

## ROLE OF MARKET ORIENTATION AND COMPETITIVE ADVANTAGE IN FIRM'S PERFORMANCE

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**Abstract:** *The purpose of this study is to identify the role of market orientation on firm's performance through competitive advantage. In this regard, the present study includes two important components of market orientation, i.e., customer orientation and competitor orientation. The data were collected from 192 manufacturing small and medium enterprises (SMEs) operating in Ludhiana, city of Punjab. The statistical technique, such as reliability and validity, confirmatory factor analysis (CFA), structural equation modelling (SEM) were used for data analysis. Based upon 192 manufacturing industries, the study found that among the two dimensions of market orientation, competitor orientation has a positive and significant impact on firm's competitive advantage. However, the impact of customer orientation on competitive advantage found non-significant. When we analysed the direct impact of customer orientation and competitor orientation on business performance, we found that customer orientation has a positive and significant impact on business performance. On the other hand, the impact of competitor orientation on business performance is insignificant. Further, competitive advantage significantly leads to business performance in context to SMEs. Thus, the study reveals that the impact of competitor orientation on business performance is significant through firm's competitive advantage. In order to improve business performance, these SMEs should give greater emphasis on customer satisfaction.*

**Key words:** Market Orientation, Competitive Advantage and Business Performance

**Jel Classification:** M -Business Administration and Business Economics; Marketing; Accounting; Personal Economics {M3- Marketing and Advertising (M31- Marketing)}

### INTRODUCTION

Market orientation (MO) acts as a life blood of modern era of marketing. MO, being one of the most critical components of strategic orientation, has far reaching influence on a firm becoming entrepreneurially oriented. MO is important for entrepreneurial firms and new ventures because at their early stages it enables them to learn and adapt to the environment, quickly reacting to opportunities and threats (Becherer & Maurer, 1997; Luo, Zhou & Liu, 2005). Firms that scored high on MO often tended to be more entrepreneurial-oriented and those firms that adopted MO have achieved superior performance (Atuahene-Gima & Ko, 2001;

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Matsuno, Mentzer & Ozsomer, 2002). It was Kohli and Jaworski, (1990) who recognising and operationalising the marketing concept as “market orientation” in the 1990s. During the past 30 years, hundreds of articles have been published on market orientation’s effect on business performance (Kirca, Jayachandran & Bearden, 2005). However, few studies have investigated the longer-term benefits of MO (Gebhardt, Carpenter & Sherry, 2006; Noble, Sinha & Kumar, 2002). MO has a positive effect on business profitability and is a necessary culture to create superior customer value (Slater & Narver, 1994), which in turn is a basis for competitive advantage (Woodruff, 1997). Thus, MO is the basic strategic marketing practices that play important role in improving business performance and is one of the first strategic frameworks that provided firms with a sustainable competitive advantage.

Previous studies like, Slater and Narver, (1998); Smart and Conant, (1994); Miles and Arnold, (1991); Moris and Paul, (1987), recommended that MO as a learning construct is reflected in its high inter-correlation with firm’s learning. Zhou, Brown and Dev, (2009) investigated how customer value derives MO, i.e., customer and competitor orientation, as mediating the link between MO and performance. The study converged on the mediating process of MO-performance relationship and conducted survey in a service industry only (i.e. the global hotel industry). Previous research studies reveal the individual effect of MO on firm’s performance. In this regard, Brettel and Rottenberger, (2013) and Wang, (2008) did not include MO. On the other hand, Brettel, Chomik and Flatten, (2014); Cheng and Huizingh, (2014); Kollmann and Stockmann, (2012); Wales, Parida and Patel, (2013); Covin and Wales, (2012); Saeed, Yousafzai and Engelen, (2014) focused on individual effect of entrepreneurial orientation on firm’s performance and thus, ignored other important strategic orientations like MO. There are few studies that reported significant relationship between MO and firm’s performance (Li, Liu, Duan & Li, 2008; Atuahene-Gima & Ko, 2001) but ignored the individually impact of customer and competitor orientation on firm’s performance through firm’s competitive advantage. However, the studies examining the role of MO on firm’s performance through the mediation of competitive advantage in a manufacturing industry could not be traced. The study contributes to the existing literature in different ways; (i) it analyses the individually impact of customer and competitor orientation on firm’s competitive advantage, (ii) examines the impact of competitive advantage on business performance and (iii) compute the direct impact of customer and competitor orientation on firm’s performance.

