

## THE ROLE OF ENTREPRENEURIAL ORIENTATION AND MARKET ORIENTATION IN FIRM PERFORMANCE: A MALAYSIAN CASE

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### Abstract

**Purpose:** This study investigates the extent to which entrepreneurial orientation and market orientation play their roles in improving firm performance. The evidence is based on Malaysian firms from different industrial sectors.

**Methodology:** Questionnaires are used to collect data from CEOs, managing directors and managers of those Malaysian firms that have been engaged in multinational business in last three years. To ensure reliability, factor analysis method is used. We employ Kaiser-Meyer-Olkin (KMO) model to measure sampling adequacy. For composite variables we used summated scales and through factor analysis these composite variables are derived. The association among variables was checked through reliability analysis. This study also use linear and multiple regressions model to test the relationship between dependent and independent variables.

**Findings:** Overall, results indicate that entrepreneurial orientation and market orientation had a great influence on firm performance of Malaysian firms. Moderate correlation found between firm performance and entrepreneurial orientation constructs, whereas, significant and strong correlation exists between market orientation and overall firm performance. Similarly, it can be suggested from the results of bivariate correlation analysis that market orientation practices and competitor orientation are positively and significantly related with each other. A positive association is found between firm performance and all other factors. Significant correlation found from the results of bivariate correlation analysis between firm performance and entrepreneurial orientation and market orientation. A greater explanatory power is demonstrated by all constructs together on firm performance. The relationship between firm performance and all four factors is significant and positive based on correlation analysis. Overall, our survey confirms that our both constructs are appropriate for developing marketing strategies at international level in emerging economies.

**Research Limitations:** This study has some limitations. First, only Malaysian firms are included in the sample, while a mix of different countries' firms might form a better sample. Second, results can be generalized on Asian emerging countries, while the mix sample consist of developing and developed counties might give those results that can be generalized on both types of countries. Third, this study use only few parameters of firm performance for analysis, whereas, different results are likely to be obtained by incorporating some other performance parameters in regression model. Fourth, a short time horizon might yield less reliable results which can be removed in future studies by using long time horizon.

**Originality:** This research is conducted on Malaysian industrial sector firms to demonstrate the impact of entrepreneurial orientation and market orientation on firm performance. This provides base to Malaysian firms to improve their firm performance in the light of given results and formulate strategies regarding entrepreneurial and market orientation that would be in favor of all stakeholders.

**Keywords:** Malaysia, entrepreneurial orientation, market orientation, firm performance

### Introduction

Substantial cultural, regulative and socio-economic departures from western countries are recently exhibited by emerging markets, such as Malaysia, Indonesia and Thailand, which makes our understanding questionable *vis-à-vis* relations and constructs (Burgess & Steenkamp, 2013). In international business

research, several deep rooted theories (e.g. Burgess & Steenkamp, 2006; Dawar & Chattopadhyay, 2002; Jaworski & Kohli, 1993) have been derived from the context of highly industrialized research and advanced markets, which ultimately creates ambiguity regarding the applicability of these theories in context of emerging economies as well. Now days, the subject of interest is the generalizability of results obtained from advanced economies to developing and emerging economies. In context of communalities across emerging economies, corporations should concentrate on 'emerging market strategy' (Dawar & Chattopadhyay, 2002). External and internal management and operating systems to different cultures is needed to be revised, especially to those corporations that are operating in the emerging economies of Eastern and Central Europe (Park & Jang, 2010).

This study analyzed two firm level constructs as they have been widely discussed by past studies Baker and Sinkula (2009): (1) entrepreneurial orientation; and (2) market orientation. Entrepreneurial orientation refers to the exploitation and identification of untapped opportunities that firms establish as an organizing principle (Lumpkin & Dess, 1996a, 1996b). As for as market orientation is concerned, it refers to the establishment of a mechanism under which satisfaction of customer needs is ascertained as an organizing principle of the firms (Jaworski & Kohli, 1993; Kohli, Jaworski, & Kumar, 1993). According to management science studies (Chiarvesio & Di Maria, 2009; Coe & Hess, 2005), market orientation and entrepreneurial orientation contributes to firm performance, therefore their nature becomes more important. By taking this fact into consideration, it can be argued that through market and entrepreneurial orientation, firms should enhance their efficiency so that they can deal effectively with uncertain market situations in emerging economies (Grewal & Tansuhaj, 2001). As a result, we question whether entrepreneurial and market oriented practices are complement of each other as a predictor of firm performance in emerging economies?

