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Market Orientation and Brand Performance in Small and Medium Enterprises (SMES) in Malaysia Context

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ABSTRACT

The focus of this study is to examine the impact of market orientation on brand performance of the Small Medium Enterprises (SMEs) in Malaysia context. Market orientation is identified as antecedent and critical for brand management success. This study is set as a cross sectional and quantitative study with sample size comprises 304 Malaysian SMEs from the food and beverage (F & B) manufacturing sector based on the list of Federation of Malaysian Manufacturers (FMM) directory 2012. Smart Partial Least Squared (PLS) version 2.0 software, a structural equation modelling technique was used to analyse data. Results of this study found that market orientation will not have a positive impact on brand performance of Malaysia's SME despite several supporting empirical evidences on the direct relationship between market orientation and brand performance. This study enhances understanding on the brand management practices among Malaysian SMEs and may assist to formulate government support programs towards strengthening the brand-related knowledge and skills among the SMEs.

Keywords: Market Orientation, Brand Performance, Malaysia, Small Medium Enterprises

1. Introduction

Small and medium enterprises (SMEs) are critical for the growth of Malaysia as they are driving Gross Domestic Product (GDP) by contributing as much as 37% (SME Corp, 2019). Nonetheless, majorities of Malaysian SMEs were hesitant to apply brand management as they do not perceive branding as their utmost strategy to compete globally despite their awareness on the importance of brands (Musa & Chinniah, 2016; Mohd and Char, 2010). Many researchers have mentioned that the poor performance of Malaysian SMEs in business was due to lacking management skills; mainly the skills and capabilities needed in brand management and comprehensive brand plan for brand communications (Che Omar & Anas, 2014; Lim Kok Wing, 2009). Recent findings also implied that SMEs marketing is less efficient, informal and disorganized based on the way the owners/managers perform business and hardly practice brand management in their daily activities (Abdullah, Ahmad, Rus & Zainudin, 2015). In fact, poor performance in SMEs is found to be due to lack of emphasizing on brand management practices resulting SMEs do not have strong brand (Hashim, Tajuddin and Zainol, 2015).

Brand management is in fact an area of increasing importance to marketers today, particularly as firms struggle to communicate the ever complex and intangible messages as part of brand management strategies (Dumitriu, Militaru, Deselnice, Niculescu & Popescu,

2019). Owning a strong brand permits SMEs companies to differentiate their products or services from the competitors, build customer loyalty and confidence, demand a premium price over the competitors, employ as well as greater control over brand promotion and distribution; all while impacting the business valuation. Higher brand loyalty and good image building is proven to be the foundation for better brand performance that provides high ROI. For that reason, managers should focus on brand building activities and market sensing and should realize that companies can achieve market-driven competitive advantage by having brands as strategically important assets. Ahmad & Iqbal (2013) highlighted that market orientation can enhance brand performance in the sense that market-oriented firms have stronger brands than those companies which are not oriented towards markets. Hence, the main aim of proposed research is to investigate the impact of market orientation to brand performance in Malaysia SMEs context.

1.1 Objective of Study

The objective of this study is to investigate the impact of market orientation on brand performance in Malaysia SMEs' context.

2. Literature Review and Hypothesis Development

2.1 Brand Performance

As highlighted by O'Cass and Ngo (2007) brand performance signifies a brand's strength in the market. At the same time, Tuan (2012) suggests brand performance is reflected in its organizational strategy and goals' achievement and can be measured through its sales growth, profitability and market share. Simon and Sullivan (1993) have also operationalized brand performance using stock market returns. However, subjective measures have shown to yield results consistent with performance objective measures (Dess, Lumpkin, and Covin 1997; Dess and Robinson 1984) and reliable in measuring an organization's performance (Mintzberg 1996; Pearce, Robbins, and Robinson 1987).

Besides that, usage of subjective measures may also be an effective way to overcome difficulties related with obtaining competitively sensitive information (Caruana, Ramaseshan, and Ewing 1998). Likewise, Sapienza, Smith, and Gannon (1988) believe that measuring an organization's performance using objective financial data can be difficult as the data may either be hard to validate with external sources, unreliable or unavailable.

