



The Impact of Market Orientation Components on Organizational Performance of SMEs. The single-industry approach " Food and Beverage Sector"

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ABSTRACT

This study examines the direct effect of the three main components of the market orientation on the organizational performance of SMEs in Yemen. Four variables are used in the research, are competitor orientation, customer orientation, and inter-functional coordination, as the exogenous latent variables, whereas organizational performance, as the endogenous latent variable. The quantitative approach is applied in this study with causal and descriptive research. The single-sector method is adopted, is the food and beverage sector, by using random sample sampling, the sample size was 640 managers/owners. only 459 samples were valid to conduct the analysis by using the Structural Equation Model (SEM) in SmartPLS Software version 3.0. The findings of the study reveal that the three main components of the market orientation have a positive and significant impact on SMEs organizational performance. However, the effect size of customer orientation on organizational performance was more than competitor orientation and inter-functional coordination.

Keywords: Strategic Orientation, Market Orientation, Components of Market Orientation, Organizational Performance, SMEs in Yemen, Food and beverage sector.

INTRODUCTION

The firms' success mostly depends on its ability to satisfying the customers through knowing their wants and needs and provide it for them more efficiently and effectively way than those working in the same sector. According to [1] Market orientation (MO) is a company's ability to perform the concept of marketing, as well as it represents the culture of the organization that leads to making a better value for the customer, thus achieving competitive advantage [2]. Thus, the firm that adopts a market orientation (MO) can attain superior performance than that firms are not or less dependent on strategic of MO.

Since [1, 2] have established the concept of MO, researchers have been interested in knowing a mechanism that market orientation affects firm performance, where many studies have been implemented in different countries and sectors, also these studies carried out in various types of firm size. Even though most of the findings of empirical studies in market orientation literature have confirmed the positive impact of MO, the other studies asserted otherwise [See. 3, 4, 5].

The inconsistent in the results of previous studies may explain by three main reasons, firstly, the different contexts (such as countries, sectors, time periods) that studies are taken place [4]. Secondly, using market orientation as a sole variable in its effect on performance, despite that, there is much significant evidence proposing that market orientation working as multidimensional [3, 6]. Thirdly, most of the researchers have concentrated in their studies to explore the OM and OP relationship by using a multi-industry approach [3].

On the other side, other researchers [e.g. 3, 7, 8-11] have sought to test the association among the single market orientation components (Competitor Orientation (CO), Customer Orientation (CUO), and Inter-Functional Coordination (IFC) and organizational performance. For example, [7, 9] have focused on examining the effect of only one or two components of the market orientation, are. While few studies have depended on all components of the market orientation [e.g. 3, 8, 10, 11]. Nevertheless, the outcomes of these studies were conflicting and inconclusive forward to this day.

Moreover, [4] proposed that more study should be conducted to explore the dimensions of market orientation and performance effect in various contexts (profit/ non-profit firms, time, sector. etc.). Like these researches are probably to provide strong and clearer information of MO structure with respect to its dimensions, conceptualizations, as well as effect of performance. With the same line, [12] pointed out to important studying the association between MO and organizational performance in different contexts. In addition, [4] have expected that the differentiation of linkage among MO and performance, is due to the diversity of economic development, variation of national, and specific problems' industry.

In the context of Yemen, as far as the researcher knows, market orientation has only been studied by a few scholars, are [10, 13]. However, only one paper examined the dimensions of market orientation as individual components. Moreover, it has concentrated on testing the

linkage among MO components and innovation into the SMEs [10]. Thus, the impact of MO's components on performance within the Yemen context needs more study.

Although all the aforementioned Yemeni studies have used the multi-industry approach. The present study has been focused on a single industry, is the food and beverage sector, this is for the following reasons: firstly, using a single industry approach helps to establish an understandable questionnaire for all respondents in the same sector, facilitates control over environmental properties, and assists to generalize the result by boost internal validity [3, 12]. Secondly, there are a few studies in the literature of marketing orientation that has tried to explore the effect of marketing orientation on performance within the food and beverage sector, are [5, 14-16]. Nonetheless, All the previous studies were conducted in contexts totally different from Yemen. Finally, the food and beverage sector has considered one of the most important sectors in the manufacturing industries in Yemen where it constitutes approximately 48% of the whole of the industrial sector [17]. However, the performance of firms in this sector is not good where its contribution to GDP is very low [18, 19].

