

# Relationship between Market Orientation and Firm Performance: A Look at Nigerian SMEs

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## Abstract

The aim of this research is to examine the relationship between market orientation and performance of SMEs in Nigeria. It proposed a quantitative analysis in which market orientation is a key success factor of SMEs. Data were collected by means of self-administration of questionnaire completed by owner/managers randomly selected from a sampling frame of registered SMEs. The questionnaire was adapted from Suliyanto and Rahab (2012) which was used to measure market orientation using a twelve items scale and performance measurement was based on subjective evaluation involving self-reported measures with six items. The findings reveal that significant relationships exist between market orientation and SME performance. This finding may be of help to the owner/managers of SMEs to be more market oriented in order for them to survive in the intensively competitive market environment.

**Keywords:** Performance, SMEs, market orientation, Kano, Nigeria.

## 1 Introduction

Small and medium Enterprises play an important role in sustainable socio-economic development in nation's development, for its contribution to GDP, providing about 60% of job creation in Nigeria (Dauda&Akingbade 2010).It serves as a source of wealth generation, poverty alleviation, a means of capacity building; through provision of goods and services (Serrasquiro&Nunes 2008). In spite of the fact that small and medium enterprises have been regarded as the main source for employment generation and technological development in Nigeria, the sector nevertheless had its own fair share of neglect as identified by Oluboba (2002 ), which includes: low level of entrepreneurial skills, poor marketing skills, poor management policies, 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, multiplicity of regulatory agencies, societal and attitudinal problems, bureaucracy, integrity and transparency problems, lack of access to vital information due to improper record.

SMEs have been widely defined by different scholar and in different ways. Each country tends to develop its peculiar definition based on the expected role of Small and Medium enterprise in that country. Different definitions among countries have risen from differences in industrial organization at different levels of economic development. A firm that is considered as small in economically advanced nations may be classified as medium or even large in developing country like Nigeria.

The objective of this study, therefore, is to investigate the relationships between market orientation and firm performance of SMEs in Nigeria. Specifically, this study aims to determine the significant relationship between market orientation and SME performance.

## 2 Literature Review

### 2.1 Market Orientation and Performance

According to Lee, Yoon, Kim & Kang (2006) market orientation refers to a kind of philosophy and behaviors directed towards identifying and knowing the needs of the targeted customer with a view of advancing means of satisfying such a customer better than the competitors. Narver and Slater (1990), based on the cultural method, view market orientation as comprising customer orientation, competitor orientation and inter-functional coordination. While Kohli and Jaworski (1990), based on the behavioral approach, operationalized market orientation as comprising intelligence generation, intelligence dissemination, and responsiveness.

Empirical evidence on the relationship between market orientation and firm performance appears to be mixed. Some researchers found 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 (Harris 2001; Suliyanto & Rahab 2012). This inconclusiveness shows a need for research to identify factors that intensify the strength between MO and performance. Thus, the study hypothesis is:

H<sub>1</sub>: There is a significant relationship between market orientation and SME performance.

### **3 Methodology**

#### **3.1 Sampling and Data Collection**

The data was collected by means of a self administration of questionnaire survey completed by owner/managers of SMEs using disproportionate stratified sampling randomly selected from the sampling frame of National Association of Small Scale Industrialist (NASSI) Kano Chapter. The sampling frame is a representation of all SMEs. Even though, there are some shortcomings of using questionnaire survey based research, the benefits arising from cost savings, convenience, and reduced interview biased seems to outweigh the limitations. There is also the risk of common method bias as a result of self report data, and as such the results of this study should be viewed as representing the owner/managers perceptions which could provide the most accurate assessment of the firms condition (Lyon, et.al, 2000). According to Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2012) there are 1829 SMEs in Kano State, Krejcie and Morgan (1970) table for sample size determination is employed. A sample of 320 owner/managers from the sampling frame was administered with the questionnaire, and 212 usable responses were duly completed and returned, giving a response rate of 66 percent. The response rate was considered adequate, which might be associated with the researcher's ability to convince the respondents for them to participate in the survey.

There is also an issue of non response bias which is pertinent to a survey method of data collection. Non response bias exists when there are significant differences between the answers of those who have responded and those who do not respond. This study followed the convention of comparing the respondents of the first wave with those of the second wave (Armstrong & Overton 1977). The early wave group consisted of 102 responses whereas the final wave group consisted of 100 responses. The t-tests performed on the responses of these two groups yielded no statistically significant differences on demographic characteristics. Thus, it can be concluded that there is no significant non-response bias in this study.

#### **3.2 Measures the Variables**

##### **3.2.1 Market Orientation**

Market Orientation which uses the three dimensions as; customer orientation, competitor orientation, inter-functional coordination with twelve items is adapted from the work of Suliyanto and Rahab 2012; Slater & Narver 1995; Calantole 2002; Lin et.al; 2008). However, market orientation for this study is treated as a one-dimensional construct adapted from Suliyanto and Rahab (2012) who uses it as one dimension.. However, for this study the MO was viewed as a single construct. These items were measured on a five-point scale where 1 'strongly disagree' and 5 indicated 'strongly agree'. This market orientation measures has previously demonstrated acceptable validity and reliability

##### **3.2.2 Performance**

In this study, subjective approach was adopted from the work of Suliyanto and Rahab (2012) and it has six items and the items were rooted from the previous work of Calante et.al, (2006), Keskin, (2006), Lin et al., (2008). Subjective measure was used due to difficulty involved in assessing the objective measure of performance, as owner/managers are generally unwilling to release firm's information to outsiders. In addition, they may provide biased evaluation of their firm's performance (Sapienza, et. al. 1988). The subjective performance of the firm is measured by the perception of the owner/managers providing responses to the survey. They were asked to state their firms' performance on criteria likely profitability and market share for the past three years. This variable was also gathered using 5-point Likert scale items.

