROA) (Guo, 2002; Agarwal *et al.*, 2003). Scholars have noted that while judgmental measures of performance are important to profitability, objective

measures of performance provide the link to profitability in service organizations (Heskett *et al.*, 1994; Agarwal *et al.*, 2003). Most scholars have suggested that judgmental measures of performance, that include customer satisfaction, employee satisfaction, and service quality, are important prerequisites for profitability or objectives measures of performance (Day and Wensley, 1988). Heskett *et al.* (1994) trace the link between financial profitability in service organizations to things like customer satisfaction, service quality, and finally employee satisfaction.

Methodology

Based on Fiedler (1967) in Contingency theory, emphasizes that under different environments, businesses organization must adjust their structure and strategy in order to achieve better performance. This study, based on the concept of social systems, will discuss how this system influences business performance through changes of its environment and through the process of transforming inputs into part of its structure. Figure 1, presents the main research structure, which is based on three dimensions: contingency, structure, and output (organizational performance).

Data collection

This study adopted a field-based perspective to data collection. Data was collected through the use of fully structured questionnaires. The questionnaire was first developed in English, and then translated into Bahasa Melayu. Later, a back translation into English was done to ensure that the essence of the questionnaire was not lost or diluted through translation. The questionnaire was sent for pre testing with executives in charge in 10 of SMEs firms.

Sampling

The sampling frame was obtained from the list of Malaysian SMEs industry, published by the Small and Medium Industries Development Corporation (SMIDEC). Approximately 5,379 companies are on the list (SMEs in the Professional Services Sector; source: Department of statistics). The list provides names of SMEs companies, addresses, telephone numbers, names of person to contact, type of products, register capital and year of establishment. In the interest of sampling validity we proposed to collect as much as possible data from top executives in charge of the selected companies.

Measurement of variables

The measure used to assess market orientation was adopted from Narver and Slater (1990) using a 5-point Likert scale. It had 15 items of which 6 items measured customer orientation, 4 items measured competitor orientation, and 5 items measured inter-coordination. The measure of 9 antecedent variables was developed by Jaworski and Kohli (1993), and adopted from Evengelista (1994). The measure of moderators was adopted from Jaworski and Kohli (1993) using a 5-point Likert scale. It had 17 items of which 6 items measured market turbulence, 6 items measured competitive intensity, and 5 items measured technological turbulence. The last moderator variable, buyer power, a 3-item scale, was adopted from Slater and Naver (1994). Performance was measured by both subjective and objective measures (Heskett *et al.* (1994). The subjective measures of performance in this study included customer satisfaction (Day and Wensley (1998);

Narver & Slater (1994), customer contact (Walker & Ruekert (1987) and Hanson (2000), service quality (Heskett *et al.* (1994), employee satisfaction (Kohli & Jaworski (1990), Walker & Ruekert (1987) and the ability to new product development (Walker & Ruekert (1987) and Hanson (2000). While, the other four objective measures were sales growth rate, market share, average return of sales (Walker & Ruekert (1987), and ROA adapted from Guo (2002) and Agarwal *et al.* (2003)

Conclusion/Data Analysis

Preliminary data collection and analysis is now being conducted and will be reported more fully at the PhD progress. The results will hopefully enable us to understand better the relationship between market orientation and organizational performance in Malaysian SMEs, and why some SMEs are more market-oriented than the others. In relation with a measure of local market orientation included in the study, it will be of interest to determine whether the market orientation-performance link is similar in Malaysia to the results conducted in western countries. Furthermore, the work may serve as a catalyst for other researchers to examine other Asian countries to determine whether the results are peculiar only to Malaysian SMEs.

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