An association between market orientation and business performance: A case study of small medium enterprises in sri lanka

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Abstract: *In the globalized and highly competitive era of the present day business environment, firms are under constant pressure to build upon their skills and resources for developing distinctive competencies to withstand market challenges. Such competencies can be around either the lower delivered-cost-position or product differentiation. But building competencies around lower product costs and or product differentiation alone is not sufficient. "Market orientation" builds distinctive and sustainable competencies. An attempt to fill this research gap, the present study is instigated on market orientation and business performance as the case of small medium enterprises in Sri Lanka with the samples of ninety. A non-probabilistic sampling method, namely convenience sampling, was used in drawing samples for this study. Secondary data and primary data collections methods were used to conduct the study. In the present study, we analysed our data by employing correlation and regression analysis. For the study, entire analysis was done by personal computer. A well known statistical package 'statistical package for social sciences' (SPSS) 13.0 version was used in order to analyze the data. The results revealed that there is a significant association between market orientation and business performance; further, market orientation has statistically positive impact on business performance.*

Keywords: Market Orientation; Business Performance; SMEs

Theoretical Framework

Market orientation has come to be recognized as a key concept in marketing literature. It is one such culture that has been widely advocated in the marketing literature to build distinctive and sustainable competencies (Narver and Slater, 1990; Wooddruff, 1997). Market orientation requires business firms to be constantly vigilant of market developments and responsive to changing customers' needs and wants, thus building a solid base for withstanding market challenges. No doubt marketing department and its personnel carry much of the onus of impacting market orientation for being closer to customers in their dealings, an effective implementation of marketing concept calls for viewing market orientation as a pervasive concept to be embraced by all the departments and personnel in the organization both in philosophy and practice (for a further discussion, please see Jain and Bhatia, 1995). The whole idea of organization-wide adoption of market orientation seems to be grounded in the belief that "marketing is too important an activity to be left with only the marketing department in the organization".

Market orientation is one of the five philosophies or orientations (the other four being production concept, product concept, selling concept and societal marketing concept) that guide the planning and organization of a firm's activities. In a competitive environment, marketing concept is considered to be a far superior guiding philosophy that the product, production and selling concepts (for a further discussion, please see Kotler, 2002; Stanton, Etzel, and Walker, 2003). No doubt societal marketing concept is relatively of a recent origin and constitutes an improvement over the marketing concept, it is the latter which continues to hold a sway over other concepts in both marketing literature and business speeches.

For a long time, marketing concept remained enshrined only in terms of customer orientation. But later on, other constructs such as competitor orientation, inter-functional coordination and profit focus also got added to it (Houston, 1986; Kohli and Jaworshi, 1990; Kotler, 1972; Levit, 1960; McNarmara, 1972; Narver and Slater, 1990). The idea underlying addition of these additional constructs was that unless a firm aims at delivering customer satisfaction in away superior to competitors and adopts it throughout the organization, with due regard to profitability of its operations, customer orientation is unlikely to come up as a commercially viable competitive tool to withstand market challenges. Especially, the construct "inter-functional coordination" came to be organized as an essential ingredient for the successful implementation of marketing concept, with the belief that much of the satisfaction to the customers is unlikely to materialize unless all the departments in the organizations imbibe sprit of marketing concept and gear up themselves to work harmoniously with other departments for delivering customer satisfaction.

A review of past studies examining the impact of market orientation on a firm's financial performance reveals that being a culturally embedded philosophy, market orientation facilities clarity of focus and vision for the efforts of the individuals and departments within the organization, thereby enabling the organization to evolve and pursue "consistent" and "workable" strategies (Kohli and Jaworshi, 1990). And when "behaviours are consistently guided by norms geared towards unified customer-satisfying goals, there is greater consistency and improved inter-functional coordination in the implementation of strategies, there by leading to reduced costs which are associated with correcting problems on human resource development. And, hence the result is high financial performance (Pelham and Wilson, 1996).

The empirical studies undertaken by Jaworski and Kohil (1993) and Narver and

Slater (1990) also lend support to a positive link being present between the market orientation and financial performance. Based up on a comparative study of the firms with different organizational cultures, Deshpande, Farley and Webster Jr.(1993) too observed that an organization characterized by "a market culture with emphasis on external positioning" performs better financially than other firms that have a focus on internal maintenance of factors such as "clan" or "hierarchical culture".

Thus various studies on market orientation and business performance show different results. Whatever we have no studies in Sri Lankan context. Hence given the relative lack of research into the regularity of market orientation and business performance over time we investigate the longitudinal nature.

