

Market Orientation and Organizational Performance: Case of Pakistani SMEs

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Abstract

The purpose of this study is to examine the relationship between market orientation and its three dimensions with firm performance. The study employed a cross sectional research design, using a structured questionnaire survey with a sample of 367 SMEs fully operational in Pakistan. A total of 213 valid questionnaires were completed and returned representing 58 per cent response rate. The results indicate that market orientation as a construct has a significant relationship and influence on performance of SMEs. Multiple regression results indicate that all the three dimensions of market orientation have significant influence on performance. The study will benefit SME managers, business practitioners and government at various levels and will also serve as a frame of reference for future studies. Future recommendations are also provided for researchers.

Keywords: Market orientation; SME; Pakistan; Performance

Introduction

The economic scenario of every country is directly affected by the prevailing concept of market globalization. With the liberalisation of trade and technological advancements, there have emerged new challenges as well as new competitions in both local and international markets. Despite the presence of large organisations with their technological advancements, SMEs continue to play their vital role in the national economic development. In Latin America, Asia and Europe these SMEs represent more than 90 per cent of the total number of firms, with employment of approximately around 70 percent and contribution of about 60 percent to GDP [1]. These SMEs are not only important for the economic development of a state but political as well as social development of a nation by participating in the development of networks of associations within and among firms and other institutions [2]. By involving greater number of people these SMEs help people take up economic responsibilities and value their own competencies more which are needed for an efficient and effective society [3]. SMEs have a crucial role to play in terms of employment generation, distribution of economic resources, growth of exports and development of entrepreneurship as has been witnessed in newly industrialized countries in Asia [4].

In Pakistan, unfortunately there exists no single definition of small and medium enterprises [5,6]. Various government agencies like State Bank of Pakistan (SBP), Federal Bureau of Statistics (FBS), Labor department etc. use their own definition. Absence of a single SME definition makes it difficult to identify target firms, align development programs, collect data and monitor progress [7]. According to the SME Policy 2007, Small and Medium Enterprises are defined in terms of employment size, paid up capital and annual sales. According to the policy, SME is one that has employment up to 250 persons with a paid up capital of up to Rs. 25 million and with annual sales of up to Rs. 250 million. The researcher has used the definition offered by SMEDA [7] in the present study.

Small and medium enterprises are considered as an important component of economy in majority of the developing countries and are true for developing country like Pakistan as well. In Pakistan SME sector is less formally organized as compared to many developing countries

and the economic environment also hinders competitive growth of the sector [8,9]. According to SMEDA [7], Pakistan's economy is largely SME driven economy. SMEs represent almost 90 percent of all the enterprises, employing nearly 80 percent of the non-agricultural labour force and sharing 40 percent of the GDP towards Pakistan's economy [10]. There are approximately 3.2 million enterprises in Pakistan, of which about 3 millions are SMEs and 90% of the whole are employing 99 persons. However the contribution of SMEs to gross domestic product (GDP) is only 30 percent, which is relatively insignificant. It appears that SMEs are not major contributors to the economic output though they represent 93 percent of the total businesses [9,11,12]. This is despite various government policies and support programs aimed to stimulate the growth and enhance competitiveness of the SMEs, but, the government alone cannot succeed in its efforts to make this sector healthy and competitive. In this regard, institutions and other concerned agencies and departments engaged in small business planning and execution emphasized the role of public private partnerships to engage in the development of this important sector especially but not limited to research and development to help entrepreneurs in management of their businesses [13].

Research on SMEs in Pakistan is at initial stages and that is why the health of SMEs is at their alarming stage. Furthermore, SMEs are facing the challenge of survival in competitive environment and are hesitant to enter international markets [11]. There could be many causes behind the dismal performance of the SMEs in Pakistan. Researchers have analysed these factors in the studies. For example, Syed et al. [14] contend that SMEs in Pakistan face shortage of skilled workforce to implement the concept of performance management system due to

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which these SMEs are less competitive and efficient. Ullah et al. [15] pointed out that lack of education, training and entrepreneurial skills are the reasons for the dismal situation in SMEs. Majority of SMEs are suffering from barriers from global sourcing, low productivity, lack of managerial capabilities, lack of financing, difficulty in accessing technology and heavy regulatory burden [16-18]. It is not an easy task to achieve in an economy where traditional and informal management practices are still applied and where the Seths (proprietors of business) dictates the organisational culture, values, and policies for running the enterprise. Their main emphasis is on the family connection, identity, personal performance and loyalty unlike multinationals in Pakistan that believe in open competitive policy of employment [19].