REVIEW OF LITERATURE AND HYPOTHESIS DEVELOPMENT

Market Orientation and performance

In the literature of strategy and marketing, market orientation considered the one of the important concepts [20]. Over the past two decades, two essential and different concepts are shown of market orientation involve the definition and way of measurement for this concepts [4]. The first approach is established by [2], where is seen to the market orientation as a cultural perspective, as well as, is defined as "the organization culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus, continuous superior performance for the business". Thus, the [2] suggested in their concept of MO that it consist three main dimensions, are competitor orientation, customer orientation, and inter- functional coordination. The other approach is offered by [1], where it is defined as a behavioural perspective, in addition, identify three main components that market orientation consist, are market Intelligence, depending on current and prospect buyers' needs; procedure of information dissemination that created within the firm; and response to change that happens in market such as customers preferences, technology, the movement of competitors. Even though the two approaches have adopted a different perspective, both of them point out in essential the need for attention and considering the wants and needs of clients, as well as the competitors' strategies to deal with market, and their strength and weakness.

However, [21] noted that [1] provided a narrow definition of the concept of MO. It has been noted that understanding and responding to the needs of customers require more than just analysing information and making decisions based on the information. In addition, it has been suggested that having a better understanding of customers is not just about acquiring sufficient information about the customers, or even the dissemination of such information throughout the organization. Otherwise, [22], it was noted that the description of MO constructs given by [2] is more reliable and valid than that of [1]. Thus, this study depends on the cultural perspective of MO that is presented by [2], and that consists from three components, are firstly, Competitor orientation (CO) is regarding totally knowing and grasping current prime and prospective competitors, as well as their capabilities, weaknesses, strengths too. Secondly, customer orientation (CUO) where it includes clearly knowing target customers now and work

intensively towards meeting their wants and needs, as well as create supreme value for buyers constantly. Finally, Inter-functional coordination (IFC) that can be understanding as the organized utilization of resources in generating supreme value for target buyers [2].

In the literature of SME, some researchers have pointed out that SMEs do not depend on long-range market plans, as well as. do not take place market research, because of the scarcity of their resources [23]. However, others have seen that such SMEs carry out their marketing research using traditional methods, despite not having a formal marketing department responsible for MO [10, 20, 24].

On the other side, an assertion has been made by [23], that when SMEs use market orientation, they are provided with a prospect competitive advantage higher than large companies. This is due to the characteristics that SMEs have, they are less structured, less formal, have minimal organizational divisions, and have a closer relationship with customers. Therefore, this enhances their ability to perceive and respond to the requirements and needs of the market rapidly and appropriately. This evidence is supported by the empirical researches that have explored the linkage among MO and performance, where they found a positive relationship among them [2, 10, 24, 25].

Even though the positive impact of MO has confirmed by most researchers, the results of the researches in the literature of MO that have attempted to explore the effect of the dimensions of market orientations were inconsistent. [8] reported that three main components of MO (CO, CUO, and IFC) are positively linkage with business performance. Other researchers that not all components of MO have a significant impact on performance, for example [7] got that both customers, competitor orientation have a significant influence on business performance, whereas [9] has seen that the CUO and IFC have to effect on performance. On the other hand, some researchers such as [6, 26] have revealed that the first dimension of market orientation, is CO, is the main and significant determinant for performance, as well as, considered the key distinctive advantage for companies of high profit. However, customer orientation is deemed as a utmost essential portion of MO that leads boosts the impact of innovativeness, thus drives the firms to a competitive advantage [10, 14]. Moreover, [3, 10] revealed that only customer orientation among all market orientation component has a positive impact on innovation and service performance.

