EFFECT OF MARKET ORIENTATION ON SMALL BUSINESS PERORMANCE IN SMALL TOWN IN MALAYSIA: AN EMPRICAL STUDY ON MALAYSIAN SMALL FIRMS

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Abstract:
Most research on market orientation, and performance was related to big firms. In this study, based on the theoretical framework, a model was developed to investigate the effect of market orientation on business performance in small firms. To test the relationships among the variables, data from 53 small firms in the small town of Chunglun at Sintok, Kedah was used. The findings show that the three components of market orientation are related positive to business performance of small firms. The further analysis also confirmed that customer orientation and competitor orientation are strong predictors of small firm performance. The findings of this study confirm that market orientation behavior also applies to small firms.

Keywords: market orientation, Malaysia, small firms, performance

Introduction

Small and medium sized business is a major contributor to Malaysian economy. For a very long time, SMEs sector accounted for a large portion of the total number of business in the Malaysian economy. THE small and medium Industries Development Corp (Simdec) mentioned that , small business is considered as a sub sector of SMEs in Malaysia, along with micro size enterprises operates in various industrial sectors and contributes not only in greater production but also in employment and provides self employment opportunities (as cited in Hashim, 2004).

National SME Development council Malaysia proposed the new definition to distinguish SME sector from large sector. SME in Malaysia is redefined into three broad categories based on different industries. The newly revised definition of SMEs offered by the National SME council and according to this definition SMEs is categorized as Micro, small and medium size enterprises. In this study small business from SME sector is on focus which operate with 5 to 50 full time employee and annual sales turnover of around RM200, 000-less than 10 million. (Hashim, 2000).

Since small business play an important role in Malaysian economy, it is therefore crucial to develop an understanding of why organizations are successful and why they fail in Malaysian business context.

The ultimate factor of small business success is when customers purchase goods and services at profitable terms. However this can only be done if small businesses develop a greater relationship with their customers to retain customers by providing value to the customer and satisfaction through their products and services. These relationships will certainly produce the life giving and sustain “cash flow”, which is a requirement for every healthy business. But how does a small business create relationship that will add value to the customer and profits to the bottom line? What business philosophies and concept are most important to long term success for the small business? These questions are crucial to answers for small business owners to better understand their business and the market they serve.

Small businesses, like their larger counterparts, are also guided by some philosophies of what the company is and what it should do to make profits. One such philosophy, the marketing concept, is an operational approach that provides an overall perspective to all members of the organization. Kotler (1994) states that the marketing concepts rest on four pillars, namely, target market, customer needs, coordinated marketing and profitability (p.18). This view of the marketing concept is the foundation of the conceptual model of market orientation used by Narver and Slater. (1990).

Do the adoption of marketing concept and the presence of marketing orientation improve firm performance? As a follow up and the extension of the research by Kohli and Jaworski (1990, 1993), and Narver and Slater (1990, 1998). This query will be tested in the small business sector. Therefore in this study an investigation will be carried out to confirm the concept of market orientation and its impact on small business performance. The construct of market orientation is adopted from the seminal work of Narver and Slater (1990).

Conceptual framework

Marketing academicians and practitioners have observed more than three decades that business performance is affected by market orientation (Narver & Slater, 1990). Only recently, though, have researchers constructed a theory of the antecedents and consequences of market orientation, developed a valid measure of the construct and tested its effect on business performance (Slater and Narver, 1994). However a gap in the literature is created by the omission of empirical testing of each theory using small business samples.

Since Narver and Slater (1990) reported a positive relationship between firm performance and market orientation practice in large firms, with this prospect, it is postulated that the market orientation construct is applicable in empirical study of small business. Accordingly the questions that guide this research investigation follow:

1. Are there any relationships between the three dimensions of market orientation and small firm performance
2. Which dimension of market orientation is the strongest predictor of performance in small firms?

The consequences of a market orientation in the organizations received insignificant empirical treatment until Kohali and Jaworski (1990) reignited the concept and proposed a theoretical foundation of the concept and after that Narvar and Slater (1990) made an attempt to validate a measure of market orientation and analyzed its effect on firm performance. Although these later contribution are of primary importance, the marketing concept will be discussed first. The studies of market orientation and its relation to firm performance will be reviewed to build the theoretical foundation for this study.

