Impact of Market Orientation on SMEs Business Performance An Empirical Study of Select SMEs in Bangalore

by

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Abstract

There has been a wide range of debate over the kind of relationship exists between market orientation and SMEs business performance. It is found that researchers generally agreeing on its positive outcome. Previous studies gave emphasis much on big business organizations. Of late, researchers showing interests on the patterns of market orientation in small and medium enterprises (SMEs). This amply demonstrates that researchers are yet to reach a common consensus on the appropriateness of this management policies and practices applicable to SMEs. The present study ***interalia*** observes that SMEs need to be more customer focus, monitor competitive trends, and respond appropriately to market signals / intelligence for their survival given their financial, technical and marketing constraints. The study investigated the market orientation-performance link among selected SMEs (61 SMEs) in Bangalore urban district. Results show that the development of market orientation in the SMEs sector rests more on the positive attitude of owners/ managers. And other stake holders, more particularly, well coiled market orientation leads to better performance under highly competitive conditions. The present study thus validates and supports the findings of majority of previous studies' over direct and positive relationship between market orientation and SMEs overall business performance.

Keywords: SMEs, Market orientation, SME's, Bangalore, business performance

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1. Introduction

The prevailing business environment in India is charged with high degree of competition and is characterized by effects of globalization, deregulation of markets, and ever increasing expectations of customers. In order to compete and survive in this competitive global marketplace, firms are required to pay more attention to the needs of customers. Their business strategies / models need to be constantly innovative in every aspect including new technology adoption particularly IT applications and also need to continuously seek improvements in their products and services so as to ensure a better performance. It can be observed the modern firms are highly innovative and are changing their business models from product-oriented approach to a market-oriented approach.

In this context the importance of the marketing concept as a central tenant of marketing has been advocated by many leading authors (Felton, 1957; Houston, 1986; Levitt, 1975). Market orientation is grounded in the marketing concept and is the cornerstone of marketing management and the marketing strategy paradigm (Hunt, 2000). The importance of market orientation has become a phenomenon and remains a research priority in management science. Since the inception of the marketing concept, there have been studies linking a number of individual constructs to market orientation. These include the linkages between market orientation and business performance. And many studies have been conducted in many developed countries including few developing economies like India where the new slogan is either innovate or perish as a part of Make in India strategy.

In India, during the past 50 years SMEs sector has acquired a major position in the socio-economic development of the country. SMEs constitute 95% of the industrial units in the country, contributing 40% of the total industrial output and 35% of direct exports. According to the latest statistics, there are about 3.57 million SMEs units in India, employing about 20 million people, which is the second highest employment sector, next only to agriculture. The sector plays a critical role in generating substantial amount of revenue in terms of various tax and non tax sources. It does believe in strengthening the democratic style of leadership and decision making. It helps hone skill at various levels among the unorganized workforce. The country's 1.3 million SMEs account for 40% of India's total exports.

There has been a significant generalization in the marketing literature when using such terms as marketing', 'marketing discipline', 'marketing concept', and 'market orientation'. "They enjoy or perhaps suffer from both an interchangeably amongst each other and differences in definition" (Enright and Malkin, 2003). So these can be used in an inter changeable way and main aim shall be on showing the bondage between SMEs and marketing, how some studies have found that firms with a high degree of marketing orientation experience improved performance?

Carson and Quinn, 2003 state that Entrepreneurial Orientation (EO) and Market Orientation (MO) are considered key factors in ensuring firm longevity in the new competitive landscape. Small enterprises are usually started by reliable and highly motivated individuals, with vision and ambition, features which if integrated with a marketing orientation should increase the firms' chance of success (Kenny and Dyson,1989). Initially, marketing challenges are faced by the small and young firm, which can and will ultimately decide its future (Romano and Ratnatunga, 1995).

Small business success is dependent not only on the presence of products and markets, but a lso on the effective marketing of those products within those markets (Smith, 1990).While the underlying principles of marketing are equally applicable to large and small firms alike, a lack of sophisticated marketing is perceived to be problematic for smaller firms (Cromie, 1991).

