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THE EFFECT OF MARKET AND ENTREPRENEURIAL ORIENTATIONS ON ORGANIZATIONAL PERFORMANCE: STUDY OF MALAYSIAN SMES

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ABSTRACT

In today's competitive business environment, firms that are not market and entrepreneurially oriented disappear from the market within no time. This study is aimed to examine the effect of market orientation (MO) and entrepreneurial orientation (EO) on firm organizational performance (OP) of small and medium sized enterprises. Structured questionnaires were distributed to 300 SMEs in Johor, Malaysia using random sampling technique. These SMEs belonged to both manufacturing and services sector. 139 completed questionnaires were returned showing the response rate of 46%. Data was analyzed through correlation and regression analysis. Results of the study show that both market and entrepreneurial orientations affect positively the organizational performance. This study provides insights to researchers, practitioners and managers on the significance of market and entrepreneurial orientations for the survival and growth of SMEs.

Key Words: Market orientation, customer orientation, entrepreneurial orientation, firm performance, innovativeness.

INTRODUCTION

The competition among business enterprises has increased with rapid globalization of markets and has led to more dynamic and numerous markets across the globe (Kwak et al., 2013). In this scenario, small firms are comparatively more exposed to external shocks than the large enterprises. Small firms due to their size are unable to acquire human resources and modern technology to attain advantage. These firms have to rely on the resources and capabilities of their owners/managers. Thus, the entrepreneurial skills of these owners/managers are crucial for the success and survival of small firms. Both market and entrepreneurial orientations not only enable firms to absorb the shocks created by the dynamic and complex business environments but also help them to reap benefits of the new business opportunities. Firms which do not adopt market and entrepreneurial orientations soon disappear from the market. From the perspective of resource based view (RBV), market and entrepreneurial orientations are two distinct but complementary strategic orientations (Miles and Arnold, 1991). Market orientation is described as a firm's inclination to create and deliver a superior value for its customers (Narver and Slater, 1990b). It entails recognizing and understanding customers and competitors to attain the sustainable competitive advantage (Day, 1999; Johnson et al., 2012; Narver and Slater, 1990a; Zhao and Tamer Cavusgil, 2006). Market oriented activities and behaviors involve proactive search for opportunities in the market place, delivering the superior customer value and future market positioning (Morgan and Strong, 1998).

Oudan (2012) suggested that the concepts and principles of MO have validity and can be applied to all markets. He further recommends that practitioners should apply the principles of MO without any hesitation since they will increase the firm performance and contribute positively to economic performance. Raju et al. (2011) in their conceptual study provided a summary of the studies conducted on SMEs and indicated that 13 out of 16 studies showed significant positive association between MO and firm performance. Liao et al. (2011) provided a summary of 38 studies and concluded that 36 studies showed that market orientation contributed to performance in a variety of ways like customer oriented focus, delivering the superior customer value and molding the organizational culture. Several researchers have suggested that firms should adopt market and entrepreneurial orientations in order to attain more than normal return (Atuahene-Gima and Ko, 2001; Baker and Sinkula, 2009; Bhuian et al., 2005; Deshpandé et al., 1993; Kwak et al., 2013).

Entrepreneurial orientation (EO) is considered as a crucial driver of growth and sustainable superior performance (Kraus et al., 2012). The EO construct represents the strategic posture of an organization and takes into account variety of aspects like entrepreneurial methods, practices and decision making style (Lumpkin and Dess, 1996; Miller, 1983). According to Shane and Venkataraman (2000) EO represents the inclination of the firm towards the identification and exploitation of market opportunities to attain the competitive advantage.

The positive relationship of entrepreneurial orientation with performance in several different cultural and operational environments has been reported (Rauch et al., 2009). Miller (1983) described an entrepreneurial firm as a firm that “engages in product marketing innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations” (p.771). Those firms which have strong entrepreneurial orientation possess the ability to seek and exploit innovative opportunities in those markets where the competitors have not yet reached and attain the first mover advantage (Lumpkin and Dess, 1996). A study conducted by Miller and Bromiley (1990) found that EO contributes to firm performance by enhancing its return on assets/ equity/sales. Another study conducted by Krauss et al. (2005) contended that EO is a strong predictor of organizational performance.