Less attention has been paid to research on firms' internal capabilities in Pakistan that can enhance performance of the firms operating in tough competitive environment [6,8,20]. In Pakistan, the main focus of research has been large organizations [21,22]. SME sector has been ignored and there is a need for extensive research on this sector [23]. With respect to Pakistani SMEs, there is always a gap for further improvement that can only be filled by intensive research by scholars and entrepreneurs to support the business activities so that the economy can grow up [24].

It is acknowledged that strong, dynamic and efficient SMEs would play a key role in creating competitive advantage and ensuring sustainable economic development [25]. Being key drivers to economic growth, there is a need to study the behaviour of SMEs in order to provide insight on ways to enhance competitiveness and improve performance. Formulating effective strategies is important for organizations operating in intense competitive environment. These strategies enable them to chase, accomplish, and sustain the competitive advantage.

Problem statement

Several studies have been conducted in relation to market orientation and SME performance. Among the studies that reported a significant positive relationship between market orientation and performance includes [26-37] a meta-analysis providing a positive, significant, and robust link [38]. However, few studies reported no significant effect of market orientation on overall business performance include [39-44].

The above studies indicate inconsistent result, hence, there is a need for further study, due to inconclusive findings. Jabeen et al., [45] has suggested that SMEs should adopt market orientation concept in developing economies to cope with the challenges of changing business environment. Suliyanto and Rahab [46] recommended a further study on market orientation and performance, because, investigation on market orientation is still insufficient and ignored, and also its implementation suffers from some gaps in the developing economies like Asian and African [47].

Literature Review

Organizational performance

According to Alchian and Demsetz [48] firm performance is the comparison of the value which a firm creates with the value an owner expects to receive from the firm. The previous researchers have used various concepts for measuring organisational performance. They measured performance in terms of operating efficiencies [29], profitability [49], financial returns [50], presence in international market [51], export share [52], innovation [53], and new product development [54]. The differences in the nature of businesses and

ways of earning profits made it difficult to rely on a single indicator of firm performance. There should be multiple indicators for measuring organisational performance. The measurement of organisational performance is affected by the environment, objectives and strategies for accomplishing the objectives. A unanimous factor cannot be used as a measure of performance for all types of organization [55]. The study of Kirca et al. [38] identified four types of performance outcomes of market orientation that are organisational (financial) performance, customer related outcomes (customer satisfaction), innovative outcomes (innovation) and employee related outcomes (employee satisfaction). The current study is confined to non-financial performance of the organisations that are customer satisfaction, employees' satisfaction, innovation, service quality and growth.

Market orientation

The extensive discussion on the market orientation as a means to operationalize the marketing concept was started after the study of Kohli and Jaworski [56]. The marketing concept implies that the long term benefits can be obtained through timely identification and satisfaction of the consumers' needs. Market orientation is a means to ensure this identification and satisfaction of needs on time [57]. Narver and Slater [49] define market orientation as "the organisational culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus, continuous superior performance for the business". The present study follows the views of the Narver and Slater [49] that take three dimensions of the market orientation i.e. customer orientation, competitor orientation and inter-functional coordination.

Customer orientation implies that an organisation should develop a corporate culture based on the customer driven strategies. Customer orientation is comprised of a set of beliefs that the customer should be given priority in the organisation [58]. Also, all the strategies should be developed in such a way that they deliver superior value to customers. It refers to the sufficient understanding of one's target buyers [49]. This understanding enables the organisation to create superior value for its customers [59]. According to Dawes [60] competitor orientation is the strongest dimension of market orientation affecting the organisational performance. It refers to the understanding of short term strengths and weakness and long term capabilities and strategies of both the key current and potential competitors [49,59,61,62]. Organisations understand the strengths and weakness of their competitors in the market through competitor orientation and continuously monitor the behaviour of the competitors and their strategies in response to the changing needs of the customers [49]. Firms can better position their products if they have deeper understanding of the strategies of their competitors. They strive to keep ahead of their competitors through quick response mechanism and prompt adjustment of promotional and pricing strategies. Competitor orientation leads the organisations towards the development of innovative products that enables them to secure a distinct position in the market [63].