Against this background, the present study would examine the relationship between market orientation and business performance of select SMEs in engineering goods sector. In the study, Firstly, the characteristics of underlying factors of market orientation in Indian SMEs will be probed in to; secondly, from a theoretical view point, the degrees to which market orientation factors are related to business performance will be considered.

2. Literature Survey

(i) Market Orientation

The challenge for any business in seeking to remain competitive is to determine what its customer's want, which is an essence of the philosophy behind marketing. The marketing concept suggests that the long run purpose of a firm is to satisfy customer needs for the purpose of maximizing firm's profits (Kohli and Jaworski, 1990). The term "market orientation" refers to the degree to which a firm implements the marketing concept (McCarthy and Perrault, 1984). Although different definitions of market orientation are making rounds, this study is based on the definition given by Narver and Slater (1990) as it outperforms all the other definitions.

Narver and Slater (1990), have hypothesized market orientation as a one dimensional construct consisting of three behavioral components - customer orientation, competitor orientation and inter functional coordination - and two decision criteria - a long term focus and profit objective. They define market orientation in terms of culture and relate it to the fundamental characteristics of the organization. Market orientation is seen to be "…the organization culture that most effectively creates the necessary behaviors for the creation of superior value for buyers and thus continuous superior performance for the business".

Market orientation is not a new concept in the marketing and management literature. Scholars argued that the postulation by Drucker (1954) that the customer must be the focus of organization's operations and the subsequent support given to this idea by Levitt (1960) that the customer is the reason for the organization's existence were all pointing to the fact that market orientation behavior was necessary at that time. This idea was extended to become known as the marketing concept (McNamara, 1972). Following these developments, the subject market orientation has received a great deal of attention from marketing scholars who have developed, tested and refined market orientation scales for measuring the degree of market orientation that organizations exhibit (see among others, Kohli and Jaworski, 1990; Narver and Slater, 1990; Heart and Diamantopoulos, 1993; Hooley et al., 1998; and Blankson & Stokes, 2002).

While researchers have found congruence between market orientation and business performance (Blankson & Stokes, 2002), there seems to be ambiguity as far as the appreciation as well as the adoption of the market orientation construct by SMEs is concerned (Harris, 1998; McLarty, 1998; Stokes, 2000). The position that market orientation has not been adopted by SMEs may have been supported by Stokes and Blackburn (1999) who contended that whereas traditional marketing concept is conceived of as a deliberate planned process which proceeds from a careful identification of market needs by formal research , and through purposeful development of new offerings to the market place, the small business deliberation involves informal, unplanned activity that relies on the intuition and energy of the owner/ manager to make things happen. Furthermore, following Stokes and Blackburn (1999), it appears that when compared to other functions of their business, SMEs owners have a problem with marketing; they appear to give marketing a low priority, often regarding marketing as "something that larger firms do". Meziou (1991) concurs that SMEs are more reluctant than larger firms to embrace the marketing concept in their strategy formulations. Apparently, SMEs do not conduct market research, and do not have long-term market planning (Peterson, 1988; Meziou, 1991; Blankson & Stokes, 2002).

Supporting the foregoing, Harris (1998) in his study of small hotel businesses in the UK asserts that in reality the dimension of market orientation may not be applicable in the small business sector. The author noted that several key factors inhibit the ability of small businesses in focusing on trends and needs, or market orientation. These include: unclear view of the customer, commitment with the status quo, ignorance of market orientation, lack of competitive differentiation, limited resources, perceived inappropriateness and short-term focused. Also according to Carson (1993, cited in Blankson & Stokes (2002), small firms embark upon marketing in such a general and inappropriate way that it does not appear to have any significant impact on performance and as a consequence is not perceived to be useful. Although the foregoing may hold true for SMEs at large, following observations and recent developments in the SME sector, coupled with discussions with academics with expertise in SMEs and practitioners (owners/managers), it can be asserted that in view of the ongoing government support and concern for SMEs, further research is needed to highlight the appreciation of marketing and it practices within the SME sector. Even though there are enough evidence to show that marketing is crucial to the survival and development of SMEs (Stokes and Blackburn, 1999), market orientation makes it timely to examine the appropriateness of the construct to SMEs. A research in this order may reveal pertinent issues regarding marketing practices that should be of interest to policy makers, entrepreneurs and practicing managers.

