

INCREASING MARKET ORIENTATION IN SMES: ALIGNING TOP MANAGEMENT EMPHASIS ON MARKET ORIENTATION WITH BUSINESS PERFORMANCE

Marek Novinský – Jiří Mařík – Miroslav Karlíček

Abstract

Market orientation (MO) creates an important fundament for application of strategic marketing concept not only in small and medium sized enterprises (SMEs). Top managers and owners in SMEs have eminent decision-making influence. Any pursuit of increasing MO in SMEs is hence heavily dependent on their emphasis on MO. Should they support such an effort and investment, they should be able to see clear evidence of return on their investment. The purpose of this study was to conduct a unique investigation into the link between emphasis of top managers on MO, level of MO and business performance in the context of SMEs. Actual level of MO as well as top managers emphasis on MO were examined using the same Narver and Slater's (1990) 15-items scale. This indirect and thorough approach to investigation of top management emphasis was unprecedented to date. Business performance was evaluated by both subjective and objective measures. The results obtained from a sample of 150 Czech SMEs in the manufacturing industry showed strong positive relationship for emphasis of top managers on MO and MO, positive relationship of MO and subjective performance, while no relationship at all was found for MO and ROA as an objective measure of performance.

Key words: market orientation, implementation of market orientation, SMEs, performance

JEL Classification: L10, L60, M31

Introduction

Market orientation (MO) concept has already been widely studied by researchers for almost 30 years. Despite all the efforts its practical implementation faced and still faces some issues (Van Raaij and Stoelhorst, 2008) but it gradually found its place in the business practice.

As the concept of MO has been in the objective of researchers for almost three decades, to cover sufficiently the MO related field literature a balanced mix of fundamental historical and recent studies has to be put forward.

Literature review

There is historically a number of alternative approaches to define the concept of MO. In fact, most of the studies over the years used either of the following two definitions (Van Raaij and Stoelhorst, 2008). It may be defined as a degree to which companies generate market intelligence, disseminate it internally and respond to gathered market information appropriately (Kohli and Jaworski, 1990). Alternatively, this construct can also be perceived as an organizational culture assuming that creating value for customers is the key driver of business performance (Narver and Slater, 1990). We have to take into consideration, that all surviving businesses exercise at least some basic level of market orientation (Jaworski and Kohli, 1993). Thus, we should understand the implementation of the concept more as a process of increasing its level to receive the potential benefits it could bring.

MO is not only a domain of some big companies, but its application and potential received benefits are rather general. Although the studies of MO were targeting at the beginning mostly larger companies, the focus in the last decade shifted also to the world of SMEs, which create a backbone of most world economies. The studies amongst SMEs showed also some benefits of being more market oriented (e.g., Reijonen et al., 2012).

While top managers generally shape values and orientation of a company, their influence is even much stronger in SMEs. It means that any pursuit of increasing MO in SME is inevitably heavily dependent on its top managers emphasis on MO. It was already stressed in the fundamental study of Jaworski and Kohli (1993), where top management emphasis on MO appeared to be one of the fundamental antecedents for MO development. It was later further accentuated by meta-analysis of Kirca et al. (2005). Crucial role of owner-managers in developing MO in SMEs stressed also Alpkın et al. (2007).

Over the last three decades, a considerable number of studies confirmed a significant positive relationship between MO and company performance (e.g., Narver and Slater, 1990 and Kirca et al., 2005). Kirca et al. (2005) reported, based on meta-analysis of empirical findings from MO literature to the date, significant positive association between MO and performance. Although the majority of studies found a positive association of MO and performance (as summed up e.g. by González-Benito and González-Benito, 2005), some researchers reported nonsignificant, ambiguous, mixed, indirect or even negative effects (e.g., Jaworski and Kohli, 1993, Frösén et al., 2016, and others). These discrepancies seem to arise at least partly from the methodological deficiencies of individual studies, among others with respect to measurement of performance. Whereas studies, which found a positive link between MO and performance, typically used subjective performance measures, those studies with opposite outcomes often

used objective measures of performance. This tendency does not apply to all studies, but the pattern is still remarkable, as documented e.g. González-Benito and González-Benito (2005). It seems that the MO–performance relationship is typically stronger for studies using subjective performance measures than for studies using objective ones. This conclusion is supported also by the meta-analysis of Kirca et al. (2005) or by the literature review of González-Benito and González-Benito (2005). Several researchers recommended to use ideally both types of performance measures in the studies focused on MO-performance relationship (e.g. Kirca et al., 2005). Studies using both subjective and objective performance measures exist but are rather rare (González-Benito and González-Benito, 2005). Even though these studies use different measurement approaches, they still seem to evidence lower effect of MO on performance in case of objective measures than in case of subjective measures (e.g., Jaworski and Kohli, 1993).

