

# Market Orientation and SMEs Performance

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## Abstract

The objective of the study is to investigate the nature of relationship between market orientation and manufacturing performance of small and medium scale enterprises in India. In this study, data were collected through field survey of owner/manager of small scale manufacturing units located in Agra and Firozabad cities. A well establish scale was used to measure the market orientation construct, its validity was reestablished in Indian context. The study utilised multiple correlation and regression analysis for testing the hypotheses. This study found a positive and significant relationship between dimensions of market orientation-customer orientation, competitors' orientation, and inter-functional coordination-and manufacturing performance. However, it was only the customer orientation component of market orientation which significantly explains the variances in manufacturing performance. This study puts focus only on manufacturing firms; sample size could have been taken more which was not possible in this study because of financial and time constraints. Study indicates that Indian small scale manufactures should not only focus on customer need, but they should also consider their competitors' strategies and internal functional mechanism, so that they can face competition and could survive. Many researchers have argued that this type of researches are available for large scale firms, especially in developed countries, but as far as developing countries are concerned there is scarcity of such research initiatives specially in small scale firms context. So by the means of this study, researchers want to contribute in enriching the literature.

**Keyword:** Market Orientation, Manufacturing Performance, Indian Small Scale Firms

## Introduction

Market orientation has been centre of attraction for many researchers. It was primarily highlighted by the works of Narver & Slater (1990) and Kohli & Jaworki (1990). A number of researches (such as, M.A. Mahmoud, 2011; Oyedijo *et al.*, 2012; Kohli *et al.*, 1993; Kirca H. Ahmet *et al.*, 2005; Boohene, Rosemond *et al.*, 2012; Narver & Slater, 1990, Kwaku Appiah-Adu.; 1998) advocate the existence of strong and positive relationship between market orientation and firm's performance. But there are other researchers like Hart & Diamantopoulos (1993), and Greenley, (1995) who have not advocated such type of relationship between these two constructs. There is ambiguity existing in the nature of relationship between market orientation and firm's performance. It is not easy to draw a specific conclusion about the relationship between these two constructs e.g. market orientation and firm's performance; both are negatively or positively related. One of the reasons of such ambiguity may be the impact of context. Authors like Gaur *et al.* (2011), argued that market orientation and firm's performance are contextual issues therefore different contexts may gives different outcomes.

Majority of the empirical works addressing the relationship between market orientation and firm's performance have been done in developed countries like USA, UK and specifically in the context of large scale firms (Kesksion, 2006; Hinson & Mahmoud, 2011). But these outcomes are limited to the large scale firms in developed economies, there is scarcity of such studies in developing economies(Appiah-Adu & Singh 1998; Ellis, P.D. 2005). For developing countries, small scale firms are drivers for growth. Ramarao, R. (2012) argued that for

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a sustainable growth and development of country, people should migrate from agriculture to industry and further to service sector, and in this migration, development of Micro Small and Medium Enterprises (MSMEs) can play a significant role. Researchers like Hinson & Mahmoud, (2011); McLarty, (1998) and Blankson & Cheng, (2005) emphasize the lack of research work on market orientation in small scale firms.

Therefore to gain more insight about nature of relationship between market orientation and firm's performance, more empirical works are needed across different contexts such as developing nations, focusing on small scale firms. In this regard we have studied the relationship between market orientation and firm's performance by putting focus on small scale manufacturing sector in Indian context.

## Literature review

### Market Orientation

Marketing concept is the basis of market orientation. Houston(1986) argued that marketing concept can be conceptualised as a prescription of how a firm will achieve its goals. Market orientation represents the degree of imple-

mentation of such marketing concepts by the firms. Kohli & Jaworski (1990) and Narver & Slater (1990) opined that conceptualization of market orientation construct has been adopted by many scholars. Kohli & Jaworski (1990) also argued that conceptualisation of market orientation was confounded by behavioural approach which defined market orientation as the organisation wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organisation wide responsiveness to it. Narver & Slater (1990) conceptualize market orientation with respect to cultural approach, which defines market orientation as culture that most effectively and efficient creates the necessary behaviours for the creation of superior value for buyers and, thus, continuous superior performance for the business. There are other scholars who have defined market orientation. We have tried to summarize these definitions into a tabular format.