By providing a deeper insight into firm's performance predictors, this study makes a significant contribution to the literature in context of transition economies. This will ultimately facilitate the firms in international growth process and provide assistance in allocation of limited resources to most contributing areas towards international performance. In addition, results are expected to enhance generalizability of fundamental concepts to emerging economies research setting. The structure of the study is as follows. Next section provides a glimpse of relevant past studies and then study hypothesis are discusses. After that, data analysis, results, and finding are brought into discussion. Finally, conclusion with recommendation and limitations are given at the end.

## **1. Review of Past Studies**

This section comprised of two subsections. First subsection provides linkages between entrepreneurial orientation and performance while second subsection establishes the linkages between market orientation and performance. For conceptual framework, the key variables are also identified.

### **2.1 Entrepreneurial Orientation and Assessment of the Firm's Performance**

It is evident from literature that several measures for entrepreneurial orientation exist (Lumpkin & Dess, 1996a, 1996b) and it drives business success (Boso, Cadogan, & Story, 2012a, 2012b). Risk taking, innovation and pro-activeness act together to "comprise a basic unidimensional strategic orientation" as theorized by Covin and Slevin (1989, p. 79). Lumpkin and Dess (1996a) present two more dimensions: competitive aggressiveness and autonomy. Being a firm level construct, entrepreneurial orientation is closely linked to strategic decision making process and strategic management (Lumpkin & Dess, 1996a, 1996b). Through entrepreneurial orientation, firm become able to affect emerging market and its behavior by launching new innovative products in order to satisfy customer needs (Boso et al., 2012a). This study argued that entrepreneurial orientation is multi-dimensional construct which needs to integrate the management professionalism which is consistent with the literature.

## 2.2 Market Orientation and Assessment of the Firm's Performance

Two strategic options are proposed by past studies to increase performance (Kuivalainen, Sundqvist, & Servais, 2007). First way to enhance performance is to establish managerial networks and ties to increase the probability of business success in the target market. The second way, which has debated a lot in the literature by several authors (Kwon, 2010), concentrates on highlighting greater customer value as a precondition of performance and competitive edge (Zhou, Li, Zhou, & Su, 2008). Here we make assumption that organizations use market orientation in order to achieve both high business performance and competitive edge (Li, Zhou, Mo, Yang, & An, 2009). Thus, it can be argued that organizations are not only facing high level of demand uncertainty (which plays critical role about market orientation), but also an extreme level of infrastructural diversity and variability among customers (Dawar & Chattopadhyay, 2002). The firm who will more habitual for monitoring customers, it will have more flexibilities and opportunities for the adjustment of new demand curves (Slater & Narver, 1995).

A remarkable number of studies provide evidence for both the Europe (e.g. Pitt, Caruana, & Berthon, 1996) and the USA (e.g. Narver & Slater, 1990) and support the phenomenon that market orientation and superior performance are positively related with each other (Kirca, Jayachandran, & Bearden, 2005). Anyhow, a number of variables work as mediator for this relationship such as innovation, economic volatility, strategy and supplier relationships (Qureshi & Sun, 2009). In comparison, manufacturing firms demonstrate more strong relationship between market orientation and firm performance than services firms. When firm is going to internationalize, cultural aspect of market orientation and market oriented norms and values have to be considered (Kirca, Cavusgil, & Hult, 2009; Narver & Slater, 1990). In order to adapt and improvise, these global activities demand from the firm to use market oriented approach (Sorensen, 2009).

In order to get closure look of market orientation construct, we found chronological development (Kirca et al., 2005) because three behavioral components was identified by Narver and Slater (1990) for a definition. Firstly, 'customer orientation', which refers to well understanding about target buyers over the period so that superior value can be created for them. Secondly, 'competitor orientation', which includes obtain relevant information about potential and existing competitors and their long term capabilities. It also involves good understanding of competitors' short term strength and weaknesses. Finally, the last one is 'inter-functional coordination', which refers to the use of resources with coordination, so that superior value can be created for targeted customers. Jaworski and Kohli (1993) provide market orientation definition "it refers to the organization wide generation, dissemination, and responsiveness to market intelligence". Comparison of these definitions yield some similarities as they both concentrate on key role of customer in entailing an external orientation and manifestation of market orientation. Several studies also highlight the vital role of customer satisfaction (e.g. Webb, Webster, & Kreppa, 2000).

