

An Empirical Analysis of Market Orientation and Business Performance Relationship in the Context of Developing Economy

Aliyu Mukhtar Shehu

Ph.D (Candidate), Othman Yeop Abdullah Graduate School of Business, University Utara
Malaysia
aliyumukhtarshehu@gmail.com

Rosli Mahmood

School of Business Management, College of Business, University Utara Malaysia

DOI Link: <http://dx.doi.org/10.6007/IJARBS/v4-i9/1151>

Published Date: 19 September 2014

Abstract

The objective of this study is to investigate the relationship between market orientation and business performance of small and medium enterprise (SMEs) in Nigeria. A quantitative method was used, employing a cross – sectional research design. The data were collected through the self – administration method from 320 respondents, using a structured questionnaire, a total of 212 valid questionnaires was completed and returned representing 66 percent response rate. SMEs are very important to the economic growth of Nigeria, they serve as a major source of employment, contributes toward local resource utilization, a source of entrepreneurship development, an avenue for the conservation of foreign exchange, ensures equitable distribution of income and wealth and help in the preservation of cultural heritage. A model was developed based on theoretical reflection to examine the relationship. Smart PLS is used in the data analysis, which reported a significant and positive relationship between the market orientation and business performance of SMEs. The findings of this study will benefit owner/managers of SMEs, regulatory agencies, government at all levels and will also serve as a frame of reference for future studies, and future research directions were discussed.

Keywords: Market orientations, Business performance, Nigeria

1. Introduction

Small and medium enterprises are important avenues for job creation (Almeidia and Jua, 2012), a powerful source for innovation (Dauda & Akingbade, 2010). SMEs plays a significant role in sustainable socio-economic development of a given country in terms of contribution to GDP, provision of employment, generation of wealth, poverty reduction , competence

building and enriching the welfare of people through provision of goods and services including education (Kanyabi & Devi, 2011). SMEs in Nigeria have been an avenue for Job creation and empowerment of citizens proving about 60% of all job opportunities and also for wealth formation (Dauda & Akingbade, 2010; Shehu & Mahmood, 2014a; Shehu, 2014). The sector had its own portion of problems as identified by (Ekpenyong & Nyong, 1992; Oluboba, 2002; Sarapaivanich, & Kotey, 2006). which includes: poor market orientation, low level of entrepreneurial skills, poor management policies, constrained access to money and capital markets, low equity participation from the promoters because of insufficient personal savings due to their level of poverty and low return on investment, inadequate equity capital, poor infrastructural facilities, high rate of enterprise mortality, shortage of skilled manpower, multiplicity of regulatory agencies, societal and attitudinal problems, bureaucracy, integrity and transparency problems, lack of access to information given that it is costly, time consuming and difficult at times.

Therefore, the paper is organized as follows: section two provides the literature review and the theoretical underpinning, section three; the research methods, including population and sample, measurement of variables, research design and the goodness of measure. In section four presented the result and hypothesis test, section five is about the conclusion and finally, the managerial implications of the study, limitations as well as the direction for future research were discussed.

2. Literature Review

2.1 Market Orientation and Performance

According to Polat and Mutlu (2012) MO is seen as a firm's ability that is extremely valuable, rare, and that cannot easily be imitated, with emphasis of placing the customer in the center of firms' strategy and operations. The academic understanding of the MO concept is categorized into two as behavioral and cultural approaches respectively. Kohli and Jaworski (1990) are the proponents of behavioral approach, they hypothesized that MO involves a set of activities directed towards making the customer happy. In contrary, Narver and Slater, (1990) in Slater and Narver (2000) who are the advocates of cultural approach give emphasis on the shared values of firm that consider customers interest as number one priority.