Our three specific research questions are as follows:

- (i) Which orientation, whether customer or competitor orientation has a greater impact on firm’s competitive advantage?
- (ii) Does competitive advantage significantly lead to business performance?

- (iii) Does customer and competitor orientation have a direct significant impact on firm's performance?

The paper is structured as follows: First, the paper presents the conceptual model and formulated the hypotheses. Next, the methodology section describes the sample, measures and methods used for data analysis. Based on 192 SMEs of an industrial city of India the hypotheses are tested. Finally results, conclusion and managerial implications are present. The paper ends up with the limitations and suggests avenues for future research.

### **HYPOTHESES FORMULATION**

MO creates a better customer value (Slater & Narver, 1994), which in turn leads to competitive advantage (Woodruff, 1997). Thus, MO including customer and competitor orientation is the basic strategic marketing practices that play vital role in improving business performance and is also one of the first strategic frameworks that provided firms with a sustainable competitive advantage. MO does help a firm to ensure better performance as top executive at the helm of affairs are well aware of customers' needs and competitors' strategy and they are also highly motivated to deliver superior customer satisfaction (Pelham, 1997). Thus, these two components of MO, i.e., customer and competitor orientation can be use for building strong competitive advantage provided a firm possess requisite relevant information and apply them in a clever way as a part of strategy. Further, Kumar, Jones, Venkatesan and Leone, (2011) argued that MO has a positive impact on firm's competitive advantage. Thus, on the basis of above statements, we have framed our first hypotheses:

H1(a): There is a positive association between customer orientation and competitive advantage

H1(b): There is a positive association between competitor orientation and competitive advantage.

Competitive advantage plays an important role in the market-place that leads a firm to outperform its rivals (Porter, 1985). Zhou, Brown and Dev, (2009) analysed how MO affects competitive advantage and consequently on organisational performance in service industry. Alalak and Tarabieh, (2011) generalised that competitive advantage has significant and direct influence on the organisational performance. It leads to the setting up of our second hypothesis:

H2: A firm's competitive advantage significantly and positively leads to business performance.

Narver and Slater, (1990) reveal that MO including customer orientation, competitor orientation and coordination has a positive impact on business performance. MO ensures a sound business performance as top management and other employees have good source of pertinent information on customers' needs and competitors'

strategy and a high tendency to deliver better customer satisfaction (Pelham, 1997). Many developing enterprises are recognised that MO has the great help on performance improvement. Thus, on the basis of above discussion we framed our third hypotheses:

H3(a): A firm's customer orientation has a direct positive and significant impact on business performance.

H3(b): A firm's competitor orientation has a direct positive and significant impact on business performance.

## RESEARCH METHODS

### Sample Design and Data Collection

The study generated primary data through well structured questionnaire obtained personally from the owners/managers of SMEs located in Industrial Area 'A' and 'B' of Ludhiana city of Punjab (Industrial Hub of Northern India). For contacting the respondents, a list of industries was procured from the District Industrial Centre (DIC) Ludhiana. As majority of the old industries are located in Industrial Area 'A' and 'B' of Ludhiana, we decided to confine our study population to these two areas only. There were 41,385 SMEs as on 31<sup>st</sup> March 2012 in Ludhiana and out of these; there are approximately 3,000 SMEs located in Industrial Area 'A' and 'B'. Initially we conducted pilot survey by contacting ten SMEs each from these two areas purely on convenience basis. After obtaining descriptive statistics, we applied the formula given by Malhotra, (2007, p. 364) and determined the sample size. Considering 5% level of confidence, the sample size arrived at 211. We employed systematic sampling technique to contact the respondents. Out of 211 owners/managers of these SMEs, 204 owners/managers of SMEs gave complete information pertaining to the questionnaire. These contacted industries were textile and hosiery (31.25%), auto and cycle parts (27.08%), agriculture equipments and oil expeller (21.88%), casting (6.25%), iron and steel (7.29%) and sewing machine (6.25%) (Table 1).