On the other hand, according to Wong and Merrilees (2008), brand performance relates to brand success in the market and it measures the brand's strategic achievements. Therefore, Wong and Merrilees opine that for this construct, economic measures are inappropriate. As suggested by past researchers (Chaudhuri, 2002; Reid, 2002; Wong & Merrilees, 2007), brand reputation, brand awareness and brand loyalty are important performance variables of a brand.

Therefore, in this study, brand performance follows the definition of Wong and Merrilees (2008) in describing a successful brand in the market. It is measured by subjective measures

such as firm's desired image in market, firm's reputation, customer brand loyalty, brand awareness and brand marketing.

2.2. Market Orientation

Market orientation relates to a basis for decision making (Shapiro, 1988), a set of specific activities and behaviors (Kohli et al., 1990), a resource (Hunt and Morgan 1995), or an aspect of brand culture (Deshpande Farley & Webster, 1993; Slater & Narver, 2004). Market orientation signifies the firm's effort to response to competitors' actions, enhance customers' needs and inter-functional coordination (Narver & Slater1990; Kohli & Jaworski, 1990).

Based on behavioral theory of Narver et al., (1990), market orientation comprises of three behavioral components: competitor orientation inter-functional coordination and customer orientation, as well as two decision criteria including profit objective and long-term focus. Competitor orientation and customer orientation comprise of all activities related in obtaining buyers' and competitors' information in the target market and distributing it throughout the businesses. By bearing customers' needs in mind, it allows firm to provide superior value and higher levels of customers' satisfaction. At the same time, to focus on competitors and frequently deliberating competitor strengths and weaknesses permits reaction to competitive threats. The integration of all firm members in fulfilling customer needs is inter-functional coordination and is grounded on the competitor information and customer and comprises the business's matched efforts. According to Raju, Lonial and Crum (2011) despite the small size and newness liabilities, SMEs are usually known to compete effectively with larger firms and highly market oriented. This makes it valuable to acquire a better understanding of market orientation in the SMEs environment.

Recent findings demonstrate that market orientation has a statistically significant and positive impact on SME firm's performance in emerging economies (Asheq & Hossain, 2019; Gruber-Muecke & Hofer; 2015). They further elaborate that SME firm performance is driven by the firm's ability to satisfy customer's need and pursue the untapped opportunity. Slater and Narver (1995) emphasized that market orientation is valuable as it focuses organizations on regular data collection concerning the target customers' needs and competitors' capabilities and to apply this information in the effort to produce superior and permanent values for customers. Deshpande et al., (1993) consider market orientation as a brand culture which indicates creation of essential behavior for establishing superior values for customer effectively and efficiently hence brings a more consistent and better performance for the firm. This is further supported by Lee et al., (2008) who found that market orientation plays an important role in brand management in business to business (B-B) environments. In addition, Lee et al., (2008) also found that market orientation has an impact on customer's performance only through brand management. This suggests that market orientation could be a critical resource for brand management.

In the literature, two different measurement methods of market orientation are found, one by Kohli et al., (1990), Jaworski and Kohli (1993) and the other by Narver et al., (1990) and Slater et al., (1994, 1995), although both methods share some mutual characteristics. Kohli and Jaworski (1990) view market orientation as market intelligence and introduced three elements of a market orientation, which are intelligence generation, dissemination, and responsiveness. For this study, Narver and Slater's method is more appropriate, since Narver et al., (1990) and Slater et al., (1994, 1995) define market orientation concept from a perspective of organization culture implying that market orientation should incorporate inter-functional coordination within a firm. Specifically, market orientation is defined "as the

organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business” (Narver and Slater, 1990).

2.3. Relationship between Market Orientation and Brand Performance

Though some cautionary concerns have arisen concerning market orientation’s direct contribution to firm performance in the presence of a mediator such as organizational learning and innovation and suggest direct relationship of market orientation and performance. Some scholars who founded supports for direct contribution of market orientation in the health care industry are (Kumar, Subramanian & Yauger, 1998), in New Zealand and Australian universities (Caruana, Ramaseshan and Ewing (1998), in UK service firms (Pitt, Caruana & Berthon, 1996) and in retail stock-broking firms in Taiwan (Chang and Chen (1998). Thus, it is hypothesized that:

