An Empirical Analysis of Market Orientation and Business Performance Relationship in the Context of Developing Economy

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Abstract
The objective of this study is to investigate the relationship between market orientation and business performance of small and medium enterprise (SMEs) in Nigeria. A quantitative method was used, employing a cross – sectional research design. The data were collected through the self – administration method from 320 respondents¸ using a structured questionnaire, a total of 212 valid questionnaires was completed and returned representing 66 percent response rate. SMEs are very important to the economic growth of Nigeria, they serve as a major source of employment, contributes toward local resource utilization, a source of entrepreneurship development, an avenue for the conservation of foreign exchange, ensures equitable distribution of income and wealth and help in the preservation of cultural heritage. A model was developed based on theoretical reflection to examine the relationship. Smart PLS is used in the data analysis, which reported a significant and positive relationship between the market orientation and business performance of SMEs. The findings of this study will benefit owner/managers of SMEs, regulatory agencies, government at all levels and will also serve as a frame of reference for future studies, and future research directions were discussed.

Keywords: Market orientations, Business performance, Nigeria

1. Introduction

Small and medium enterprises are important avenues for job creation (Almeidia and Jual, 2012), a powerful source for innovation (Dauda & Akingbade, 2010). SMEs plays a significant role in sustainable socio-economic development of a given country in terms of contribution to GDP, provision of employment, generation of wealth, poverty reduction , competence building and enriching the welfare of people through provision of goods and services including education (Kanyabi & Devi, 2011). SMEs in Nigeria have been an avenue for Job creation and

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empowerment of citizens proving about 60% of all job opportunities and also for wealth formation (Dauda & Akingbade, 2010; Shehu & Mahmood, 2014a; Shehu, 2014). The sector had its own portion of problems as identified by (Ekpenyong & Nyong,1992; Oluboba, 2002; Sarapaivanich, & Kotey, 2006). which includes: poor market orientation, low level of entrepreneurial skills, poor management policies, constrained access to money and capital markets, low equity participation from the promoters because of insufficient personal savings due to their level of poverty and low return on investment, inadequate equity capital, poor infrastructural facilities, high rate of enterprise mortality, shortage of skilled manpower, multiplicity of regulatory agencies, societal and attitudinal problems, bureaucracy, integrity and transparency problems, lack of access to information given that it is costly, time consuming and difficult at times.

Therefore, the paper is organized as follows: section two provides the literature review and the theoretical underpinning, section three; the research methods, including population and sample, measurement of variables, research design and the goodness of measure. In section four presented the result and hypothesis test, section five is about the conclusion and finally, the managerial implications of the study, limitations as well as the direction for future research were discussed.

2. Literature Review

2.1 Market Orientation and Performance

According to Polat and Mutlu (2012) MO is seen as a firm's ability that is extremely valuable, rare, and that cannot easily be imitated, with emphasis of placing the customer in the center of firms' strategy and operations. The academic understanding of the MO concept is categorized into two as behavioral and cultural approaches respectively. Kohli and Jaworski (1990) are the proponents of behavioral approach, they hypothesized that MO involves a set of activities directed towards making the customer happy. In contrary, Narver and Slater, (1990) in Slater and Narver (2000) who are the advocates of cultural approach give emphasis on the shared values of firm that consider customers interest as number one priority.

Empirical evidence on the relationship between market orientation and business performance appears to be mixed. Some researchers found a positive association between market orientation and performance (Shoham & Rose 2001; Agarwal 2003;Narver & Slater 2000; Li & Justin 2008), while others could not find any direct relationship between MO and firm performance (Au & Tse, 1995; Demirbag et al, 2006). This inconclusiveness shows a need for research to identify factors that intensify the strength between MO and performance. Slater and Narver (2000) in their empirical investigation using survey, which provided a repetition of the earlier study, with a sample of fifty three single businesses through regression method. This repetition provides robust backing for the presence of a positive relationship between market orientation and performance. Their findings established the existence of the significant and positive association between market orientation and performance. Shoham and Rose (2001) examined market orientation to performance relationship, which was considered as a seminal work of an earlier investigation. Survey design was used and a sample of two hundred and fifty

small firms from four businesses as soft, food, construction and agriculture were chosen. One hundred and one managers responded by completing and returning the questionnaire received. They report a positive and significant association among MO and firm performance. Subramania and Gopalakrshna (2001) investigated the relationship between market orientation and performance in the context of a developing economy, using a survey questionnaire administered on one hundred and sixty two manufacturing and service firms. The result was analyzed using regression method and the finding indicated that market orientation is an important predictor of performance.