Objectives

The following objectives were taken for the study

- To identify the relationship between market orientation and business performance.
- To recognize the business performance.

Hypotheses

H1: *Market orientation and Business performance are significantly correlated.*

H2: *Business performance has greater impact on market orientation.*

Results and Discussions

Sampling procedure

For this study, we initially consulted the Industrial Development Board (IDB) for the purpose selecting our sample. Small and medium entrepreneurs were considered as the population of the sample. The research covered ten entrepreneurs from each province such as Northern (except Kilinochi and Mulitivu districts due to the political unrest) North Central; North western, Eastern; Central; Sabragamuva; Southern; Uva and Western in order to make the study relevant. In a way ninety were used for the study as an ultimate sample.

Data Sources

The study was complied with the help of primary data. Primary data were collected through mailed questionnaire. Moreover, the desk study covered various published and unpublished materials on this field.

The Instrument

The questionnaire was administrated among small medium entrepreneurs in Sri Lanka. The questionnaire was designed by the researcher a seven item scale from strongly disagree (-3) to strongly agree (+3) was adopted to collect the information about the market orientation and business performance. The reliability value of our surveyed data was 0.911 variables. If we compare our reliability value with the standard value alpha of 0.7 advocated by Cronbach (1951), a more accurate recommendation (Nunnally and Bernstein's, 1994) or with the standard value of 0.6 as recommended by Bagozzi and Yi's (1988). We find that the scales used by us are highly reliable for data analysis (Cooper and Schindelr, 2001; Page and Meyer, 2000; Hair, Anderson, Tatham and Black, 2003).

Statistical Tools Used

In the present study, we analyse our data by employing correlation; multivariate analysis like multiple regression analysis. For the study, entire analysis was done by personal computer. A well known statistical package- 'Statistical Package for Social Sciences' (SPSS) version-13.0 was used in order to analyze the data.

Results and Discussions

Business performance can be measured financial performance and non-financial performance. The correlation analysis was carried out to test the relationship between the market orientation and financial performance the results are summarised in table-1.

***Table 1**: Correlations Matrix for Market Orientation and Financial Performance*

Variables	MO	SG	NPR	ROI	ROA
MO	1.000				
SG	0.259* (0.014)	1.000			
NPR	-0.005 (0.966)	-0.331** (0.001)	1.000		
ROI	0.171 (0.106)	0.043 (0.689)	-0.045 (0.671)	1.000	
ROA	-0.011 (0.919)	0.144 (0.176)	0.026 (0.805)	0.192 (0.071)	1.000

**Correlation is significant at the 0.05 level (2-tailed)*

*** Correlation is significant at the 0.01 level (2-tailed)*

Note: MO-Market Orientation; SG- Sales Growth; NPR- Net Profit Ratio; ROI-Return on Investment; ROA- Return on Assets.

From the table-1 it is observed that market orientation is positively associated with sales growth except other financial performance ratio, which means that as the market orientation increases sales growth increases. It is natural and perceptible. Net profit ratio is negatively correlated with sale growth. Moreover, regression model is performed to investigate the impact of market orientation on financial performance which the model used for the study is given below.

Model 1

Y = f(x)

Y = β0 + β1X1 + e

Where β1, β0 are the regression coefficient

Y = SG

X1 = MO

e = error term

Model 2

Y = f (x)

Y = β0 + β1X1 + e

Where β0, β1 are the regression coefficient

Y = NPR

X1 = MO

e = error term

Model 3

Y = f (x)

Y = β0 + β1X1

Where β0, β1 are the regression coefficient

Y = ROI

X1 = MO

e = error term

Model 4

Y = f (x)

Y = β0 + β1X1

Where β0, β1 are the gression coefficient

Y = ROA

X1 = MO

e = error term

Based on the above regression model SG; NPR; ROI and ROA are considered as the dependent variables where as MO independent variable the detail analysis is carried out with the help of above variables.

Table 2: *Model Summary - Predictors for Financial Performance*

Model	R	R2	Adj R2	F-Value	P-Value
1	0.259	0.067	0.056	6.315	0.014
2	0.005	0.000	-0.011	0.002	0.966
3	0.171	0.029	0.018	2.667	0.106
4	0.011	0.000	-0.011	0.010	0.919

From the table-2 it is seen that above model revealed the ability to predict financial performance (R2 = 0.067; 0.000; 0.029 and 0.000 respectively). In this model R2 value of above four models denote that 6.7, 0, 2.9 and 0 percentages to the observed variability in financial performance can be explained by the market orientation. The remaining percentages are not explained, because the remaining part of the variance in financial performance is related to other variables which are not depicted in the model. An examination of the model summary in conjunction with ANOVA (F–value) indicates that the model explains the most possible combination of predictor variables that could contribute to the relationship with the dependent variables. For model-1, F value is 6.315 and respective P value is 0.014 which is statistically significant at 5% levels. Again considering model 2; 3 and 4, we see that all of the corresponding F values are insignificant in respect to their consequent P values. However, it should be noted here that there may be some other variables which can have an impact on financial performance, which need to be studied.