Based on RBV, the company owns a rare, inimitable, non-substitutable, and a valuable resource that drives it to gain a competitive advantage [27]. These resources have classified as tangible, intangible assets as well as capabilities (i.e., ability to use resources in order to accomplish a mission) [28]. In line with RBV, all the dimensions of market orientation be able to see as SMEs' specific ability that leads immediately to improve performance. Subsequently, the following hypotheses are proposed:

- H1: Competitor orientation has a positive impact on Yemeni food and beverage SMEs' performance.
- H2: Customer orientation has a positive impact on Yemeni food and beverage SMEs' performance.
- H3: Inter-functional coordination has a positive impact on Yemeni food and beverage SMEs' performance.

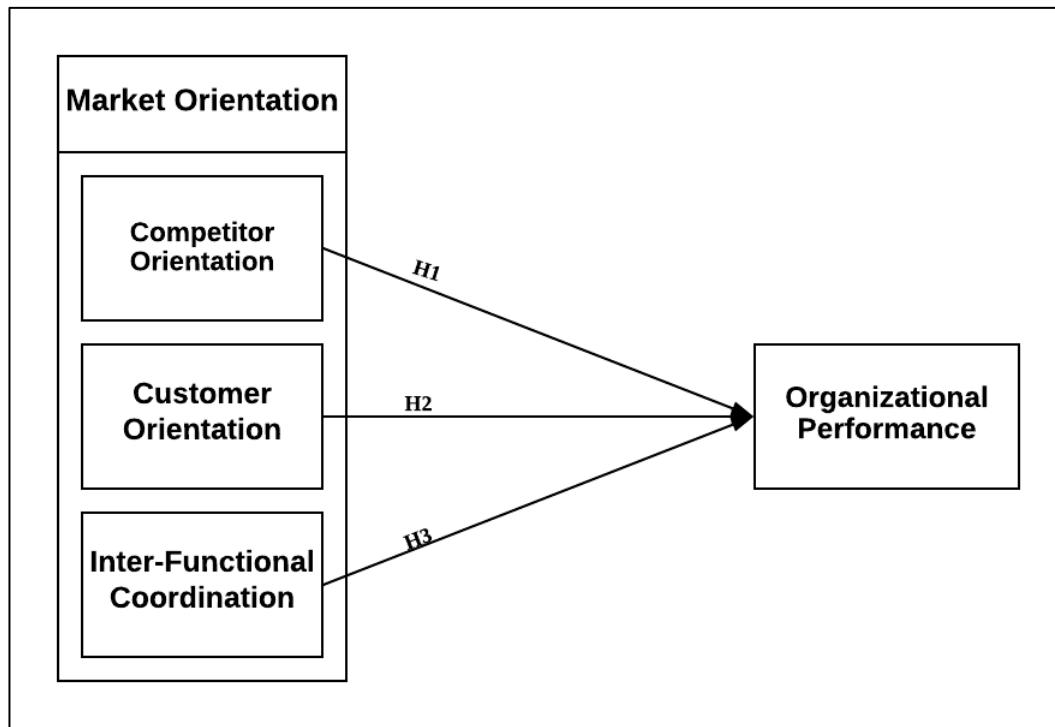


Figure 1: Research Model

METHODOLOGY OF RESEARCH

Variables Measurement

There are two popular scales that utilize to measure MO. The first measurement is called MKTOR scale where reflects the perspective of organizational culture this scale is established by [2]. The second measurement is made by [1], where it is named MARKOR (behavioural culture). However, as mentioned by [22] the scale that is designed by [2] has practical features and advantages. So present study has depended on MKTOR scale to measure MO. While the organizational performance (OP) has measured by using the subjective scale from previous studies of [29] because of the difficulty in getting the performance reports of SMEs in Yemen. The Likert scale from one "strongly disagree" to five "strongly agree" is using to measures all items in the study questionnaire.

