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Market Orientation Critical Success Factors of Malaysian Manufacturers and Its Impact on Financial Performance

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Abstract

The study examines critical success factors of market orientation in the context of Malaysian firms. Besides, the study also investigates the relationship between market orientation and financial performance. Malaysian manufacturing firms represent the sample of the study. Data was collected using mail questionnaire survey approach. One hundred and fifty eight Malaysian manufacturing organizations participated in this study. Results of this study indicated that there were five critical success factors of market orientation practices in the context of Malaysian manufacturing firms: market focus, market action, market planning, market feedback and market coordination. The results also revealed that market action and market planning were positively related to financial performance. The outcome of this study provides vital information from a developing country perspective on the impact of market orientation practices on manufacturing organisations' performance.

Keywords: Malaysian manufacturing industry, Market orientation, Performance

1. Introduction

Many studies have been carried out on market orientation, defined as the degree to which marketing concept has been adopted by an organisation (McCarthy & Perreault Jr., 1993; Parasuraman, 1981; Trustrum, 1989). Previous studies have also indicated the important role of market orientation in influencing organisational performance (Jaworski & Kohli, 1993; Langerak, 2003; Narver & Slater, 1990; Sandvik & Sandvik, 2003). Furthermore, market orientation has been regarded as a source of competitive advantage (Day, 1994; Slater & Narver, 1994b). However, despite the evidence and claim, most of the studies have been concentrated on developed countries, particularly the United States and European countries. There is limited research that has been conducted in developing countries. It is noted in the literature that the positive association between market orientation and performance does not necessarily hold true in developing countries (Appiah-Adu, 1998; Bhuian, 1997; Osuagwu, 2006). Factors that contributed to organisational performance between developed and developing countries were subjected to differences in relations to the economic structure, regulation aspect, competitive environment, cultural and the people elements, which is unique to a particular country. The need for market orientation investigations in the developing countries is still inadequate and ignored by many studies. According to Bathgate, Omar, Nwankwo, and Zhang (2006), although market orientation delivers superior performance in the western economies, the implementation of market orientation in other economies still leaves some gaps in both the theory and practice of marketing. Thus, to fill this research gap, the present study examines the appropriate market orientation factors in the context of Malaysian firms and market orientation practices in relations to financial performance of Malaysian manufacturers.

2. Literature review

According to Lafferty & Hult (2001), the concept of recent market orientation literature can be categorized into five perspectives, namely (1) the decision making perspective; (2) the strategic perspective; (3) the customer orientation perspectives; (4) the market intelligence perspectives and (5) the culturally based behavioural perspectives.

The decision making perspectives involves top management commitment in pursuing open decision making practices among the functional and divisional employees as well as sharing information between the department (Shapiro, 1988). The strategic perspectives conceptualise market orientation by focusing on strategy development and execution. Market orientation has been defined in terms of three components: "(1) obtains and uses information from customers; (2) develops a strategy which will meet customer needs; and (3) implements that strategy by being responsive to customers needs and wants" (Ruekert, 1992, p. 228).

The customer orientation perspective suggested that customer orientation and market orientation are identical. In particular, the focus of this perspective is building a corporate culture based on customer orientation. Hence, customer orientation was proposed "as the set of beliefs that puts the customer's interest first, while not excluding those of all other stakeholders such as owners, managers, and employees, in order to develop a long-term profitable enterprise" (Deshpande, Farley, & Webster Jr., 1993, p.27)

Despite various perspectives of market orientation, market intelligence and culturally based behavioural perspectives dominate market orientation research. Market orientation can be viewed as market intelligence through the work of Kohli and Jaworski (1990). Kohli and Jaworski (1990) introduce three elements of a market orientation, which are intelligence generation, dissemination, and responsiveness. According to them intelligence generation should not be seen in a narrow concept, whereby an organization obtain the information on the customer needs. However, the generation of intelligence should include obtaining information from other exogenous factors outside the organization system such as government regulation, technology, competitors, and environmental forces. In addition the information obtains is not limited to the current needs but also future needs of the customer since it is important for an organization to develop a new product offering.

Intelligence dissemination is the second element of market orientation, which involves distributing and sharing the information obtains throughout the organization. Kohli and Jaworski (1990) suggest that dissemination of the information need to be carried out effectively so that it will result collaborative actions among all the departments. As for the third element of market orientation, responsiveness requires organisation responding to market needs. Specifically, the result of generating the information and disseminating the information throughout the organization, action needs to be taken by the organization to respond to the market information.

The culturally based behavioural perspectives conceptualise market orientation as an organisational culture that force a business to achieve sustainable competitive advantage by creating superior value for customers (Narver & Slater, 1990). Thus, market orientation has been defined by Narver & Slater "as the organisation culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus, continuous superior performance for the business" (Narver & Slater, 1990, p. 21). According to Narver & Slater (1990), market orientation consists of three behavioural components: customer orientation, competitor orientation and interfunctional coordination. These three components represent the operationalisation of marketing concept as they involves with activities in the organisation to create superior value for the customer.