Market Orientaion and Non- Financial Performance

Correlation analysis is carried out to find out the relationship among the variables. The results are summarized below table-3.

Table 3: *Correlation Matrix for Market Orientation and Non-Financial Performance*

Variables	MO	SP	CS	ES
MO	1.000			
SP	0.313** (0.003)	1.000		
CS	-0.051 (0.634)	0.190 (0.073)	1.000	
ES	0.056 (0.599)	-0.189 (0.074)	-0.182 (0.086)	1.000

Correlation is significant at the 0.05 level (2-tailed)
*** Correlation is significant at the 0.01 level (2-tailed)*
Note: MO-Market Orientation; SP- Social Performance; CS- Customer Satisfaction; ES-Employees Satisfaction

From the table-3 it is observed that market orientation is positively associated with social performance except other non-financial performance variables, which means that as the market orientation increases social performance increases. It is natural and perceptible. Further the following, model is formulated to examine the impact of market orientation on non-financial performance.

Model 1

Y = f(x)

Y = β0 + β1X1 + e

Where β1, β0 are the regression coefficient

Y = Non-Financial Performance (NFP)

X1 = MO

e = error term

Table 5: *Predictors of Non- Financial Performance – Model summary*

Model	R	R^2	Adjusted R^2
1	0.258[a]	0.067	0.056

[a] Predictors: (Constant), NFP

The above model revealed that the ability to predict non-financial performance (R2 = 0.067). In this model and R2 value of 0.067, denotes that 6.7% of the observed variability in non-financial performance can be explained by NFP. The remaining 93.3% is not explained which means that the remaining 93.3% of the variance in non-financial performance is related to other variables which are not depicted in the model In this model, the value of an adjusted R2 is 0.056, slightly less than the value of R2. This variance is moderately significant as indicated by the F value (F = 6.299 and P = 0.014) and an examination of the model summary in conjunction with analysis of variance (ANOVA) indicates that the model explains the most possible combination of predictor variables that could contribute to the relationship with the dependent variable. Because the variance ratio is highly significant, Even though, the variance explained 6.7% in this context, it should be noted that there may be number of variables that can have an impact on non- financial performance that need to be studied.

The hypotheses of the study have been tested, and, the results and their level of significance have been analyzed. Correlation analysis is performed to test the strength and direction of the liner relationship between two variables; such as market orientation and business performance. In this regard correlation analysis has been shown the following the table-4.

Table 4: *Correlations Matrix for Market Orientation and Business Performance*

	MO	BP
EC Pearson Correlation Sig. (2-tailed)	1	0.241* (0.022)
OP Pearson Correlation Sig. (2-tailed)	0.241* (0.022)	1

** Correlation is significant at the 0.05 level (2-tailed)*

Note: *Figures in the parentheses indicate P- value*
BP- Business Performance

From the table-4 it is seen that there is a fairly positive correlation between the two variables (r = 0.241, P = 0.002) which states that there is a significant relationship between market orientation and business performance, is thus supported at 0.05 levels of significance. Therefore hypothesis one is accepted. In addition market orientation and business performance are explored using liner regression. In this regard regression is revealed in table-5.

Table 5: *Predictor of Business Performance*

Details	Business performance
Market Orientation	2.334(0.022)
Constant	12.070(0.000)
R	0.241
R^2	0.058
Adjusted R^2	0.048
Standard error	0.720
F Value	5.446

Note: *Figure in the parentheses indicate P-value*

The specification of market orientation in the model revealed that the ability to predict business performance (R2 = 0.058). In this model, the value of an adjusted R2 are 0.048, slightly less than the value of R2. In addition t value is 2.334 and that's P value is 0.022 indicates that hypothesis two is accepted at 5 percent level of significance. Therefore it explains that market orientation have statistically positive impact on business performance.

Conclusion

The results from the operational hypotheses indicate that there is a significant relationship between market orientation and business performance; market orientation has statistically positive impact on business performance.

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