Pelham and Wilson (2001) reported a significant and positive influence of market orientation on small firm performance. Agarwal and Dev (2003) in their study of the MO to the business performance in service firms: role of innovation, examined the association between MO and performance in the hospitality business, more specifically to international hotels. Two hundred and one data was generated through survey questionnaire and the preliminary questions were pre-tested on thirty hotel chief executives who joined an executive development program at a leading hotel and restaurant in the north- eastern USA. The finding shows that MO is positively related to both financial measures of performance- service quality, customer satisfaction, and employee satisfaction and non-financial of performance-occupancy rate, gross operating profit and market segment. It establishes a strong positive association between MO and all forms of performance. The findings of Wei and Morgan (2004), and Ge and Ding (2005) were in line with these findings. Similarly, Webster, Hammond and Rothwell (2014) investigated the market orientation effect on business performance of business schools that register with the association of advance collegiate schools of business in the US. One hundred and sixteen academic vice president and one hundred and thirty one deans were the respondents. The finding from their study indicated a significant and positive relationship between market orientation and performance. Additionally, the study of Kelson (2014) reported a significant relationship between market orientation and business performance of twenty four listed companies in Ghana. In the same vein, Wilson, Perepelkin, Zhang and Vachon (2014) investigated four hundred and fifty three Canadian medical biotechnology companies, and reported a significant and positive association between market orientation and performance. The above findings are in concord and with each other, evidencing a significant positive relationship between market orientation and performance.

In contrast, other researches with a negative finding on the relationship between MO and business performance include: Au, and Tse, (1995) in their study which employed hotel as sample with marketing managers as respondents. The results indicated no significant association between market orientations and hotel performance.

Demirbag, Lenny Koh, Tatoglu and Zaim, (2006), conducted a study on TQM and market orientations impact on SMEs performance, using structural equation modeling for data analysis, with one hundred and forty one SMEs operating in the Turkish textile industry. They found no significant relationship between market orientation and organizational performance, the only relationship established was between market orientation and organizational performance with the mediation of total quality management. Haugland et al., (2007) conducted studies on MO and firm performance in the service industry. The sampling border is the Dunn and Bradstreet

data base which consisted of accounting information for all the Norwegian limited companies and it include five hundred and thirty hotels registered in the data base. The findings indicated that MO has only an uncertain consequence of absolute productivity and no effect on return on assets. Thus, the study hypothesis is:

H1: There is a significant relationship between market orientation and SME business performance.

2.2 Theoretical Underpinning

In this study, Resource- Based view (RBV) was employed with a major focus on how a firm resource or knowledge, develop and affect its performance (Kanyabi & Devi, 2012). The resource- based view asserts that organizations can have competitive advantage through the development of resources that are peculiar and diversely distributed (Barney, 1991). The RBV does not have a single accepted definition, hence, the term resources and capabilities are used interchangeably (Christene & Overdorf, 2000; Gold, Malhotra &Segars, 2001). RBV defines resources as assets, processes and capability. Barney (1991) posits that firm's sustainable performance advantage by securing rare resources of economic value and the ones that competitor and other rivals cannot easily copy, imitate or substitute. As such, firms with rare resources should be able to leverage them for their own peculiar benefit. Hence, a market oriented SME can stand a chance of achieving competitive advantage through the development of resources that are rare, valuable, imitable and non-substitutable. The RBV collected works points out that firms could obtain economic benefit as the basis of unique business assets that are valued, uncommon, difficult to replicate and non- compatible with other resources (Barney, 1991; Conner; 1991).