Hypotheses: Market Orientation has a Positive Effect on Brand Performance

There are two different measurement methods of market orientation, one by Kohli et al. (1990), Jaworski and Kohli (1993) and the other by Narver et al., (1990) and Slater and Narver (1994, 1995), although both approaches share some common characteristics. In this research, Narver and Slater's method is adopted. Narver and Slater's method is more appropriate for this study data source, since Narver et al., (1990) and Slater et al., (1994, 1995) define a concept of market orientation from a perspective of organization culture implying that market orientation should incorporate inter-functional coordination within a firm. Narver and Slater's scales were modified by Lee et al., (2008). In this study, five-point Likert-scale items used for three major components: customer orientation, competitor orientation, and inter-functional coordination. Each component has three items.

Table 2.1: Measurement Scale for Market Orientation

	Original Statement in Source of Study	Modified Statement for Present Study	Sources / Cronbach Alpha in source study
1.	Continuous understanding of customer needs	We have continuous understanding of customer needs	Narver, J.C. and Slater, S.F. (1990); Slater, S. F., and Narver, J. C. (1994, 1995); Lee, Park, Baek and Lee (2008) 0.89
2.	Customer value objectives	Our main objective is to create value for our customer	
3.	Customer based strategies	Our strategies are customer based	
4.	Acquisition of competitor information	We have acquisition of competitor information	
5.	Quick response to competitors' actions	We respond rapidly to competitors' actions	
6.	Top manager's interest in	We regularly have inter-organizational	

	competitors' strategies	meetings to discuss competitors' strategies	
7.	Coordination based on customer needs	There is coordination in our firm based on customer needs	
8.	Coordination on customer value creation	There is coordination on customer value creation in our firm	
9.	Managements' interests in inter-functional activities	The management has interests in firm's inter-functional activities	

3.0 Research Methodology

A quantitative research method was applied using a questionnaire to fulfil the aim which is to investigate the effect of market orientation to brand performance in Malaysia SMEs context. The unit of analysis in this study is the individual SMEs in the food and beverage (F&B) industry based on the list of Federation of Malaysian Manufacturers (FMM) directory 2012 which covers West Malaysia, Sabah and Sarawak. The respondents comprised brand manager/marketing manager/senior marketing executives who represent the SMEs firms and used as key informants in assessing all the constructs described above due to their specific knowledge about the phenomena being studied, an approach applied in numerous studies (e.g., Gatignon and Xuereb, 1997; Moorman and Miner, 1995).

The primary data was undertaken by gathering information directly from respondents out of questionnaire that is designed to collect primary data from customers. This is carried out for the purpose of explaining the relationship between variables shown in research framework. Self-administered questionnaires were distributed to the brand/marketing managers/senior marketing executives of SME firms in the food and beverage (F & B) industry based on the list of Federation of Malaysian Manufacturers (FMM) directory 2012 via site visit to the entrepreneurs and SME fairs, mainly in Kuala Lumpur, Shah Alam, Kota Kinabalu and Kuching. In order to achieve zero repetition of respondents.

From the total of 240 questionnaires distributed, only 176 questionnaires were returned. Out of those 176 responses, 13 returned questionnaires were incomplete and considered invalid. Hence, only 163 questionnaires or 54 percent of the total population were valid and usable for data analysis. An overall review of literature was carried out to identify the literature gaps. In addition, databases, books, conference papers, journal articles, thesis and working papers from both national and international researches were utilized to ensure the quality of the study. Questionnaire items were adapted from several studies of previous literature with pre-tested, reliable and valid scales. These scales were modified to suit this study. The questionnaire consists of two parts. The first part includes the company's profile such as: product category, company's status, number of employees, years in operations, average sales annual turnover, market level and average market share. Market orientation was measured using Narver et al., (1990) and Slater et al., (1994, 1995) who defined market orientation concept from a perspective of organization culture implying that market orientation should incorporate inter-functional coordination within a firm. Narver and Slater's scales were modified by Lee et al., (2008). In this study, five-point Likert-scale items used for

three major components: customer orientation, competitor orientation, and inter-functional coordination. Each component has three items. A pilot test was conducted among F&B SMEs in Kota Kinabalu, Sabah after the initial questionnaire development. The final version of the instruments was obtained through the pre-test designed to enhance construct reliability and validity through consultation by experts in the field.

