

LINKING MARKET ORIENTATION TO PERFORMANCE IN THE NIGERIAN MANUFACTURING SMEs

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Abstract

This paper aims to discuss the linkage between market orientation and performance of manufacturing SMEs in Nigeria. Small and medium enterprises (SMEs) are essential to economic growth of Nigeria, and therefore are considered as a major source of job creation, capital formation, production of intermediate goods, a source of revenue to the government as they significantly contribute to the gross domestic production. A quantitative approach was employed, using a cross – sectional research design. The data were collected through a drop and pick method from 278 respondents. The total useable questionnaires were 173 with a response rate of 62 percent. A regression analysis is used for the data analysis. The result revealed that market orientation has a significant and positive relationship to performance. The finding will add to the understanding of the vital role of market oriented strategies toward performance, as the study will benefit owner / managers of SMEs, regulators such as small and medium enterprise development agency (SMEDAN), academics and other practitioners. Future research directions provided and explained.

Keywords: Market Orientation, Performance, SMEs

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Introduction

Over the decade, marketing orientation literature has acknowledged the role of strategic orientation as a major avenue of achieving a sustainable competitive advantage. A vast majority of the stream concerning MO to business performance relationship has been previously studied with both positive and negative outcomes (Shehu & Mahmood, 2014a; Ozturan, Ozsomer, & Pieters, 2014; Mokhtar, Yusoff & Ahmad , 2014; Kelson, 2014). This study therefore, seeks to investigate the association between MO and BP among Nigeria's small manufacturing firms.

Despite the fact that some scholars identified a strong positive correlation market orientation and business performance. However, the anecdotal research conducted on themarket orientation and the mixed findings reported, complicate efforts amongst both academics and practitioners to conclude on the real effects of the constructs upon business performance

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(Shehu & Mahmood, 2014b). Therefore, the present study is an attempt to retest the effect of MO on BP to determine how organisational factors could contribute in making Nigeria's manufacturing small firms more market oriented. Based on research findings, the exploration of organisational factors will facilitate leadership of manufacturing small business firms in designing and implementing business practices and processes, aimed at becoming more market oriented which would result in improved business effectiveness and sustained competitive advantage.

Literature Review

Beverly, Michael and Richard (2012) examined customer orientation performance relationship among one hundred and eighty US firms, with the moderating influence of risk taking, innovativeness, and opportunities focus on the relationship with performance. Survey questionnaire is used with regression method for analysis. The finding of the study indicated strong and positive relationship between the constructs. However, other studies reported a negative relationship between MO and Firm performance, these include; Suliyanto and Rahab(2012) conducted study to describe contradicting relationship between market orientation toward organizational performance and to provide a quantitative analysis, in which learning orientation, market orientation, entrepreneurial orientation, and innovativeness function as the key success factors in technology-intensive firms variables. They used a sample of one hundred and fifty SMEs in Banyumas in Indonesia with survey questionnaire as instrument and structural equation model for analysis. Their findings indicated that market orientation is unable to directly improve business perform without innovation as media.

In contrast, Demirbag, Lenny Koh, Tatoglu and Zaim, (2006), Haugland *et al.*, (2007) Mokhtar, Yusoff and Ahmad (2014) reported a mixed finding on MO – BP relationship in their different studies. Based on these arguments, we proposed:

H₁: There is a significant association between market orientation and business performance among Nigerian Manufacturing SMEs.

Methodology

The data were collected through a hand delivery method form 278 owner / managers of manufacturing SMEs in Kano – Nigeria. These questionnaires were personally administered to the respondents with the aid of research assistants, out of the number given 173 were duly completed and returned representing 62 percent response rate. There is also an issue of non - response bias which is pertinent to survey methodology. Non response bias exists when there are significant differences between the answers of respondents and non - respondents. The convention of comparing the respondents of the second wave with those of the early wave was followed (Armstrong & Everton, 1977). The early wave group consisted of 91 responses whereas the second wave group consisted of 82 responses. The T-test performed on the mean responses of the constructs for these two groups indicated no statistical differences, suggesting that no response bias exists in this study.

Market orientation was measured using questionnaires adapted from Suliyanto and Rahab (2012). A total of 12 questionnaire items were used to measure sub-dimensions; customer orientation, competitor orientation and inter-functional coordination. However, for this study the MO was viewed as a single construct. These items were measured on a five-point scale where 1 indicated ‘strongly disagree’ and 5 indicated ‘strongly agree’.

There has been no consensus about within the research field on the right measure to use in measuring organizational performance. Some previous studies, suggested the use of objective measures. It has been generally agreed that objective measures of performance are more appropriate than subjective evaluation. Hence, collecting objective data is very difficult largely because owner/managers are not ready to pass their information to outsiders. In addition, they may provide biased evaluation of their firm’s performance (Sapienza, et. al., 1988). Therefore, a subjective approach is employed in this study where the performance of the firm is measured by the perception of the owner/managers providing responses to the survey, using 5-point Likert scale items.