An integrated model was developed by Cadogan, Diamantopoulos, and Siguaw (2002), which states that all activities are referred back to a coordination system which make sure the effective and efficient processes and taking components of inter-functional coordination into account as suggested by Narver and Slater (1990). The focus of the activities of intelligence dissemination, responsiveness and intelligence generation are on competitor and customer orientation, with the exception of other influencing factors. In an international context, additional factors of influence are emerging based on this model. These factors are important for the company at the time of internationalization process as they signify social, political, legal and economical aspects of foreign country market. For international market orientation, eight influencing factors are mentioned by Cadogan et al. (2002), i.e. human resource policies, response rationale, distortion and purification, information load, organizational complexity, reliance on third parties, quality and availability of information and foreign market experience. In the context of the company, Kirca and Tomas M. Hult (2009) highlight that organizational behavior and company values are highly influenced by national culture (Diamantopoulos, Siguaw, & Cadogan, 2008).

## 2. Hypotheses Development

Entrepreneurial orientation and market orientation both include in our conceptual framework. The main objective of this empirical study is to validate international firm performance, validate these factors and investigate the nature of relationship between them. Figure 3.1 depicts entrepreneurial orientation and market orientation performance framework. We can develop following hypothesis based on this framework.

- *H<sub>1</sub>: In international target market, a positive relationship exists between Management Professionalization and overall firm performance.*
- *H<sub>2</sub> In international target market, a positive relationship exists between Opportunity & Risk Behavior and overall firm performance.*

*H<sub>3</sub>: In international target market, a positive relationship exists between market orientation factors and overall firm performance.*

*H<sub>4</sub>: international target market, a positive relationship exists between competitor orientation and overall firm performance.*

*H<sub>5</sub>: In international target market, a positive relationship exists between inter-functional and overall firm performance.*

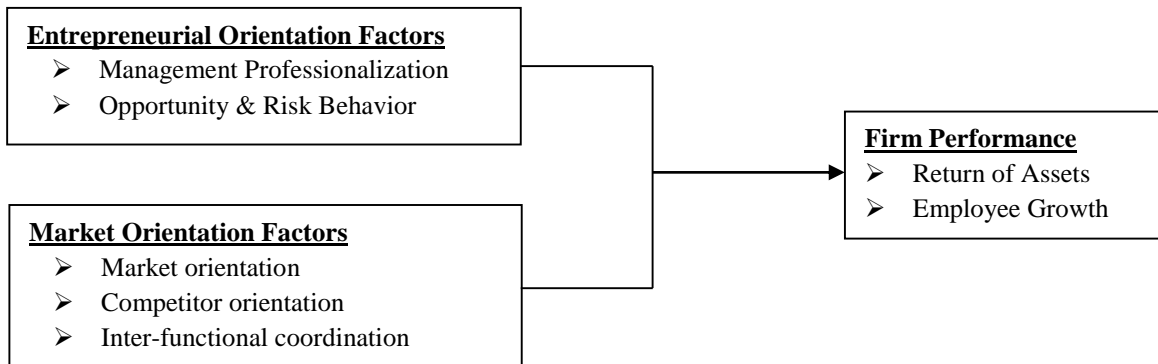


Figure 3.1 Conceptual framework of entrepreneurial orientation and market orientation in emerging markets

### 3. Methodology

#### 4.1 Sample Selection and Data Collection

By following Lin, Peng, and Kao (2008), respondents are selected from firms by using several criteria, for example based on knowledge, title of their jobs, and experience. The pilot test was already conducted to assure technical practicability and content relevancy of the questionnaire and it was limited to 5 pages with 60 questions. We obtain a list of 4,291 Malaysian exporters from MICCI<sup>1</sup> and METDC<sup>2</sup> in 2010. In order to ensure the capability of assessing performance indicators by Malaysian firms, we select only those multinational firms that had been engaged in cross border trade in last three years. Chief executive officers (CEOs), managing directors (MDs) of marketing and marketing managers are invited to participate in an electronic survey. It is assumed that these persons have adequate and well understanding about their organizational performance, culture and market environment as compared to other department managers. Initially we got low responses from their side; therefore we again sent them two reminders with a gap of seven days. We receive responses of dependent and independent variables from same informants.

<sup>1</sup> Malaysian International Chamber of Commerce & Industry

<sup>2</sup> Malaysia External Trade Development Corporation

After making comparison of average duration required to fill our questionnaire during electronic survey, we assessed non-response bias and exclude questionnaires that were filled less than 2 minutes. In the next stage of data assessment, we exclude all incomplete responses. Finally, we got 180 usable questionnaires that were completely filled; this represent 13% response rate similar to recently published researches on same subject (e.g. Boso et al., 2012b; Lado, Duque, & Alvarez Bassi, 2013).