**Table 1**  
**Profile of Sampled Firms**

<i>S. No.</i>	<i>Manufacturing Industries</i>	<i>No. of Firms</i>	<i>Percentage</i>
1.	Agriculture equipments and oil expeller	42	21.88%
2.	Auto and cycle parts	52	27.08%
3.	Casting	12	6.25%
4.	Hosiery and Textile	60	31.25%
5.	Iron and steel	14	7.29%
6.	Sewing machine	12	6.25%
	Total	192	100%

### Variables and Measures

Relevant literature has been reviewed extensively to generate items pertaining to different dimensions of MO, competitive advantage and business performance. A well structured questionnaire was developed to gather required information. Some items were repeated to judge the consciousness and active participation of respondents as well as to examine internal consistency and cross checking of the data.

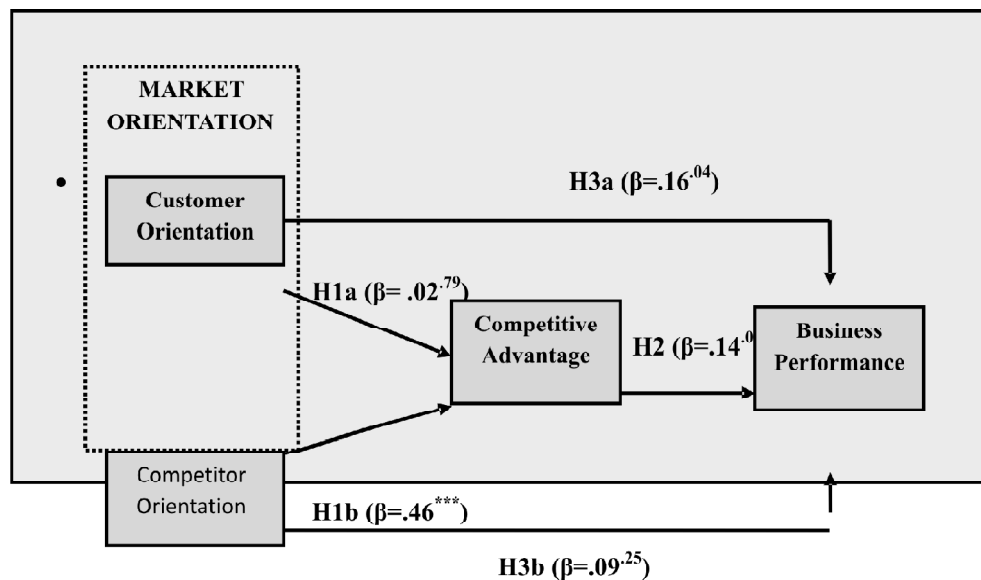
*Market Orientation:* With respect of MO, the study comprised of ten items borrowed from Narver & Slater, (1990), out of which six items pertained to customer orientation and remaining four to competitor orientation. Again the study used second-order construct to confirm these dimensions.

*Competitive Advantage:* It comprised of six self-developed items and used first-order reflective construct to confirm these items.

*Business Performance:* Business performance of SMEs consisted of twenty-one items, adapted from Moorman & Rust, (1999). First-order construct was used to capture business performance.

