IMPACT OF CUSTOMER & COMPETITOR ORIENTATION AND INTER-FUNCTIONAL COORDINATION ON SME'S PERFORMANCE

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Abstract

Small and Medium Enterprises (SMEs) play an important role in economic development and development in most developed countries. However, in most developing countries, the market and financial performance of SMEs are significantly undermined by many issues. One of the problems that impedes the performance of SMEs in Sri Lanka, especially at the eastern cost, is the lack of market orientation in most SMEs. This study examined the effect of market orientation on improving the performance of SMEs in Sri Lanka. Review of the literature suggested that market-oriented SMEs are generally characterized by customer orientation, competitor orientation, inter-functional coordination, long-term focus and profitability, and that these have positive impacts on the market and financial performance of SMEs. The study population consisted of 150 SMEs in the areas of manufacturing and services within the Eastern province of Sri Lanka selected based on the convenient sampling method. Data were analysed using SPSS. It was concluded that market orientation can significantly enhance SMEs performance. It was recommended that in addition to the over-emphasis placed on financing for SMEs by the governments and other stakeholders in Sri Lanka, emphasis should be shifted to promoting market orientation in SMEs for effective performance.

Keywords: *Small and Medium Enterprises, market orientation, performance and Sri Lanka.*

Introduction

Small and Medium Enterprises (SMEs) continue to play their vital role in the national economic development. These SMEs are not only important for the economic development but also for the social development of a nation by participating in the development of networks of the Entrepreneurs. Involvement of greater number of Entrepreneurs help to take up economic responsibilities and value their own competencies in marketing their product and services. Therefore, the SMEs sector are needed to be more efficient and effective and market oriented to improve their performance. When SMEs perform well it creates more advantages in terms of employment generation, distribution of economic resources, and growth of exports and development of entrepreneurship (Hussain et al., 2015). Small businesses, face considerable resource-constraints across financial, temporal and human dimensions. Resource constraints may hinder or handicap SMEs response to market changes. According to Lansiluoto et al, (2019), a firm is customer-oriented if it sufficiently understands its target market and consistently creates superior value for it. A customer-

oriented firm obtains intelligence from the market and acts accordingly. To be successful in a competitive market, organisations, including SMEs in all sectors must exhibit strong customer orientation (Aminu et al., 2015).

Therefore, SMEs should adopt market orientation concept in developing economies to cope with the challenges of changing business environment because, investigation on market orientation is still insufficient and ignored, and also its implementation suffers from some gaps in the developing economies like Sri Lanka. The objective of the study is to analysis the impact of Customer and Competitor Orientation, and Inter-functional Coordination on the Performance of SMEs.

Conceptual framework and Hypotheses development

Market Orientation and SMEs Performance

Market orientation is an important internal influence and has been shown to have a positive relationship to organizational performance. A study suggested that all stakeholders should begin to highlight the importance of market orientation in the successful management of SMEs (Aminu et al., 2015). To create value for customers through competitive advantage market orientation is viewed as a strategic tool for an organization (Lansiluoto et al., 2019). Therefore, stressing on market orientation can be expected to result in higher business performance of an organization and findings reinforce suggesting market orientation is significantly and positively related to business performance across a range of SMEs. Market orientation has become an increasingly popular research theme and has received a great deal of attention from scholars for a decade (Hunt & Lambe, 2000).

Many researchers agreed that market orientation can provide a solid fundamental for sustainable competitive advantage for a company which in turn accelerate the company performance.

Customer Orientation

Customer orientation has to do with the culture of placing customer's interest first and requires a thorough understanding of client needs so as to fashion products or services of superior value (Lansiluoto et al, 2019). Therefore, to achieve the highest level of performance and to maintain firms long term capacity and create a mutually beneficial relationship with the customer, market orientation should be at the heart of organization. Customer orientation is commonly seen as an aspect of firm's strategic means of delivering desires value to clients (Zhou et, al., 2005). Customer orientation must therefore not be relegated to the background since it will help in delivering value to customers. The literature suggests that customer orientation is positively linked with SMEs performance (Kraus et al., 2010). However, it was not until the beginning of the 1990s that marketing scholars began to explore the intersection of the marketing concept and business performance (Pelham 2000). The assumption underlying empirical investigations of the relationship between customer orientation and SMEs performance is enables the firm to create a value for its customers (Kraus et al., 2010). Hence,

H_1: There is a positive relationship between customer orientation and SMEs performance

Competitor Orientation

Businesses to be competitive, it is required of them to know weaknesses and strength as well as capabilities and activities of

competitors. Competitor orientation as part of market orientation is seen as an organizational strategy to end up creating behaviour of businesses improving on the products they deliver to customers. The aim competitor orientation has to do with providing a strong foundation of intelligence regarding current and future competitor for strategic action. Those competitors of the business are seen as enterprises that are providing substitute product by serving the same need of customers (Kotler, 2009). The literature suggests that competitor orientation is positively linked with SMEs performance (Lansiluoto et al, 2019). In fact, the literature is full of statements like "innovative firms will outperform their competitors (Kraus et al., 2010), more successful firms over time are the ones that engage in higher levels of entrepreneurial activity (Hussain et al., 2015), firms that attempt to bring out more innovations are more likely to succeed (Boso & Cadogan, 2013), innovativeness is a source of competitive advantage (Agrawal et al. 2003), and innovation and corporate entrepreneurship leads to superior performance (Agrawal et al. 2003). Hence,