MO is directly related to the process of customer satisfaction while EO is related to identification and exploitation of opportunities than explicitly meeting the customer needs (Baker and Sinkula, 2009). MO and EO positively influence each other and both the constructs share common aspects and facilitates the implementation of each other (González-Benito et al., 2009). MO alone may not be stronger enough in maximizing the firm performance to firm (Coley et al., 2010; Kwak et al., 2013). Studies conducted by (; Bhuian et al., 2005; Hakala, 2013) suggested that the adoption of a single orientation alone and justifying that it would bring superior performance is inadequate.

Balancing several orientations will create a more advanced organizational culture which would enable a firm to perform effectively (Grinstein, 2008). Concluding the debate on which one construct would yield superior performance, it is suggested that MO should be combined with EO in order to attain the sustainable superior firm performance (Atuahene-Gima and Ko, 2001).

Keeping in view the above mentioned studies, it is essential to replicate the MO and EO constructs in order to gain further insight on how both the constructs influence the growth, performance and success of the firms. The current study investigates the influence of both MO and EO on organizational performance of SMEs in Malaysia. For a developing country like Malaysia, aspiring to become high income country by the year 2020, SMEs are vital for the economic growth. SMEs form approximately 98 percent of businesses in Malaysia with 90 percent found in services sector and 5.9 percent in the manufacturing sector. These SMEs not only compete in the local market but also are formidable competitors in the regional international markets. Investigating the market and entrepreneurial orientations of such firms is important to understand how these two constructs are helping the small firms to attain advantage and would also help the management to better incorporate these orientations in their business strategies.

Theoretical Framework and Hypotheses Development

In strategic management, the most dominant theory is the resource based view (RBV), which has been extensively applied in strategic marketing (Morgan et al., 2006; Voola and O'Cass, 2010; Zahay and Peltier, 2008). RBV indicates the internal capabilities that lead to survival of the firms and especially the small firms. RBV views strategic orientations such as market and entrepreneurial orientations as strategic capabilities and resources of the firms that can influence the performance of firms. Voola et al. (2012) pretended that firms having better resources and capabilities can utilize them for exploitation of new market opportunities and outperforming the competitors.

Resources are not only the internal production capabilities of the firms but also serve as the abilities to enable them to adapt to the external environment. Resources may include the managerial capabilities to learn developing new resources or strategies in order to respond effectively to the external environment to attain the competitive advantage and superior performance (Farrell, 2000; Verhees and Meulenberg, 2004). Understanding of the changing market trends and making effective responses not only ensure a firm's survival in the cut throat competition but also results in improved performance (Mahoney, 1995).

The current study is based on the RBV which asserts that firms if effectively deploy their organizational capabilities in the form of MO and EO would perform at high level in the marketplace.

Market orientation

Market orientation being a fundamental construct in the marketing literature has the interest of many researchers for the past two decades (Kumar et al., 2011; Pelham, 2000; Theodosiou et al., 2012; Zhou et al., 2008). Market orientation is considered as essential driver of business performance and its importance cannot be denied regardless of culture and market due to its strong relationship with business performance (Hinson and Mahmoud, 2011; Kwak et al., 2013; Matsuno et al., 2002; Nasution et al., 2011). Several research efforts have continued emphasizing the association between the degree of market orientation and business performance (Ahmed Zebal and Goodwin, 2012; Dubihlela, 2013; Narver and Slater, 1990b; Özer et al., 2006).

Majority of the studies investigated MO either from either cultural or behavioral perspective (Theodosiou et al., 2012). Narver and Slater (1990) defined market orientation from cultural perspective as "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". The cultural perspective emphasize on the values and norms of the organization which are associated with MO and comprise of three components namely competitor orientation, customer orientation and the inter-functional coordination (Narver and Slater, 1990). Kohli and Jaworski (1993) defined market orientation from behavioral perspective as "the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of intelligence across departments, and organization wide responsiveness to it". Narver and Slater (1990) opined that customer orientation is the understanding of customers' needs, creating and delivering them with products or services that satisfy their needs. Competitor orientation refers to understanding the weaknesses and strengths of the competitors, delivering the superior value to customers and outperforming the competitors (Kumar et al., 2011; Narver and Slater, 1990a). Inter-functional coordination refers to the coordination among all the department and functional areas of the firm to utilize the resources of the organization in order to create superior value for customers. Inter-functional coordination has direct association with several dimensions of business performance like new products development (Grinstein, 2008; Han et al., 1998b; Kwak et al., 2013), overall business performance (Jaworski and Kohli, 1993b) and profitability (Narver and Slater, 1990a).