Most of the studies among SMEs found a positive association between MO and performance. It is worth to note that these studies in the vast majority relied on subjective performance measures. Pelham (2000) found a significant correlation of MO and subjective measures of performance among small US manufacturing firms. Reijonen et al. (2012) investigated the level of MO in case of Finnish SMEs using also subjective performance measures and found that growing firms are significantly more market-oriented than are declining and stable ones. Laukkanen et al. (2013) collected data from Hungarian and Finnish SMEs. They found a highly significant effect of MO on business growth in both countries (using subjective performance measure). But there are also some studies, which failed to find a significant direct relationship between MO and SMEs subjective performance measures (Keskin, 2006). Laukkanen et al. (2016), for example, found no direct effects of MO on financial performance (using subjective measures) amongst Finnish entrepreneurs. MO influenced in this case performance only indirectly through brand orientation and brand performance.

It seems that the findings of MO-performance link are in the case of SMEs similarly inconclusive, as it was in the case of studies realized on larger firms or on samples including firms of different sizes. Furthermore, it seems that in the case of SMEs, studies relied on subjective performance measures even more extensively than it was in other contexts. Studies using objective performance measures in the context of SMEs seem to be scarce or even non-existent. As far as we are aware, the same applies for studies among SMEs, which would use both subjective and objective measures of performance at the same time.

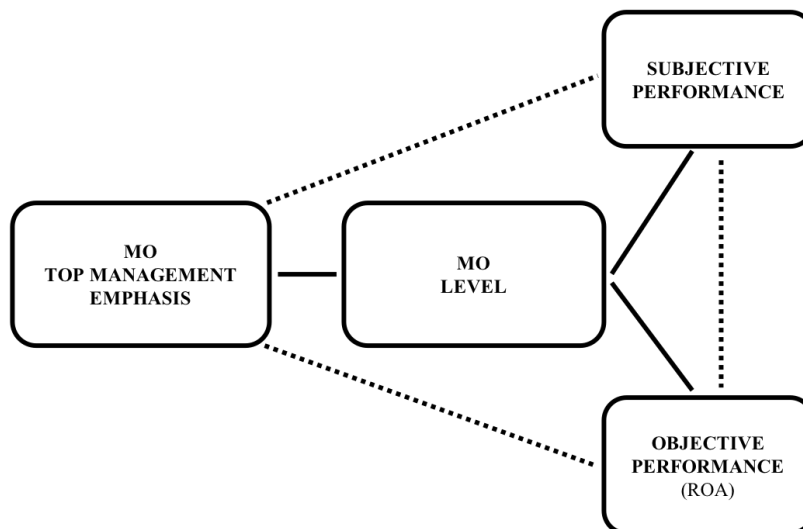
We are convinced, that MO is a substantial fundament for application of marketing as defined by American marketing association (2013) in SMEs and that they could benefit from

the application of both MO and marketing. As increasing of MO level requires some additional effort and costs from SMEs, there must also be some attractive benefits linked to the elevated MO, to justify the business owners' investment. The attitude of top management or owners is absolutely quintessential for the process in SMEs. Should they support such an effort and investment, they should be able to see some clear evidence of return on their investment, ideally in a form of increased company performance. The proof of it could subsequently further support and strengthen their emphasis on MO.

Research questions

That all stated, there are rising two main research questions: 1) How strong is the link between SME's top management emphasis on MO and the actual level of MO? and 2) How strong is the link between the actual level of MO and a SME's performance (both objective and subjective)? The conceptual framework of the study is depicted in Fig. 1.

Fig. 1: The conceptual framework



Source: Authors

The purpose of this study was to conduct a unique investigation into the link between emphasis of top managers on MO, actual level of MO and business performance (both subjective and objective) in the context of SMEs.