Marketing Concept

Marketing concept has been widely considered and argued as the consequences of the implementation of marketing philosophy. This marketing philosophy development has been traced far back in 1954, when the very first time Drucker (1954) spoke about the concept. Some other early studies contributing to this concept of marketing were those of Mckitterick (1957) and Levitt (1960).

Many researchers had provided a great deal of insight into the concept of marketing over course of due time and were able to define it , for example

Houston (1986) who defined it as an expression that organization appreciates the importance of the consumers in buying and selling process.

McNamara (1972) defined marketing concept as “a philosophy of business management based upon a firm-wide acceptance of the need for customer orientation, profit orientation, and recognized the important role of marketing in communicating the needs of the market to all major corporate departments”.

Marketing concept was first introduced in business practices in the United States in the early 1950s, and this concept has long been recognized as a backbone of modern marketing discipline (Barksdale & Darden, 1971; Jaworski & Kohli, 1993). The marketing concept and the related concept of market orientation have been important components of marketing academic and practice for several decades (Arndt, 1985; Barksdale & Darden, 1971; Day, 1992; Hise, 1965; Houston, 1986; Jaworski & Kohli, 1993; Kohli, Jaworski, & Kumar,1993; Lawton & Parasuraman, 1980; McNamara, 1972; Narver & Slater, 1990; Siguaw, Brown & Widing, 1994; Siguaw, Simpson & Baker, 1998; Slater & Narver, 1994). Due to the fundamental importance attributed to these concepts, numerous research projects have attempted to define them and explore their application and implementation in the business. This indicates that researchers in the past as well as contemporary researchers in strategic management and marketing gave importance to this concept and the implementation of the concept of marketing for the firm to better perform under competitive environment.

Over the course of time, the marketing concept evolved to reflect a philosophy of doing business that can be considered the fundamentals of a successful organization's culture (Baker, Black, & Hart, 1994; Houston, 1986; Hunt & Morgan, 1995; Lusch & Laczniak, 1987; Peterson, 1989; Slater & Narver, 1995; Wong & Saunders, 1993). While much of the research on the marketing concept has been developed in the US in large firms, only in the 1990s was the importance of this concept been addressed in other countries (Elliot, 1990; Ennew, Filatotchev, Wright & Buck, 1993; Hooley, Lynch & Shepherd, 1990; Manzano, Ku¨ster & Vila, 2005).

Kotler’s (1980) popular text, “Marketing Management” has certainly played an important role to describe the most widely accepted view of marketing philosophy and guidance for implementation of the concept. Here, Kotler states that the marketing concepts rest on four pillars, namely; target market, customer needs, coordinated marketing and profitability. This view of the marketing concept is the foundation of the conceptual model of market orientation used by Narver and Slater (1990).

Market Orientation and firm performance

Most studies have been devoted to examine the relationship of market orientation to business performance in large business; however a growing number of researches have begun to identify the implementation of marketing concept in small and medium size enterprises (Hogarth-Scott et al., 1996).

Jaworski & Kohli, (1993) argued that a market orientation may have a strong effect on business performance or a weak effect business performance, depending on environmental conditions such as market turbulence and competitive intensity.

In response to Jaworski & Kohli, (1993), Slater and Narver (1994) found “a market orientation appears to provide a unifying focus for the efforts and projects of individuals and departments within the organization, thereby leading to superior performance.

Narver and Slater (1990) reported on the result of a panel data analysis, investigating the effect of market orientation on two measures of business performance: sales growth and return on investment (ROI). In addition to providing insights into the relationship between market orientation and business performance, their study examined the effectiveness of panel data analysis in evaluating the relationship. In theory, market orientation should affect both ROI and sales growth. This contribution of Narver and Slater (1990) suggests that a measure of market orientation tap behaviors in businesses that have greater impact on sales growth than ROI. The finding therefore indicates the positive effect of market orientation on sales growth will increase profits as long as ROI is greater than the cost of the capital.