Gaur *et al.* (2011) argued that the basic definition of market orientation given by Kohli & Jaworski, (1990) and Narver & Slater (1990) emphasizes on the customers therefore as far operationalisation of market orientation is concern both approaches are more or less similar. We operationalize market orientation by adopting framework

**Table 1: Definition of Market Orientation by Different Authors**

Author	Definition	Perspective
Kohli & Jaworski (1990)	Organisation wide generation of market intelligence pertaining to current and future customer needs dissemination of the intelligence across departments, and organisation wide responsiveness to it.	Market Intelligence
Narver & Slater (1990)	Organisational culture that most effectively and efficient creates the necessary behaviours for the creation of superior value for buyers and, thus, continuous superior value for buyers and, thus, continuous superior performance for the business.	Culture based behaviours
Day (1994)	A market driven culture supports the value of thorough market intelligence and the necessity of functionally coordinated actions directed at gaining a competitive advantage.	Culture and Market Intelligence
Deng & Dart (1994)	Generation of appropriate market intelligence pertaining to current and future customer needs, and the relative abilities of competitive entities to satisfy these needs; the integration and dissemination of such intelligence across departments; and the coordinate design and execution of the organisation's strategic response to market opportunities.	Market Intelligence
Hunt & Morgan (1995)	(1) The systematic gathering of information on customers and competitors, both present and potential, (2) the systematic analysis of the information for the purpose of developing market knowledge, and (3) the systematic use of such knowledge to guide strategy recognition, understanding, creation, selection, implementation, modification.	Market Intelligence

Author	Definition	Perspective
Dickson (1996)	A set of organised internal and boundary spanning processes that enable the firm to learn about, respond to, and lead changes in consumer, channel, and competitor behaviour.	Process View
Lado, Maydeu-Olivares & Rivera (1996)	The extent to which firms use information about their stakeholders to coordinate and implement strategic actions. Hence, our theoretical model of market orientation expands this construct's traditional definitions by integrating the distributor orientation and the environmental orientation. We believe that traditional definitions devalue the inter-functional conflict generated by restricting market orientation to the marketing function.	Market Intelligence
Gray, Greenley, Matear & Matheson (1999)	Organisational behaviours concerned with identifying customers' needs and competitors' actions, sharing market information throughout the organisation, and responding to it in a coordinate, timely and profitable manner.	Behavioural Perspective
Baker & Sinkula (2002)	Extent to which a firm's strategic planning process is dependent on the outcome of market information acquisition, dissemination, and interpretation activities about customers, competitors, channel members and strategic partners.	Market Intelligence
Gray & Hooley (2002)	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.	Culture perspective
Jon C Carr & Tará Burnthorne Lopez (2007)	A process that is evidence of the firm's commitment to the marketing concept.	Process Perspective
Deshpande & Farley (1998)	A set of cross functional processes and activities directed at creating and satisfying customer through continuous need assessment.	Activity Perspective

given by Narver & Slater (1990) and augmented by Matheson *et al.* (1998). According to this framework market orientation consists of three main components viz, customer orientation, competitor orientation and inter-functional coordination.

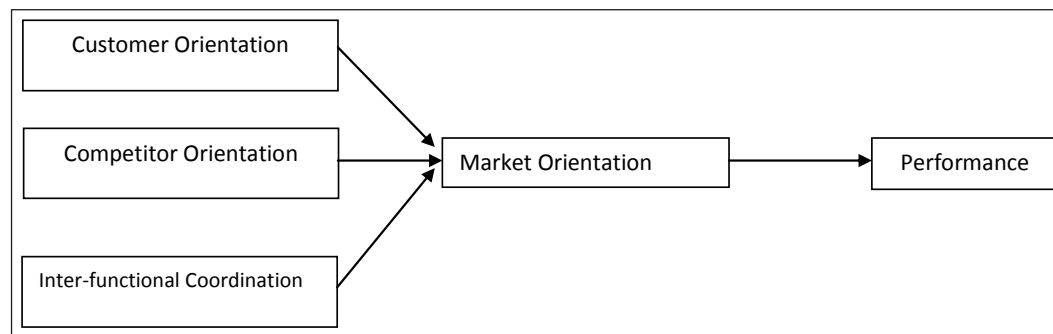
### Firm Performance

For any firm the measurement of performance is a critical and significant issue because it gives the direction whether the firm is moving on a right track or not. In order to stay competitive, manufacturing companies must regularly evaluate their performance. There are various studies which focus on the indicators of manufacturing firm's performance. We can divide all of them into two broad categories viz, financial and non-financial measures. Literature suggests that non-financial measures are better than the financial measures (Gosselin, 2005). The focus of the study is small and medium-sized enterprises (SMEs); therefore it is convenient to operationalise performance through non-financial measures. The most common

indicators to measure manufacturing firm performance are quality, cost, delivery, and flexibility (Amrina & Yusof, 2011). By acknowledging contextual nature of the study we have identified several subjective indicators from literature (Pelham & Wilson, 1996), followed by expert opinion to measure firm's performance, which includes ROI, profit goals, sales goals, customer retention, employee turnover etc.