4. Analyses and Results

The measurement models are assessed for adequate validity and unidimensional before commencing to structural model effects and interaction modelling to test the research hypotheses. Data analysis was performed using Partial Least Squared (PLS), a structural equation modelling technique that uses a component-based approach.

Before assessing the convergent and discriminant validity, the respective loadings and cross loadings of the factors are assessed if there is any problem with any items. The cut of value of 0.5 is used as suggested by Hair et al. (2010), whereby values greater than 0.5 are generally considered for practical significance. It can be observed that all the items measuring a construct loaded highly on that construct and loaded lower on the other construct thus confirming constructs validity as shown in Table 4.1:

Table 4.1: Discriminant Validity-Cross Loadings

	BRAND PERFORMANCE	MARKET ORIENTATION
BP1	0.855	
BP2	0.851	
BP3	0.819	
BP4	0.860	
BP5	0.830	
MO1		0.648
MO2		0.525
MO3		0.682
MO4		0.666
MO5		0.816
MO6		0.747
MO7		0.816
MO8		0.762
MO9		0.816

The AVE for this study is in the range of 0.527 and 0.711. Composite Reliability which indicates the degree to which the latent variables can be explained by the observed variables is in the range of 0.908 to 0.925, which exceeds the cut off value of 0.6. Thus, this study ensured the existence of convergent validity. Table 4.2 summarizes the results of the measurement model which shows that the constructs are all valid measures of their respective constructs.

Table 4.2: Results of Measurement Model (Internal Consistency Reliability and Convergent Validity)

Construct	Items	Loading	AVE ^a	CR	Cronbach's Alpha (a)
Brand Performance	BP1	0.855	0.711	0.925	0.898
	BP2	0.851			
	BP3	0.819			
	BP4	0.860			
	BP5	0.830			
Market Orientation	MO1	0.648	0.527	0.908	0.888
	MO2	0.525			
	MO3	0.682			
	MO4	0.666			
	MO5	0.816			
	MO6	0.747			
	MO7	0.816			
	MO8	0.762			
	MO9	0.816			

In order to address discriminant validity, the square root of the AVE is compared against the correlations of the other constructs (Fornell and Larcker, 1981). As shown in Table 4.3, the calculated square root of the AVE exceeds the intercorrelations of the construct with the other constructs in the model which ensures adequate discriminant validity. In total, the measurement model of the study demonstrated adequate convergent and discriminant validity. As can be seen in Table 4.4, all the composite reliability values ranging from 0.648 to 0.855 exceeds the cut off value of 0.6 (Bagozzi and Yi, 1988). As such, based on the composite reliability, we can conclude that the measurement is reliable.

Table 4.3: Discriminant Validity – Fornell Larcker Criterion

	Brand Performance	Market Orientation
Brand Performance	0.843	
Market Orientation		0.726

Table 4.4 Result of Reliability Test

Constructs	Measurement Item	Composite Reliability	Loading Range	*Number of Items
MARKET ORIENTATION	MO1, MO2, MO3, MO4, MO5, MO6, MO7, MO8, MO9	0.908	0.648-0.816	9(9)
BRAND PERFORMANCE	BP1, BP2, BP3, BP4, BP5	0.925	0.830-0.855	5(5)

* Final item numbers (initial numbers)

After computing the path estimates in the structural model, a bootstrap analysis was performed to assess the statistical significance of the path coefficients. From the initial set of paths, market orientation is found to have no significant effect on brand performance as shown in Table 4.5.

Table 4.5: Significance Testing Results of the Structural Model Path Coefficients (Direct Effect)

H	Path	Beta	Standard Error (SE)	T-value	Decision
H	Market Orientation-> Brand Performance	-0.067	0.092	0.728	Not Supported

*** p < 0.01 (2.58), ** p < 0.05 (1.96), * p < 0.1(1.65) (based on two-tailed test)

5. Conclusion and Implications

The result of this study found that market orientation will not have a significant effect on brand performance in the context of Malaysia SMEs. This finding complements prior research studies which have similar results (Greenley, 1995; Han et al., 1998; Caruana et al., 1998; Sargeant and Mohammad, 1999; Noble, Sinha & Kumar, 2002; Olavarrieta and Friedmann, 2008). However, there are many studies which concluded that market orientation enhances brand performance significantly and positively (Ruekert, 1992; Jaworski et. al.; Fritz, 1996; Pelham and Wilson, 1996; Horng and Chen, 1998; Slater and Narver, 2000; Calantone and Cavusgil, 2002; Maydeu-Olivers and Lado 2003; Pulendran, Speed and Widing, 2000; Hult, Hurley & Knight, 2004 and Tse, Sin, Yau, Lee and Chow, R 2004;).