#### 4.2 Measurement

**Entrepreneurial Orientation:** According to Boso, Story, and Cadogan (2013), entrepreneurial orientation deemed as an important key driver of performance. We use evidence from three aspects for the measurement of three dimensions. Firstly, actions and manners of an entrepreneur towards innovation (this is we called *innovativeness*). Secondly, the tendency and pro-activeness in behavior to risk (this is we called *the capability to handle risk* and *pro-activeness*). Finally, the performance and attitude towards adherence to organizational standards and management professional qualification (this is we called *management professionalization*) (Jun & Deschoolmeester, 2004). We use seven point Likert scale to measure said items ranged from 'strongly agree' to 'strongly disagree'.

**Market Orientation:** This factor determines how management of an organization effectively addresses the expectations and requirements of their existing and prospective customers and how well firm management measures customer's satisfaction. That's why this measure is considered as key factor of firm's performance. The measurement scale of Narver and Slater (1990) and Kohli et al. (1993) are chosen for this study as both had been tested previously. They posses acceptable level of measurement properties and both had been interchangeably used in the discussion of antecedents, consequences and domain of market orientation. Although measurement scale of Narver and Slater (1990) and Kohli et al. (1993) had been a point of criticism by Kaur and Gupta (2010), notwithstanding several studies relay on this scale and used it for developing countries (Boso et al., 2013, p. 716). We measure all items on seven point Likert scale ranging from 'strongly agree' to 'strongly disagree'.

**Firm Performance:** This study employed measurement of firm performance and growth to capture different aspects of firm performance by following Wiklund and Shepherd (2005). Firstly, we use *profitability* measure by following Narver and Slater (1990) proxied by return on assets (ROA) which is defined as net profit after taxes scaled by total assets. Secondly, to measure firm performance we take *employee growth rate*. Finally, *market share* is used to measure firm performance (Baker & Sinkula, 1999). All respondents are directed to assess their performance in their major foreign target market during last three years. We measure all items on a seven point Likert scale anchored by 'strongly agree' and 'strongly disagree'.

#### 4.3 Data Analysis

In order to ensure reliability, measures are examined through factor analysis of the variables to assess measurement model. To discard variables that are deemed as weak indicators of the construct, we used cut-off loading of 0.3. This method requires that sample size should at least five times greater than the number of variables used in the model. This study employs Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. Kaiser (1974) Presents the range of values and their interpretations. For example, sample with KMO values above 0.9 are superb, values between 0.8 and 0.9 are considered great, values between the range of 0.7 and 0.8 are good, values between 0.5 and 0.7 are mediocre, and values less than 0.5 are not acceptable. Our survey yield value 0.894 of KMO measure of sampling adequacy, which implies that factor analysis result on 180 observations is stable. We identify four underlying factors out of 36 original independent variables. To demonstrate the identified composite variables, we use summated scales for this study. Through factor analysis these composite variables are derived. The association among variables was checked through reliability analysis. For internal reliability, identified composites were tested and Cronbach's  $\alpha$  found to exceed 0.8.

#### 4. Results

From different industrial sectors, manufacturing firms participated in the survey as they represent Malaysian economy. All manufacturing firms are having international trade experience of at least 3 years and mean number was 7.83 of export countries. Results of reliability analysis and factor analysis are presented in Table 5.1 and 5.2. Variables that were deemed as weak indicator of the constructs are screened and removed by using cut-off loading of .70 for this study. Eight variables, out of 36, cannot meet the cut-off criteria and 28 variables are left to make up four constructs that are further divided into entrepreneurial orientation and market orientation. These four constructs are opportunity and risk behavior, management professionalization, competitor orientation and customer orientation. Table 5.3 demonstrates the dependent construct which comprised of three items of firm performance. For early stage research, reliability values of one dependent construct and three independent constructs meet or exceed Nunnally's suggested benchmark (i.e. Cronbach's  $\alpha > .70$ ) (Andersson, Johnsson, Berglund, & Öjehagen, 2009)

### **5.1 Factors of Entrepreneurial Orientation and Performance**

Moderate correlations exist between firm performance and entrepreneurial orientation constructs such as opportunity and risk behavior ( $r = 0.455, p < 0.01$ ) and management professionalization ( $r = 0.467, p < 0.01$ ). These two constructs also exhibit moderate correlations between each other ( $r = 0.660, p < 0.01$ ). Results of multiple regression analysis are demonstrated in Table 5.3 with four independent variables and firm performance as a dependent variable. The results of both multiple regression and bivariate analysis are used to test hypothesis ( $H_1$  and  $H_2$ ) as described above.