H_2: There is a positive relationship between a competitor orientation and SMEs performance

Inter-functional Coordination

Inter-functional orientation means that, all the department in the business must coordinate well with each other in all aspect of the business operations. When there exists a coordinated maximization of the firm's resources that aims at performing better in the eyes of the customer, it is seen as the organization practicing inter-functional orientation (Boso & Cadogan, 2013). Market orientation recognizes that, all department as

well as employees are aware that, employees attitude with respect to internal and external customer is crucial. Coordinated integration of resources is tightly related to the customer and competitor since they are promoting customers experience among department (Boso & Cadogan, 2013). There is therefore a need to inter-functional coordinate the activities that are concerned with the day to day management of the business in order to help realized to potentials of the business in maximizing its performance. Hence,

H_3: There is a positive relationship between inter-functional coordination and SMEs performance

The variables of the constructs are defined to operationalize the conceptual framework. The dependent variables were customer orientation, competitor orientation and inter-functional, while the independent variable is SMEs performance. A given conceptual model was taken for analysis as shown below.
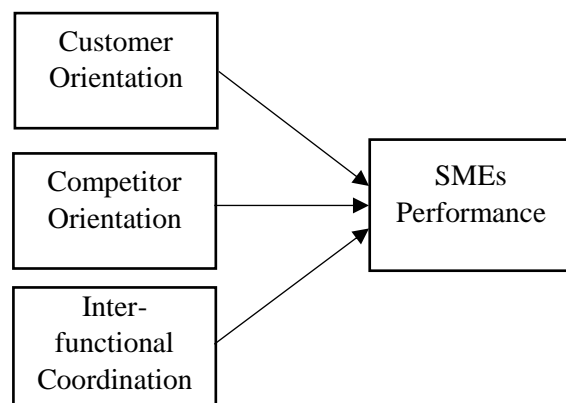

Figure 1. Conceptual framework

Research Methodology

This study has been developed with three hypotheses for testing. The type of investigation was correlational study rather than causal study. The study population

consisted of SMEs in the areas of manufacturing and services within the Eastern province of Sri Lanka. Samples of 150 SMEs were selected in Eastern Province of Sri Lanka. This research used convenient method of sampling to accomplish the study because of the unstructured nature of SMEs in Sri Lanka for that matter Eastern Province, it is difficult to ascertain the actual population of SMEs. This study used questionnaire to collect primary data from the respondents under the market orientation variables of customer orientation, competitor orientation, inter-functional coordination, and performance construct. A 5-point Likert scale was used. The pilot testing was done with 30 SMEs in the area.

Data Analysis

The study used SPSS version 20.0 to measure variables in the questionnaire. Though 120 questionnaires were received from the respondents, only 106 questionnaires were qualified to use for analysis after screening.

Demographic Profile of the respondent

The demographic characteristics of the respondents are given in table 1.

Table 1. Demographic characteristic of the respondents

Item	Frequency	Percentage
Gender		
Male	69	73.14
Female	37	39.22
Years of experience		
Less than 3 years	28	29.68
Between 3-5 years	46	48.76
More than 5 years	32	33.92

Reliability and Validity

Researcher adopted, scales and items that were previously developed and used by other researchers with similar interests. In addition,

a draft of the questionnaire was reviewed by two experts in this area of study to make sure that each item is measuring what is expected to measure, and to avoid any ambiguity or complexity in the phrasing of the questions. The reliability of the instrument was measured by the Cronbach's alpha coefficient. Customer Orientation (CSO), Competitor Orientation (CMO), and Inter-functional coordination (IFC), Cronbach's Alpha value are 0.815, 0.832 and 0.756, respectively. The alpha value of SMEs Performance (SMEP) is 0.8.28, it is larger than 0.7. Therefore, the questions for each construct are consistent, so that the designed questionnaire has an acceptable reliability to process the research and to perform further analysis.

Table 2. Test of Reliability

Reliability Statistics Variable	Cronbach's Alpha	N of Items
Customer Orientation (CSO)	0.815	7
Competitor Orientation (CPO)	0.832	8
Inter-functional coordination (IFO)	0.756	7
SMEs Performance (SMEP)	0.828	7

Validation Test of the Constructs

This section reveals the results of the factor analysis based on both independent and dependent variables. As shown in Table 3 below, the KMO values for both the independent and dependent variables exceeded the threshold value of 0.6. Discriminant and convergent validity were measured by means of average variance extracted (AVE). Convergent validity is adequate when the AVE value of each construct exceeds 50% as shown in Table 3

below, the AVE values for all of the study's constructs were well above the threshold. Consequently, both discriminant and convergent validity was acceptable in this study. Thus, the scales used in this study are both reliable and valid.