3. Methodology

3.1 Population and Sample

The population consists of 1829 small and medium sized enterprises in Kano state, North-western region of Nigeria (SMEDAN, 2012). The study employed Krejcie and Morgan (1970) technique for sample selection. Based on this, criterion 320 SMEs were selected to serve as a sample, out of 320 questionnaires administered, a total of 212 were completed and returned, representing 66 percent response rate. Partial Least Square (PLS) is used for data analysis, Systematic sampling technique was used in the sample selection. The unit of analysis for this study is at the organizational level, which cover the entire SME owner/managers fully operational in Kano state.

3.2 Measurement

The study variable of business performance and market orientations scale of Suliyanto and Rahab (2012), with the reliability value of 0.987 and 0.986 were adopted. All items adopted were assessed on a 5 point Likert scale ranging from 1 strongly disagree to 5 strongly agree. The entire measurement was assessed as a uni – dimensional constructs with six and twelve items respectively.

3.3 Research Design

The study employed a cross – sectional research design where the data were collected in only a given point in time (Kumar, Abdul Talib & Ramayah, 2013; Zikmund, Babin, Car & Griffin, 2013; Sekaran & Bougie, 2013. A Quantitative research approach was adopted (Sekaran, Robert & Brain, 2001), which was mostly used in social sciences. Previous studies that employed quantitative research method includes: Kheng, June and Mahmood (2013), Shehu (2014), Al – Sardia and Ahmad (2014), Shukr Bakar and Mahmood (2014), Shehu and Mahmood (2014b)

3.5 Goodness of Measures

In an attempt to determine the accuracy of measurement, reliability and validity methods are employed. After calculating PLS algorithm the report shows that the cronbach alpha coefficient ranged from 0.700 to 0.835. According to Sekaran (2003) any value of the cronbach alpha coefficient greater than 0.5 is deemed to be accepted. Hence, it can be concluded that the instrument adapted in this study is reliable, since none of the item is with less than 0.5. All items loaded on their respective construct ranges from 0.6570 to 0.8795, which, according to Hair et.al (2010) is acceptable since it is above the cutoff value of 0.5. MO04, MO05.MO06,MO07,MO08,MO09, MO10, MO12 and PER03 were deleted because they did not meet with the minimum loading of 0.5 (Hair et.al, 2010). Likewise, the composite reliability, value ranges from 0.8164 to 0.8797 which are also greater than the recommended value of 0.5. Finally to justify the discriminant validity, the average variance extracted (AVE) is compared to correlation squared of the interrelated variables of concerned which indicated adequate convergent and discriminant validity.

Table 1: Factor Loading

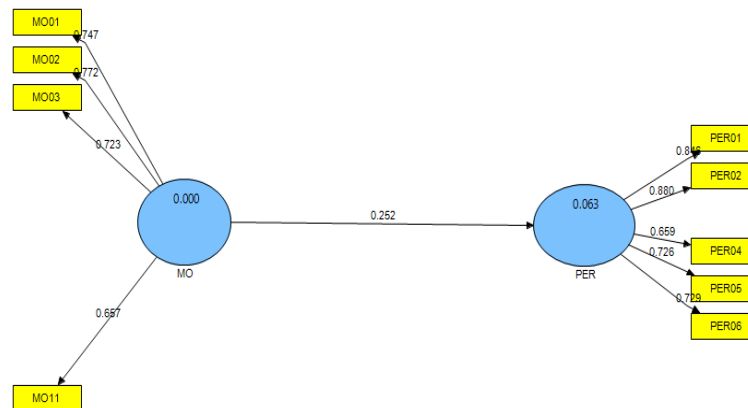| Items	Factor Loading	Composite Reliability	Cronbach's Alpha	AVE
MO01	0.7471	0.8164	.700	0.5273
MO02	0.7723			
MO03	0.7232			
MO11	0.6570			
PER01	0.8460	0.8797	.835	0.5967
PER02	0.8795			
PER04	0.6595			
PER05	0.7265			
PER06	0.7291			