The instrument comprised of total 49 items, out of which 12 pertained to organisational demographics, nine to personal demographics and remaining items belonged to three major constructs of the study. A 7-point Likert scale was employed ranging from “strongly disagree” (1) to “strongly agree” (7) for MO “not at all” (1) to “really high” (7) for competitive advantage; and “worst” (1) to “best” (7) for business performance.

Figure 1: Structural Model



## METHOD OF ANALYSIS

Before applying any multi-variate research technique, data have to be screened and normalcy has to be verified. Two graphical techniques for identifying outliers are scatter plot and box plot along with an analytic procedure for detecting outliers when the distribution is normal (Grubbs, 1969). Outliers were checked item-wise through box plots. There were 204 subjects out of whom we observed 12 outliers, finally deleted from the data set and thus, the usable sample arrived at 192. After outliers normality was checked and there are two ways of testing normality, i.e., graphical method and numerical method (Park, 2008). In case of graphical method, we used histogram, Box plot and Q-Q plot, while in case of numerical method we examined Skewness and Kurtosis to check the normality of the data (Mardia, 1970) and the data are normal when its Skewness and Kurtosis have value between -1 and +1 or closer to zero (Gao, Mokhtarian & Johnston, 2008). Through SPSS (17.0 version) Skewness and Kurtosis values were observed and the value of Skewness was -.31 and Kurtosis was -.10 respectively. Thus, the data were found to be normally distributed.

After normalcy, the study checked common method variance in order to know if any bias exist in our dataset. To check the existence of biasness, the study used three different techniques to analyse the common method variance (Podsakoff et al., 2003). First, the study applied Harman's single-factor test (1979). According to this approach, common method variance is said to be present when a single factor constitutes majority of the covariance (more than 50%) in the dependent and independent variance. In the present study, 4 factors emerged with 65.03% variance explained and variance explained by first factor is 20.75%. Thus, Harman's single-factor analysis reveals that our data is not affected by the responses obtained from single respondent. Second, we employed CFA (Confirmatory factor Analysis) single-factor model, in which all the manifest variables of the latent constructs were loaded onto first-order CFA and in this regard, we found poor model fit (CMIN/df= 8.83; GFI= .55; AGFI= .42; NFI= .31; TLI= .24; CFI= .33; RMSEA= .20). Finally, we determined the correlation matrix of the latent constructs and found that the highest value in the correlation matrix is 0.45 (Table 2), which is less than the threshold criteria of 0.90 (Pavlou, Liang & Xue, 2007). Hence, these results reveal that common method variance is not a problem in the present study.

Confirmatory Factor Analysis (CFA) was performed to assess fitness, reliability and validity of latent constructs. Reliability of the data has been evaluated through Cronbach's alpha. In order to improve scale consistency, item-to-item correlation has been computed to determine whether each item of a scale predominately correlates positively with other items (Kennedy, Lassk & Goolsby, 2002) (Table 2). Alternative way of testing reliability is through composite reliability (CR) and in the present study, the value of CR of all the latent constructs is above .90, which indicates internal consistency of the data. The dimension-wise composite reliability

is shown in Table 2. On the other hand, validity of scale has been established through construct validity, which include convergent validity (Lim & Ployhart, 2006) and discriminant validity (Fornell & Larcker, 1981). Convergent validity has been established through factor loading and average variance extracted and in the present study convergent validity gets established as majority of factor loadings and average variance extracted are either closer to or above .50 (Table 2 and 3). Discriminant validity analysis is estimated to examine the degree to which a variable is distinct from other variables (Hair, Black, Babin, Anderson & Tatham, 2009). Table 4 shows that each explained variance estimate on the diagonal is greater than the corresponding inter-factor squared correlation estimates below the diagonal (Malhotra, 2007). Thus, discriminant validity gets established, there by implying that major constructs are unique.