Empirical evidence on the relationship between market orientation and business performance appears to be mixed. Some researchers found a positive association between market orientation and performance (Shoham & Rose 2001; Agarwal 2003; Narver & Slater 2000; Li & Justin 2008), while others could not find any direct relationship between MO and firm performance (Au & Tse, 1995; Demirbag et al, 2006). This inconclusiveness shows a need for research to identify factors that intensify the strength between MO and performance. Slater and Narver (2000) in their empirical investigation using survey, which provided a repetition of the earlier study, with a sample of fifty three single businesses through regression method. This repetition provides robust backing for the presence of a positive relationship between market orientation and performance. Their findings established the existence of the significant and positive association between market orientation and performance. Shoham and Rose (2001) examined market orientation to performance relationship, which was considered as a seminal work of an earlier investigation. Survey design was used and a sample of two hundred and fifty small firms from four businesses as soft, food, construction and agriculture were chosen. One hundred and one managers responded by completing and returning the questionnaire received. They report a positive and significant association among MO and firm performance. Subramania and Gopalakrshna

(2001) investigated the relationship between market orientation and performance in the context of a developing economy, using a survey questionnaire administered on one hundred and sixty two manufacturing and service firms. The result was analyzed using regression method and the finding indicated that market orientation is an important predictor of performance.

Pelham and Wilson (2001) reported a significant and positive influence of market orientation on small firm performance. Agarwal and Dev (2003) in their study of the MO to the business performance in service firms: role of innovation, examined the association between MO and performance in the hospitality business, more specifically to international hotels. Two hundred and one data was generated through survey questionnaire and the preliminary questions were pre-tested on thirty hotel chief executives who joined an executive development program at a leading hotel and restaurant in the north-eastern USA. The finding shows that MO is positively related to both financial measures of performance- service quality, customer satisfaction, and employee satisfaction and non-financial of performance- occupancy rate, gross operating profit and market segment. It establishes a strong positive association between MO and all forms of performance. The findings of Wei and Morgan (2004), and Ge and Ding (2005) were in line with these findings. Similarly, Webster, Hammond and Rothwell (2014) investigated the market orientation effect on business performance of business schools that register with the association of advance collegiate schools of business in the US. One hundred and sixteen academic vice president and one hundred and thirty one deans were the respondents. The finding from their study indicated a significant and positive relationship between market orientation and performance. Additionally, the study of Kelson (2014) reported a significant relationship between market orientation and business performance of twenty four listed companies in Ghana. In the same vein, Wilson, Perepelkin, Zhang and Vachon (2014) investigated four hundred and fifty three Canadian medical biotechnology companies, and reported a significant and positive association between market orientation and performance. The above findings are in concord and with each other, evidencing a significant positive relationship between market orientation and performance. In contrast, other researches with a negative finding on the relationship between MO and business performance include: Au, and Tse, (1995) in their study which employed hotel as sample with marketing managers as respondents. The results indicated no significant association between market orientations and hotel performance.

Demirbag, Lenny Koh, Tatoglu and Zaim, (2006), conducted a study on TQM and market orientations impact on SMEs performance, using structural equation modeling for data analysis, with one hundred and forty one SMEs operating in the Turkish textile industry. They found no significant relationship between market orientation and organizational performance, the only relationship established was between market orientation and organizational performance with the mediation of total quality management. Haugland et al., (2007) conducted studies on MO and firm performance in the service industry. The sampling border is the Dunn and Bradstreet data base which consisted of accounting information for all the Norwegian limited companies and it include five hundred and thirty hotels registered in the data base. The findings indicated that MO has only an uncertain consequence of absolute productivity and no effect on return on assets. Thus, the study hypothesis is:

H1: There is a significant relationship between market orientation and SME business performance.