Previous research in the field as well as the common business practice suggest, that the role of the top managers in SMEs (often owners at the same time) is absolutely crucial in any important decision made within the company. There is no exception in the case of increasing the level of MO. Thus, we set the following hypothesis:

H1: *There is a strong existing link between emphasis the top management puts on MO and actual level of MO in SME.*

Majority of studies using subjective measures performance in the context of SMEs found a positive association of MO and performance. We therefore set the following hypothesis:

H2a: *Level of MO is positively linked with subjective performance.*

Studies using objective measures of performance in the context of SMEs seem to be rare. Studies among larger companies or companies of different sizes applying objective performance measures were typically less successful in finding significant direct relationship between MO and company performance. But studies using both types of performance measures found also relatively strong relationship between subjective and objective performance. Therefore, we expect to find a weaker direct MO-performance link than in case of subjective performance measures, but still a positive one. We set the following hypothesis:

H2b: *Level of MO is positively linked with objective performance.*

1. Methodology

The random sample of 150 Czech SMEs was chosen from the database Bisnode Albertina based on the following criteria: manufacturing as a major business activity (category C of the CZ-NACE classification of economic activities), number of employees 10-249 (SMEs but micro-firms excluded), operating in the Czech market and a reliable telephone contact. The selection revealed 10,319 Czech firms in the database matching the criteria.

The survey data was collected via telephone interviews between October 23 and 27, 2017. We considered the method as a more efficient way compared to the e-mail or online surveys, mostly in terms of its speed, interactivity, proper targeting of respondents and higher expected response rate. The main limitation of the method seemed to be the number of questions in the survey and the potential drop in the response rate. To assure smooth and professional collection of the data we employed an experienced and well equipped local market research agency Ipsos. There were 1,800 firms contacted with a response rate of 8.33%.

In line with the majority of existing studies, we adopted a single-respondent approach within a firm aiming at the top management level. The respondents self-reported their position in the firm at the beginning of the interview. 65% of respondents were recruited from the N level (owners or CEOs), the remaining 35% were managers from the N-1 level (sales, marketing or finance managers/directors).

To measure MO and its three components we adopted the original MO scale of Narver and Slater (1990), referred to as MKTOR. There were several reasons for it. It is one of the most used scales in the history of MO research, so the results could be compared with some similar previous studies. It views MO as an organizational culture to deliver a superior value to customers, thus corresponds very well with the current concept and definition of marketing (AMA, 2013). Overall score of MO consisted of 15 items (as the original) including a minor modification of the original MKTOR. The competitor orientation component was extended to 5 items by adding the regular monitoring of competitors marketing activities. This item seemed to be of importance and showed in the study of Reijonen et al. (2012) very high factor loading. The interfunctional coordination component was narrowed to 4 items by excluding sharing of resources with other business units. This item had very low factor loading in the original study of Narver and Slater (1990) and more importantly was less relevant in most SMEs, as they are not usually organized to business units. Customer orientation items stayed in line with the original MKTOR scale and also with Reijonen et al. (2012). All three constructs were measured using 7-point Likert scales, ranging from “strongly agree” (1) to “strongly disagree” (7).

We used the identical scale to measure the emphasis top managers put on MO. Previous studies (e.g. Jaworski and Kohli, 1993) asked only several vague questions concerning top management support of MO. Our 15-item approach was more indirect but also more thorough and till now unprecedented. There was no need to define MO directly, but through the same questions used in MO scoring. Only this time focusing on emphasis top managers put on each of the scored activities.

To measure subjective performance, we used two items – the evaluation of a firm overall performance compared to internal expectations (in fact the owner’s satisfaction) and the evaluation of a firm overall performance compared to its competitors. The items were chosen intentionally to reflect both the internal and the external factors. The final score of the subjective performance was counted as an average of both rated items. We measured the individual items with 7-point Likert scale ranging from “excellent performance” (1) to “catastrophic performance” (7).

As it is difficult to find a common denominator for objective performance measures across the very heterogeneous sub-sectors of the manufacturing industry, we decided to use ROA (from EBIT) as a measure of ROI (e.g., Narver and Slater, 1990). The ratio is used generally as an investment criterion, top managers or owners are usually familiar with it, and it serves as one of the measures of general business success. The survey data was additionally

complemented with the ratio for the responding firms taken from the Bisnode Albertina database (financial statements of 2016).

We used the Spearman correlation coefficient (r_s) for our hypotheses testing. We applied this method as a nonparametric measure of rank correlation (statistical dependence between the rankings of two variables) because thus we did not have to fulfil the strict assumptions of parametric Pearson correlation.

We should admit here that this study design has also some noteworthy methodological limitations. First, our data is based on the subjective assessment of a single informant from each company. We did not exclude a potential priming effect of MO evaluation on the subjective performance evaluation within the survey. We also did not count with potential lagged effects in the relationship between MO and performance. Another limitation could be the specific national character of the sample.