### **5.2 Factors of Market Orientation and Performance**

A significant and strong correlation found between market orientation and overall firm performance ( $r = 0.498, p < 0.01$ ). Similarly, competitor orientation, second factor of market orientation, had also significant and strong correlation with overall firm performance ( $r = 0.679, p < 0.01$ ). Finally, it can be suggested from the results of bivariate correlation analysis that market orientation practices and competitor orientation are positively and significantly related with each other ( $r = 0.679, p < 0.01$ ).

Table 5.1 Factor analysis of IV's

ITEMS	Factor Loading of Selected Items
<b><i>F1: Market/Customer Orientation<sup>(1)</sup></i></b>	
Quality of people work	.778
Quality of a product as moral standard	.784
Quality interest of employees	.793
Philosophy of total quality	.743
Quality as a firm's strategy	.689
People's understanding about quality	.679
Quality reports and media	.669
Quality as branding facet	.680
<b><i>F2: Competitor Orientation<sup>(2)</sup></i></b>	
Competitive edge against competitors	.882
Response against competitor's measures	.846
Strategies against competitor's planning	.858
Communication inside the organization	.819
Departmental coordination	.801
Visits of organization's customers	.775
Sharing of organizational resources among divisions	.766
Customer's needs analysis	.769
<b><i>F3: Management Professionalization<sup>(3)</sup></i></b>	
Product uniqueness	.874
Safety of routines/processes	.840
Simulation of HR	.781
Competitor independence	.737
Protection of branding	.762
<b><i>F4: Opportunity and Risk Behavior<sup>(4)</sup></i></b>	
Effect of R&D on venture	.753
Effect of controlling and accounting procedures on venture	.771
Influence of TQM on venture	.735
Impact on marketing knowledge on venture	.724
Effect of patenting on venture	.689
<b>Notes:</b> (1) Construct reliability: $\alpha=.839$ ; (2) Construct reliability: $\alpha=.832$ ; (3) Construct reliability: $\alpha=.864$ ; (4) Construct reliability: $\alpha=.820$	

Table 5.2 Correlation Matrix

	F1-(IV)	F2-(IV)	F3-(IV)	F4-(IV)	F5-(DV)
F1:Market/Customer Orientation	1				
F2:Competitor Orientation	.679**	1			
F3:Management Professionalization	.533**	.779**	1		
F4:Opportunity and Risk Behavior	.587**	.623**	.660**	1	
F5:Firm Performance	.498**	.679**	.467**	.455**	1
<b>Notes:</b> **Correlation significance (one tailed) at 0.01 level, IV=Independent variable, DV=Dependent variable					

Table 5.3 Summary of Multiple Regression Analysis with 'firm performance' as dependent variable.

ANOVA	$\beta$	B	P-value	t-test
F1:Market/Customer Orientation	.155	.078	.051	1.944
F2:Competitor Orientation	.012	.124	.000	3.639
F3:Management Professionalization	.189	.007	.000	4.616
F4:Opportunity and Risk Behavior	.141	.118	.010	3.461
<b>Notes:</b> F5 firm performance ( $F 7.069$ )=16.469 (sig- $F$ =0.000). Multiple $R$ =0.684, adjusted $R^2$ =0.45, IV=Independent variable, DV=Dependent variable, ANOVA = Analysis of Variance				

### 5.3 Hypotheses Testing

The results of linear regression model shows 45% variation (adjusted  $R^2=.45$ ) in dependent variable i.e. firm performance. Results further signify that highly positive and significant relation with firm performance is exhibited by only market orientation. These results support our second hypothesis ( $H_2$ ). If we look at Table 5.2, we can see that coefficients in correlation matrix are positive for the relation between firm performance and market orientation constructs. Regression analysis also confirms the relationship of firm performance with both entrepreneurial orientation and market orientation. A positive association is found ( $\beta = +ve$ ) between firm performance and all other factors. Significant correlation found from the results of bivariate correlation analysis between firm performance and entrepreneurial orientation and market orientation. A greater explanatory power is demonstrated by all constructs together on firm performance. The relationship between firm performance and all four factors is significant and positive based on correlation analysis, therefore,  $H_1$  is supported.