2.2 Theoretical Underpinning

In this study, Resource- Based view (RBV) was employed with a major focus on how a firm resource or knowledge, develop and affect its performance (Kanyabi & Devi, 2012). The resource- based view asserts that organizations can have competitive advantage through the development of resources that are peculiar and diversely distributed (Barney, 1991). The RBV does not have a single accepted definition, hence, the term resources and capabilities are used interchangeably (Christene & Overdorf, 2000; Gold, Malhotra & Segars, 2001). RBV defines resources as assets, processes and capability. Barney (1991) posits that firm's sustainable performance advantage by securing rare resources of economic value and the ones that competitor and other rivals cannot easily copy, imitate or substitute. As such, firms with rare resources should be able to leverage them for their own peculiar benefit. Hence, a market oriented SME can stand a chance of achieving competitive advantage through the development of resources that are rare, valuable, imitable and non-substitutable. The RBV collected works points out that firms could obtain economic benefit as the basis of unique business assets that are valued, uncommon, difficult to replicate and non-compatible with other resources (Barney, 1991; Conner; 1991).

3. Methodology

3.1 Population and Sample

The population consists of 1829 small and medium sized enterprises in Kano state, North-western region of Nigeria (SMEDAN, 2012). The study employed Krejcie and Morgan (1970) technique for sample selection. Based on this, criterion 320 SMEs were selected to serve as a sample, out of 320 questionnaires administered, a total of 212 were completed and returned, representing 66 percent response rate. Partial Least Square (PLS) is used for data analysis, Systematic sampling technique was used in the sample selection. The unit of analysis for this study is at the organizational level, which cover the entire SME owner/managers fully operational in Kano state.

3.2 Measurement

The study variable of business performance and market orientations scale of Suliyanto and Rahab (2012), with the reliability value of 0.987 and 0.986 were adopted. All items adopted were assessed on a 5 point Likert scale ranging from 1 strongly disagree to 5 strongly agree. The entire measurement was assessed as a uni – dimensional constructs with six and twelve items respectively.

3.3 Research Design

The study employed a cross – sectional research design where the data were collected in only a given point in time (Kumar, Abdul Talib & Ramayah, 2013; Zikmund, Babin, Car & Griffin, 2013; Sekaran & Bougie, 2013). A Quantitative research approach was adopted (Sekaran, Robert & Brain, 2001), which was mostly used in social sciences. Previous studies that employed quantitative research method includes: Kheng, June and Mahmood (2013), Shehu (2014), Al – Sardia and Ahmad (2014), Shukr Bakar and Mahmood (2014), Shehu and Mahmood (2014b)

3.5 Goodness of Measures

In an attempt to determine the accuracy of measurement, reliability and validity methods are employed. After calculating PLS algorithm the report shows that the cronbach alpha coefficient ranged from 0.700 to 0.835. According to Sekaran (2003) any value of the cronbach alpha coefficient greater than 0.5 is deemed to be accepted. Hence, it can be concluded that the instrument adapted in this study is reliable, since none of the item is with less than 0.5.

All items loaded on their respective construct ranges from 0.6570 to 0.8795, which, according to Hair et.al (2010) is acceptable since it is above the cutoff value of 0.5. MO04, MO05, MO06, MO07, MO08, MO09, MO10, MO12 and PER03 were deleted because they did not meet with the minimum loading of 0.5 (Hair et.al, 2010). Likewise, the composite reliability, value ranges from 0.8164 to 0.8797 which are also greater than the recommended value of 0.5. Finally to justify the discriminant validity, the average variance extracted (AVE) is compared to correlation squared of the interrelated variables of concerned which indicated adequate convergent and discriminant validity.

Table 1: Factor Loading

Items	Factor Loading	Composite Reliability	Cronbach's Alpha	AVE
MO01	0.7471	0.8164	.700	0.5273
MO02	0.7723			
MO03	0.7232			
MO11	0.6570			
PER01	0.8460	0.8797	.835	0.5967
PER02	0.8795			
PER04	0.6595			
PER05	0.7265			
PER06	0.7291			