(ii) Relationship between Market Orientation and Business Performance

In the past decade, a steady stream of research has focused on the impact of market orientation on firm performance. In this regard, there are two opposite views. On the one hand, scholars like Keith (1960), Levitt (1975), Kotler (1991), Rogers (1985) and Day (1994), all subscribe to the belief that market orientation is the key to successful business performance.

On the other hand, a number of authors have questioned the very link between market orientation and business performance. For example, Kaldor (1971) suggested that the marketing concept is an inadequate prescription of marketing strategy because customers do not always know what is needed. Furthermore, critics such as Gerken (1990) have pointed out that it is unrealistic to be market oriented because firms are no longer able to keep up with erratic and constantly changing demand and market developments. Bennett and Cooper (1979) have noted that the ability of customers to verbalize what they need is limited by their knowledge. Hence, marketers sometimes need to anticipate future needs and wants of consumers to be successful. Indeed, Bennett and Cooper (1979) and Hayes and Abernathy (1980) argue that market orientation induces businesses into being interested in short-term and intermediate customer needs, which can be detrimental to innovation and the long-term success of a company.

However, some studies observe that there is a lack of enough empirical evidence linking market orientation with business performance among SMEs in East African countries . These studies hold the view that too much dependency on market may adversely affect the policy formulation and implementation in the SMEs domain. This is because the SMEs owners and Managers may not appreciate the role of market orientation as a strategic tool for quality decision-making in the SME sector.

Studies using samples from US companies (Jaworski and Kohli, 1993; Narver and Slater, 1990; Pelham, 1997; Raju et al., 1995) found support for a positive link between market orientation and business performance however, mixed findings are reported from non-US studies. Emerging management paradigms are emphasizing a stakeholder perspective (Atkinson et al., 1997). Therefore to evaluate the performance impact of marketing it is necessary to consider the impact on multiple stakeholder groups. Business performance was consequently defined in this study on the basis of the MMPF - Multi-Model Performance Framework (Weerakoon, 1996). The MMPF model consists of four dimensions including employee motivation, market performance, productivity performance and societal impact, and covers the satisfaction of stakeholders such as customers, investors, employees, suppliers and society.

3. Objectives of the Study:

1) To assess the factors underlying market orientation vis a vis SMEs performance
2) To examine the environmental factors moderating the relationship between market orientation and SMEs performance
3) To test the regression model against the market orientation variables influencing sample SMEs business performance

On the basis of the above, it is hypothesized that:

H1: Market orientation has a positive and direct association with business performance of select SMEs.

This study would make an attempt to address the following research questions:

- What is the degree of market orientation among select SMEs?
- Do antecedents of market orientation impact on the SMEs market orientation levels and its performance ?
- Do environmental factors moderate the relationship between market orientation and business performance among the SMEs ?

4. Limitations

- Following are some of the limitations of the study

1) the sample selection may limit the ability to generalize the finding to the overall population.
2) Although the choices for each question were adopted based on the pilot studies, all possible alternatives might not have been considered.
3) The sample consists mainly of SMEs owners / managers whose response is poor in that it would be difficult to generalize and extend arguments advanced in the study to other SMEs in other sector.
4) Self-reports were used to measure market orientation, business performance and internet adoption, Self-reports may create self-generated validity and thus inflated causal linkages.
5) The effect of market orientation on performance and adoption could be time dependent. Hence, SMEs that are implementing the marketing concept today may not experience the full effect until years from now.
6) Cross-sectional data were used to test the association of market orientation with business performance; such data captures the perception of managers at a certain point of time. So, the study provides only a snapshot picture at a single point in time, which means that the research is valid only if external environment variables such as: government regulations, economic cycle, competitive environment, etc, remain equal or constant.