Sample, data collecting, and data analyzing

This study's target population is food and beverage small and medium firms in Yemen. The food and beverage industry in Yemen have major economic importance because of its size for the whole economy. Where it represents around 42% of GDP and over 6% of employment in Yemen [17]. As a result of the importance of SMEs, and fierce competition in this industry, as well as the turbulent environment that food and beverage SMEs operate, this study has selected this industry. Where it is believed that studying MO in food and beverage SMEs can raise our knowledge of the linkage among MO and organizational performance in the Yemeni food and beverage SMEs context.

Data were gathered by a hand survey from Yemeni SMEs in the food and beverage sector. The survey instruments were distributed to 640 owners/managers of SMEs in the whole of Yemen. A total of 485 surveys were collected, 26 questionnaires of which were not fit to be used.

Therefore, the number of questionnaires that can use to analyses the association among MO and performance was 459 questionnaires. Thus, the rate of response in current research is over 71%. In the current study, the descriptive analysis has shown that over 53.6% of firms are managed by owners, the remainder of companies is operated by managers who are commissioned by firms' owners. Moreover, about 91.50% of companies employ 4-9 workers and the rest operate 10-50 employees. In other words, small firms are the main structure that forms the sector of food and beverage in Yemen. Finally, companies' location, 20 governorates were included in this survey and the largest rates were concentrated in Al-Amanah, Al-Hudida, Taiz, and Aden by 17%, 15.9%, 14.6%, 12.6% respectively. The rest of the sixteen governorates have rates ranging from 7.6% to 0.2% which represents 39.9% of the total study sample.

To examine the model in the present study, the SEM approach has been used via the tool of statistical SMARTPLS3. Based on the methodology that is proposed by [30] to evaluate PLS models is utilized. where this approach be composed of two steps, are the measurement model and the structural model. In the first phase, several tests were implemented, where the outer loading of items is tested to make sure that indicator items reliability. then the internal consistency and convergent validity were examined by knowing the Cronbach Alpha, composite reliability, and extracted average variance (AVE) which express the general amount of variation that has been caught through the structure. In addition, the Fornell-Larcker (it is the AVEs' square root, and its value must not be less than the correlation among exogenous constructs [31] and HTMT ("the average of the hetero-trait hetero method correlations relative to the average monotrait-heatermethod correlations" [32] were used to knowing the difference degree of items between construct.

The second stage comes after confirmed the goodness of the outer model, in this phase the hypotheses relationship between variables is tested by using the PLS Algorithm. Also, the values of R-squared and F- squared are estimated. Where R^2 values indicate the amount of variance at the structure model which is demonstrated by one or more predictor variable [33]. As suggested by [34], the R^2 values can be deemed weak, moderate, and strong if the output of R^2 in SPL-SEM is 0.19, 0.33, and 0.67 respectively. While F^2 determines if the effect of an exogenous latent construct is significantly, moderately, or slightly on an endogenous latent construct [35]. The effect size calculates as changing the value of R^2 [33]. According to [36], the threshold of f^2 at "0.02 is small, 0.15 is medium and greater than 0.35 is large".

RESULTS

The measurement model evaluation

The output of the measurement model's assessment boosts a measurement scales' psychometric properties. In other words, result has emphasized the reliability and validity of the measuring instrument (Table 1). Where AVE and items' factor values exceeded 0.50 [31, 33]. While the value of Composite Reliability and Cronbach Alpha, which explains the reliability of measuring tools, were also higher than 0.70 which consider the lowest values required [33]

Table 1. Reliability and Convergent Validity

Items	Loading	Cronbach's Alpha	rho_A	CR	(AVE)
Competitor Orientation					
MO_CO_1	0.768	0.775	0.779	0.847	0.525
MO_CO_2	0.718				
MO_CO_3	0.714				
MO_CO_4	0.705				
MO_CO_5	0.717				
Customer Orientation					
MO_CUO_1	0.802	0.818	0.823	0.869	0.525
MO_CUO_2	0.796				
MO_CUO_3	0.803				
MO_CUO_4	0.771				
MO_CUO_5	0.802				
MO_CUO_6	0.813				
Inter-Functional Coordination					
MO_IFC_1	0.644	0.851	0.854	0.889	0.573
MO_IFC_2	0.738				
MO_IFC_3	0.695				
MO_IFC_4	0.735				
MO_IFC_5	0.783				
MO_IFC_6	0.747				
Organizational Performance					
OP_1	0.737	0.886	0.886	0.913	0.637
OP_2	0.778				
OP_3 ^R	0.704				
OP_4	0.759				
OP_5	0.782				
OP_6	0.776				

CR: Composite Reliability.