**Table 2**  
**Correlation Matrix and Descriptive Statistics**

S. No.	Variable	Mean	S.D	1	2	3	4
1.	Customer orientation	5.94	0.75	1			
2.	Competitor Orientation		4.89	1.00	.14*	1	
3.	Competitive Advantage	4.08	1.07	.04	.45**	1	
4.	Business Performance	4.45	0.56	.14*	.01	.13	1

S.D= Standard Deviation  
n = 192; \* p < 0.05; \*\* p < 0.01.

**Table 3**  
**Reliability and Validity of Latent Constructs**

S. No.	Constructs	Average Variance Extracted	Composite Reliability	Cronbach's Alpha
1.	Market Orientation	.48	.97	.70
2.	Competitive Advantage	.48	.93	.75
3.	Business Performance	.63	.99	.89

**Table 4**  
**Discriminant Validity of Latent Constructs**

S. No.	Average Variance Extracted	Market Orientation	Competitive Advantage	Business Performance
1.	Market Orientation	<b>(0.48)</b>		
2.	Competitive Advantage	0.10	<b>(0.48)</b>	
3.	Business Performance	0.07	0.01	<b>(0.63)</b>

The results of measurement models reveal that goodness-of-fit (GFI), adjusted goodness-of-fit (AGFI), normed fit index (NFI), Tucker-Lewis index (TLI) and comparative fit index (CFI) exceeded the recommended value of .90 and Chi-square statistics is less than recommended 5.0 level (Inman, Sale & Green, 2009) (Table 5).

**Table 5**  
**Results of Measurement Models and Structural Model**

S. No.	Constructs	CMIN/df	GFI	AGFI	CFI	NFI	TLI	RMSEA
1.	Market Orientation	1.15	.98	.92	.99	.96	.99	.02
2.	Competitive Advantage	1.28	.99	.96	.99	.99	.99	.03
3.	Business Performance	2.46	.98	.92	.99	.98	.97	.08
4.	Structural Model MO'!CA'!BP	2.61	.98	.93	.93	.91	.93	.09

After applying CFA, Structural Equation Modeling (SEM) was conducted by using AMOS 16.0 to assess fitness of the structural model (Table 5). With the help of SEM, the data were analysed and hypotheses were tested.

## RESULTS AND DISCUSSION

The three major constructs (*viz.*, MO, competitive advantage and business performance) under the study have been analysed as reflective and multi-dimensional. After applying CFA, three items of customer orientation, one of competitive advantage and seven items of business performance got deleted, as the standardized regression weight (SRW) was below the acceptable criterion of .50. These models have been found to be valid and reliable after deleting insignificant items and reliability also gets confirmed through Cronbach's alpha and composite reliability (Table 2). The remaining indicators predict a good fit model in terms of CMIN/df, GFI, AGFI, NFI, TLI, CFI and RMSEA (Table 5).

On the basis of SEM, the framed hypotheses (Figure 1) have been tested. It becomes evident from the SEM results that customer orientation has no significant impact on firm's competitive advantage ( $\beta = .02$ ,  $p > 0.05$ ), hence H1(a) stands rejected. On the other hand, competitor orientation has significant impact on firm's competitive advantage ( $\beta = .46$ ,  $p < 0.05$ ), thus H1(b) stands supported. Further, the impact of firm's competitive advantage on business performance, appears to be significant ( $\beta = .14$ ,  $p < 0.05$ ), leading to the acceptance of H2. When we analysed the direct impact of customer orientation on business performance we found it to be significant ( $\beta = .16$ ,  $p < 0.05$ ), but the direct impact of competitor orientation on business performance found insignificant ( $\beta = .09$ ,  $p > 0.05$ ), indicating that H3(a) stands supported, while H3(b) rejected.