Figure 1: Measurement Model

4. Result and Hypothesis Testing

The study examined the relationship between market orientation and business performance in Nigerian SMEs. The interpretation of the hypothesis is summarized in table 2. The result indicated that there is a significant positive relationship between market orientation and business performance (β = 0.252, t = 2.0845). This finding is in line with the study of Hooley et al, (2000) which reported a positive association between market orientation and business performance. Slater and Narver (2000) in their study on the positive outcome of market orientation and business profitability reported the existence of the significant and positive association between market orientation and performance. Shoham and Rose (2001) in their study, which serve as a seminal work of earlier market orientation and performance investigation and the study cut across different businesses of agriculture, construction, food and so on. They reported a significant association between market orientation and firm performance, which contradicts the finding of the present study. Subramaniam and Gopalakrishna (2001) in their investigation on market orientation to performance relationship in the context of a developing economy. The results show that market orientation is a good predictor of firm performance. Similarly, the finding of Agarwal et al., (2003) supports the previous findings that market orientation has a significant association with performance. Grainer and Padanyi (2005) conducted studies on market oriented activities and market oriented culture reported an important association between market orientation behavior and organizational performance.

Kara et al., (2005) in their work on the effects of a market orientation on business performance: a study of small sized service retailers using Markor scale. A sample of one hundred and fifty

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three owner/managers from three states of US was used. The findings of their study reported an important linkage between market orientation and small sized retailer performance. Hence, this contradicts the finding of the present study. Li et al., (2008) reported a positive and significant linkage between market orientation and performance in a study conducted on the moderating effects of entrepreneurial orientation on the relationship between market orientation and performance linkage: evidence from Chinese small firms. Gaur et al., (2009) examined the relationship between market orientation and manufacturing performance for small and medium enterprises in India. Their finding, reported significant association between market orientation dimensions of customer orientation, inter – functional coordination and manufacturing performance in the Western region of India. Rettab and Mellahi (2011) investigated two thousand two hundred small firms from Dubai, through a mail survey and reported a significant positive relationship between market orientation and business performance. Eris and Ozmen (2012) examined market orientation and firm performance of the Turkish logistics sector, with survey questionnaire and structural equation modeling for data analysis. The finding of the study reported a significant association between market orientation and firm performance of the Turkish logistics sector. Arshad and Othman (2012) examined the effects of corporate social responsibility and market orientation on firm performance. The result of the study shows that market orientation significantly predicts firm performance. hence, H1 is supported.

Table 2: Path Coefficient and Hypothesis

Hypothesis	Path Coefficient	Standard Error	T-Statistics	Decision
MO -> PER	0.252	0.1208	2.0845	Supported
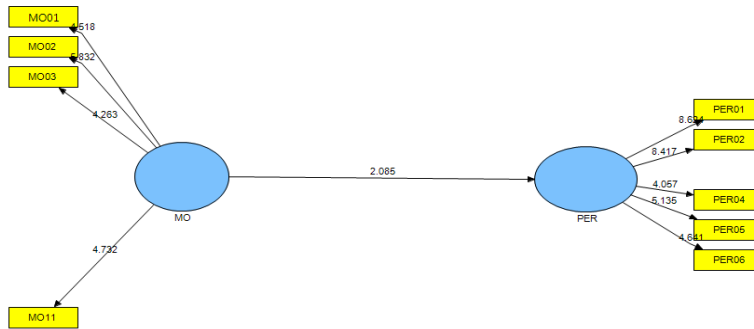
Figure 2: Hypothesized Model

5. Conclusion

This study examines the relationship between market orientation and SMEs business performance using a sample of SMEs from Kano state, in North- western part of Nigeria. The finding of the study shows that there is a positive and significant relationship between market orientation and SMEs business performance of Nigeria. However, this finding is in concord with the previous findings of Morgan et al (2009), Baverly et al (2012), Oyedijo et al (2012), Webster et al (2014), Kelson et al (2014).

6. Managerial Implication, Limitations and Suggestions for Future Research

The finding from the present study will benefit small and medium enterprise owner/managers, small and medium enterprise development agency of Nigeria (SMEDAN), various arms of government and will also serve as a frame of future research. The study has some methodological constraints. Firstly, the data for the study was collected from selected owner managers of SMEs in Kano. Hence the findings of the study cannot be generalized. Secondly the study is cross sectional in nature, because the data was collected at one point in time, therefore, the direct effects of the independent variable on the dependent variable are difficult to conclude. Hence, future research should consider a longitudinal survey that will cover the entire six geographical zones in Nigeria. A qualitative design is suggested in order to explore in depth on the cause and effect relationship.

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