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The Effect of Market Orientation as Mediator to Strategic Planning Practices and Performance Relationship: Evidence from Malaysian SMEs

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Abstract

The aim of this research is to examine direct relationship between strategic planning practices and market orientation and the mediating effect of market orientation (MO) on the relationship between strategic planning practices (SPP) and SMEs' performance in Malaysia. It proposed a quantitative analysis in which market orientation and strategic planning practices are key success factors of SMEs. Data were collected by means of a mail survey questionnaire completed by owner/managers randomly selected from a sampling frame of registered SMEs. The integrated questionnaire was used to measure the strategic planning practices of firms using thirty four items developed from several authors and market orientation was measured using a nine item scale adapted from Narver & Slater (1990). Firms' performance measurement was based on subjective evaluation involving self-reported measures. The findings reveal that significant relationships exist between strategic planning practices and performance, and also between market orientation and performance. While market orientation was found to partially mediate the strategic planning practices and performance relationships. These findings may be of help to the owner/managers of SMEs to be more market oriented and practicing strategic planning in order for them to survive the intensely in competitive market environment.

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1. Introduction

Small and medium enterprises (SMEs) play an increasingly important role in the economic growth of most nations. SMEs have become important as a source of employment and maximize the efficiency of the resource allocation and distribution by mobilizing and utilizing local human and material resources (Cunningham & Rowley, 2007).

The contribution and roles of SMEs has become an important engine to the economy (Van Gils, 2005). SMEs have been characterized as dynamic, innovative, efficient and their small size allows for flexibility, immediate feedback, short decision-making chain, better understanding and quicker response to customer needs (Singh, Garg & Deshmukh, 2008). The contribution and roles of SMEs has become an important engine to the economy (Van Gils, 2005). SMEs have been characterized as dynamic, innovative, efficient and their small size allows for flexibility, immediate feedback, short decision-making chain, better understanding and quicker response to customer needs (Singh, Garg & Deshmukh, 2008). Nevertheless, they are on tremendous pressure to sustain in domestic as well as global markets owing to global competition, technological advances and changing needs of customers. SMEs in Malaysia too, face enormous pressures as the nation integrates more into the world economy. As a result, a vast majority of new businesses failed and only few managed to survive. Its' performance to stay competitive in long term is becoming crucial as nation's future. They need to develop a managerial cultural style in adopting the strategic activities to influence the firms' performance. They need to be market oriented by focusing into three behavioural components namely customer orientation, competitor orientation and interfunctional coordination (Narver & Slater, 1990). This is an important process that provides a strategic platform for decision-making through analysis and understanding of various characteristics of industry, market and competitors (Khairuddin, 2008).

2. Market Orientation and Performance Links

Market orientation (MO) is the firm's culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for customers, and this creates continuous superior performance for the business (Narver & Slater, 1990). MO comprises of three elements; customer orientation, competitor orientation, and inter-functional coordination. In other words, market orientation strategy is related to the SMEs' performance as it puts customers as a focal point in strategy (Levitt, 1986). Empirical evidence on the relationship between market orientation and firm performance appears to be mixed. Some researchers found positive association between market orientation and performance (Narver & Slater, 1990; Jaworski & Kohli, 1990; Slater & Narver, 1995; Green, Rudolf & Stark, 2008), while others could not find any direct relationship between MO and firm performance (Greenly, 1995; Harris, 2001; Diamantopoulos & Hart, 1993; Han et al., 1998). However positive relationship was reported by several authors on different industrial and country contexts such as those by Bhuin (1998), Deng and Dart (1994), Horng & Chen (1998), Appiah-Adu & Ranchhod (1998), Kumar, Subramaniam and Yauger (1998), Chang and Chen (1998), and Raju and Lonial (2002). This inconclusiveness shows a need for research to identify factors that attenuate the strength between MO and performance. Thus, the hypothesis from this study seeks is: H1: There is significant relationship between market orientation and SME performance.

2.1. *Strategic planning practices and performance Links*

SMEs need dynamic capabilities that enable them to sense and seize new opportunities and renew the existing market base by developing a systematic means by enhancing their internal and external capabilities (Lai-Yu, 2001). Thus for those firms which are undergone a growth expansion, they demand a strategic planning to sustain their extended operations and a pressure from competitors as well as the changes in the

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