Overall the study shows that customer orientation does not predict competitive advantage, but there is a direct significant impact of customer orientation on



business performance. On the other hand, competitor orientation positively and significantly leads to competitive advantage but their direct impact on business performance found to be insignificant. Thus, we can say that there is a direct significant impact of customer orientation on business performance, while competitor orientation significantly leads to business performance through firm's competitive advantage in context to Indian SMEs. This result finds support from Dev, Kevin, Jim & Agarwal, (2009) who found that competitor orientation works better in emerging economy, where the resources are scarce, while customer orientation works better in highly developed economies. On the contrary, the study of Zhou, Brown and Dev, (2009) depicts that competitor orientation has a negative effect on a firm's market differentiation advantage, it may be because their study was conducted in a service industry (hotel industry) where the first priority is to make customer delightful. Further, we found that firm's competitive advantage significantly lead to business performance. This result finds support from Zhou, Brown & Dev, (2009).

#### **MANAGERIAL IMPLICATIONS**

The study found that SMEs in India are competitors centric to attain high competitive advantage in today's dynamic business environment. In order to sustain and compete with market rivals it is a high time that SMEs must focus on delivering best value to customer apart from competitive orientation. Building competitive advantage is determined by both the components of MO because they are complementary in nature. No business firm can accomplish a high competitive advantage on the strength of sound competitor orientation without having a firm hold on customer orientation. These SMEs should conduct market surveys on continuous basis so as to extract information regarding the changes likely to take place in the customers' needs pertaining to the firm's offering. This market information shall help the SMEs in introducing new products, processes and technologies to fulfil latent needs of the customers. These firms are resistant to undertake bold and novel steps in uncertain situation, which are essential for accomplishment of high level of satisfaction to customer.

Gaining competitive advantage has been one of the prime focuses of all the entrepreneurs since time immemorial and is emerging as a tool to survive and grow in today's highly competitive market scenario. SMEs in Ludhiana are found to have competitive advantage in launching new products and services, distribution of product and also in human resources. However, they are lacking in marketing and sales areas and further they do not have strong supply chain management. Therefore, SMEs ought to build competency in marketing and sales of products and services. Moreover, they should try to establish efficient and strong bond with concerned suppliers, which eventually go a long way in carving an edge over competitors. These SMEs should make the products and provide

the services in such a way that their competitors cannot imitate firm's processes and culture. For these they should conduct market surveys on continuing basis. These firms must be able to offer high quality services and customer satisfaction, which are the key areas in building competitive edge over competitors. Competitive advantage in these areas serve as a sustainable source of sustaining and improving firm's performance and it also acts as indispensable mechanism on account of which a firm survives and ensures further development.

## CONCLUSION

The present study has made an attempt to provide an answer to the three questions: *First*, which orientation, whether customer or competitor orientation has a greater impact on SMEs competitive advantage? The study reveals that competitor orientation has a greater as well as positive and significant impact on firm's competitive advantage. *Second*, does competitive advantage significantly lead to business performance? The findings suggest that firm's competitive advantage has significant impact on business performance. *Third*, does customer and competitor orientation have a direct impact on firm's performance? The study depicts that only customer orientation has a direct significant impact on business performance, while the impact of competitor orientation on business performance is through competitive advantage in the context to SMEs in India.

## LIMITATIONS AND FUTURE AGENDA

All the possible efforts have been made to maintain objectivity, validity and reliability of the study, yet certain limitations have emerged, which restrict its applicability. *First*, other strategic orientations like entrepreneurial orientation, learning orientation, technology orientation, production orientation, selling orientation etc have not been included in the present study. *Second*, few other constructs having significant relationship with market orientation like organisational capabilities, innovation and social context have also not been considered. *Third*, the present study is confined to small and medium enterprises (SMEs) located in Ludhiana city of Punjab, India. *Fourth*, being industry sector-specific, it did not cover other sectors, which also play vital role in the economic development like services sector. *Fifth*, the study contacted only managers/owners of SMEs. Therefore, future research can examine in medium and large scale industries. Other strategic orientations like entrepreneurial orientation, technology orientation, production orientation and selling orientation and their effect on firm's performance can also be considered for future studies. Beside these, the employees and industrial customers can also be contacted to measure such relationships.

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