Most of the previous studies of market orientation and firm performance has been reported the positive relationship between these two construct in large organizations (Narver and Slater, 1990, Narver, Slater,. & Tietje, 998; Jawarski an Kohli, 1993, Balakrsshan, 1996).

However a few studies have been conducted to assess the influences of market orientation on small firms. Pelham (2000) studied the effect of market orientation on firm performance in small and medium size firms (SMEs). He reported that the market orientation was positively related to the growth/share, marketing/sales effectiveness, and gross profit in small and medium size manufacturing firms. Pelham (2000) argued that market orientation provided small firms with more competitive advantages when compared with large firms.

Market Orientation

Kohli and Jaworsky (1990) reignited the concept of market orientation, and the behaviors that implement the marketing concept. They provide a theoretical foundation for the expectations that this orientation should lead to higher performance. Many authors provided definitions for marketing orientation as an organizational culture that most effectively creates the necessary behaviors for the creation of superior value for consumers (customers and buyers), and thus the continuous performance of the business (Deshpande, Farley & Webster, 1993; Kohli & Jaworski, 1990; Narver & Slater, 1990; Kotler, 1980). Narver & Slater (1990) further described market orientation as consisting of three behavioral components; customer orientation, competitor orientation and inter-functional coordination. Customer orientation refers to an understanding in the target customers and their need, thus enabling to create value for the customers, while competitor orientation emphasizes a need to know about the competitors' both potential and existing move and strategy, and their performance in the market. Lastly, the inter-functional coordination refers to the strategic use of the organization resources among all the functional areas in response to the customer information and sharing the information of customers and other factors influencing customers' satisfaction. A study by Narver and Slater (1990) also found a positive direct relationship between market orientation and sales growth. This confirms the theory of market orientation that relates to the firm performance.

Firm Performance

Due to the growing concern of the firms commercialization which focuses mainly on how firm performing in terms of over all profitability, a firm achieve is crucial for business success. Therefore measuring and analyzing performance has become an important research factor to the study (Dess & Robbinson, 1984). A number of studies employed profitability as the measure of firm performance especially in those dealing with market oriented firms because of the long term focus on profit (Han, Namwoon, & Srivastava, 1998; Narver & Slater, 1990; Pelham & Wilson, 1996; Salavou , 2002; Slater & Narver, 1994). Most of the studies on SMEs also examined profitability for financial performance such as return on asset and sales growth (Cragg & King, 1998). Narver and Slater (1990) also examined the effect of market orientation on performance using both financial and non financial measure, and interestingly they found a positive relationship of customer orientation with sales growth.

In this study, an approach using a self-reported subjective measure for financial performance is adopted because it is difficult to obtain the objective data from the small firms. Subjective measures are widely used and accepted in this type of study (Pelham & Wilson, 1996).

Small business: In this context Small business definition has been adopted in viewing from the Malaysian perspective given by SIMDEC for the analysis, and defined as small firm's employee between 5-50 full time employee and annual sales turn over ranges of RM 200,000- less than RM 10 million.

Since the SMEDIC provided both quantitative and qualitative factors while defining SMEs. In this study a one main criterion, quantitative, i.e. the number of employees as the basis for defining small business sector in Malaysia is adopted.

Research Model

The theoretical/conceptual framework identifies the four main variables which will be used to develop the basic model of relationship between market orientation, and firm performance and can be represented in figure 1.

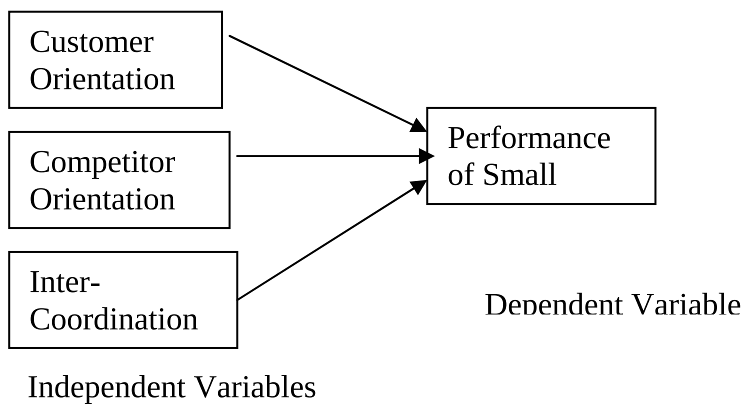

Figure 1. Research Model

Where firm performance is dependent variable is composed of three variables ROI, sales growth rate and rate of customer retention are influenced or associated by three independent variables of customer orientation, competitor orientation and interfunctional coordination .