Lafferty & Hult (2001, p.100) specified that there are four common areas of agreement in the five perspectives, which includes (1) an emphasis on customers; (2) the importance of shared knowledge (information); (3) interfunctional coordination of marketing activities and relationships; and (4) being responsives to market activities by taking the appropriate action.

2.1 Market orientation and firm performance

As mentioned earlier, market orientation has been regarded as a source of competitive advantage and can be an important determinant of firm performance. Superior organisational performance can be achieved as market oriented firms is able to satisfied customers through tracking and responding to customer needs and preferences (Jaworski & Kohli, 1993). Furthermore, a market oriented organisation performs better in the market since the firm develop an organisational culture in delivering superior value to customers (Narver & Slater, 1990; Pelham & Wilson, 1996; Slater & Narver, 1994b).

A number of empirical studies test the relationship of market orientation and firms' performance. Some studies find that market orientation associate positively with business performance (e.g., Jaworski & Kohli, 1993; Loubser, 2000; Pelham, 1997; Pelham & Wilson, 1996; Pitt, Caruana, & Berthon, 1996; Pulendran, Speed, & Widing II, 2000; Ruekert, 1992). On the other hand, several studies do not find significant direct effect or weak relationships between market orientation and business performance (e.g., Diamantopoulos & Hart, 1993; Greenley, 1995; Han, Kim, & Srivastava, 1998; Siguaw, Simpson, & Baker, 1998)

The inconclusive findings in previous studies indicate that more test need to be carried out examining the impact of market orientation on performance across countries and cultures. This is especially in the case of a small economy like Malaysia where a relatively small market exists domestically. It is assumed that the organisational culture of this country is unique to the country specific factors such as the people and the business environment it operates. Based on this argument, the present study will identify the market orientation factors of Malaysian manufacturing firms and propose the following hypothesis:

H1: Market orientation is positively associated with Malaysian manufacturers' financial performance

3. Research Methods

The Malaysian manufacturing industry is the empirical context. The sampling frame is the Federation of Malaysian Manufacturers (FMM) database. A structured questionnaire was employed to collect data. Five managers pre-tested the questionnaire to check the face validity of the measures. Data was then collected by mail survey, using a key informant approach by selecting the individuals that have specific knowledge in market orientation practices in the organization. Thus, it was identified either the marketing manager or the CEO of the firms is the most knowledgeable on this topic.

The questionnaire was distributed randomly to 500 manufacturing firms. Of the 500 questionnaires posted, 158 usable questionnaires were returned, giving a response rate of 31.6%.

3.1 Measures

The constructs of this study combine three previous studies of market orientation measures, namely Gray et al. (1998), Kohli & Jaworski (1993) and Narver & Slater (1990). Using a six-point item scale, this construct measures the extent of market orientation practices in the organization. The four dimensions derived from the conceptualisation of market orientation are: (1) customer focus (Gray et al., 1998; Narver & Slater, 1990); (2) market intelligence generation; (3) market dissemination; and (4) responsiveness (Kohli & Jaworski, 1993).

Financial performance construct measures the degree of perceived financial performance of the organisation over the last three years. Financial indicators in the study involve the financial performance of the organisation such as profitability, sales growth and return on investment. Subjective measures of performance have been widely used in the study compare to objective performance measures. This is in line with previous research on organisations (Jaworski & Kohli, 1993; Narver & Slater, 1990; Pulendran et al., 2000; Ruekert, 1992; Sin & Tse, 2000; Slater & Narver, 1994a), whereby managers are reluctance to provide information, which they considered as confidential. In addition, previous studies have found a strong correlation between subjective performance measures and objective performance measures (Dawes, 1999; Dess & Robinson, 1984).

4. Analyses and Results

Factor analysis and reliability analysis were performed on these items to determine the validity and reliability of market orientation and financial performance variables. Factor analysis was also employed to investigate the critical success factors for market orientation practices in Malaysian manufacturing firms. The result of factor analysis for market orientation showed that five factors had emerged, with factor loadings ranging from 0.664 to 0.846, with six items eliminated. The measure of sampling adequacy (MSA) was 0.830, which was higher than the recommended value of 0.60 and the Bartlett's Test of Sphericity was significant. The percentage of total variance explained by the five factors was 66.74 percent. The first factor was defined by seven items and reflected the organisational action in detecting and taking action toward market changes in the business environment. Thus, this factor was named "Market Action". The second factor was dominated by items relating to customer focus, which are oriented toward creating customer value. Therefore, this factor was named "Market Focus". The third factor consisted of items pertaining to meeting and planning in responding toward market trend and development, thus this factor was named "Market Planning". The fourth factor consisted of items related to customer data collection on customer needs and satisfaction; hence this factor was named "Market Feedback". The fifth factor was dominated by items relating to sharing of information and working together between departments especially on the data collected from the market, thus this factor was named "Market Coordination". The results of the factor analysis and reliability tests are presented in Table 1.

