

Firm Level Characteristics and Market Orientation of Micro and Small Businesses

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Abstract: *The objectives of this study were to identify the level of market orientation of micro and small businesses and to identify whether there are differences in level of market orientation in terms of firm level characteristics. Accordingly, a sample of 49 micro and small businesses based on agriculture and trading sectors in Badulla district were studied. According to descriptive statistics, none of the firms is adopting a high level market orientation whereas all most all the firms are belonging to either medium or low level of adaptation of market orientation. The test results of independent sample t-test and One Way ANOVA proves that data support for a statistically significant ($P < 0.05$) difference in the level of market orientation in terms of gender educational level of the owner manager and the business experience of the owner managers in the studied sample.*

Keywords: Market orientation, firm level characteristics

1. Introduction

The contemporary business world is rapidly changing in an unprecedented manner and firms are experiencing shortened product life cycles. The higher concentration and development of information technology in this knowledge era has made it easier for the customers to access to a large amount of information making them demand for goods and services with a superior value creation for the customer. This background has made firms to be always kept in touch with market opportunities and exploit them with valuable products rapidly. Hence, the market oriented behavior of firms becomes a vital requirement for the survival of any business.

According to Walsh & Lipinski (2009), market orientation is a concept about which large numbers of scholars have paid their attention in research considering it as a driver of business performance. As to the explanations of Kohli and Jaworski, (1990) a market oriented firm is a firm which implements the marketing concept. Further, providing a more elaborative definition, Slater and Narver (1994) mention that a business is market oriented when its culture is systematically and entirely committed to the continuous creation of superior customer value.

In one hand, resource based view on competitive advantage states that rare, valued and inimitable resources bring competitive advantage. This includes the human capital also as a resource (Barney, 1991; Hunt and Morgan, 1995). As cited in Jones et.al (2007), human capital such as the entrepreneur's skills, experience and other personal characteristics are key resource endowments (Penrose, 1959). Moreover, firm's strategic choices, behaviours and performances are largely influenced by the demographic characteristics of its owners or top managers (Smith et.al, 1996).

On the other hand, generally SMEs are considered as the engine of economic growth of any country. According to the Annual Report of Central Bank of Sri Lanka (1998), the Cottage and Small Scale Industries sector plays an important role in economic development through creation of employment opportunities, the mobilization of domestic

savings, poverty alleviation, income distribution, regional development, training of workers and entrepreneurs, creating an economic environment in which large firms flourish and contributing to export earnings on one hand. As mentioned in World Bank news (2011), Sri Lanka Industry Survey of World Bank (2008), there is over 18,000 companies operating in the country of which about 91% are small and medium enterprises. Further, in accordance with Industrial Census (2007), micro, small and medium enterprises account for about 35% of employment and about 21% of total industrial value added.

As to the Central Bank Report (2011), Uva Province is the second least contribution to GDP with a share of 4.5%. As a result, Uva Province has been identified as one of the lagging provinces in economic growth in the "Road Map-2013" of Central Bank of Sri Lanka. There are two major districts in Uva Province and they are namely, Badulla and Monaragala. Out of these two Badulla district accounts for the highest number of micro, small and medium establishments Industrial Census (2012).

However, Industrial development of Sri Lanka being the main state based supportive service provider for these businesses, offers various services for micro, small and medium businesses. In addition to that, Chamber of commerce is also offering many services including training programmes for their registered members. Further, district secretariat has a special unit for micro, small and medium enterprise development also. Hence, it is important to know how market oriented these businesses are and whether it differs in terms of firm's level characteristics. Accordingly, the objectives of this study include to assess the level of market orientation and to identify whether the level of market orientation is different in terms of firm level characteristics in micro and small businesses in Badulla district.

2. Literature Review

2.1. Market Orientation

According to Kohli and Jaworski (1990) market orientation

is a set of activities in the organization. Narver and Slater (1990) view market orientation in a broader perspective referring to the organizational culture which develops necessary behaviors required for superior value creation in an effective and efficient manner. Further they mention that this management of required actions led to superior performance for the business. Moreover, various scholars in marketing (Desphande & Webster, 1989; Deshpande et al., 1993) have argued that market orientation is a cultural or behavioral phenomenon of a firm.