5. Methodology of Research

a) Sampling Size

The study employed a purposive / judgmental sampling technique where in, the sample of managers and owners in the SMEs domain within Peenya cluster of Bangalore city was considered. The sample has been restricted to Bangalore city only as most of the enterprises are located in the city. The sample frame from which the population of SMEs is drawn was obtained from a database maintained in the Directorate of Economics and Statistics, GOK (2014), Ministry of MSME, (GOI). These SMEs were operating in the field of engineering goods manufacturing and ancillary products.

Appropriately, 100 SMEs were selected on the basis of their annual turnover and to whom questionnaires were sent / mailed. Eventually, only 61 useable questionnaires were returned by the respondents. After comparing the responses of the early and late respondents, on a number of characteristics, no significant difference was found suggesting that the sample is free from response bias. The sample size and the response rate are consistent with related studies. For instance, Blankson and Cheng (2005) sampled 500 and had 21% response rate.

b) Measurement of research constructs

This study sought to assess the causal links between market orientation and business performance. Scale measures were adopted from both Narver and Slater (1990) and Jaworski and Kohli's (1993) constructs. The adoption of these two popular scales in a single study is not a new thing. For instance, Farrel and Oczkowski (1997) adopted the MKTOR (Narver and Slater's, 1990) and MARKOR (Kohli *et al.*, 1993) measures in their study in Australia. The questionnaire was divided into five different sections. Section one examine the market orientation of the sample. Section two addresses the antecedent to market orientation. The items under section three sought to measure some performance variables.

Moderating factors were explored in section four and section five contains some control variables. In line with Narver and Slater (1990), the market orientation scale was assigned 15 items and each was measured using a seven-point Likert type scale. Similarly, four performance variables were adopted from Narver and Slater's work and were measured with the aid of a five-point Likert type scale. Following Jaworski and Kohli (1993), the antecedent variables had 50 items and 17 items were assigned to the moderating variables. A five-point ranking scale was used in measuring both antecedent and moderating variables. To ensure the robustness of the business performance model, three items (size, age and sales turnover) were included as control variables in order to minimize specification bias.

c) Test of Reliability

It is necessary to carry out reliability test. This test was conducted on all the multi-items scales to check the internal consistency of the scales. This study adopted a cut off of 0.5 for cronbach's coefficient following Nunnally (1978). Reliability results have been presented in Table 1 below. Reliability test for performance, market orientation and centralization (alpha values of 0.838, 0.871 and 0.823 respectively) using the original number of items from the studies of Narver and Slater (1990) and Jaworski and Kohli (1993) resulted into higher degree of internal consistency of these scales. To improve the internal consistency of these scales and to make them reliable for use in this study, one or two of the items were dropped. This resulted into better as well as acceptable values for cronbach's coefficient for most of these scales (see table 1).

d) Models

The three regression equations were estimated to test the hypothesis:

Y= $\alpha + \beta1\ MO + \beta2\ S + \beta3\ A + \beta4\ ST + \varepsilon$ **Equation (1)**

$M0 = \alpha + \beta1\ MRA + \beta2\ ICF + \beta3\ ICN + \beta4\ FM + \ \beta5\ CS + \ \beta6\ RS + \beta7\ TME + \ \beta8\ ORC + \ \varepsilon$ **Equation (2)**

Y=$\alpha + \beta1\ M0 * MT + \beta2\ MO * CI + \ \beta3\ MO * TT + \ \varepsilon$ **Equation (3)**

Y= SME's Performance
MO = Market Orientation
S= Size of the Firm
A= Age of the Firm
ST= Sales turn over
MRA= Management Risk Aversion
IFCo = Inter Functional Coordination
IFCn =Inter Functional Conflict
FM= Formalization
CS= Centralization
RS= Reward System
ORC= Organizational Commitment
TME= Top Management Emphasis
MO vs MT= Market Orientation vs. Market Turbulence
MO vs CI=Market Orientation vs. Competitive Intensity
β= Coefficients
α= Constant