The behavioral perspective on the other hand focuses on specific activities which are related to the collection and of market information and dissemination across the organization (Jaworski and Kohli, 1993a). Both concepts have occupied a central position in the literature which emphasize on creating and delivering superior customer value and attaining sustainable performance and because of these reasons the relationship of MO with business performance have been extensively studied (Grinstein, 2008; Han et al., 1998a; Shin, 2012; Zhou and Li, 2010).

Kumar et al. (2011) is of the view that market orientation guides the firm to attain the sustainable competitive advantage. Market orientation brings those abilities and capabilities which enable a firm to respond effectively to any change or changes in the market need, by introducing new products and services (Kumar et al., 2011;

Shin, 2012). Research regarding examining the association between market orientation and firm performance in the context of SMEs started recently (Keskin, 2006). The extensive literature on these two construct depicts that most of the studies on this relationship have been conducted in large scale organizational settings (Jabeen et al., 2013).

The momentous research which has been done on market orientation literature suggests that firms should adopt the market orientated culture including customer orientation, competitor orientation and inter-functional coordination for attaining the superior performance (Liu et al., 2013; Zhou et al., 2009). These dimensions are essential representing the market oriented strategy that reflect the inclination of firm exhibiting the market oriented behavior for accomplishing its strategic objectives (Awwad and Agti, 2011; Dubihlela, 2013; Raju et al., 2011). The growth and success of SMEs mainly depends upon the capabilities of these firms in formulating and implementing those strategies which can effectively respond to the challenges posed by external environment (Kumar et al., 2011; Narver and Slater, 1990a). A firm that do not adopt and maintain the market oriented culture put itself in danger (Dubihlela, 2013). Thus, based on the extant literature review the following hypothesis is formulated.

H1: *Market Orientation as a strategic capability has significant and positive effect on firm performance.*

Entrepreneurial orientation

The concept of Entrepreneurship has been paid much attention by researchers for the past two decades (Covin et al., 2006; Eggers et al., 2013; Rauch et al., 2009). It refers to an activity, based on opportunity and which creates value and is highly associated with risk and innovation (Sexton and Kasarda, 1991). Entrepreneurial orientation refers to the strategic management style of a firm possessing entrepreneurial tendencies (Becherer and Maurer, 1997; Lumpkin and Dess, 1996). Miller was the first one who operationalized the EO concept and explained that an entrepreneurial oriented firm is one which practices product innovation, takes somewhat reasonable risk, exploit the opportunity in the market before the competitor grab it and outperform the competitors (1983). He operationalized the EO construct into three dimensions: risk taking, innovativeness and proactiveness.. Lumpkin and Dess (1996) defined innovativeness as “a firm's propensity to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or processes”. Rauch et al. (2009) explained it as the willingness of the entrepreneur to encourage and support experimentation creativity in the form of launching new or improved products or services or in terms of technological supremacy by research and development in the organizational procedures.

According to Hughes and Morgan (2007) innovativeness enables a firm to differentiate its products from those of the competitors. Innovativeness encourages an entrepreneur to be open minded and welcome to any novelty or creativity with open heart and not to punish the employees if they commit any mistake (Wang, 2008.) Proactiveness refers to “seeking new opportunities which may or may not be related to the present line of operations, introduction of new products and brands ahead of competition, strategically eliminating operations which are in the mature or declining stages of life cycle" (Venkatraman, 1989). According to Hughes and Morgan (2007), proactiveness is a forward looking aspect of EO which is based on the scanning of the environment on continuous basis, where by a firm predict an opportunity and thus develop and launch the new product to attain the competitive advantage as a pioneer firm. Vora et al(2012) pretended that firms with the attribute of proactiveness attempts to seek future opportunities irrespective of the fact that these opportunities may even be unrelated to the firm's current operations. They further described that these firms identify and exploit opportunities to meet demands, possibly through their own innovation.

