

**EFFECT OF MARKET ORIENTATION ON SMALL BUSINESS  
PERFORMANCE**

An empirical study on Malaysian small business organizations

EMAD.B.A.Galbun

COLLEGE OF BUSINESS  
UNIVERSITY UTARA MALAYSIA  
2008

## **Declaration**

I declare that all the work described in this dissertation was undertaken by me (unless otherwise acknowledged in the text) and that none of the work has been previously submitted for any academic degree. All sources of quoted information have been acknowledged through references.

Emad

May 2008

## **PERMISSION TO USE**

In presenting this thesis of the requirements for a Master of Science in College of Business Management from University Utara Malaysia, I agree that the university library may make it freely available for inspection. I further agree that permission for copying of this thesis in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor or in their absence, by the Dean of Graduate School. It is understood that any copying or publication or use of this thesis or parts thereof for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to University Utara Malaysia for any scholarly use which may be made of any material from my thesis.

Request for permission to copy or make other use of materials in this thesis, in whole or in part, should be addressed to:

Dean of the Center for Graduate Studies  
University Utara Malaysia  
06010 UUM Sintok  
Kedah Darul Aman  
Malaysia

## **ABSTRACT**

The aims of this study are to investigate whether there is any relationship between the small business firm performance and the practice of market orientation. This study will investigate the direct linkage between small business performance and the practice of market orientation in small business sector. Additionally, this study will also help small business owners or entrepreneurs to actually practice marketing concept in their organization. Data were collected using a survey method and questionnaires were delivered personally and by mail to the owners of small firms operating in the areas of Chunglun town and small businesses operating in UUM shopping malls as well.

The sample size was 40 firms which were selected among small firms operated in Chunglun and UUM.

The result of the hypothesis regression analyses indicated that all hypotheses test were supported and there is certainly a positive effect and significant relationship between the three dimension/factor of market orientation and firm performance in small firms.

## **ACKNOWLEDGEMENT**

### **By the Name of Allah, the Most Gracious and the Most Merciful**

First, I would like to express my appreciation to Allah, the Most Merciful, and the Most Compassionate who has granted me the ability and willing to start and complete this study. I do pray to his greatness to inspire and enable me to continue the work for the benefits of humanity.

My most profound thankfulness goes to my supervisor Dr Nor Azila Mohd Noor for her scientifically proven and creativity encouraging guidance.

Last but not least, I wish to thank all my dearest family members, especially my father Mr. Bahri Galbun, my mother, and my great brothers and sisters for being by my side since I left home. I also, convey my respectful thanks to my lecturers and friends who have given me emotional support during my study.

**Thanks to UUM.**

## TABLE OF CONTENT

DECLARATION	i
PERMISSION TO USE	ii
ACKNOWLEDGEMENT	iii
ABSTRACT	iv
TABLE OF CONTENT	v
 <b>Chapter One</b>	
1.1 Background	1
1.2 Problem Statement	3
1.3 Purpose of the study	4
1.4 Objectives of the Research	4
1.5 Significance of the Study	4
1.6 The General Outline of the Thesis	5
 <b>Chapter Two</b>	
2.1 Introduction	7
2.1.1 Marketing Concept	7
2.2 Marketing Concept and Market Orientation Literature	9
2.3 Theoretical Framework	10
2.3.1 Marketing Concept and Market Orientation Relationship in Small Businesses	11
2.3.2 Market Orientation and Firm Performance	12
2.3.3 Market Orientation –Definitions	14
2.3.4 Definitions of Terms/Concepts	16
2.3.5 Research Model	18
2.4 Hypothesis Development	19
2.5 Summary of the Chapter	20
 <b>Chapter Three</b>	
3.1 Introduction	21
3.2 Methods Employed in the Study	21
3.2.1 Population and Sampling	21
3.3 Operationalization of Variables	21
3.3.1 Market Orientation	22
3.4 Classification Measure/Demographic	23
3.5 Pilot Testing	23
3.5.1 Reliability Testing	23
3.6 Data Analysis	24

3.6.1	Descriptive Analysis	24
3.6.2	Correlation Coefficients	25
3.6.3	Regression Analysis	25
3.7	Summary of the Chapter	26
<b>Chapter Four</b>		
4.1	Introduction	27
4.2	Descriptive Analysis	27
4.2.1	Gender of the Respondent	27
4.2.2	Age of the Respondent	28
4.2.3	Highest Qualification of the Respondent	29
4.2.4	Ethnic Origin of Respondent	29
4.2.5	Participating Firm Types	30
4.2.6	Correlations Statistics	35
4.3	Result of Hypothesis Testing	37
4.4	Summary of the Chapter	46
<b>Chapter Five</b>		
5.1	Introduction	47
5.2	Discussion on Demographic Profile of Respondents	47
5.3	Discussion of Hypothesis Testing	48
5.4	Conclusion	49
5.5	Limitations and Future Research Suggestions	51
<b>References</b>		53
<b>Appendix</b>		56





## Chapter One

### INTRODUCTION

#### 1.1 Introduction

Small and medium size business is a major contributor to Malaysian economy. For a very long time, small and medium sized enterprises (SME) sector accounted for a large portion of the total number of business in the Malaysian economy. Small business is considered as a sub sector of SMEs in Malaysia, along with micro size enterprises (SIMDEC, 2005) operates in various industrial sector and contributes not only in greater production but also in employment and provide self employment opportunities (Hashim, 2005).