2. Results

We tested statistical null hypotheses of independence between variables MO top management emphasis and MO level (H1). The hypothesis of independence between these two variables was refused ($p < 0.01$). The value of Spearman correlation coefficient 0.854 points to a strong positive link (Tab. 1). Thus, hypothesis H1 was confirmed.

Similarly, the hypothesis of independence between the level of MO and subjective performance was refused ($p < 0.01$). The value of Spearman correlation coefficient 0.246 indicates a weak positive link (Tab. 1). Hence, hypothesis H2a was confirmed.

And finally, we confirmed the statistical hypothesis of independence between the variables level of MO and objective performance against alternative hypothesis of positive dependence ($p < 0.01$). The value of Spearman correlation coefficient 0.085 suggests a non-existing or extremely weak link (Tab. 1). Therefore, hypothesis H2b was refused.

Additionally, we also discovered weak link between subjective and objective performance ($r_s = 0.248$, $p < 0.01$). The links between MO top management emphasis and both subjective and objective performance were found weak too ($r_s = 0.170$ and $r_s = 0.220$, $p < 0.05$). The dotted lines in the conceptual framework.

The results of this study are summarized in the Table 2. We confirmed the hypothesis H1, the positive link between the MO top management emphasis. This finding seems to be in consistence both with the existing literature and business practice.

Tab. 1: Non-parametric Spearman correlation coefficients (r_s)

	MO top management emphasis	MO level	Subjective performance	Objective performance
MO top management emphasis	1	0.854**	0.170*	0.220*
MO level		1	0.246**	0.085
Subjective performance			1	0.248**
Objective performance				1

Source: Authors

In the case of hypothesis H2a, we found a weak link between the level of MO and subjective performance which partially corresponds with the current literature, but we have expected much stronger relationship. We refused hypothesis H2b. Our findings thus support the evidence that when applying objective performance measures the direct MO-performance link usually fails to be found.

Tab. 2: Hypotheses testing results

Hypothesis	Result
H1: <i>There is a strong existing link between emphasis the top management puts on MO and actual level of MO in SME.</i>	Confirmed
H2a: <i>Level of MO is positively linked with subjective performance.</i>	Confirmed
H2b: <i>Level of MO is positively linked with objective performance.</i>	Refused

Source: Authors

Conclusion

Our research contributes to the existing knowledge on MO in several ways. First, we confirmed even stronger link between MO and top management emphasis on MO in SMEs compared to the available literature examining companies of all sizes (e.g. Kirca et al., 2005). It means that the top management support is absolutely crucial in the process of elevation of the SME's MO. Second, measuring top management attitude towards MO on the same 15-items scale as MO is

not only innovative and unprecedented but also more detailed, as it enables much deeper and more structured evaluation of their stand (which goes beyond the scope of this text). It is also indirect, so there is no need to explain the definition of MO to the respondents.

Third, in terms of MO-performance link in the context of SMEs, we found direct positive link only in the case of subjective performance measures, but the relationship was weaker than expected. ROA as a measure of objective performance showed no relationship of that kind. There could be various reasons for that ranging from lower financial sophistication of SMEs and irrelevance of the ratios for their business practice to typical tax optimization in SMEs. It looks that an appropriate level of MO is necessary but not sufficient condition for delivering excellent performance of a firm (e.g., Frösén et al., 2016). There is apparently a long queue of internal and external moderators and mediators of the relationship which come here to the play. The complexity of MO-performance connection could be the reason for non-consistent results across the historical studies.

All in all, although we confirmed the crucial role of the top management in implementation or elevation of MO in SMEs, our findings are not very conclusive about performance benefits of higher MO. Therefore, they do not support directly the reasoning for extra effort and resources invested within the process.

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Contacts

Mgr. Marek Novinský
Department of Marketing
Faculty of Business Administration
University of Economics
4 W. Churchill Sq.
130 67 Prague 3
Czech Republic
email: marek.novinsky@vse.cz

Ing. Mgr. Jiří Mařík
Department of Marketing
Faculty of Business Administration
University of Economics
4 W. Churchill Sq.
130 67 Prague 3
Czech Republic
email: jiri.marik@vse.cz

Doc. Ing. Miroslav Karlíček, Ph.D.
Department of Marketing
Faculty of Business Administration
University of Economics
4 W. Churchill Sq.
130 67 Prague 3
Czech Republic
email: miroslav.karlicek@vse.cz