A new approach of inter-functional coordination is developing within the concept of market orientation. Inter-functional coordination is the coordination of all departments and functional areas in the business in utilizing customer and other market information to create superior value for customers [59]. According to Siguaw et al., [64], personnel's implementation of market orientation is essential for the success of the business. The front-line employees play a crucial role in performance of an organisation [65]. These employees are the representatives of the organisation and can contribute significantly by actively interacting with the customers of the organisation. The

customer satisfaction can be achieved through an effective interaction of employees with the customers. This interaction becomes more important in the service industry [66].

Market orientation and organizational performance

Market orientation focuses on provision of superior value to customers [49]. This provision of superior value is ensured by the knowledge obtained through the analysis of customers and competitors. Once the organisation performs a comprehensive analysis of the needs and wants of the customers and the activities undertaken by competitors in the markets, it finds itself in a better position to devise those policies that help the organisation to perform effectively and ensure its long term sustainability [67]. However, an important dilemma comes to the surface for the organisations trying to seek rapid effects of market orientation. The returns are usually derived slowly from market orientation, and the effects become more visible in the long run as compared to the short run. By looking deeply at the phenomenon of market orientation, it is evident that market orientation increases the retention level of the customers that in turn improves the organisational performance [68].

Those organisations that keep focusing continuously on acquiring the market intelligence become successful in developing an effective and updated organisational database of market information. This leads to the emergence of firm as a learning organisation. The management focusing on market orientation continuously scans the environment that helps developing proactive strategies to respond effectively to the upcoming challenges. Moreover, market orientation fosters firms to improve their processes and systems. Thus, market orientation improves the capabilities of the firm to compete more effectively in the market [67]. Past studies have been discussing the impact of market orientation on financial and non-financial performance simultaneously [69,70]. Financial indicators may include sales growth, return on assets, return on investments and net profit margin, whereas, the non-financial indicators comprises of social performance, customers satisfaction, employees satisfaction, customer loyalty, customer benefit and market share [69,71].

Methodology

For the present study, sample consists of enterprises registered with the Sialkot Chamber of Commerce (SCCI) Punjab Pakistan. The sample size of the study was 367 consisted of manufacturing SMEs Sialkot region of Punjab, Pakistan. The unit of analysis was the firm and studied through the owner/managing entrepreneur. The respondent chosen to represent organization were the CEOs, Managing Directors and Managers. The instrument for the study was developed after doing a thorough literature review. The self-administered questionnaire consisted of market orientation (15 items) was adapted from Narver and Slater [49] which represented three dimensions of competitor orientation (04 items), customer orientation (06 items) and inter-functional coordination (05 items); whereas performance (20 items) represented customer satisfaction (05 items), innovation (03 items), service quality (05 items), growth (03 items) and employee satisfaction (04 items). The scale for customer satisfaction was adapted from Homburg and Rudolph [72], for innovation it was adapted from Athanassopoulos et al.[73] and for service quality the scale from Caruana [74] was adapted. Similarly the scale for growth was adapted from Spangenberg and Theron [75] and for employee satisfaction the scale was adapted from Minnesota Satisfaction Scale (MSQ). The MSQ had been developed by Weiss et al. [76]. The survey data was collected through face to face submission of questionnaire. The collected

questionnaires which finally used in the analysis were 213, showing a response rate of 58 percent. The instrument was subjected to factor analysis using SPSS 21. The factor loadings for the items measuring the variables of the study indicated that the instrument was valid and reliable for further statistical analysis. The analysis was conducted using Pearson correlation and regression. Before the regression analysis was performed, all the assumptions of regression analysis were satisfied.

Results and Discussion

Pearson correlation was used to ascertain the relationship between market orientation and its dimensions with organizational performance. The results are shown in Table 1.

The correlation results indicate that there is a strong and positive relationship between performance and market orientation. Furthermore, the results also show that dimensions of market orientation: competitor orientation, customer orientation and inter-functional coordination have strong and positive relationship with performance.

To investigate the influence of market orientation and its dimensions on performance, regression analysis was performed. For market orientation simple linear regression analysis indicated that market orientation has a significant influence on performance of organization ($\beta=0.980, p<0.05$). Similarly, to check the influence of each dimension of market orientation on performance, multiple regression was applied. The results indicate that competitor orientation ($\beta=0.346, p<0.05$), customer orientation ($\beta=0.422, p<0.05$) and inter-functional coordination ($\beta=0.170, p>0.05$) are having strong and statistically significant influence on performance. The regression results are shown in Table 2.