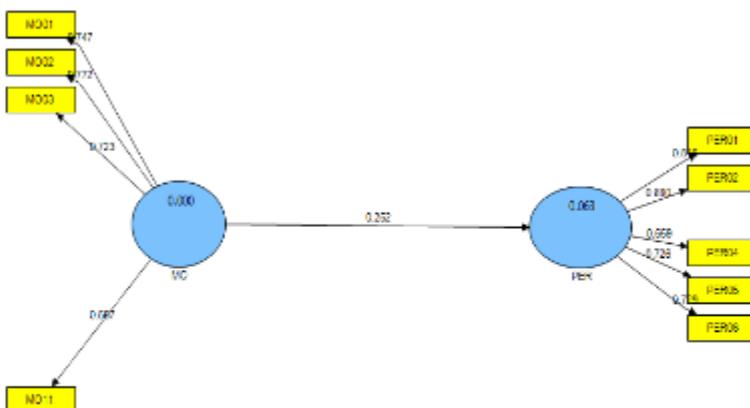


Figure 1: Measurement Model

4. Result and Hypothesis Testing

The study examined the relationship between market orientation and business performance in Nigerian SMEs. The interpretation of the hypothesis is summarized in table 2. The result indicated that there is a significant positive relationship between market orientation and business performance ($\beta = 0.252$, $t = 2.0845$). This finding is in line with the study of Hooley et al, (2000) which reported a positive association between market orientation and business performance. Slater and Narver (2000) in their study on the positive outcome of market orientation and business profitability reported the existence of the significant and positive association between market orientation and performance. Shoham and Rose (2001) in their study, which serve as a seminal work of earlier market orientation and performance investigation and the study cut across different businesses of agriculture, construction, food and so on. They reported a significant association between market orientation and firm performance, which contradicts the finding of the present study. Subramaniam and Gopalakrishna (2001) in their investigation on market orientation to performance relationship in the context of a developing economy. The results show that market orientation is a good predictor of firm performance. Similarly, the finding of Agarwal et al., (2003) supports the previous findings that market orientation has a significant association with performance. Grainer and Padanyi (2005) conducted studies on market oriented activities and market oriented culture reported an important association between market orientation behavior and organizational performance.

Kara et al., (2005) in their work on the effects of a market orientation on business performance: a study of small sized service retailers using Markor scale. A sample of one hundred and fifty three owner/managers from three states of US was used. The findings of their study reported an important linkage between market orientation and small sized retailer performance. Hence, this contradicts the finding of the present study. Li et al., (2008) reported a positive and significant linkage between market orientation and performance in a study conducted on the moderating effects of entrepreneurial orientation on the relationship between market orientation and performance linkage: evidence from Chinese small firms. Gaur et al., (2009) examined the relationship between market orientation and manufacturing performance for small and medium enterprises in India. Their finding, reported significant association between market orientation dimensions of customer orientation, inter – functional coordination and manufacturing performance in the Western region of India. Rettab and Mellahi (2011) investigated two thousand two hundred small firms from Dubai, through a mail survey and reported a significant positive relationship between market orientation and business performance. Eris and Ozmen (2012) examined market orientation and firm performance of the Turkish logistics sector, with survey questionnaire and structural equation modeling for data analysis. The finding of the study reported a significant association between market orientation and firm performance of the Turkish logistics sector. Arshad and Othman (2012) examined the effects of corporate social responsibility and market orientation on firm performance. The result of the study shows that market orientation significantly predicts firm performance. hence, H1 is supported.

Table 2: Path Coefficient and Hypothesis

Hypothesis	Path Coefficient	Standard Error	T-Statistics	Decision
MO -> PER	0.252	0.1208	2.0845	Supported

