MARKET ORIENTATION AND BUSINESS PERFORMANCE AMONG SMES BASED IN ARDABIL INDUSTRIAL CITY-IRAN

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Abstract

Market orientation and its effect on organizational performance is one of the main debates on market and costumer management. Companies do a lot of actions in order to enhance organizational performance rate and customer orientation is one of those actions in respect to past studies.

In present research we studied the relation between customer orientation and organizational performance of SMEs located in Industrial Estates of Ardebil City from Narver and Slater's point of view. Using Narver and Slatter's view, market orientation was studied in customer orientation, competitor orientation and inter-functional coordination aspects. And we studied organizational performance in 3 aspects of: organizational effectiveness (relative quality of success in presenting new products, organization ability in customer-retention), market share and growth (sail's level, sail's growth, relative market share) and profitability (capital retention rate and profit margin).

Relationship between market orientation and organizational performance was measured using correlation test and its result is a positive and significant relationship between market orientation and organizational performance. Among market orientation aspects, there is a positive and significant relationship between customer orientation and organizational performance and there is also a positive and significant relationship between inter-functional coordination and organizational performance. And there is not a significant relationship between competitor orientation and organizational performance but the relationship is positive.

Key words: market orientation, organizational performance, SMEs, Industrial Estates of Ardebil City

Introduction

Today organizations' and companies' success depends on their awareness of customers, competitors and other factors effecting on market. Needs and wants of customers are always changing and recognizing these changes is necessary for firms' success. On the other hand, competitors aim at attracting more customers and in this way they will do their best efforts.

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Change of conditions and prevailing market conditions, including technological changes, effect firms' success in market, too. Recognizing and anticipating these factors and presenting suitable ways to encounter them play a key role in target markets' success. Hence, market orientation and attention to customers 'needs are primary features of new marketing. (Narver and Slater, 1990, p26)

Researches in 1987-1990 show a positive relationship between market orientation and organizational performance. (Lusch, R.F. and Laczniak, G.R.1987, p7). More researches in this field showed that market orientation will make a lot of social and Psychological benefits for organization employees and also by respecting employees and making them participate in organizational decision-making will bring positive attitudes to employees' minds. (Kohli, A. and Jaworski, B.J., 1990, p14)

Market Orientation

The marketing concept was formally introduced in the writings of McKitterick (1957) and Keith (1960). It defines a distinct organizational culture or business philosophy that puts the customer at the center of the organization's thinking about strategy and operations (Deshpande et al., 1993; Deshpande and Webster, 1989). The marketing concept is generally considered to be made up of the following three pillars (Sin et al., 2003): (1) customer philosophy—identification and satisfaction of the wants and needs of customers; (2) goal attainment—achievement of an organization's goals while satisfying customer needs; and (3) integrated marketing organization— integration of all functional areas of the organization to attain corporate goals by satisfying the wants and needs of customers. Though the marketing concept is central to the marketing literature, very little research has been done in terms of creating a valid measurement scale and testing the construct empirically (Tse et al., 2003). Only recently has empirical research been conducted in this area: behavioral approach by Kohli and Jaworski in 1990; and cultural approach by Narver and Slater in 1990.

Market Orientation and Business Performance

In the past decade, a steady stream of research has focused on the impact of market orientation on organization performance. In this regard, there are two opposite views. On the positive side scholars like Keith (1960), Levitt (1975), Kotler (1991), Rogers (1985) and Day (1994), all subscribe to the belief that market orientation is the key to successful business performance.

On the other hand, a number of authors have questioned the link between market orientation and business performance. For example, Kaldor (1971) suggested that the marketing concept is an inadequate prescription of marketing strategy because customers do not always know what is needed. Furthermore, critics such as Gerken (1990) have pointed out that it is unrealistic to be market oriented because organizations are no longer able to keep up with erratic and constantly changing demand and market developments. Bennett and Cooper (1979) have noted that the ability of customers to verbalize what they need is limited by their knowledge. Hence, marketers sometimes need to anticipate future needs and wants of consumers to be successful. Indeed, Bennett and Cooper (1979) and Hayes and Abernathy (1980) argue that market orientation induces businesses into being interested in short-term and intermediate customer needs, which can be detrimental to innovation and the long-term success of a company.