2.2. Constructs of Market Orientation

In clarifying the constructs of market orientation, Kohli and Jaworski (1990) mention that there are three main activities namely organization-wide generation of market intelligence, dissemination of the intelligence across departments, and organization-wide responsiveness to it. As to the explanations of Narver and Slater (1990), market orientation comprises with three main constructs namely, customer orientation, competitor coordination, and inter-functional coordination.

The following table will summarize how various scholars have used the constructs of market orientation in conceptualizing the research variables.

Table 1: Summary of constructs used for market orientation

Authors	Constructs used for market orientation
Appiah-Adu (1997); Horng and Chen (1998); Ngai et al. (1998); Pelham and Wilson (1996); Pelham (1997)	Customer orientation, competitor coordination, and inter-functional coordination (Narver and Slater, 1990)
Appiah-Adu (1997); Demirbag et al. (2006); Kara et al. (2005); Pelham and Wilson (1996); Armario et al. (2008)	Organization-wide generation of market intelligence, dissemination of the intelligence across departments, and organization-wide responsiveness (Jaworski and Kohli, 1993)

Accordingly, this study uses the conceptualization of Naver and Slater (1990) to operationalize the variable of market orientation.

Out of the three constructs, customer orientation is the understanding of the customer needs and wants to create products or services of superior value. The value creation is resulted in only when the benefits are higher than the costs of the product. Hence, the customer orientation requires owner managers to be alert with problems faced by the customers as well as customer preferences.

Competitor orientation means the tendency towards identifying the strengths and weaknesses of current and future competitors through a careful but continuous assessment of competitors' capabilities, strategies and ability of satisfying the same customers targeted by one's competitor firm.

Inter-functional coordination is the coordinated utilization of company resources in creating superior value for customers. In order to achieve this, all departments must be sensitive to the needs of all the other departments in the organization.

2.2. Firm Level Characteristics

Firm level characteristics can be seen as an organization's profile in terms of size, age and experiences in business undertaking. The success of small businesses heavily depends on the human capital of their owner managers (Jones et al, 2007). In accordance with Becherer et al. (2001), while all firms are strongly influenced by their external environment, small and medium enterprises may be even more influenced by their own internal culture. Further, as the small and medium enterprises are less bureaucratic and more a reflection of their own specific leadership and internal circumstance, the marketing orientation of these firms may in part be determined by such factors as the scope of the business or the managerial style of the owner manager. In addition, Becherer et.al (2001) have found that organization and leader characteristics are associated with a number of significant differences in the marketing orientation of the firms in the study.

As cited in Kassim and Sulaimann (2011), "there is a recurring theme centered on management behavior as crucial to the development of market orientation. Management behavior can be derived from the background characteristics of top managers, such as age, number of years of executive experience, functional track, and amount of formal education" (Hambrik & Mason, 1984).

Accordingly, this study tests the differences of market orientation in terms of sector of business, firm size, firm age, and gender of the owner manager, educational level of the owner manager and business experience of the owner manager. Hence, the following hypotheses are tested in this study.

- H₁: There is a significant difference of market orientation in terms of firm's sector
- H₂: There is a significant difference of market orientation in terms of firm size
- H₃: There is a significant difference of market orientation in terms of firm age
- H₄: There is a significant difference of market orientation in terms of gender of the owner manager
- H₅: There is a significant difference of market orientation in terms of educational level of owner manager
- H₆: There is a significant difference of market orientation in terms of business experience of owner manager

The operationalization of these independent variables can be summarized as follows.

Table 2: Operationalization of Independent variables

Independent variables	Operationalization dimensions
Sector	Trading and Agriculture
Firm size	Number of employees
Firm age	Length of business operations in years
Gender	Male and Female
Educational level	Below O/L, Up to O/L, Up to A/L and Graduate
Business Experience	1- Had no experience prior to this 2- Had an experience of one business prior to this 3 - Had experience of more than one business

3. Methodology

3.1 Sample

Data were collected from 60 micro and small businesses altogether representing 30 numbers from Agriculture related businesses and another 30 numbers from trading related businesses. A sampling frame was obtained from District Secretariat Badulla, which is the official authority of registering the sole proprietorships and partnership businesses. However, 11 questionnaires had to be discarded due to incomplete responses and accordingly, 49 questionnaires were at an acceptable level for analysis making the response rate nearly 81%.