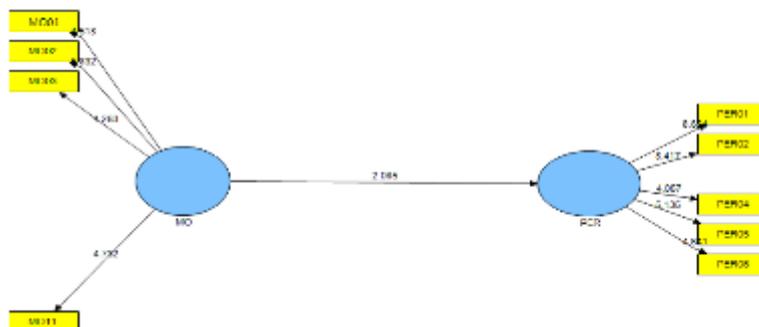


Figure 2: Hypothesized Model

5. Conclusion

This study examines the relationship between market orientation and SMEs business performance using a sample of SMEs from Kano state, in North- western part of Nigeria. The finding of the study shows that there is a positive and significant relationship between market orientation and SMEs business performance of Nigeria. However, this finding is in concord with the previous findings of Morgan et al (2009), Beverly et al (2012), Oyedijo et al (2012), Webster et al (2014), Kelson et al (2014).

6. Managerial Implication, Limitations and Suggestions for Future Research

The finding from the present study will benefit small and medium enterprise owner/managers, small and medium enterprise development agency of Nigeria (SMEDAN), various arms of government and will also serve as a frame of future research. The study has some methodological constraints. Firstly, the data for the study was collected from selected owner managers of SMEs in Kano. Hence the findings of the study cannot be generalized. Secondly the study is cross sectional in nature, because the data was collected at one point in time, therefore, the direct effects of the independent variable on the dependent variable are difficult to conclude. Hence, future research should consider a longitudinal survey that will cover the entire six geographical zones in Nigeria. A qualitative design is suggested in order to explore in depth on the cause and effect relationship.

References

- Agarwal, S. Erramalli, M.K. & Dev, C.S. (2003). Market orientation and performance in service firms: role of innovation. *Journal of service marketing*, 17(1), 68-82.
- Almeida, H.D. & Jua, B.P.N. (2012). Determinant of entrepreneurship in small and medium companies/enterprises of the defense sector. *China-USA Business Review*, 11(6): 796 - 810.
- Al-Swidi, A.K., & Mahmood, R. (2012). Total quality management, entrepreneurial orientation and organizational performance: The role of organizational culture. *African Journal of Business Management*, 6(13), 4717-4727.
- Au, A.K.M., & Tse, A.C.B. (1995). The effects of market orientation on company performance in the Service Sector: a comparative study in Hong Kong and New Zealand. *Journal of International Consumer Marketing*, 8(2), 77-87.
- Arshad, R., & Othman, R. (2012). Market orientation, firm performance, and the mediating effect of corporate social responsibility. *The Journal of Applied Business Research*, 28(5), 851-860.
- Barney, J.B. (1991). Firm resources and sustained competitive advantage. *Journal of management*, 17(1), 99-120.
- Beverly, K. B., Micheal, A. J., & Richad, C. B. (2012). Customer orientation and performance in small firms: examining influence of risk taking, innovativeness and opportunity focus. *Journal of Small Business Management*, 50(3), 429-446.
- Christene, C.M., & Overdorf, M. (2000). Meeting the challenges of disruptive change. *Harvard Business Review*, 7, 67-75
- Conner, K.R. (1991). A historical comparison of the resource-based view and five schools of thought within industrial organization economics: do I have a new theory of the firm. *Journal of Management*, 17(1), 121-154.
- Dauda, Y.D. & Akingbade, W.A. (2010). Employee's Market orientation and Business performance in Nigeria: Analysis of small Business Enterprises in Lagos state. *International Journal of marketing studies*, 2 (2), 134-143.
- Demirbag, M., Lenny Koh, S.C., Tatoglu, K., & Zaim, S. (2006). TQM and Market orientations impact on SME's performance. *Industrial Management and Data System*, 106(8), 1206-1228.
- Ekpenyong, D. B., and Nyong, M. O. (1992). Small and Medium-Scale Enterprises in Nigeria. Their Characteristics, Problems and Sources of Finance. AERC Research Paper 16.