Studies using samples from US companies (Jaworski and Kohli, 1993; Narver and Slater, 1990; Pelham, 1997; Raju et al., 1995) found support for a positive link between market orientation and business performance however, mixed findings are reported from non-US studies. Emerging management paradigms are emphasizing a stakeholder perspective (Atkinson et al., 1997). Therefore to evaluate the performance impact of marketing it is necessary to consider the impact on multiple stakeholder groups. Business performance was consequently defined for this study on the basis of the MMPF - Multi-Model Performance Framework (Weerakoon, 1996). The MMPF model consist of four dimensions including employee motivation, market performance, productivity performance and societal impact, and covers the satisfaction of stakeholders such as customers, investors, employees, suppliers and society. 14 items of MMPF model were used in the questionnaire to tap the level of performance of Iranian SMEs in the past three years.

Customer orientation

Customer orientation is defined as the sufficient understanding of one's potential target buyers to be able to create superior value for them continuously (Narver and Slater, 1990). It is the set of behaviors associated with acquiring, disseminating, and processing customer information and with effectively reacting, responding, and supporting customer feedback (Kohli, Jaworski, and Kumar, 1993). Also, market orientation refers to an organization's activities that are involved in the understanding of buyers' entire value chain, the acquisition of information about buyers in the target market, and the dissemination of this information throughout the entire organization (Powpaka, 2006). It definitely involves a focus on customers by identifying, analyzing, understanding, and answering their needs, demands, and expectations, and generating, creating and increasing their satisfaction, acceptance, and reliability. Organizations with stronger customer orientation positively foster more value related to market tracking and offer greater value to their customers. Accordingly, customer-oriented organizations tend to obtain information about current and latent customers' needs, understand the expressed desires, needs, and demands of the customers in their served markets and develop products and services that satisfy those desires.

A seller generates value for buyer only through two methods: by increasing buyers' interests with regard to costs and by decreasing buyers' costs with regard to interests (Narver and Slater, 1990). In this case, Narver and Slater (1990) define customer-orientation as follow: an organizational culture which creates certain behaviors effectively and efficiently to generate more value for buyers (Gotteland and Boule, 2006).

Competitor orientation

Competitor orientation means that a seller knows short term strengths and weaknesses as well as long term strategies and capabilities of its major and potential competitors (Narver and Slater, 1990). Competitor-oriented companies look for determining their weaknesses and strengths. They revise regularly their capabilities to others in terms of skills and knowledge based on people, technical and physical systems, managerial systems, organizational structures, values and cultural norms (Bircall and Tovstiga, 2005). Competitor-orientation breeds innovation and new products (Augusto and Colho, 2009).

Inter Functional Coordination

As mentioned earlier, the last component of market orientation is inter functional coordination. It refers to demonstrating willingness by members of different functional areas of an organization to communicate, think, and work together to achieve their objectives, effectiveness, competitive advantage, and performance (Woodside, 2005). It comprises the organization-wide coordinated effort of a organization to create superior value for customers.