3.2 Data Collection

A self-developed structured Questionnaire was used to collect the primary data for the study and it contained two main sections namely, firm level characteristics and market orientation. Questionnaire was comprised with close ended questions and especially, five point Likert Scale questions were used to assess the market orientation. The Likert Scale ran from strongly agree to strongly disagree making five levels in it altogether. Further, a pilot study was conducted to test the reliability of the questionnaire and Cronbach's Alpha was employed to assess the reliability. The test results are summarized below and they imply that the questionnaire is at a reliable level to employ for complete data collection and hence the same questionnaire was preceded for rest of the data collection.

Table 3: Summary of Cronbach's Alpha Reliability test results of the questionnaire items

Item category	Cronbach's Alpha
Inter-functional coordination	0.712
Competitor orientation	0.785
Customer orientation	0.813

3.3 Data Analysis

Data were analyzed by using descriptive statistics and inferential statistics. In determining the degree of market orientation, descriptive statistics were used in combination with tables and graphs. In addition, Spearman's rank correlation coefficient was also used to test the associations between variables. Further, in achieving the main objective of identifying the determinants, Independent Sample t-test and one way ANOVA were used. Before employ these tests, the assumption of homogeneity of variance was tested through Levene Statistics and it was not statistically significant at $P < 0.05$ level proving that the equal variance is maintained (Table-2).

4. Results and Discussion

The sample comprised with 49 micro and small businesses and out of that 28 firms were from agriculture sector while 21 firms were from trading sector. In examining the level of market orientation, 5 point Likert Scale data were re-scaled to identify the high, medium and low levels of market orientation of studied firms. Accordingly, there was no any firm which could belong to the category of high level of

market orientation while there were 23 firms of which the level of market orientation was at a low level and 26 firms with medium level of market orientation.

Table 4: Summary of test results for the differences in market orientation in terms of firm based characteristics

Test type	Variable	Homogeneity of variance (Levene's Test)		Significance of test
		F	P-value	P-value
Independent sample t-test	Sector	0.574	0.451	0.442
	Firm Size	0.097	0.757	0.159
	Gender	1.738	0.192	0.007
One Way ANOVA	Owner manger age	0.334	0.717	0.75
	Firm Age	0.12	0.888	0.874
	Educational Level	24.496	0.07	0
	Business	0.586	0.559	0.004

In accordance with the results of the independent sample t-test and One way ANOVA tests given above, what makes clear is that gender, educational level and business experience are statistically significant at $P < 0.05$ level proving that there is a statistically significant difference in the level of market orientation in terms of gender educational level and business experience of the owner manager. The difference of market orientation in terms of gender can be graphically illustrated as follows.

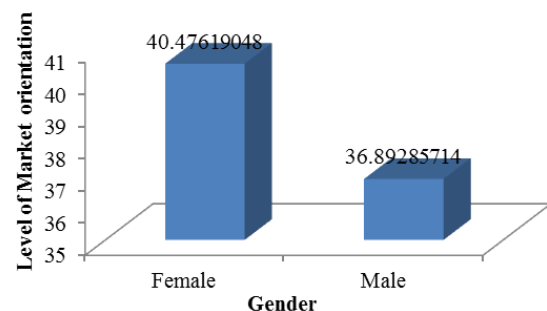


Figure 1: Level of Market Orientation in terms of Gender

Females are showing a higher market orientation than male owner managers. If we further looking to this, what makes clear is that female owner managers are showing a relatively higher level of orientation than male owner managers in all the constructs of market orientation and this is graphically illustrated below (Figure 2). This seems to be an interesting finding. According to DeTienne and Chandler (2007), knowledge acquisition is different between male and female. Further to this, the different way information needs are determined also affects the ability to identify marketing opportunities (Chaganti and Parasuraman, 1996). Accordingly, this difference we observe in market orientation may be due to the different ways of knowledge acquisition. The Spearman's rank correlation coefficient showed that gender and education level of the studied owner managers are having a low positive correlation with a value of 0.309 which is significant at ($P < 0.10$) level. Moreover, the spearman rank correlation of -0.319 which is also significant at ($P < 0.10$) level indicates that women are showing a higher market orientation than men. This was even further proved by the Independent sample t-test results above.