Hypothesis development

After careful consideration of all independent and dependent variables in the research model of the study. The following hypothesis is developed to test for the empirical finding.

The hypothesis for this study addresses the relationship between three variables of market orientation and the small firm performance.

The fundamental hypotheses for this study are as follows on the basis of the variables identified in the research model (Figure 1):

Hypothesis one: There is significant association between the three components of market orientation (customer orientation, competitor orientation, Interfunctional Coordination) and small firm performance.

Hypothesis Two: The three Components of market orientation (customer orientation, competitor orientation and interfunctional coordination) are significant predictor of the firm performance.

Data was collected through a field survey method and questionnaire were self administrated, to the owner /mangers of small firms operating in the area of small town in Chunglun at Sintok and also small businesses operating in UUM shopping mall.

The total 67 small firms were visited and 53 completed questionnaires were received based on the selected criteria of the firm size.

The items in the questionnaire were developed and adapted from the following; market orientation (14 items) from Narver and Slater (1990), and firm performance (3 items) from related literature. The Cronbach 's Coefficient Alpha for the items are all above the acceptable level of 0.6 for this type of study (Nunnally, 1978).

Research methods

Table 1

Items	No.	Cronbach's Alpha Scores
Customer orientation	6	0.88
Competitor orientation	4	0.78
Inter-functional coordination	4	0.81
Performance	3	0.72

The original 14 items of market orientation were divided into three components (Narver & Slater, 1990) where six original items for customer orientation and four original items each for competitor orientation and interfunctional coordination were used in this study. The items were rated on a five –point Likert type scale ranging from strongly agree (5) to significantly disagree (1).and computed an average summated for these variables for the data analysis purpose.

This study also employed subjective measures of firm performance and self reported questions for sales growth rate, self reported return on investment (ROI) and also customer retention were asked by the respondent with compare of their competitors. The questions were rated on a five –point Likert type scale ranging from significantly higher (5) to significantly lower (1). Average summated method were used for these variables for data analysis purpose

Data analysis and results

Firms and Respondent's Profile

The overall profile of the participating employees and the firms are presented in Table 1.

Table 1

Respondent's and Firms's Profile

Variable (s)	Frequency	Percentage
Gender		
Male	28	52.8
Female	25	47.2
Age		
18-22	11	20.8
23-26	8	15.1
27-30	6	11.3
31-35	9	17.0
46-55	17	32.1
56 and Above	2	3.8
Race		
Malay	29	54.7
Indian	13	24.5
Chinese	11	20.8
Highest Qualification		
Certificate/SPM	**31**	**58**
Diploma	10	18.9
Bachelor Degree	10	18.9
Master Degree	2	3.8
Category of Firms		
Mobile/cards etc	8	15.1
Computers h/w	3	5.7
Fast-food/Restaurant	11	20.8
Electronics/Home appliances	6	11.3
Book/Stationary	2	3.8
Grocery stores/Multi-purpose	17	32.1
Car/bikes repair	6	11.3
Legal Form		
Sole proprietorship	35	66.0
Partnership	11	20.8
Private limited	7	13.2
Number of Owners		
One	42	79.2
Two	9	17.0
Three	2	3.8
No. Of Employees		
1-3	30	56.6
4-5	3	5.7
6-10	19	35.8
11-20	1	1.9

Hypothesis one: There is significant association between the three components of market orientation (customer orientation, competitor orientation, Interfunctional Coordination) and small firm performance.