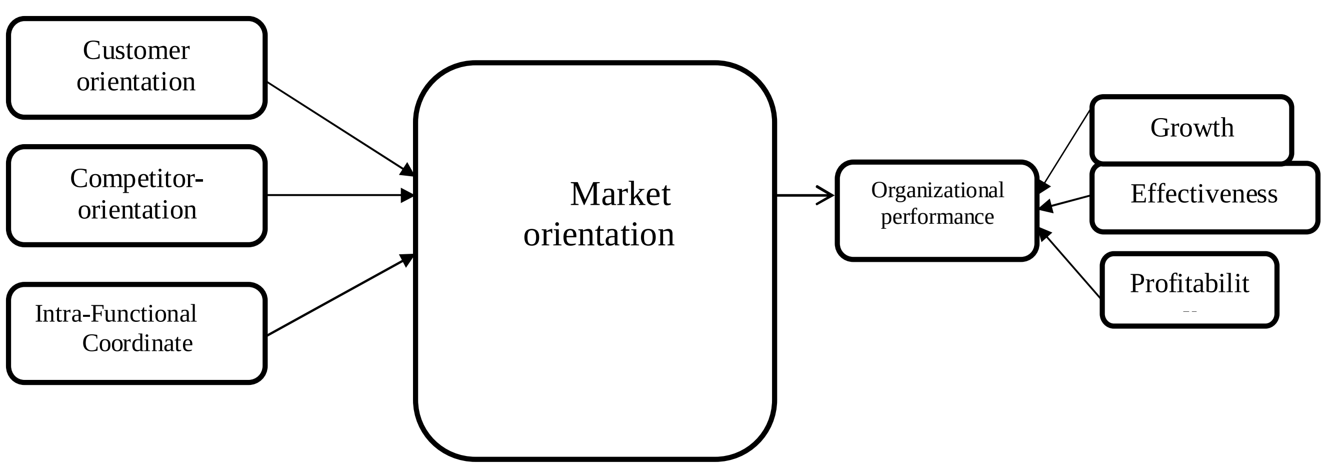
Also, inter functional coordination is defined as the coordinated utilization of a organization's resources in creating superior value for target and potential customers (Narver and Slater, 1990). It represents the integration of all functions in a organization to satisfy and serve customer needs, wants, and demand (Zhao and Cavusgil, 2006). With better inter functional coordination; organizations likely incorporate it to enhance their advantages and competitiveness. Achieving effective inter functional coordination requires an alignment of the functional areas' incentives and the creation of inter functional dependency.

Organizational performance

Although performance can have a variety of meanings (e.g., short- or long-term, financial or organizational benefits), it is broadly viewed from two perspectives in the previous literature. First, there is the subjective concept, which is primarily concerned with the performance of organizations relative to that of their competitors (Golden, 1992). The second view is the objective concept, which is based on absolute measures of performance (Chakravarthy, 1986).

Alfred Pelham used 3 criteria in order to measure organizational performance in his studies:
Organizational effectiveness (relative quality of success in presenting new products, organizational ability to retain customers), market share and growth (sail's level, sail's growth, relative market share) and profitability (capital retention rate and profit margin).Alfred Pelham's Model is used in most past studies on the relationship between market orientation and organizational performance. Also we use that model in the present study in order to measure organizational performance.

Conceptual Framework



Methodology

Research population includes the managers of SME in Ardabil industry towns in Iran. Research type was a field study and the tool to gather information was a 39-item questionnaire.

8 items are allotted to customer-orientation, 6 items to rival-orientation, 6 items to responsiveness, 5 items to customer satisfaction and 19 items to measure organizational performance

5-item Likert's range was used which involve form completely opponent to completely proponent.

The population included 98 SME s. The sample size of this research by the use of Cochran Formula was set at 78 SME s. Totally, 63 questionnaires were returned.

The reliability of this questionnaire has been measured to be a Cronbach alpha of 0.928

Case Processing Summary

		N	%
Cases	Valid	63	100.0
	Excluded[a]	0	.0
	Total	63	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.928	39

Hypotheses of research:

1. There is a significantly positive relationship between market orientation and organizational performance in SMEs.
2. There is a significantly positive relationship between customer orientation and organizational performance in SMEs.
3. There is a significantly positive relationship between competitor orientation and organizational performance in SMEs.
4. There is a significantly positive relationship between inter-functional coordination and organizational performance in SMEs.

Results and Analysis:

- The relationship between market orientation and organizational performance was positive. There is a significant correlation between cultural market orientation and organizational performance. And the more the scores of cultural market orientation, the more the scores of organizational performance.The correlation coefficient between market orientation and organizational performance is 0.589.

Correlations

			Organization performance	Market orientation
Spearman's rho	Organization performance	Correlation Coefficient	1.000	.589**
		Sig. (2-tailed)	.	.006
		N	63	63
	Market orientation	Correlation Coefficient	.589**	1.000
		Sig. (2-tailed)	.006	.
		N	63	63

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

- The relation between customer orientation and organizational performance in those SMEs was positive. There is a significant correlation between customer orientation and organizational performance. And when the scores of customer orientation increase, the scores of organizational performance increase too.