Table 3. Validity of the constructs

Constructs	Kaiser-Meyer-Olkin (KMO)	Average Variance (AVE)	No of Items
CSO	0.727	53%	7
CPO	0.701	51%	8
IFO	0.716	53%	7
SMEP	0.749	57%	7

Regression Analysis and Hypothesis Testing

Table 4 describes the results of the linear regression analysis was used to test research hypotheses.

H_1: Customer Orientation (CSO), According to the table 4, the p-value for CSO is less than 0.05 and the coefficient value is 0.299. Hence CSO does depend on SMEP. Therefore, the hypothesis was accepted and there is a significant relationship between CSO and SMEP. Hence, it is confirmed that CSO was identified as one of the major factors that impact on SMEs performance in Sri Lanka. Thereby accepting H_1 that "There is a significant relationship between the Customer Orientation and (CSO) and the SMEP in SMEs in Sri Lanka.

H_2: Customer Competition (CPO), Table 4 implies that the p-value for CPO is less than 0.05 and the coefficient value is 0.229. In Sri Lankan context SMEs that have been realized that CPO has significant impact on SMEP. Hence SMEP depends on CPO. Therefore, the hypothesis H_2 was accepted and there is a significant relationship between CPO and S

MEP. Hence, it is confirmed that CPO is identified as one of the major factors that impact on SMEs Performance in Sri Lanka. Thereby accepting H_2 that "There is a significant relationship between the CPO and the SMEP in Sri Lanka.

H_3: Inter-functional coordination (IFO), in table 4, the p-value for IFO is less than 0.05 and the coefficient value is 0.387. Hence SMEP depends on IFO. Therefore, the hypothesis H_3 was accepted and there is a significant relationship between Inter-functional coordination and SMEs Performance in the context of Sri Lanka. Hence, it is confirmed that IFO is identified as one of the major contributor to SMEP in Sri Lanka. Thereby accepting H_3 that "There is a significant relationship between the Inter –functional coordination and SMEs performance in Sri Lanka.

Explanatory Power of the Model fitting

Regression analysis helps to identify, how the dependent variable changes when there is a change in independent variables, the researcher has built up several hypotheses to prove the relationship in between SMEs performance with CSO, CPO and IFO. Regression analysis is the ideal tool to identify the impact or significance of one

Table 4. Analysis of Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.225	.438		.515	.608
CSO	.299	.071	.296	4.210	.000
CPO	.229	.089	.213	2.833	.000
IFO	.387	.080	.348	4.808	.000

Table 5. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.721[a]	.531	.511	.45287	1.243

variable to another. The Multiple Linear Regression (MLR) analysis was carried out to investigate the impact of these six independent variables to the dependent variable.

The table 5 above, presents the model fitting of this study. The R-square value was 0.531. This implies that around 53% of the variation in SMEs Performance by R-squared might be estimated and predicted by this Model in SMEs in Sri Lanka and can be explained by the factors CSO, CPO and IFO in this study. Hence it can be concluded that model is accurate and it can be used for further analysis.

ANOVA in Multiple Regression Analysis

The p-value from the ANOVA Test in table 6, is less than 0.05, which means that at least one of the three variables can be used to model SMEs performance in SMES in Sri Lanka and also it can be assumed that there is a linear relationship between the independent and dependent variables is not violated.

Discussion and Conclusion

This study hypothesized that business performance would increase as the level of market orientation increases. Thereby, the study found that Customer orientation (CSO),

Competitive orientation (CPO) and Inter-function coordination (IFO) has direct influence on SMEs business performance. CSO is an important marketing strategy that significantly impacts performance of organisations, irrespective of their size. However, lack of CSO by SMEs in Sri Lanka in particular East Coast has constrained the performance of SMEs. This output in line with Asikhia (2010). The research study notes that a strong customer oriented culture enables SMEs to adapt to the changing business environment which aligns with Hajipour & Ghanaviti, (2012) and Lansiluoto et al, (2019) findings. It provides them with a competitive advantage over their larger competitors and enhance their performance. The research study concludes that the CSO, CPO and IFO were positively and considerably impact SMEs performance in Sri Lanka. Customer orientation focused SMEs on customer needs identification and satisfaction; competitor orientation make them monitor competitor activities, react promptly to any competitive attack and best competitors; inter- functional coordination result in effective coordination of SMEs personnel and activities for optimal performance; long-term focus help SMEs to emphasise enduring, long-term activities and investment that deliver and communicate value to customers, the firms themselves and

Table 6. ANOVA Test

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	32.274	5	5.379	25.227	.000[b]
Residual	29.739	135	.205		
Total	62.013	142			

all other stakeholders; and finally, profit objective is realised and provides justification for all the investments SMEs make over time.

Recommendation and Future Research

Based on this conclusion, it is strongly recommended that, in addition to providing financial support and increased access of SMEs to low-cost funding, stakeholders should make deliberate and sustained efforts to encourage SMEs in Sri Lanka to adopt and implement customer orientation, competitor orientation and inter-functional coordination to enhance SMEs performance. The major limitation of the study is that it is limited to a certain area in the Island. Future studies should be focused the whole Island and future researchers should also be presented empirical evidence, especially on a large dataset, on market orientation-SMEs performance in Sri Lanka.

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