

Market Orientation and Organizational Performance of Small and Medium Enterprises in Puttalam District

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Abstract

The aim of the study was to investigate the relationship of Marketing Orientation on Organizational Performance of Small and Medium Enterprises (SMEs) in Puttalam District. On one hand, the study identifies the components of market orientation related with Business performance and on the other hand the significant association between Market Orientation and SMEs' Business Performance. The study focused on three (3) dimensions related to market orientation and one dimension related to business performance. The selected sample for the study contained 110 owners from 110 SMEs in Puttalam district using convenient sampling method. The level of measuring variables was interval and the relevant statistical techniques for these measures were correlation and regression analyses. Data analysis was conducted by using Statistical Package for Social Sciences (SPSS). Four hypotheses were tested to assess the empirical relationships among variables. Looking at the overall association among the variables it was observed that there is a high positive correlation between the market orientation and business performance ($r = 0.931$). Subsequently, factors such as customer orientation, competitor orientation and inter-functional coordination were found to be significantly impact on business performance of SMEs. Finally, these findings may lead to making some recommendations to improve the current level of market orientation factors of owners in SMEs which might lead to an increase in their business performance. Therefore, this study attempts to bring a validated framework to inform a suitable market orientation factors for the SMEs.

Keywords: Business Performance, Market Orientation, SMEs

1. INTRODUCTION

Market orientation has become a center of attention of many authors for over 30 years (Parasuraman, 1983; Whyte, 1985; Greenley, Matcham, 1986; Naidu and Narayana, 1991). The importance of market orientation in affecting businesses profitability is well documented in marketing

literature (Narver & Slater, 1990; Ruekert, 1992; Ngai & Ellis, 1998). These works span from both developed (Harris, 2000; Perry & Shao, 2002; Elg, 2003; Green Jr. et al., 2005; Keskin, 2006; Sen, 2006; Ozer et al., 2006) and developing (Agarwal et al., 2003; Kuada & Buatsi, 2005; Dwairi et al., 2007) economies. The central argument of

the developed and developing countries' studies demonstrates the indispensable role that market orientation plays in an organization's marketing activities in achieving superior performance in its chosen markets.

In Sri Lanka SMEs plays a major role in economic growth. SMEs have been recognized as an important strategic sector in Sri Lanka for generating high economic growth, reducing unemployment, inequality and poverty (Ministry of Enterprise Development, 2002). Sri Lanka's economy is predominantly a Small and Medium Enterprise economy where over 50 % of GDP is produced by the SME sector. SMEs are found in all sub-sectors of the economy, with a large concentration in manufacturing, and a further concentration of the small ones with 5 – 10 workers. They are widely spread across urban, rural and estate sectors (International Labour Organization, 2002).

However, there is lack of enough empirical and conceptual studies of market orientation and business performance among SMEs in Sri Lankan Context specially in Puttalam District. Puttalam District is clearly a gateway to profitable investment, Because of attractive natural environment, climate, agriculture and plantation. Tourism attractiveness increased the no. of SMEs in North Western province. As well as the agriculture playing a crucial role in the development of the central region of Sri Lanka and presenting exciting opportunities for the entrepreneurs. This research attempts to measure the marketing knowledge in SME and its

relationship with the business performance. So, it's expected to explore the relationship of marketing orientation and improvement needs for future marketing success.

The aim of this paper is to examine and evaluate the degree of marketing orientation in businesses from SMEs in Puttalam District and to identify impact of marketing orientation on business performance.

2. LITERATURE REVIEW

Throughout the marketing literature, the adoption of the marketing concept is seen to be a foundation for successful performance. The marketing concept was formally introduced in the writings of McKitterick (1957), Felton (1959), and Keith (1960). It defines a distinct organizational culture that puts the customer in the center of the firm's thinking about strategy and operations (Deshpande, Farley and Frederick, 1993; Deshpande and Webster 1989). It can also be viewed as a philosophy of doing business or as a culture that permeates every aspect of an organization's operation (Houston, 1986; Wong and Saunders, 1993; Hunt and Morgan, 1995).

There has been increased interest in the market orientation construct in the past two decades. Following this development, many attempts have been made by researchers to appreciate its make-up resulting in the operationalization of its definition as a construct (Blankson et al., 2006). Most definitions developed were derived from the conceptualization of both Kohli and Jaworski (1990) or Narver and Slater (1990). According

to Kohli and Jaworski (1990), while the marketing concept is commonly defined as a philosophy or way of thinking that guides the allocation of resources and the formulation of strategies for an organization, market orientation is considered to be the activities involved in implementation of the marketing concept.

From the strategic marketing literature, market orientation involves the use of superior organizational skills in understanding and satisfying customers (Day, 1990). In essence, market orientation is derived from the application of marketing concept and it requires firms to monitor rapidly changing customer needs and wants, determine the impact of these changes on customer satisfaction, increase the rate of product innovation, and implement strategies that build the firms' competitive advantages.