Reliability and Validity

In this study, the instruments were sourced from the previous studies and tested for reliability. The adopted questions were modified for it to suit the objective of the study. Hence, a reliability test was carried to determine the internal consistency of the measures used. Table 1 below provides a summary of reliability test based on the Cronbach Alpha values of more than 0.7 which is higher than that recommended by Hair, Anderson, Tatham, and Black, (2006); Sekaran and Bougie (2010). Therefore, all the constructs were deemed to have adequate reliability.

Table 1: Reliability scores of variables

| Variable | Number of Items | Cronbach’s Alpha |
|--------------------|-----------------|------------------|
| Performance | 8 | 0.796 |
| Market orientation | 7 | 0.799 |

Factor Analysis

The variables in this study were validated through factor analysis. Before performing the analysis, the suitability of the data was assessed through two tests; Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) and Bartlett’s Test of Sphericity. The KMO has to be more than 0.50 and Bartlett’s Test of Sphericity has to be significant. In factor analyses, principle component analysis and Varimax rotation were performed. It was suggested that items that had factor loadings lower than 0.5 should be eliminated (Hair et al., 2006; Tabachinick & Fidell, 2014), but this study consider a value of 0.5 which is regarded for statistical significance (Hair et al., 2010). Table 2 shows that Market orientation has the KMO value of 0.811 the Bartlett’s Test of Sphericity was significant at $p < 0.000$, table 3 indicated that the performance has a value the KMO value of 0.733 and Bartlett’s Test of Sphericity was significant at $p < 0.000$. The results support the factorability of the data.

Table 2: Result of the Factor Analysis for Market orientation

| | Items | Component 1 |
|------|-------------------------------|----------------|
| MO07 | Respond to competitors action | .736 |
| MO08 | Competitor orientation | .727 |
| MO09 | Product competitiveness | .726 |
| MO10 | Coordination | .696 |
| MO01 | Value added customer products | .652 |
| MO02 | Customer orientation | .623 |
| MO03 | Customer satisfaction | .520 |
| | Eigen value | 3.816 |
| | Percentage of variance | 68.158 |
| | KMO | .811 |
| | Bartlett's Test of Sphericity | 1462.880 |
| | Significance | .000 |

Table 3: Result of the Factor Analysis for Firm Performance

| | Items | Component 1 |
|-------|-------------------------------|----------------|
| Per02 | Product sales | .855 |
| Per01 | Wider market | .780 |
| Per05 | Increase in employees | .777 |
| Per06 | Increase in customers | .737 |
| Per04 | Customer complaint | .704 |
| | Eigen value | 2.982 |
| | Percentage of variance | 59.636 |
| | KMO | .733 |
| | Bartlett's Test of Sphericity | 986.367 |
| | Significance | .000 |

Hypotheses Testing

The study employed a multiple regressions analysis to examine H1 that is the relationship between market orientation and performance. Multiple regression is used due to the fact that, it not only predicts the effect of independent variables (market orientation) on the dependent variable (performance), however, it also examine the unique strength and direction of the individual contribution of independent variables on the dependent variable. Table 4 below, shows the result of multiple regression analysis between the studies constructs. The table shows that MO has significant and positive relationship to performance, Hence, H1 is supported. The finding on H1 is in line with the previous work of (Agarwal & Dev, 2003; Morgan et al., 2009; Shehu & Mahmood, 2014b; Shehu & Mahmood, 2014c).

Table 5: Regression analysis knowledge management, market orientation and performance

| | Std. Error | Beta | t-value | Sig |
|------------------------|------------|------|---------|-------|
| Performance (Constant) | | | | |
| Market orientation | .053 | .265 | 5.501 | .000* |

R Square = .077, Adjusted R Square = .073, *Sig P < 0.001

Discussion and Conclusions

The first objective of the study is to examine the impact of market orientation on performance relationship. The findings indicated a significant and positive relationship of MO to performance. The findings support previous studies on the MO and performance relationship (Agarwal & Dev, 2003; Morgan et al., 2009; Shehu & Mahmood, 2014d). This study has contributed to a better understanding of MO and BP among SMEs, however, it has some limitations that must be considered and possibly addressed in future research. First, the cross-sectional nature of this study could only capture and analyse a snapshot of a phenomenon and therefore failed to examine the change of respondents' perception over time. This can be overcome by conducting a longitudinal study to track the perceptions of respondents over a considerable period of time. The study employed only a single research methodology approach and future research through other methods could be undertaken to triangulate. Finally, manufacturing SMEs were examined, future studies may consider other SMEs, and the study can be replicated in other context and across different sectors using other suitable predicting, moderating, mediating and performance variables.

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