### Research Framework

The conceptual framework of the study is based on four main variables. Three of them viz, customer orientation, competitor's orientation, and inter-functional coordination are considered as independent variables and the fourth, firm's performance is considered as dependent variable. The three independent variables represent market orientation construct (Narver & Slater, 1990) and the dependent variable firm's performance is denoted by subjective indicators like ROI, sales growth, etc.

**Figure 1: Research Framework**

On the basis of the research framework, following hypotheses could be formulated:

- H1: Market orientation significantly predicts firm's performance.
- H2: Customer orientation and firm's performance are related with each other.
- H3: Competitor orientation and firm's performance are related with each other.
- H4: Inter-functional coordination and firm's performance are related with each other.
- H5: Customer orientation significantly explains firm's performance.
- H6: Competitor orientation significantly explains firm's performance.
- H7: Inter-functional coordination significantly explains firm's performance.

## Research Methodology

Market orientation was measured by following behavioural approach given by Narver & Slater (1990). Market orientation scale used in this study is composed of 14 items representing three components of market orientation *viz.*, customer orientation, competitors' orientation and inter-functional coordination. Five point Likert scale (strongly agree to strongly disagree categories) was used for the data collection. To measure firm's performance, subjective measures (such ROI, sales growth, customer retention etc.) were used on a five point Likert scale (strongly agree to strongly disagree categories).

Data were collected through field survey by using structured questionnaire. The target respondents were owner/manager of the different small scale manufacturing units located in Agra and Firozabad cities of North

India. Agra and Firozabad cities are world famous for manufacturing of shoes and glass products respectively. Through direct survey we were able to approach 67 small scale firms' managers for data collection. All of them were indulged in manufacturing activities at small to micro level.

## Data Analysis

The inter-item reliability for different components was found to be statistically significant except for competitor's orientation (Table 2). For competitor's orientation items, the reliability (Cronbach's Alpha coefficient = 0.518) was found poor in accordance to the accepted level (Gliem & Gliem, 2003). In order to increase the internal consistency of the competitor's orientation scale we have dropped an item, which gives a reliability of 0.647, which is acceptable (Fan & Le, 2011). Therefore now we had 13 items scale to measure market orientation. The internal consistency of the overall scale was checked by Cronbach's Alpha coefficient (0.871), it was found to be statistically significant (Nunnally, 1978). These values of Cronbach's Alpha coefficient show that scale to measure market orientation is consistent enough in the concern context.

**Table 2: Reliability Statistics**

Items	Reliability (Chronbach's Alpha)
Overall Market orientation scales reliability	0.871
Customer Orientation items reliability	0.752
Competitors Orientation items reliability	0.647
Inter-functional Coordination items reliability	0.761

**Table 3: Correlation Statistics**

		Performance	Customer Orientation	Inter-functional Coordination	Competitor's
<b>Orientation</b>					
Performance	Pearson Correlation	1	.650**	.589**	.315**
	Sig. (2-tailed)		.000	.000	.009
	N	67	67	67	67
Customer Orientation	Pearson Correlation	.650**	1	.751**	.358**
	Sig. (2-tailed)	.000		.000	.003
	N	67	67	67	67
Inter-functional Coordination	Pearson Correlation	.589**	.751**	1	.613**
	Sig. (2-tailed)	.000	.000		.000
	N	67	67	67	67
Competitor's					
Orientation	Pearson Correlation	.315**	.358**	.613**	1
	Sig. (2-tailed)	.009	.003	.000	
	N	67	67	67	67

\*\* Correlation is significant at the 0.01 level (2-tailed).

The Pearson's correlation statistics (Table 3) indicates that the firm's performance is positively correlated with three independent constituent's variables of market orientation at 0.01 level of significance. The positive value of correlation coefficient also indicates that better the degree of customer orientation, competitor's orientation and inter-functional coordination, there will be better firm's performance. The correlation outcome also found that customer orientation and inter-functional coordination are strongly positively correlated ( $r=0.751$ ), which indicates that better inter-functional coordination brings better customer orientation and vice versa. Similarly customer orientation and competitors orientation are significantly correlated with each other ( $r=0.358$ ) and competitor's orientation is significantly correlated with inter-functional coordination ( $r=0.613$ ). A strong correlation among the three components of market orientation indicates that all three are convergent to a specific construct, which also provide evidence of convergent validity of the scale (Narver & Slater, 1990). The findings further confirmed that three components significantly affects the firm's performance, therefore hypotheses H2, H3 and H4 are accepted.