Although performance can have a variety of meanings (short-term or long-term, financial or organizational benefits), it is broadly viewed from two perspectives in the previous literature. First, there is the subjective concept, which is primarily concerned with performance of firms relative to that of their competitors (Golden, 1992). The second method is the objective concept, which is based on absolute measures of performance (Chakravarthy, 1986; Cronin and Page, 1988). For this study, a subjective rather than an objective approach was used for the following two reasons. First, company information is usually classified as highly confidential. Respondents may be reluctant to provide hard financial data. Second, past studies have

reported a strong association between objective measures and subjective responses (Dawes, 1999; Jaworski and Kohli, 1993; Pearce, Robbins and Robinson, 1987; Robinson and Pearce, 1988; Venkatraman and Ramanujam, 1986). During the decade of the 1990s, a steady stream of research has focused on the impact of market orientation upon business performance. Indeed, market orientation has long been associated with higher result in terms of business profitability (Narver & Slater, 1990) as well as success in the market place (Jaworski & Kohli, 1993). Other studies have shown that marketoriented organizations are likely to experience improved levels of employee satisfaction, esprit de corps and organizational commitment (Ruekert, 1992; Jaworski & Kohli, 1993).

However, mixed findings were found. Deng and Dart (1994), reported a positive link between market orientation and performance, while Diamantopoulos and Hart (1993) identified a weak association between market orientation and performance, and Bhuian (1997) found no link between market orientation and performance for Saudi Arabian banks.

Given the contradictory findings among the previous literature, many researchers have echoed the call for a need to assess the hypothesized impact of market orientation on business performance (Appiah-Adu, 1997; Bhuian, 1997; Kohli et al., 1993). In this study, the market orientation of SMEs in Sri Lanka is examined.

3. METHODS

The study applied the quantitative design utilizing the questionnaire for data collection.

3.1 Conceptual Framework

Following figure 1 illustrates the conceptual framework of the study.

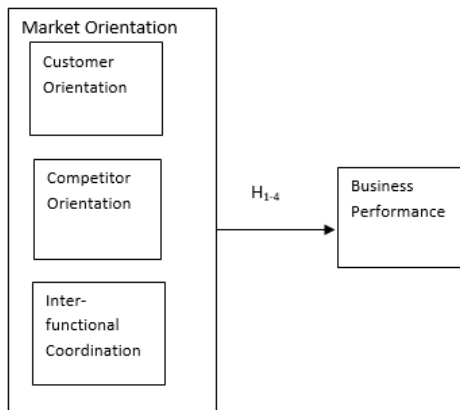


Figure 1. Conceptual Framework

3.2 Hypotheses

H₁: Customer Orientation significantly relates with Business Performance

H₂: Competitor Orientation significantly relates with Business Performance

H₃: Inter functional Coordination significantly relates with Business Performance

H₄: Market Orientation significantly impact on Business Performance

3.3 Population and Sampling

The study targeted a population of owners of all the SMEs in Puttalam District.

According to Creswell (2009); Creswell and Plano Clark (2017) followed by the cross-sectional survey, distribution of the questionnaire was conducted and yielded 110 responses from the potential respondents. According to Green (1991), the minimum sample size for a population of 107 ($n \geq 50 + (8 * m)$). Thereby, the sample obtained within this study was an adequate representation of the total population.

3.4 Measurements of Research Constructs

The market orientation construct was measured by the market orientation scale developed by Narver and Slater (1990). The instrument consisted of three subscales used to measure customer orientation, competitor orientation and inter-functional coordination. This instrument has received widespread support in the literature for its reliability and validity (Chan and Ellis, 1998; Greenley, 1995; Slater and Narver, 1994; Van Egeren and O'Connor, 1988). To measure market orientation with Narver and Slater's scale, a 5-point scoring format (1 = strongly disagree; 5 = strongly agree) was employed for all 13 items.

To measure business performance, each respondent in this study was asked to evaluate his/her company's current business performance relative

to its major competitors with respect to the following four items: (1) sales growth, (2) customer retention, (3) ROI, and (4) market share. Responses were made on a 5-point scale ranging from “Strongly Agree” to “Strongly Disagree”.

Methods of Data Collection

Questionnaires were an efficient data collection mechanism when the researcher knew exactly what is required and how to measure the variables of interest. Questionnaires can be administered personal, mailed to the respondents or electronically distributed (Sekaran, 2006). This study is made use of a closed-ended questionnaire to collect data from selected owners of SMEs who are from Puttalam District.

The resulting data obtained from the respondents were entered into SPSS software version 21 and Correlation and regression analysis were used.

4. RESULTS

4.1 Respondent Profile

The profile of the respondents and their companies is shown in Table 1.