While it was stated that there was no significant relationship or that composite relationship exists (Jaworski and Kohli, 1993; Greenley, 1995), certain studies again revealed that market orientation, as a result of, for instance, some regulatory impact and the exterior factors, increase performance (Slater & Narver, 1994; Greenley, 1995; Appiah-Adu, 1998; Chang & Chen, 1998; Harris, 2001; Gruber-Mueck et. al, 2015; Asheq et.al., 2019). One of the conclusions made was that market orientation and performance appeared to have a positive relationship in studies conducted in the United States of America, while studies carried out in other countries established a weakened relationship and even that it became unproductive (Kumar, Subramanian & Yauger, 1998). Same findings have been found in research conducted in various cultures and countries in recent years (Eris et al., 2012).

The current study, however, found different perspective on the effect of market orientation to brand performance. While the market orientation literature offers support that a market-oriented culture can be an essential element of business performance, this study found that it does not have a direct effect on brand performance. Previously, researchers argued that by pursuing and reacting to customer's demands and preferences, market-oriented firms can better satisfy customers and achieve greater firm performance (Greenley, 1995; Kohli et al., 1993).

The finding of this study is also not consistent with Fiol's (1991), who indicates that organizational culture can be a source of sustainable competitive advantage and superior performance, when it provides a basis for value-creating activities and when it is scarce among different competitors. In a similar way, Atuahene-Gima et al., (1995) and Narver et al., (2004) suggested and tested a general association between market orientation and new product performance. They further suggested that firms which practice market orientation are more apt to have strong brands. Additionally, Kohli et al., (1990) have also found evidence that market orientation offers better coordination, products review and a unified focus. Therefore, this outcome may suggest that there should be a mediator for the market orientation-brand performance relationship.

There are two possible justifications as to why the aforesaid relationship is not significant in the context of this study. Firstly, it has been debated that in a huge part of small enterprises, marketing concept is not implemented and that the decision whether to implement it or not rely on business goals (Peterson, 1989). Peterson further argues that in small enterprises it was found that they are not motivated to implement marketing concept because profits are not a paramount goal in their business operations even though they it may believe that the implementation would produce greater profits.

Alternatively, it may be that market orientation could be perceived as a set of behavioral tendencies that is implemented temporarily and/or partially by an individual pursuing to accomplish multiple goals (Tregear, 2003). Therefore, goals can provide a clarification for the extent of the adoption of marketing practices and business philosophies of small business owner-manager. Past studies suggest that they are not always appealed to marketing if expansion or growth is seen unnecessary (Hogarth-Scott et. al, 1996).

Though past studies have provided supporting empirical evidences on the direct relationship between market orientation and brand performance, the result is not totally consistent; specifically, where performance profitability measures are concerned (Greenley, 1995; Slater and Narver, 1995). Another possible reason is that the market-oriented culture affects may be mediated by another significant intangible (e.g., knowledge-related) resources, which indirectly implies the mediating role of knowledge-related resources. For example, Olavarrieta et al., 1999) reported the role of knowledge-related resources as a mediator between market orientation and firm performance. This explains why market orientation does not influence brand performance. Therefore, this result suggests that in order for market orientation to take effect on brand performance, there is a need to inculcate essential behavior, attitudes and actions to be articulated in an on-going communication with target customers.

Finally, the current study recommends that brand/marketing managers should be more dedicated to have the necessary resources and capabilities and effective brand management system in place as part of their branding strategy to establish a successful brand and achieve superior brand performance in a highly competitive marketplace. By

ensuring the critical resources and capabilities are in order, it will contribute to the effectiveness of brand management and thereafter an improved brand performance.

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