AVE: Average Variance of Extract.

R: Reverse Coded.

As mentioned above, the present study will follow two approaches, are Fornell and Larcker, and HTMT, for assessing the validity of discriminant for the model of study (Table 2 and 3). Firstly, the square root for all AVE is not smaller than the correlations among constructs (Table2). which means, all elements achieve the criterion that [31] have suggested. Secondly, HTMT Pointed out "the average of the hetero-trait hetero method correlations relative to the average monotrait-heteromethod correlations" [32]. The result of this test is shown that each case not higher than the threshold level where is equalled 0.85 [32]. Thus, outcomes of the two approaches (Fornell and Larcker, and HTMT) which are used in the present study emphases that the discriminant validity of the study model.

Table 2. Discriminate Validity by Fornell-Larcker Criterion Values.

Exogenous and Endogenous Constructs	MO_CO	MO_CUO	MO_IFC	OP
MO_CO	0.725*			
MO_CUO	0.661	0.798		
MO_IFC	0.579	0.591	0.725	
OP	0.582	0.593	0.558	0.757

*Square root of AVE coefficient of the construct

Table 3. Discriminate Validity by Heterotrait-Monotrait (HTMT) Ratio Criterion Values.

Exogenous Constructs	MO_CO	MO_CUO	MO_IFC	OP
MO_CO				
MO_CUO	0.795			
MO_IFC	0.732	0.693		
OP	0.708	0.679	0.664	

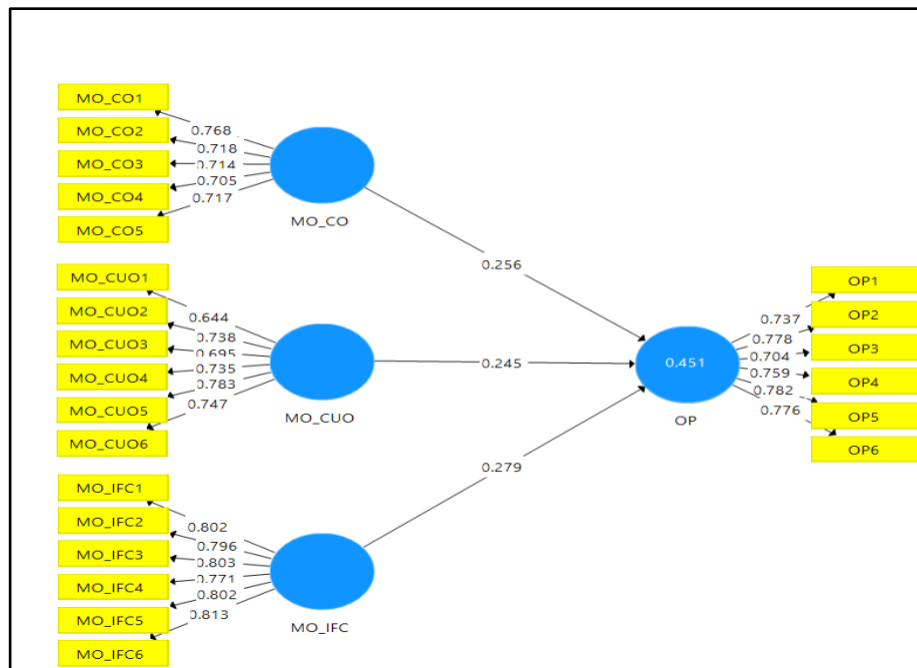


Figure 2 Results of measurement model

Structural model evaluation

The current study depends on [30] approach for evaluating the structural model, as we mentioned above, where have suggested three phases, are the value of R^2 (coefficient of determination), the value of Q^2 (predictive relevance), and the effect size (f^2) and significance of coefficients of the path for the inner model.