Table1. Respondent Profile Analysis

Profile	Frequency	Percentage
Gender		
Male	58	57%
Female	42	43%
Age		
17-21	13	12%
22-26	26	24%
27-30	20	18%
31-35	33	30%
36-50	13	12%
>50	5	5%

Form of Enterprise		
Sole proprietorship	61	55%
Partnership		
Private Limited	39	35%
	10	10%
Category of the Firm		
Mobile/Carts		8%
Computers		12%
FastFood/Rest		18%
Veg.Flowers deli		24%
Book/Stationary		15%
Grocery/Stores		10%
Car/Bike repair		8%
Electronic/Homeapp		9%
Other		6%

Source Survey 2018

4.2 Construct Validity and Reliability

In determining the internal consistency of constructs in the model, Cronbach’s alpha and KMO and Bartlett’s test were used in line with recommendations from Hair et al. (2017) and Kline (2015). Table 2 shows the results on the internal consistency measures of the reflective model.

Table 2. Validity and Reliability Analysis

Constructs	Cronbac h Alpha	KMO value	Bartlett’s Test
Customer Orientation	0.803	0.848	.000
Competitor Orientation	0.703	0.834	.000
Inter functional Coordination	0.747	0.827	.000
Business Performance	0.947	0.831	.000

Source Survey 2018

The values obtained from Cronbach’s for the reflective model shows that the model achieved reliability standards as the value of Cronbach’s Alpha

greater than 0.7 is considered reliable (Nunnally, 1978). According to the factor analysis results (Table 2), values for the KMO test were above 0.5 and all the values for Bartlett’s test indicated below 0.05 which is confirmed the validity requirements of the data set. The KMO test was used to verify the sampling adequacy for the analysis.

4.3 Correlation Analysis

Correlations between the constructs are as follows. The objective of the correlation analysis is to measure the degree to which two constructs are related.

Table 3. Correlations Analysis

Relationship	P-Value	Pearson Correlation	Correlation
Customer Orientation and Business Performance	0.00	.915	High positive
Competitor Orientation and Business Performance	0.00	.835	High positive
Inter functional Coordination and Business Performance	0.00	.904	High positive
Market Orientation and Business Performance	0.00	.931	High positive

** Correlation is significant at the 0.01 level (2-tailed).
Source Survey 2018

Results reported in Table 3 show that correlations among the three components of market orientation and Business Performance which is ranged from .835 to .931, and all correlations were statistically significant at $p < .05$. Each of the components were highly

correlated (.8 and above) with the Business Performance.

Hypothesis were tested based on the Pearson Correlation coefficient(r) and table 3 shows the results relating to different relationships between constructs. Accordingly, all the four hypotheses are accepted.

4.4 Regression Analysis

Further, researcher conducted a regression analysis to identify the overall impact level of Market Orientation on the Business Performance. The R^2 indicates that 86.7% of the variation in Business Performance is significantly explained by variation in overall Market Orientation. R square indicates that there was somewhat high degree of fit with the regression model. The F value is 700.992 ($p=0.000$) that is significant at 0.000, which suggest that the Market Orientation has significantly explained of the variation in the Business Performance. As indicated by table 4, considering to this results Market orientation had strong significant ($p=0.000$) and positive impact on the business performance with a standardized Beta of 0.931.

Table 4. Regression Analysis

Relationship	P-Value	Standard Coefficient	Results
Market Orientation and Business Performance	0.00	.931	High positive

Source Survey 2018

5. DISCUSSION AND CONCLUSION

On the basis of results obtained by evaluation of the conducted research on the sample of companies engaged are confirmed the existence of relationship between marketing orientation and performance of company. Existence of this relationship is proven decades by results of various international researches implemented in different countries around the world, on companies of different sizes operating in different sectors of economy. These researches are mainly focused on examination of relationship of marketing orientation and performance of companies. Methodology of the research is mainly based on the methodology of original authors, while we deliver new perspective due to chosen sample of companies and a new country context. The high positive relationship of marketing orientation with business performance indicators were confirmed. This result is consistent with some previous research (Peters and Austin, 1985; Peters and Waterman, 1982). In specific terms, the results suggest that the existence of strong customer focus leads to an even greater relationship between and performance of sampled SMEs ($r=0.915$). Similarly, stronger market turbulence in the SMEs sector generates stronger relationship between market orientation and performance of SMEs ($r=0.931$).

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.

Policy makers should consider organizing seasonal courses and training to owners and manager of small businesses on the use of marketing strategies in gaining competitive advantage. 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. Market orientation has positive influence on the overall performance in SMEs, it is certainly interesting to note that in this study, SMEs 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.

It is also demonstrating that if Puttalam district SMEs are successful

in business performance, marketing orientation should be followed, further studies should be carried out on marketing capabilities of these small business in the Puttalam district in order to find marketing inabilities and educate management of these firms on how to be market oriented in the particular industry.

This study investigating the relationship between market orientation and business performance of SMEs in Sri Lanka with special references to Puttalam District. In overall, these firms should attempt to follow market orientation to increase their business performance.

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