To check the hypotheses H1, H5, H6, and H7, multiple regression technique was used (Table 4). Three constituent variables of market orientation were taken as independent variables in the analysis while firm's performance was taken as dependent variable.

**Table 4: Regression Output**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.668 <sup>a</sup>	.446	.419	.39532

a. Predictors: (Constant), Comop, Customer Orientation, Interfunctional Coordination

The model summary table shows that approximately 42% of variance in firm performance can be explained by market orientation, which is statistically significant (Hair *et al.* 2013). So we can conclude that market orientation is a good predictor of firms performance which confirms the statement of hypothesis H1. Additionally to check the fitness of overall regression model the following ANOVA table (Table 5) indicates that F statistics is found to be statistically significant ( $F=16.882$ , Sig.000).

**Table 5: ANOVA Table**

Model	Sum of Squares	Df	Mean Square	F	Sig.	
1	Regression	7.915	3	2.638	16.882	.000a
	Residual	9.846	63	.156		
	Total	17.761	66			

a. Predictors: (Constant), Comop, Customer Orientation, Interfunctional Coordination

b. Dependent Variable: PERFORMANCE

The beta coefficient table (Table 6) shows that only customer orientation significantly explains the variances in firm's performance with beta coefficient value, 0.478, Sig.000<0.01. However the inter-functional coordination (Sig.0.19>0.01) and competitor's orientation (Sig.0.968>0.01) do not significantly affect explain variances in performance. These outcomes support the statement of hypothesis H5, and discard the statements of hypotheses H6 and H7.

Therefore we can conclude that although inter-functional coordination and competitor's orientation are significantly correlated with firm's performance, but they are not good predictor of firm's performance. But as far as customer orientation is concerned, it is significantly correlated with firm's performance and is a strong predictor of it also.

The VIF statistics for all three independent variables is less than 10, which shows that multicollinearity is not a big issue in this analysis (Mendenhall & Sincich, 2003).

## Discussion and Conclusion

The outcome of the study suggests that market orientation is a significant predictor of firm's performance. So to attain success, firms should give focus on market orientation. The same finding were found by scholars like

M.A. Mahmoud, (2011); Oyedijoet *al.*, (2012); Kohli & Jaworski, (1993); Kirca H. Ahmet *et al.*, (2005); Boohene *et al.*, (2012); Narver & Slaten, (1990), Kwaku Appiah-Adu & Ranchhod (1998), which also suggests that firm's performance and market orientation are strongly and positively related with each other. A firm is said to be performing well, if it is focusing on its customers and fulfilling maximum needs of the customers. But only fulfilling needs of the customers is not key to success. Today's era is era of consumerism, where consumers can compare one offering with other offering. So it is demand of time that manufacturers acknowledge this fact and in addition to understanding customers' needs, they should also try to understand their rivals (competitors). Firms are required to provide products at competitive cost along with additional services to their customers, so that customer can acknowledge the manufacturer offering as not only a product rather value to them, it will provide a competitive advantage to the firms. But to do so firms needs to restructure them, internally, so that all the departments of the firms can work in a coordinated manner. This study identifies customer orientation as a strong predictor of performance. So to be a better performer firms need to be customer oriented. Although competitor orientation and inter-functional coordination both are significantly correlated with firm's performance but they were not able to predict performance significantly. It indicated that theoretically we are acknowledging that competitor orientation is important for firm's performance but practically firms are considering competitors as far as their orientation is concern. As far as inter-functional coordination is concerned it may be possible that in case of small firms there are few employees and departments in which it is hard to find existence of such interdepartmental coordination concept. Therefore ultimately it can be concluded that firm's performance is strongly predicted by customer orientation in the concern context.

**Table 6: Coefficient Table**

Model	Unstandardized Coefficients			Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF	
1 (Constant)	.847	.171		4.940	.000			
CUSTOMER ORIENTATION	.456	.138	.478	3.297	.002	.419	2.385	
INTERFUNCTIONAL COORDINATION	.202	.152	.227	1.326	.190	.300	3.334	
COMOP	.004	.100	.005	.040	.968	.600	1.668	

a. Dependent Variable: PERFORMANCE

## Limitations and Further Research

One the basic limitation of this study is very small sample size which is 67 covering only leather and glass based units. It may be possible that for a bigger sample size we can find different outcome, because in case of large sample there will be more participation of different small scale firms concerning with diverse sector. Another limitation is concerned with measures of performance. Researcher can do more research by using more subjective indicators for performance. The third limitation of the study is that main focus was given to the manufacturing sector; further research should be done for service sector firms. It will also be interesting to study the relationship between performance and market orientation, for firms working in different industries separately.

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