Rauch et al. (2009) described that risk taking is the tendency of the firm to take bold step, undertake calculated risk, hire heavily and invest a major portion of fir resources and venture into the uncertain and unknown market to grab a business opportunity. Lumpkin and Dess (1996) consider risk taking as the quality of the firm that is crucial for the survival, growth and superior performance of the firm. These three dimensions: risk taking, innovativeness and proactiveness are of great importance for a firm because they influence the firm performance in today's business environment (Brettel and Rottenberger, 2013).

The EO-Performance relationship in strategic management and entrepreneurship literature is well established and the positive relationship between them has been reported by many researchers (Brettel and Rottenberger, 2013; De Clercq et al., 2010; Wiklund, 1999; Zahra and Covin, 1995). Recently a meta analysis conducted by Rauch et al. (2009) confirmed 51 studies showing positive relationship between EO-Performance. The above discussion leads to formulate the second hypothesis of the study.

H2: *Entrepreneurial orientation as a strategic capability has significant and positive effect on firm performance.*

METHODOLOGY

The study was conducted on the SMEs in Johor, Malaysia. 300 SMEs were contacted and 139 responded to the survey. The response rate of 46 percent was achieved, which is considered a good response. The respondents of the survey questionnaire were the CEOs or managing directors of the SMEs. Both service and manufacturing SMEs were part of the study. The sample using systematic random sampling with replacement was selected from the database of Federation of Malaysian Manufacturers (FMM).

The questionnaire consisted of MO scale which was adapted from Narver and Slater (1990a). The market orientation was divided into three dimensions of competitor orientation, customer orientation and inter-functional orientation. Numerous studies (Han et al., 1998b; Hsieh et al., 2008; Lukas and Ferrell, 2000; Nasution et al., 2011) had validated the scale, and the alpha values of the scale had been found to be above 0.80.

The scale for EO was adapted from Lumpkin and Dess (1996) The entrepreneurial orientation was divided into five dimensions of proactiveness, risk taking, innovativeness, competitor aggressiveness and autonomy. Many studies (Lee and Lim, 2009; Lee and Peterson, 2001) had validated the scale, and the alpha values of the scale had been found to be above 0.75.

There are numerous measures to gauge the performance of a firm like financial and non financial measures. Financial measures look at return on investment, profitability, return on assets, sales growth etc while non-financial measures like employee satisfaction, innovation, customer satisfaction, service quality, human resource practices etc are used for measuring performance of an organization. For the study non-financial measures of firm performance were taken. Non-financial measures have been used as they have been found to accurately ascertain the firm performance and are more reliable than financial performance. Secondly, for SMEs divulging financial data pose risks which these small firms avoid. Therefore, non-financial measures were found more suitable for the study. The questionnaire captured the perceptions of the respondents on a scale of 1-5.

The instrument was subjected to factor analysis to ascertain the validity of the scale. This procedure was done to validate the scale in Malaysian environment; while reliability of the scale was done by using Cronbach alpha. The results were generated through SPSS 21 using Pearson correlation and multiple regression analysis.

RESULTS AND DISCUSSIONS

Pearson correlation was used to measure the relationship between the constructs MO, EO and performance. The Pearson correlation result indicates a strong relationship between the constructs. Both market orientation and entrepreneurial orientation have a strong relationship as indicated in Table 1.

Table 1: Correlation Analysis

	Market Orientation	Entrepreneurial Orientation	Organizational Performance
Market Orientation	1		
Entrepreneurial Orientation	.694**	1	
Organizational Performance	.712**	.761**	1

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

The regression analysis was conducted in order to check the effect of market and entrepreneurial orientation on firm performance. The value of p depicts the extent of relationship these variables hold. If the value of p is less than 0.05 then it indicates that there is significant relationship between independent and dependant variables. Thus, the results indicate that market orientation is a strong predictor of firm performance ($\beta = 0.524$, $p < 0.05$). It can be concluded that market orientation has significant and positive effect on firm performance, whereby it causes 52.4% variation in firm performance. Regression analysis further confirmed that entrepreneurial orientation also has positive and significant effect on firm performance ($\beta = 0.350$, $p < .05$). The results are shown in Table 2.