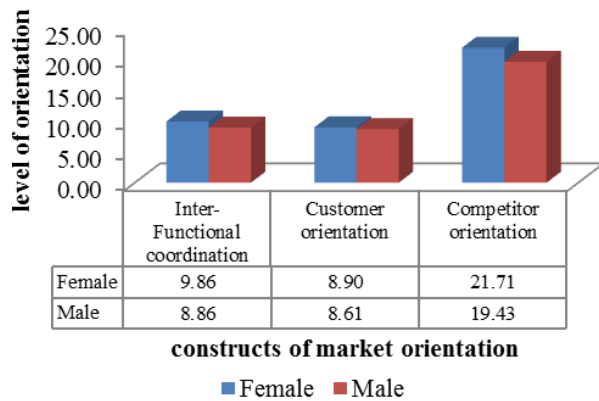


Figure 2: Level of Market Orientation Constructs in terms of Gender

With reference to the figure 2, it is clear that women are largely differentiated from men in terms of competitor orientation than other two constructs. These findings support the findings of Davis et.al (2010) who concluded that female-led service small and medium businesses perform significantly better due to their stronger market orientation relative those led by males. However, there are contradictions as well in the findings for instance, Serviere-Munoz et.al (2012) have found that there are no gender differences about market orientation. However, they have found that women in small business settings seemed to be more attuned with the need for businesses to be innovative and dynamic. These differences in the findings might come due to the contextual differences in the business environment. However, a kind of a trend can be observed in relation to the higher market orientation of female owners and this may be resulted from higher tendency of women to follow professional courses and to be educated more. On the other hand, the cultural barriers faced by the women are gradually relaxed with the societal advancements making the accessibility to the information networks higher.

In relation to the educational level, it can be observed that owner managers who have education up to O/L and up to graduate level are showing a higher level of market orientation. Though the owner managers who have got education up to O/L are showing a higher level of market orientation, it is a slight increase and not a considerably higher level. However, this hints us that better education will not always be transferred to better market orientation. Sometimes the personal experiences and inherent strategic thinking might enhance the strategic orientation of a person though the person is not highly educated. Yet, the owner managers who have got a degree are showing the highest market orientation level which is comparatively a higher level. This can be depicted as follows.

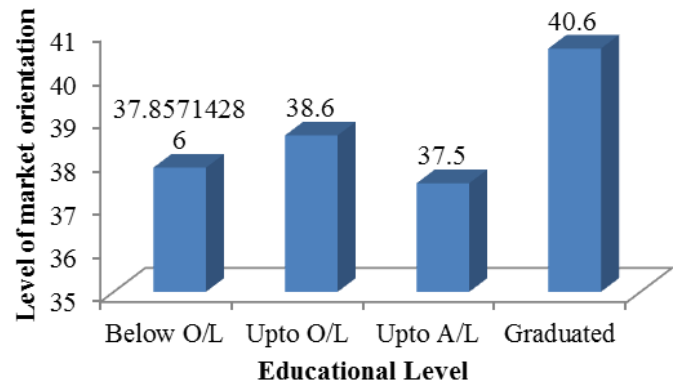


Figure 3: Level of Market Orientation in terms of Educational Level

In examining the Spearman’s rank correlation coefficient, it was indicated that there is a high positive correlation with a value of 0.701 (significant at $P < 0.05$) between education level and market orientation proving that higher the education level higher the tendency of being market oriented. This finding supports the findings of Becherer et.al (2001) in which the data indicated that owner managers with less education led firms that exhibited significantly less marketing orientation.

Considering the differences of business experience of the owner managers, the finding is interesting as it is different from the general assumptions on experience. The following figure summarizes the differences of market orientation in terms of experience graphically.

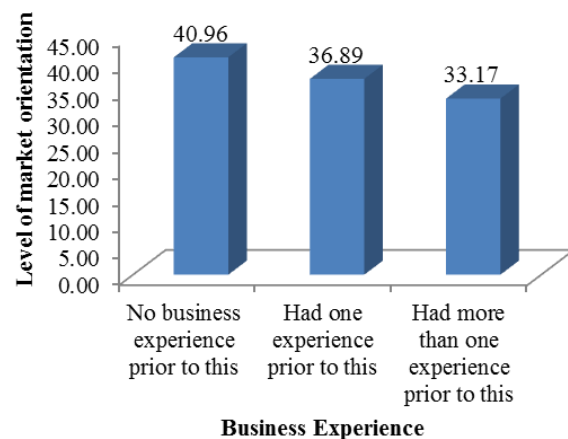


Figure 4: Differences in Market Orientation in terms of Business Experience

Surprisingly, it is clear that when the experience is increased the level of market orientation in decreasing. This was further proven by the Spearman’s Rank correlation coefficient with a value of -0.350 which is statistically significant at $P < 0.05$ level.