The results of the present study indicate that there exists a strong influence of market orientation on the performance of SMEs. SMEs with strong market orientation strategy would be able to innovate and flexible to the demands of customer and market needs that would enhance the performance [32,77,78].

Wang et al., [79] and Aziz and Yassin [27] found that taking stock of competitor activities are important for the business, that indicates the current and future trends of the market and sharing such information within organisation helps development of solutions that satisfy market needs. Long [31] in his study also found a significant impact of market orientation on the performance, however he suggests that the firms should focus more on gathering information and understanding of the competitors if they want to respond effectively to market demands. The results of present study indicate that competitor orientation has a strong influence on organisational performance, indicating that

	CompO.	CustO	IFC	MO
OP	0.543**	0.649**	0.401**	0.875**

Correlation significant at 0.01 level

Table 1: Correlation matrix.

Model	R	R ²	Adj. R ²	β	t	Sig.
MO	0.875	0.766	.0765	0.980	26.256	0.000
F 689.374, p<0.01						
CompO.	0.894	0.799	0.796	0.346	19.214	0.000
CustO				0.422	18.045	0.000
IFC				0.170	5.866	0.000
F 277.509, p<0.01						

Table 2: Regression for MO and Performance Model.

Pakistani SMEs do focus on gathering information regarding their competitors and formulating strategies that would help them to gain advantage against their competitors.

Akman and Yilmaz [80] in their study found a strong impact of customer orientation on the innovative performance of SMEs. Wang et al., [79] and Aziz and Yassin [27] in their studies found that customer orientation is important for performance, as consumer perceptions are important to understand the underlying changes taking place in the market place. Similar results have also been reported by Long [31] who found a significant impact of customer orientation on firm performance. He further suggests that firms should have a deep understanding and knowledge about customer needs and demands if they want to have a sustained competitive advantage. The results of present study indicate that the customer orientation dimension of market orientation has positive influence on organisational performance. This indicates that the SMEs are aware of the customer needs and demands and the changing business environment that is prevalent in the Pakistani business context.

Coordination among various departments of the firm is essential to gather information for creating competitive advantage [31]. He is of the view that delays in planning and implementing strategies that enhance market orientation may lead to lower levels of market orientation. Similarly, researchers [26,27] found a significant impact of information dissemination through coordination. Researchers suggested that firms need to continuously disseminate information to perform well in business [27]. Collaboration between various organisations departments is important and it should be carried out through their participation in planning and strategy making [26]. The present study indicates that inter-functional coordination is important for organisational performance. However, the influence of inter-functional coordination is not that much thorough as compared to other two dimensions of market orientation. This may be due to the fact that small enterprises are owned and operated by a single person. Due to their smaller size these SMEs do not have huge departments and rely heavily on the owner/managers to take decision and coordinate with the enterprise personnel personally.

Conclusion

This study is important for small and medium organizations because market orientation signifies the organizational focus more towards customer and inter-departmental functional linkage which help enhance the performance of the organization, thereby making it more competitive as compared to other organizations. The results of present study further indicate that a strong market orientation helps in enhancing performance of the small organisations. Market orientation helps organisations to gather and react to information about customer needs and competitor strategies. Thus, market orientation relates to specific processes that help create superior value to customers creating sustained competitive advantage. The role of information gathering and dissemination is of utmost importance in developing strong market orientation, which can be attained by involving all personnel of various departments in planning and implementing organisational strategies. However, due to small size of the enterprises owner/managers are the ones who are responsible for taking all kinds of decision and keep abreast of the market conditions including competitors and their strategies. Thus, market orientation heavily depends on the owner/managers for their insight, knowledge and information that they themselves attain in keeping their businesses sustainable.

The present study analyzed market orientation of SMEs without

analyzing the role of government policies and departments involved in developing the framework for SMEs development in the country. It is advised that future research may analyze the role of government policies along with market orientation of the SMEs to gather a more in-depth information and knowledge on the SMEs behavior and their competitiveness. It is further advised that other strategic process variables such as human resources and organizational structure be taken into account for analyzing the role Mo towards performance. Also the current study concentrated on SMEs in one city of Pakistan. Manufacturing SMEs are clustered in other cities as well. Therefore, it is suggested that future studies should also include SMEs from other industrial hubs of the country to overcome this limitation.

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