Table 2: Regression Analysis

Variables	**Beta**	**t-value**	**p-value**
MO	0.524	8.665	0.000
EO	0.350	6.066	0.000
R^2 0.578 F 189.598 (0.000)			

Multiple regression analysis was carried out to find the influence of individual dimensions of MO and EO on firm performance. The results are shown in Table 3. The results indicate that all three dimensions of MO have a significant influence on firm performance. Blankson and Cheng (2006) have highlighted that determination and fulfilling the needs and wants of the target markets results in organizational success. It involves the use of organizational skills in understanding and satisfying the customers (Day, 1994). This view is also expressed by RBV which also takes into account the internal resources of the organizations to enhance the performance. Several studies have indicated that small firms are taking advantage of their internal resources and using these to enhance their performance. These small firms are having customer and competitor orientations which are helping them to be ahead of their competitors in satisfying the needs of the markets in which they operate. The greater the degree of market orientation, the higher will be the performance of the business previous researches (Greenley et al., 2005; Low et al., 2007; Slater and Narver, 1994).

The multiple regression results for dimensions of EO indicate that only three dimensions of risk taking, proactiveness and innovativeness were having significant influence on firm performance whereas, competitive aggressiveness and autonomy have insignificant influence on firm performance. This indicates that SMEs are proactive and innovative in their approach and in product or service development but are not competitive enough to promote them. Organizations that act entrepreneurially are in a better position to adapt to the changing business environment. Empirical studies have found that EO supports firm performance through the development of new products and services and by capitalizing on the opportunities market presents (Bhuian et al., 2005; Hakala, 2013; Rauch et al., 2009).

Table 3: Multiple Regression Results for MO and EO

Variables	Beta	t-value	p-value	
Competitor orientation	0.346	5.926	0.000	R^2 0.465
Customer orientation	0.353	5.955	0.000	
Inter-functional coordination	0.170	5.866	0.000	F120.258 (0.000)
Risk taking	0.224	3.968	0.000	R^2 0.531
Proactiveness	0.209	3.746	0.000	
Innovativeness	0.187	3.618	0.000	F62.058
Competitive aggressiveness	0.064	1.228	0.221	(0.000)
Autonomy	0.021	0.579	0.563	

CONCLUSION

Small businesses are important contributors to economic development and investigation of their performance is essential for understanding the health of the economy. The results of this study confirm that there is positive and significant relationship between market orientation and entrepreneurial orientation and the firm performance. The adoption of the Market orientated culture enables the firm to create and deliver superior customer value, outperform the competitors in the market and attain the superior firm performance. Similarly entrepreneurial orientation enables the firm to seek and exploit the opportunities in those markets where the competitors have not yet reached, take risk and introduce new products in order to attain the sustainable completive advantage. The owners/ managers of SMEs are suggested to adopt both the concepts as they will enable the firms to create and deliver the superior customer value and also facilitate the firms to seek and exploit the new opportunities in the market place which in turn will lead to superior firm performance.

The limitation of this study is its multiple industry focus. A single industry focus would have provided a deeper knowledge and understanding of market orientation and its relation to business performance. For future studies, concentration on a single industry such as manufacturing or service might help to facilitate this understanding. For the present study external generalizability was emphasized upon with SMEs taken from different industries. In future researchers might segregate the target SMEs into various industries and multiple respondents from each SME would yield in-depth information regarding the constructs. This study did not explicitly control for whether the business was a startup or had been operating for some time nor did it take into account whether the business was a micro, small or medium enterprise. Controlling for variables such as age of business or employees would definitely help in understanding the study constructs better. Although support for subjective measures of performance exists in literature, future research utilizing objective measures along with subjective measures

measures is needed. Respondents especially owner/managers of small and medium firms are reluctant in divulging financial information, there is a need to make them aware and comfortable that the information provided by them would be used in aggregate summary and would not be individually identified.

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