6. Results and Discussion

Regression Analysis

There is a significant positive relationship between market orientation and business performance that is, to achieve superior outcome in business, SMEs' practitioners need to operate on customer lead approach, be competitor orientation, and strengthen inter-functional integration. Although this result was significant, it needs to be emphasized that size, age and sales turnover of the sample firms have some level of influences on their business performance

It is observed that top management's risk aversion has a significant negative relationship with market orientation. In other words, among the sampled SMEs, market oriented activities cannot be developed unless top management displays less risk-aversion behaviour. Therefore, for sample SMEs to become market oriented, the attitude of owner-managers must favour calculated risk-taking abilities. Top management emphasis is found to be positively (0and significantly related to market orientation. This finding resonates Kohli and Jaworski's (1990); Jaworski and Kohli's (1993); Kuada and Buasti's (2005); and Dwaire et al.'s (2007) findings on this antecedent variable. Therefore, without the emphasis of owners/ managers it would be unlikely to commit necessary resources for SMEs to pursue market oriented activities. Owners/top managers shape the direction and values of their organizations (Webster, 1988); hence, SMEs owners/ managers must provide the resources and strategic direction to operate on market oriented principles.

It is observed that the lesser the inter-functional conflict, the greater the market orientation of SMEs. That is, inter-functional conflict related negatively with market orientation. But this influence is never significant statistically. By implication, can have some wrangling yet market orientation will continue to grow, a finding that is inconsistent with the postulations in the literature (Kohli & Jaworski, 1990). Similarly, reward system has no significant impact on the market orientation culture of SMEs. The analysis shows that market orientation tends to relate negatively, although insignificantly, with reward system. With this kind of conflicting result, it is difficult to make any firm statement on the role of market-based reward system in the market orientation of the sample.

Further, it is found that organizational commitment related directly with market orientation highlighting that increased organizational commitment towards market oriented activities will increase the generation of, dissemination of, and response to, market intelligence among SMEs. But this relationship has no statistical significance perhaps an indication that small firms, in particular, need not have commitment from all workers to be market oriented. This may have reinforced the fact that general commitment needs to come from the owner/ manager, who is in most cases the "jack of all trade".

Lastly, on the determinants of market orientation, the regression results provides a significant positive relationship between centralization and market orientation. In other words, centralized organizational structure is cherished among SMEs studied. While scholars (e.g. Ruekert,1992; Webster, 1988) advocate that organizations must be less centralized to enhance market oriented cultures within, SMEs viewed centralization as crucial for the development and implementation of greater market orientation in their organizations. These results may not be surprising in that, for instance, the small business deliberation of the market place involves informal, unplanned activity that relies on the intuition and energy of the owner-manager to make things happen (Stokes & Blackburn, 1999).

Regression results also demonstrate that the Indian business environment moderates the strength of the market orientation-performance relationship reported for the SMEs studied. In specific terms, the results suggest that the existence of strong competition leads to an even greater relationship between market orientation and performance of sampled SMEs . Similarly, stronger market turbulence in the SMEs sector generates stronger relationship between market orientation and performance of SMEs. However, only the coefficient of the interacted market orientation-competitive intensity is significant which implies that under condition of severe competition, the need for SMEs to be more market oriented becomes a key issue, as it provides a mean for firms to focus on activities that lead to the development quality products and service to enhance customer satisfaction and customer loyalty. Indeed, it is argued that in turbulent competitive markets, market orientation may be the saviour for stressed organizations (Harris & Ogbonna, 2000). However, the results suggest that SMEs should be less customer focus where the market is witnessing high rate of change in the customer needs and preference, contradicting Kohli and Jaworski's (1990) proposition. This may be attributed to the fact that, the demand for goods and services outstrips supply and customers preference, although changes in small units, do not dictate the way business is done.