- Grainer, B., Padanyi, P. (2005). The relationship between market-oriented activities and market-oriented culture: implications for the development of market orientation in nonprofit service organizations. *Journal of Business Research*, 58, 854– 862.
- Gaur, S. S., Vasudevan. H., & Gaur, A.S. (2009). Market orientation and manufacturing performance of Indian SMEs: Moderating role of firm resources and environmental factors. *European Journal of Marketing*, 45 (7-8), 1172- 1193.
- Ge, G.L., & Ding, D.Z. (2005). Market orientation, competitive strategy and firm performance: An empirical study of Chinese firms. *Journal of Global Marketing*, 18 (3- 4), 115-142.
- Gold, A.H., Malhotra, A., & Segars, A.H. (2001). Knowledge management: an organizational capability perspective. *Journal of Management Information System*, 18(1), 185-214.
- Hair, J. F., Black, W .C., Babin, B. J., Anderson, R. E. (2010). *Multivariate Data Analysis* (7th ed.). Prentice Hall, Upper Saddle River, New Jersey.
- Harris, L. C., & Ogbonna, E. (2001). Strategic human resource management, market orientation, and organizational performance. *Journal of Business Research*, 51, 157-166.
- Hooley, G., Cox, T., Fahy, J., Shipley, D., Beracs, J., Fonfara, K. (2000). Market orientation in the transition economies of Central Europe: Tests of the Narver and Slater market orientation scales. *Journal of Business Research*, 50, 273-285.
- Haugland, S. A., Myrtveit, I., & Nygaard, A. (2007). Market orientation and performance in the service industry: A data envelopment analysis. *Journal of Business Research*, 60, 1191-1197.
- Kanyabi, Y. & Devi, S. (2011). Use of professional accountants' advisory services and its impact on SME performance in an emerging economy: A Resource- based view. *Journal of management and sustainability*, 1(1): 43-55.
- Kanyabi, Y., & Devi, S. (2012). The impact of advisory services on Iranian SME performance: An empirical investigation of the role of professional accountants. *African journal business Management*, 43(2), 61-72.
- Kara, A., Spillan, J.E., & Deshidields, O.W. (2005). The effect of a market orientation on business performance: A study of small sized service retailers using Markor Scale. *Journal of Small*

Business

Management, 43(2), 105-118.

Kelson, S.A. (2014). The moderating role of organizational capabilities and internal marketing in market

orientation and business success. *Review of Business and Finance Studies, 5(1), 1-17.*

Kheng, Y.K., June, S., & Mahmood, R. (2013). The determinants of innovative work behavior in the

knowledge intensive business services sector in Malaysia. *Asian Social Sciences, 9(15), 47-59.*

Kohli, A. K., & Jaworski, B. J.(1990).Market orientation: The Construct, Research Propositions and

management Implication. *Journal of Marketing, 54,1-18.*

Krejcie, R.V., & Morgan, D.W.(1970). Determining sample size for research activities. *Educational and*

Psychological Measurement, 30, 601-610.

Kumar, M., Abdul Talib, S., & Ramayah, T. (2013). *Business research methods*. New York: Oxford

University press.

Li, Y., Yongbin, Z., Justin, T.,& Liu, Y. (2008). Moderating effects of Entrepreneurial orientation on market

orientation- performance linkages:Evidence from Chinese small firms. *Journal of Small Business*

Management, 46 (1), 113-133

Oluboba, O. (2002). Career Crisis and Financial Distress: The Way Out. Business day, Small Business

Journal, Business day Media Ltd, Lagos.

Oyedijo, A., Idris, A.A., & Aliu, A.A. (2012). Impact of Marketing Practices on the performance of Small

Business Enterprises: Empirical Evidence from Nigeria. *European Journal of Economics, Finance and*

Administrative Sciences, 46, 130-146.

Pelham, A.M., & Wilson, D.T. (2001). A longitudinal study on the impact of market structure, firm

structure, strategy, and market orientation culture on dimensions of small – firm performance.