Insert Table 1 here

As a result of factor analyses, new factors are created; hence the hypotheses were individualised into five sub-hypothesis.

H1a. Market action is positively associated with financial performance

H1b. Market focus is positively associated with financial performance

H1c. Market planning is positively associated with financial performance

H1d. Market feedback is positively associated with financial performance

H1e. Market coordination is positively associated with financial performance

A regression analysis on market orientation practices and financial performance was performed to test this hypothesis. The test will determine the relationship between market orientation variables with financial performance. Table 2 shows the results of the regression analysis in which indicates that R^2 is 0.182 indicating that 18.2 per cent of the variation in financial performance can be explained by market action, market focus, market planning, market feedback and market coordination. The model was significant at 1 percent level (F=6.784, sig. F=0.000). Only two of the predictor variables were found to have statistically significant association with financial performance. The two variables were market action (β=0.164, p= 0.038) and market planning (β=0.229, p= 0.016). Thus, H1a and H1c are supported. It can be concluded that market planning was the strongest contributing predictor that has the greatest on financial performance followed by market action.

Insert Table 2here

5. Discussion and Conclusion

Results of this study indicated that there were five critical success factors of market orientation practices in the context of Malaysian manufacturing firms. They were market focus, market action, market planning, market coordination and market feedback. Of the five, market action and market planning were positively related to financial performance.

Several studies have identified that market orientation is a strong source and sustainable competitive advantage (Pelham, 2000; Pelham & Wilson, 1996; Slater & Narver, 1994b), offers capabilities that set the organisation ahead from competitors (Day, 1994), and performs better in the market since the activities involved are directed towards identifying and responding to customer needs and satisfying customers (Jaworski & Kohli, 1993). Although, some of the market orientation dimensions were not significantly related to organisational performance, the overall results of the present study confirm that market orientation activities contribute towards organisational performance. Thus, Malaysian manufacturing organisation should strive to become a market oriented organisation as they would benefit from being market-oriented. Special attention needs to be given to a specific activity or dimension of market orientation that is associated with a particular organisational performance variable.

For instance, market focus, market feedback as well as market coordination has no significant impact on financial performance. One plausible reason could be that the measurements for these three dimensions focus too much on customer programmes. Paying too much attention to customer programmes may affect financial performance as this makes the individuals of the organisation less responsive to activities that can lead to higher financial outcome.

Meanwhile, the results of the study suggest that for organisation to improve their financial performance, they need to pay attention to market action practices. Market action requires the organisation to take active action in detecting and responding toward market changes in the business environment and act swiftly in responding toward competitors' price changes in the market. Such activity includes promptly detecting changes in customer product preferences and fundamental shifts in the industry such as relating to competition, technology, and regulation.

Concurrently, organisations should focus on market planning activities. Market planning involves meeting and planning in responding toward market trend and development. Planning also includes conducting market needs analysis and plan for any changes that may take place in the business environment. By doing planning, organisations are moving ahead in anticipating and responding to the development of the market. Both market action and market planning involve with activities that provide competitive edge over rivals and this could possibly be the reason that these factors contribute toward higher financial performance.

This is consistent with previous literature that suggests the positive association between market orientation and performance does not necessarily hold true in developing countries (Appiah-Adu, 1998; Bhuian, 1997). The results of individual relationship between market orientation dimensions and performance of Malaysian manufacturing in this study supported previous studies carried out in other developing countries as not all market orientation variables have a direct effect on organisational performance. This confirm that there could be differences in term of economic structure, regulation aspect, competitive environment and the people elements, which are unique to a particular country (Yoon & Lee, 2005). However, more studies need to be carried out in other developing countries to confirm this relationships as this study did not take into account the cultural elements of the country.

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Table 1. Factor Analysis & Reliability Tests

Items	Factors	Mean	SD	Loading	α value
MA1 MA2 MA3 MA4 MA5 MA6 MA7	Market Action	4.248	.982	.731 .753 .712 .692 .676 .727 .730	0.85
MF1 MF2 MF3 MF4 MF5	Market Focus	5.194	.680	.773 .817 .812 .846 .681	0.88
MP1 MP2 MP3 MP4	Market Planning	4.443	.918	.667 .664 .629 .720	0.75
MFB1 MFB2	Market Feedback	4.636	1.172	.720 .831	0.73
MC1 MC2	Market Coordination	4.563	1.044	.759 .845	0.75
FP1 FP2 FP3 FP4	Financial Performance	4.194	.887	.805 .897 .817 .749	0.89

Table 2. Regression Result between Market Orientation and Financial Performance

Independent Variables	Standardized beta
Market Focus	0.132
Market Action	0.148*
Market Planning	0.221*
Market Coordination	0.037
Market Feedback	0.054
R^2	0.182
Adjusted R^2	0.156
F value	6.784

Level of significant: *0.05