7. Conclusions and Policy Implications

The present study thus validates previous scholars' assertions about the relationship between market orientation and performance with a focus on the SMEs sector. Despite the lack of agreement on the appropriateness of the market orientation construct developed and tested principally on studies of large firms to small and medium scale enterprises (SMEs), this study demonstrates that when applied by an SME, market orientation will positively influence its level of performance in business. That is, higher the level of market orientation, the greater the level of performance in sample SMEs, consistent with the overriding proposition of the literature that increased market orientation lead to higher firm performance (Narver & Slater, 1990; Slater & Narver, 1994; Agarwal *et al*., 2003; Green Jr. *et al.*, 2005; Dwairi *et al*., 2007; Low *et al.*, 2007).

In determining what factors would account for the market orientation of the sample SMEs internally, eight antecedents of market orientation were evaluated. While one of the variables (interconnectedness) could not be tested because the scale was very weak, four of the variables were supported and three unsupported. The results indicate that the power of top-management emphasis on market orientation is substantial across the SMEs. All replications have been consistent with this relationship as such, top managements are crucial for SMEs to be market-oriented. Same can be said of management risk aversion, formalization and centralization; they pose considerable influence on market orientation behavior. However, as determinants of market orientation, organizational commitment, inter-functional conflict and reward system are not completely decisive. This study found these three to have no significant roles in the development of market orientation among the sampled SMEs.

Only two of the environmental factors were tested with technological turbulence dropped due to weakness in the scale. This study found that the degree of competition in the industry has substantial influence on the importance of market orientation to the performance of SMEs studied. On the other hand, similar to prior empirical studies (Kuada & Buatsi, 2005; Dwairi *et al.,* 2007), this study also found that even though market turbulence plays minor role in the market orientation model, the nature of this role is not very clear. For that matter, no conclusion can be drawn regarding how market turbulence would shape the importance of market orientation to SMEs.

8. Avenues for future research

1. An in-depth study on a single industry that could provide a deeper knowledge and understanding of an industry's appreciation of market orientation and its relation to business performance.

2. A logical concentration on a single industry such as manufacturing or service or any other business activity might help facilitate uniformly stronger support from management of the few SMEs in the industry, and to attain easy access to multiple, and knowledgeable raters within the select SMEs.

3. Future research on this study may use multiple respondents from each SME. In this regard, researchers might segregate the target SMEs into various industries. By this, objective correlates of market orientation would be developed and would increase confidence in the measures as well as reducing the concern about method variance, which accompanies most survey research.

Table 1 Analysis of Internal Consistency

Model	**No. of Items**	**Cronbach's Alpha**
Performance	5	0.826
Market Orientation	14	0.815
Management Risk Averse	6	0.598
Inter-functional Conflict	4	0.743
Inter functional Coordination	4	0.322
Formalization	6	0.654
Centralization	4	0.792
Reward System	4	0.681
Top Management Emphasis	5	0.609
Organizational commitment	4	0.495
Market Turbulence	7	0.588
Competitive intensity	8	0.702
Technological Turbulence	3	0.064

Table 2. Regression coefficients for market orientation and performance

Dependent Variable	
Independent Variable performance	
Market Orientation	0.2658*
Size of the firm	0.227(ns)
Sales turnover	0.189(ns)
Adjusted R^2	0.082
N	61

Table 3. Regression Coefficients for the antecedents to market orientation

Dependent Variable	
Independent Variable : Market Orientation	
Management Risk Averse	-0.224***
Inter-functional conflict	-0.093(NS)
Formalisation	0.298***
Centralisation	0.177**
Reward system	-0.146(NS)
Top Management Emphasis	0.389***
Organizational Commitment	0.056(NS)
Adjusted R^2	0.547
N	61

Table 4 Regression Coefficients for moderated market orientation performance relationship

Dependent Variable	
Independent Variable Performance	
Market Orientation vs Competitive Intensity	0.379*
Market Orientation vs. Market turbulence	0.182(NS)
Adjusted R2	0.514
N	61

Conceptual Framework

Market Orientation

- Management emphasis & risk
- Formalization
- Centralisation
- Inter functional Conflict
- Inter functional Coordination
- Reward Systems

Market Orientation ----------------→Business Performance

External Factors

- Competitive Intensity
- Market Turbulence
- Technological Turbulence

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