Journal of the Academy of marketing Science, 24(1), 27-43.

Polat, I., & Mutlu, M.H. (2012). The impact of market orientation, entrepreneurial orientation, environmental uncertainty and internationalization speed of firm performance. *European Researchers, 27(8/2), 1248-1254.*

Morgan, N.A., Douglas, W., Vorhies, W. (2009). Market orientation, market capabilities, and firm

performance.*Strategic Management Journal, 30, 909– 920*

Rettab, B., Brik, A. B., & Mellahi, K. (2009). A study of management perception of the impact of

corporate social responsibility on organizational performance in emerging economics:

The case of

Dubai. *Journal of Business Ethics*, 89, 371-390.

Sekaran, U., & Bougie, R. (2010). *Research methods for business: A skill building approach (5th ed.)*.

Chichester: John Willey and Sons Ltd.

Sarapaivanich, N. & Kotey, B. (2006). 'The effect of financial information quality on ability to access

external funds and performance of SMEs in Thailand', *Journal of Enterprising Culture*, 14(3): 219-239.

Sekaran, U. (2003). *Research method for business (4th ed.)*. New York: John Wiley and sons, inc.

Sekaran, U. (2003). *Research Method for Business: A skill building approaches (2nd ed.)*. New York: John Wiley & Son, Inc.

Shukri Bakar, M., & Mahmood, R. (2014). Linking transformational leadership and corporate entrepreneurship to performance in the public higher educations in Malaysia. *Advances in*

Management and Applied Economics, 4(3), 109-122.

Shehu, A.M. (2014). The relationship between market orientation and firm performance: A Look at

Nigerian SMEs. *Developing Country Studies*, 4(12), 87-93.

Shehu, A.M., & Mahmood, R. (2014). Market orientation, Knowledge management and Entrepreneurial

orientation as predictors of SME performance: Data screening and Preliminary Analysis. *Information*

and Knowledge Management, 4(7), 12-23.

Shehu, A.M., & Mahmood, R. (2014). Influence of Entrepreneurial orientation and Business environment

on Small and Medium Firm Performance: A PLS Approach. *Advances in Management and Applied*

Economics, 4(4), 101-114.

Shoham, A., & Rose, G. M. (2001). Market orientation: A replication, cross-national comparison, and

extension. *Journal of Global Marketing*, 14(4), 5-25.

SMEDAN, (2012). *Survey report on micro, small and medium enterprises in Nigeria*. Nigerian Bureau of

statistics and small and medium enterprises development agency of Nigeria.

Slater, S. F., & Narver, J. C. (2000). The positive effect of a market orientation on business profitability: A

balanced replication. *Journal of Business Research*, 48, 69-73.

Suliyanto and Rahab. (2012). The role of market orientation and learning orientation in improving

innovativeness and performance of small and medium enterprises. *Asian social sciences*,

8 (1), 134-145.

Webster, R.L., Hammond, K.L., & Rothwell, J.C. (2014). Market orientation effects on business performance: Views from inside and outside the business school. *American Journal of Business*

Education, 7(1), 9-20.

Subramaniam, Ram., & Gopalakrishna, P. (2001). The market orientation - performance relationship in

the context of a developing economy. An empirical Analysis . *Journal of Business Research, 53, 1-13.*

Wei, Y.S., & Morgan, N.A. (2004). Supportiveness of organizational climate, market orientation, and

new product performance in Chinese firms. *The Journal of Product Innovation Management, 21, 375-388.*

Wilson, G.A., Perepkin, J., Zhang, D.D., & Vachon, M. (2014). Market orientation, alliance orientation,

and the business performance in the biotechnology in industry. *Journal of Commercial Biotechnology, 20(2), 32-40.*

Zikmund, W.G., Barry, J.B., Jon, C., & Griffin, C.M.G. (2013). *Business Research Method* (8th ed.)