Tough the we expect that the market orientation will be higher when the experience is increasing, this may happen in negatively due to path dependency and it would ultimately be a core rigidity of the firm to change. Early events and decisions established policy paths that have lasting effects on subsequent events and decisions of the firms and this is known to be path dependency. When this is higher and making rigidities to change, firm will not be able to keep the pace with the changes of the business environment and

thereby becoming unable to be market oriented. Hence, this over dependency on the culture and historical practices might have reduced the level of market orientation while new entrants might have been more concerned on the updated marketing practices in a careful manner.

Considering the experience in terms of education level of the owner managers, data can be summarized as follows.

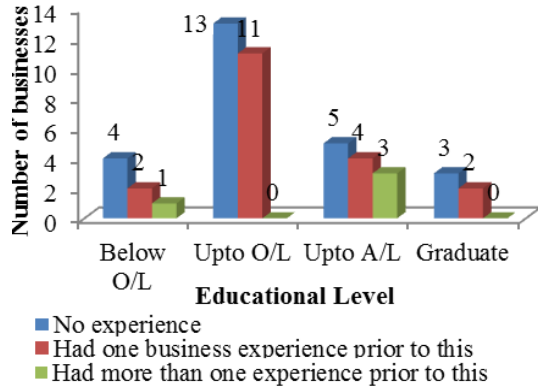


Figure 5: Experience Vs. Education Level of the owner managers

According to the figure 5 it can be observed that most of the owner managers of the sample have an education level up to O/L only and out of them 13 owner managers had no prior experience. At the same time, the second highest is depicting that they had only one experience before.

Moreover, in examining the average sales per annum, there was a related finding to the above matter of owner managers with educational level up to O/L.

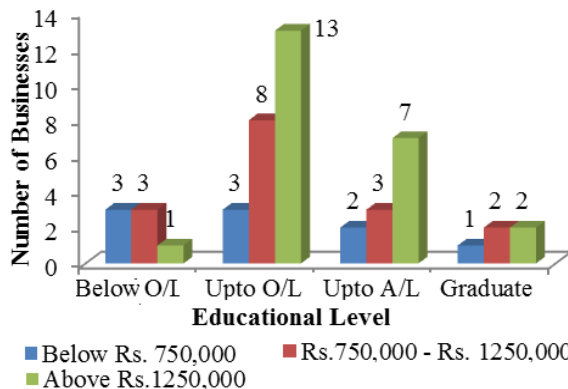


Figure 6:- Sales per annum in terms of educational level of the owner manager

Out of the owner managers who have studied up to O/L a larger number, 13 of them have earned more than Rs. 125,000 per annum while another 8 businesses have been able to maintain the sales at a level between Rs. 750,000 – Rs. 1250,000. The results of the higher market orientation of less experienced managers may be justified with this.

5. Conclusions and Other Recommendations

The findings of this study support the arguments made by the scholars in the marketing research. In accordance with Slater and Narver (1995), internal characteristics of an organization can play a determining role in implementing an

organization-wide marketing orientation. Other writers Harris, 1996, 1998; Harris & Ogbonna, 2000; Harris & Piercy, 1997 have argued that top management is an antecedent crucial to the development of market orientation in companies. Top management behavior is crucial in the development of organizational culture, especially in smaller firms where top management influence is keenly felt (Changanti et al., 2002). Top manager's attitudes and values will influence the strategic orientation of the firms (Bamberger, 1989).

Supporting those arguments this study proves that there are statistically significant differences of level of market orientation in terms of owner manager's gender, educational level and business experience.

This study also possesses some limitations namely limited sample and limited internal characteristics. The future studies can enhance the scope of the study by incorporating more firm level characteristics especially, variables of the organizational culture and test for the potential differences. Moreover, the focus on managerial competencies and its relation to the firms market oriented behavior is of vital importance. In addition, a comparative study can be conducted to see the differences of adaptation of market orientation in different business sectors.

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