The Pearson correlation statistics (see Table 2) were obtained for the four interval- scaled variables. The correlation statistics indicates that the firm performance in the small firms is positively correlated with the three independent variables of market orientation, customer orientation, competitor orientation and interfunctional coordination at significance level ($p < 0.001$). The correlation (r) values also indicated that the association among the variables are certainly positively correlated as expected and strength of association is vary from moderate association to high association, which also further confirmed the assumption that the firm performance would have positive relation with the market orientation. The positive association of independent variables (customer orientation, competitor orientation and interfunctional coordination) with firm over all performance in small firms confirmed that if small firms are market oriented the chances are that the overall performance will be high or greater as proven in most of the SMEs and large organization in previous studies.

Table 2

Correlation between Market Orientation and Performance

	SALES GROWTH	ROI	CUSTOMER RETAINTION	Over all Performance
Customer Orientation	.706**	.459**	.451**	.678**
Competitor Orientation	.670**	.574**	.481**	.722**
Interfunctional Coordination	.552**	.521**	.484**	.648**

The correlation findings also confirm the high positive correlation of customer orientation and competitor orientation with sales growth ($r = .706$, $r =.670$ respectively) but relatively positive but moderate association with ROI and customer retention. Similarly interfunctional coordination also positively correlated with sales growth, ROI and customer retention at moderate extent. Therefore based on the correlation findings, hypotheses one is supported. The findings further confirmed the results of Narver and Slater (1990), where market orientation behavior was found to be highly associated with sales growth.

Hypothesis Two: The three factors of market orientation (customer orientation, competitor orientation and interfunctional coordination) are significant predictor of firm performance.

To test the hypothesis two a stepwise method for regression analysis was adopted for the regression model to estimate the variance explained onto overall firm performance (PERFORMANCE) by three components of market orientation. The three components of market orientation (customer orientation, competitor orientation and interfunctional coordination) were included in the regression model, to calculate the effects of variance caused on the overall firm performance by these three variables. First the multiple regression analysis was employed to test the overall effect of the three market orientation component (customer orientation, competitor orientation and interfunctional coordination (independent variable) on overall performance (dependent variable). The results are shown in Table 3 below:

Table 3

Overall Influence of Market Orientation on Performance in Small Firms

R	R Square	Adjusted R Square	Std. Error of the Estimates	F	Sig.F
.777	.604	.580	.49160	24.912	.000

The result from Table 3 indicates that the multiple regression coefficients (R) of three market orientation factors and the overall performance in small firms is .777 and the adjusted R square is .581. The value of F is 24.912 (P<0.05). Therefore, from the regression analysis findings it indicates that 58 percent of the variance (adjusted R Square) of firm performance has been significantly explained by the three factors of market orientation; customer orientation, competitor orientation and interfunctional coordination. Thus, the results in this study support the alternative hypothesis that three factors of market orientation significantly influence the firm overall performance in small firms.

However in the regression analysis beta values of each independent variable signifies the contribution and influence on the form performance and the results are shown in Table 4 below:

Table 4

Influence of each Market Orientation factor on Performance

Variables	Std. error	Std. beta	t	Sig. t
Customer Orientation	.154	.265	1.99	.053
Competitor Orientation	.175	.371	2.60	.012
Interfunctional Coordination	.154	.240	1.93	.059

From the result presented in table 4, Competitor orientation appeared as the only strongest explanatory variable with standardized beta value of .371. However customer orientation with standardized beta value of .265 with t value of 1.99 (sig. p =.053) may be able to influence some variance of the firm performance therefore should considered to be included in the model for further analysis. Interfunctional coordination did not significantly effect on the firm's performance in the regression equation. A further analysis was performed to examine how customer orientation and competitor orientation individually and jointly contributed to R Square value or the total explanatory power of the regression model. The result of regression analysis is shown in Table 5, for the overall effect of the customer orientation and competitor orientation.

Table 5

The overall influence (effect) of customer orientation and competitor orientation on Performance

R	R Square	Adjusted R Square	Std. Error of the Estimates	F	Sig.F
.758	.574	.557	.50487	18.230	.000

The results of the stepwise multiple regression analysis indicates that multiple regression coefficients (R) of customer orientation and competitor orientation on the firm performance is .758 and the adjusted R square is .557 Therefore, the findings confirmed and suggested that the overall 55.7 percent of the variance (adjusted R square) in performance has been significantly explained by two factors of market orientation on performance in small firms.