We were also interested to investigate that, for underlying theoretical assumptions, whether constructs of entrepreneurial orientation model and market orientation model are reliable and valid measures or not. We consider construct, criterion validities and contents. According to Carmines and Zeller (1979, p. 20) "Content validity is based on the extent to which a measurement reflects the specific intended domain of content". In the field of entrepreneurship and marketing, appropriate literature is included in the literature review. Thus, it is believed that measures of the entrepreneurial orientation model and market orientation model have reasonable content validity. The conceptualization and boundaries of entrepreneurial orientation model and market orientation model are clearly defined by the items developed from the literature.

The degree to which targeted constructs are measured by an assessment instrument are known as construct validity. We used principal component factor analysis to assess elements and, by using orthogonal varimax rotation, we analyzed items for each of the factors. All those items were dropped whose factor loadings were less than .50. Discriminant validity and convergent validity both were considered as subtypes of



construct validity. As all items were loaded on single particular construct (factor), therefore, convergent validity was also achieved. Similarly, items were already loaded on specific construct, therefore, discriminant validity had also achieved. Items results and their loadings are illustrated in Table 5.1 and Table 5.2. Linear regression was used for predictive validity of entrepreneurial orientation construct and market orientation construct. Results are demonstrated in Table 5.3 showing  $R=0.68$  which indicates that all factors, when taken together, have a high degree of criterion related validity and 45% variation is explained in firm performance. This signifies strong external validity of the model.

Reliability is associated with the consistency of measure. As the correlation becomes stronger, the reliability of the measure will also get higher. To determine internal consistency, several studies in the literature used Cronbach's  $\alpha$  as a reliability coefficient for a set of measurement items. For each of the factors, we used PASW software<sup>3</sup> to assess internal consistency. Table 5.1 and Table 5.2 depict the results of reliability test. Value of Cronbach's  $\alpha$  greater than 0.70 is normally accepted a minimum. All constructs of our study had Cronbach's  $\alpha$  value above 0.70.

## 5. Discussion and Managerial Implications

Regression analysis results show that entrepreneurial orientation constructs (i.e. opportunity and risk behavior) and market orientation constructs are associated with firm performance in emerging Asian markets. Thus, key contribution of this paper is to demonstrate the impact of entrepreneurial orientation and market orientation on firm performance in emerging markets. Therefore, variables and strategies can be transferred towards emerging markets that have been successfully proved for advanced markets. Theoretically, a framework can be developed by using entrepreneurial orientation measures and market orientation measures for the performance of entrepreneurial and market orientation in transition economies. Our survey also confirms that our both constructs are appropriate for developing marketing strategies at international level in emerging economies. In addition to that, if an entrepreneurial organization acts as market oriented then the internationalization process can be influenced positively towards Asian emerging markets. Therefore, this study makes significant contribution into literature by suggesting that firms should tend towards an entrepreneurial organization. This becomes more relevant and more significant when international business activities are undertaken in Asian emerging economies.

## 6. Limitations and Future Research

Notwithstanding, this study has some limitations. Firstly, we include and analyzed only those companies that are listed in Malaysian stock exchange and have international business operations. This opens the avenue for future researches to carry out a study by including some other emerging economies which will assist authors to assess the effect of geographical and cultural distance on international economic and business activity dynamics. Secondly, as respondents are only from Malaysia, therefore, results cannot be generalized at global level. Thirdly, this study use only few parameters of firm performance for analysis, whereas, different results are likely to be obtained by incorporating some other performance parameters in regression model. Fourthly, a short time horizon might yield less reliable results. To sustain and ascertain the nature of variation of firm performance, entrepreneurial orientation and market orientation in a group of different economies, it is necessary to use longitudinal view of overseas economic activities.

The relationship among export inflow in Malaysia, corresponding international activities and availability of resources is not directly focused by this study which is a possible limitation of this study. Availability of resources works as economic growth barrier in those countries where resources are scarce. Firms possess different level of capabilities and resources that belongs to emerging and advanced economies. Firms that are operating in transition economies and approaching international development are most likely to be influenced by resource scarcity. Therefore, the distinguish nature of developing and developed economies forms another clustered group that might generate more accurate and reliable results in future researches. Furthermore, other different types of measures can be used to generate robust results. Particularly, apart

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<sup>3</sup> Formerly SPSS Statistics

from performance indicators, different ratios related to 'performance growth' can also be used to capture dynamic development. Finally, some other factors should be included in future research that may affect the dynamics of international activities in different ways such as specific industry of a firm.

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