Correlations

			Organization performance	Customer orientation
Spearman's rho	Organization performance	Correlation Coefficient	1.000	.563**
		Sig. (2-tailed)	.	.001
		N	63	63
	Customer orientation	Correlation Coefficient	.563**	1.000
		Sig. (2-tailed)	.001	.
		N	63	63

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

- The relationship between competitor orientation and organizational performance in the SMEs was positive. There is not a significant correlation between competitor orientation and organizational performance but the increase of competitor orientation scores resulted in the increase of organizational performance scores. Among the aspects of market orientation, the competitor orientation has the lowest correlation with organizational performance.

Correlations

			Organization performance	Competitor orientation
Spearman's rho	Organization performance	Correlation Coefficient	1.000	.100
		Sig. (2-tailed)	.	.430
		N	64	64
	Competitor orientation	Correlation Coefficient	.100	1.000
		Sig. (2-tailed)	.430	.
		N	64	64

- The relationship between inter-functional coordination and organizational performance in these SMEs was positive. There is a significant correlation between inter-functional coordination and organizational performance. When the scores of inter-functional coordination increases, the scores of organizational performance increases, too.

Correlations

			Organization performance	Inter-functional Coordination
Spearman's rho	Organization performance	Correlation Coefficient	1.000	.626**
		Sig. (2-tailed)	.	.009
		N	64	64
	Inter-functional Coordination	Correlation Coefficient	.626**	1.000
		Sig. (2-tailed)	.009	.
		N	64	64

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

CONCLUSIONS:

This research aim is examining the relationship between market orientation and organizational performance and which component is more constituent for SMEs to maximize in order to achieve organization goals and promote greater performance.
According to the findings, there is a direct positive and significant relationship between market orientation and organizational performance of the small businesses, thereby supporting the first hypothesis.

Customer orientation also had positive significant relationship with organizational performance of small businesses. This supported the second hypotheses. Also customer orientation in Ardabil industry town SME s is a remarkable factor for authorities which play a vital role in market-orientation like previous studies. Competitor orientation had a positive but no significant relationship with organizational performance. This does not supported the third hypotheses.

Inter functional coordination had a positive and significant relationship with organizational performance. This supported the forth hypotheses.
From the discussions it is evident that small business would perform well if market orientation is improved and practiced formally. This however can be achieved as the findings show if customers are put first, thus customer's satisfaction is seen as priority. Again if customer information is shared between management and employees can make inputs and to how best customers can be served to improve service quality. Yet again it is important for small business owners to serve customers where they have competitive advantage and also attend regularly to customer complaints.
A positive relationship between competitor orientation and organization performance indicates that owners of small business would achieve superior performance if the operations of both major and latent competitors in terms of their strengths and weakness are critically considered as matters of importance. Again, coordinated marketing is very important if small businesses are to attain superior performance, this can be ensured if managers/owners and employees work together to ensure provision of quality goods and services to satisfy customers.
Also a positive and significant relationship between market orientation and organization performance of the small businesses is an indication of the fact that market orientation contributes positively to how well these businesses perform. Thus an improvement in the market orientation will lead to an equally high performance thus ensuring the long term survival of the businesses.

SUGGESTIONS:

- In order to increase market orientation level, organization should recognize its customers' needs better than competitors. If organization is able to recognize more quickly which services customers need and then it could satisfy those needs, surely it will gain much more market share and profits.

- If the organization is unaware of competitors' activities, it will not progress in the market increasing changes; hence it is recommended that, in order to enhance competitor orientation aspect, organizations should efficiently and accurately consider the competitors and check their actions.

- Organizations should collect an overall policy in order to make inter-functional coordination and coordinated use of organizational sources. The sections of organization should overlap each other's actions by recognizing each other's Pros and Cons.

- It is emphasized to make inter functional coordination by the section's participation in collecting programs and strategies, balanced distribution of sources to different sections and each section's awareness of how to present better appraise for customers.

- It is recommended to use marketing researches in order to recognize the needs and wants of customers, competitors' Pros and Cons and to optimize marketing and sail activities.

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