According to national SME Development council, the new definition was established to distinguish SME sector from large sector. SME in Malaysia is redefined into three broad categories based on different industries. The newly revised definition of SMEs offered by the National SME council and according to this definition SMEs is categorized as Micro, small and medium size enterprises. In this study small business from SME sector is on focus which operate with 5 to 50 full time employee and annual sales turnover of around RM200, 000-less than 10 million. (Hashim, 2004).

Today, a company does not need to be large to be successful, new and small companies have already become an important agent of change around the worlds, generating 2.4 times innovations as large firms and creating 5.8 million new jobs between 1987 and 1992 (Welch,

The contents of  
the thesis is for  
internal user  
only

Furthermore, if small firms overall have a lower market orientation, it could be justified by the fact that there is reflection in performance outcomes for the firm. Performance outcomes can be linked with planning (Gibson 1997) and coordinating systems in small businesses. Formal business planning, of which marketing planning is a part, is a means of identifying and evaluating strategic alternatives (Scwenk and Schrader 1993). It is also an outcome of the process of information search and evaluation of alternatives.

In a nutshell, few size-related differences in the marketing behaviors and activities of firms emerge from this study. They practice similar qualitative forms of market orientation and there are no differences between the groups in the levels of the three components of the market orientation construct. The performance consequences of market oriented behaviors are also the same.

## References:

- Atuahene Gima, K. (1996) 'Market Orientation and innovation' *Journal of Business Research* 35(2), 93-103
- Burn, T. and Stalker, G.M. (1961). *The management of innovation*. London, UK Tavistock Press
- Callahan, T. J. and Michael, D. C. (1995) 'Small Business Owners' Assessments of Their Abilities to Interpret Formal Market Studies', *Journal of Small Business Management*, 33, (4), 1-9.
- Carson, D.J. (1985) the evolution of marketing and entrepreneurship in SMEs *Journal of Marketing* 19(2), 7-16
- Carson, D. S. Cromie (1990) 'Marketing Planning in Small Enterprises: A Model and some Empirical Evidence', *The Journal of Consumer Marketing*, 7, (3), 5-18.
- Connor, T. (1999). 'Customer-Led and Market Oriented: A Matter of Balance' *Strategic Management Journal*. 20(12), 1157-1163
- Freel, M.S (2000) 'Barriers to Product innovation in small manufacturing business' *International Small Business Journal* 18(2), 60-80
- Gibson, Brian (1997) 'Reappraising the Link Between 'Best Practice' and Performance in Small Firms: a research note', *Small Enterprise Research, The Journal of Seanz*, 5, (2), 61-67.

- Hamel, G. and Prahalad, C.K. (1994), *Competing for the future*, Boston, MA Harvard Business School Press.
- Hurley, R.F. and Hult, T.M. (1998) 'Innovation, market orientation and organization learning' An integration Empirical Examination,' *Journal of Marketing* 62(3) 42-
- Kohli, A.K., and Jaworski, B.J. ((1990). 'Market Orientation: The construct research proposition and managerial implications' *Journal of Marketing* 54 (2), 1-18
- Kirton, M. (1994) 'Adopters and Innovator': style of creativity and problem solving, UK: Routledge.
- Mohd, K. H. (2005) 'Organization Structure and Innovation Activity in SMEs: Some Empirical Evidence' 53-63
- Mohr, Jakki and John R. Nevin (1990) 'Communication Strategies in Marketing Channels: a theoretical perspective', *Journal of Marketing*, 54, (4), 36-51.
- Porter, M.E (1990) 'The competitive Advantage of Nations' New York the free Press.
- Pelham, A.M (2000). 'Market Orientation and other potential influences on performance in small and medium size manufacturing firms Robbins', D.K, L.J.
- Pantuosco, D.F Parker, and Fuller B.K (2000) 'An empirical assessment of the contribution of small business employment to US states economics performance' *Small business Economics* 15(4), 293-302
- Rothwell, R (1972) 'Factor of Success in industrial innovation' Project SAPPHO: A comparative study of success and failure in industrial innovation. Brighton, UK University of Sussex.

- Schwenk, Charles R. and Charles B. Schrader, (1993) 'Effects of Formal Strategic Planning on Financial Performance in Small Firms: a meta-analysis', *Entrepreneurship Theory and Practice*, 17, (3), 53-64.
- Slater, S.F and Narver J.C (2000) 'The positive effect of marketing orientation on business profitability: A Balanced Replication' *Journal of Business Research* 48(1) 69-73
- Storey, D. J. (1994) *Understanding the Small Business Sector*, Routledge: London.
- Zaltman, G.R. and Holbeck .J (1973) 'Innovation and Organization' New York: John Wiley & Sons