## 4 Analysis and Findings

### 4.1 Reliability and Validity

The most common test of inter-item consistency reliability is the Cronbach's alpha coefficient. Hence, the Cronbach's alpha coefficient is employed in this study to measure the internal consistency of the instrument. After running the data using SPSS version 18 windows, it was found that all the measures possesses a high reliability standard ranging from 0.765 to 0.843. This is in concord with the standard that an instrument with a coefficient of 0.60 is regarded to have an average reliability; whereas a coefficient of 0.70 and above shows that the instrument has a high level of reliability (Hair et al., 2006; Nunally, 1967; Sekaran & Bougie, 2010). Table 1 shows that all the variables have met the benchmark for reliability

Table 1: Reliability Scores for Variables

<i>Construct</i>	<i>Number of items</i>	<i>Cronbach's Alpha</i>
Firm Performance	6	.765
Market orientation	12	.843

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. The KMO values for MO was 0.859, which can be considered as adequate, due to the fact that it is over and above the minimum requirement and Bartlett's Tests of Sphericity, which was significant at  $p < .000$ . Thus, the data were adequate for factor analysis.

For factor analyses, principle component analysis and Varimax rotation were performed. It was suggested that items that had factor loadings lower than 0.50 should be eliminated (Hair, et. al. 2006). The varimax rotated principle component factor analysis applied has resulted in three factor loading, that explained 59.31 percent (See Table 2). Only factors with a loading value of 0.50 and above were considered, and therefore no items were deleted.

### 4.2 Sample Characteristics

The respondents profile is shown the Table 3, below. Out of 164 owner/managers of SMEs in Kano-Nigeria 147 are males representing 89.6 percent, while only 17 are females carrying 10.4 percent. About 52 of the owner/managers are graduates having HND or Degree which represent 31.7 percent, 47 are secondary school certificates holders, 39 are holders of National diploma and National certificate of education and only 4 are holders of Doctorate degrees, these represents 28.7, 23.8, 13.4 and 2.4 percentages respectively. There are 91 SMEs with employment strength of 10-49 workers, 49 firms with 50-199 workers, 13 firms employing less than 10 workers and 11 firms employing above 200 workers, these represents 55.6, 29.9, 7.9 and 6.7 percentages respectively.

Table-2: Factor analysis of MO

Items	Factor Loading
i- Our firm seeks to create value added customer product	.688
ii- Our Firm tries to understand the needs of customers	.825
iii- Our firm strive to provide customer satisfaction	.714
iv- There have no attempts by our firm to measure customer satisfaction.	.807
v- Our firm provides after sales service for customer satisfaction	.704
vi- Salesperson sharing of information about our firm's competitors.	.706
vii- Our firm responded quickly to the actions of competitors	
viii- Our firm always respond to competitors strategies taken	.566
ix- Our firm has a target to create the product competitiveness	.705
x- There is coordination across and inside our firm	.740
xi- There is cooperation between divisions in formulating marketing strategy in our firm	.695
xii- All part in our firm participated in the creation of added value for customer	.598
Percentage of Variance explained: 59.31	.715
KMO = 0.859, Bartlett's Test of Sphericity Sig $p < 0.000$	

Table 3: Respondents Profile

Characteristics	Frequency	Percentage
<b>Gender</b>		
Male	147	89.6
Female	17	10.4
<b>Education</b>		
SSCE	47	28.7
Diploma/NCE	39	23.8
HND/Degree	52	31.7
Master Degree	22	13.4
PhD	4	2.4
<b>Number of Employees</b>		
Less than 10	13	7.9
Between 10-49	91	55.6
Between 50-199	41	29.9
200 And Above	11	6.7

#### 4.3 Testing of Hypothesis

Regression analysis was used to test the relationship between MO and performance (H1). The regression analysis result in Table 4 indicates that MO is positively and significantly related to performance ( $\beta = .189$ ,  $t = 2.451$ ,  $P < .015$ ). This finding is in supports with previous studies (Grainer & Padanyi 2005; Tajeddini 2006; Haugland 2007; Lings & Greenly; Kaya & Patton 2011; Idar & Mahmood 2011; Oyedijo 2012; Keelson 2012).

Table 4: Regression of MO

	Beta	t-value	Sig
MO	.189	2.451	.015*

Sig  $p < 0.05$

The model adequacy was confirmed by checking the regression assumption of outlier, normality, multicollinearity and homoscedasticity. A total of twenty eight cases were found to be univariate outliers, while twenty cases of multivariate outliers. Both skewness and kurtosis were equally achieved. No case of multicollinearity is recorded as both the tolerance and VIF values are realized. The relationship between market

orientations to performance is found to be positive at 15% level of variance which is considered weak (Cohen,1988).

## 5 Discussions and Conclusion

This study was conducted to investigate and test the relationship between MO and SME performance in Nigeria. Though there are so many studies conducted, the findings are inconclusive. The market information obtained from customers and the competitors helps the firm to look on the market and device ways of proving superior customer satisfaction. The finding helps owner/managers of SMEs to intensify initiatives to encourage better understanding on the significance of MO which boosts firm's competitive position and superior performance. This helps them to be more market oriented in order for the SMEs to survive the intensively competitive market environment.

This study also raises more questions that need to be addressed by future research. First, this study was cross-sectional, and it does not allow the determination of cause and effect or the impact of changes overtime. Future research should consider collecting data on a longitudinal basis in order to draw causal inferences. Second, the study also relies on self reports of SME owner/managers. Data sometimes tend to be more positive and may not always be completely truthful. Future studies should investigate the implementation of marketing activities within SMEs in an attempt to more directly measure the effective of those programs being implemented.

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