Table 6

Influence of each variable on Performance in Textile SMEs

Variables	Adjusted R Square	∆ R Square	Beta	Sig.t
Competitor Orientation	.512		.486	.001
Customer Orientation	.557	.052	.328	.017

The result of stepwise multiple regression analysis in Table 6 indicates that competitor orientation has the highest standardized beta value (.486) and contributed 51.7 percent (adjusted R square = .512) to the variance of firm performance. Customer orientation had also caused a significant influence on the performance with the standardized beta value of .328 and contributed approximately 5.2 percent (R Square change = .052) to the variance of small firm's performance.

The result of this hypothesis (See Table 6) further implies that competitor orientation with the greater beta value of (.486) is one of the strongest predictor of small firm performance, and therefore competitor orientation influenced largely to small firm performance. Customer orientation also appeared to be significantly affecting the performance in small firms. This implies that in small firms customer orientation and competitor orientation are crucial for performance. Therefore the results of this hypothesis indicate that hypotheses two failed to be rejected and therefore it is supported.

The following variables are the significant predictor variables for firm's strategy innovation.

Table 7

Predictor variables	Beta	*p*
Competitor Orientation	.486	0.001
Customer Orientation	.328	0.017
Adjusted R Square = .557 and F= 18.23 , p< 005		

Note: The VIF values of all three independent variables for multicollinearity analysis were found at below 3, indicating not enough to cause problem in regression model.

Discussion and conclusion

The findings of the hypothesis support that market orientation is an important determinant of small business success. Therefore any business viability in the long run certainly requires a responsive approach to customer changes in terms of their preferences in consumption and also competition that emerged in the market place by competitors. For small or even micro firms it is crucial to increase its market orientation by engaging in developing capabilities which could effectively be used to satisfy the ever changing customer wants and needs. To create superior value for customers, the business must create value for itself. For this, not only leadership but all employees in the small sector must play a significant role to promote the market orientation behavior throughout the firm. The owner/manager's attitude is the key driving force to support and appreciate this behavior, not only for a greater level of market orientation but also support innovative strategies that the firm can adopt to respond to the changing customers' behavior as well as stand a head against their competitors.

Despite the fact that the market orientation has positive influence on the overall performance in small firms, it is certainly interesting to note that in this study, small firms are rather driven by competitor orientation than the customer orientation, this indicates that small firms are certainly constantly seeking information about their close competitors to ensure that what exactly their competitors are doing so they can make their strategies accordingly to outperform them.

However though interfunctional coordination is positively associated with the firm performance, unable to significantly affect the firm performance. This is a sign which indicates that interfunctional coordination in small firms, especially when firms are mainly run by few employees, is certainly not a very relative function. Customer orientation in this study did effect the over all small business performance however the extent is lesser than the competitor orientation therefore, it could be safely suggested that small firms are with no doubts are competitor as wells customer driven.

This study confirms the relationship between market orientation and firm performance of small firms in small town. While studies on market orientation and firm performance are in abundance, limited research has been conducted on this relationship especially on the small or micro firms. Thus, this study contributes to the literature by examining the relationship between market orientation and performance in small firms in small town in Malaysia.

Limitations and further research

The fundamental limitation in this study is the sample size, since the sample size for this study were of only 53 small firms, it is therefore important to note that despite the findings of this study is as expected to have positive effect of market orientation on firm performance in small business, a caution must be taken to generalize the results of this study.

The second limitation is associated with the survey method , as self administrated survey was carried out, and therefore quite a few occasions, the researcher helped respondent to make them understand of the questions asked, therefore a bias in generating response may be concern in this research.

The study did not address the effect of three market orientation factor on sale growth, customer retention and on return on investment (ROI) to examine which component of the market orientation does effect on each individual performance variables.

Therefore a further research should open the door for the new and may be advanced research study to address the issues mentioned above with more elaborative research design and methodology for this type of study in future.

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