The main aims of the present study are knowing the relations among latent variables included within the study paradigm, via getting the sign as well as significance of path coefficients. Fig.2 shows a digested outcome of evaluating the structural model. the value of R^2 was higher than 0.45, which points out that the dimensions of MO (CUO, CO, and IFC) were moderate in explaining the amount of the variance of organizational performance as a dependent variable

[34]. On the other side, the outcome of the blindfolding test points out that the Q^2 value is bigger than zero, in agreement with the suggestion of [33] regarding the value of Q^2 that has to higher than zero, thus the research model had predictive pertinence. In regard to the estimate of f^2 (The effect size) that compute through knowing the mutate of the R^2 value [33]. The effect of size (f^2) of the independent variables of the study model as shown in (Fig.2) was between small [36].

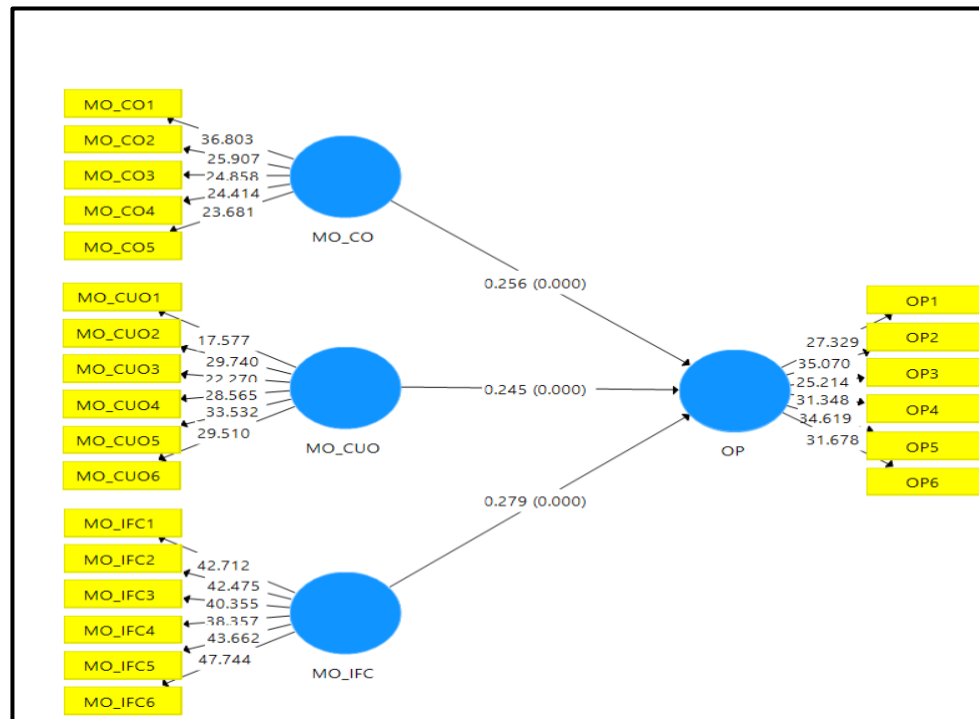


Figure 3 Structural Path Analysis

Table 4. Structural Path Analysis Results

Hypo	Relationship	Path Coefficient	Std Error	t-Value	P-Value	Decision
H1	MO_CO-> OP	0.256***	0.053	4.830	0.000	Confirmed
H2	MO_CUO-> OP	0.279***	0.049	5.674	0.000	Confirmed
H3	MO_IFC-> OP	0.245***	0.056	4.396	0.000	Confirmed

*: $p < 0.05$; **: $p < 0.01$; ***: $p < 0.001$

Statistical significance of the path coefficients can always be getting thru the bootstrapping process in SmartPLS 3.0. In this respect, the T-values of each path coefficient have been created by such a process, moreover, P-values have been achieved. The path coefficients were produced and shown in (Figure 2 and Table 4).

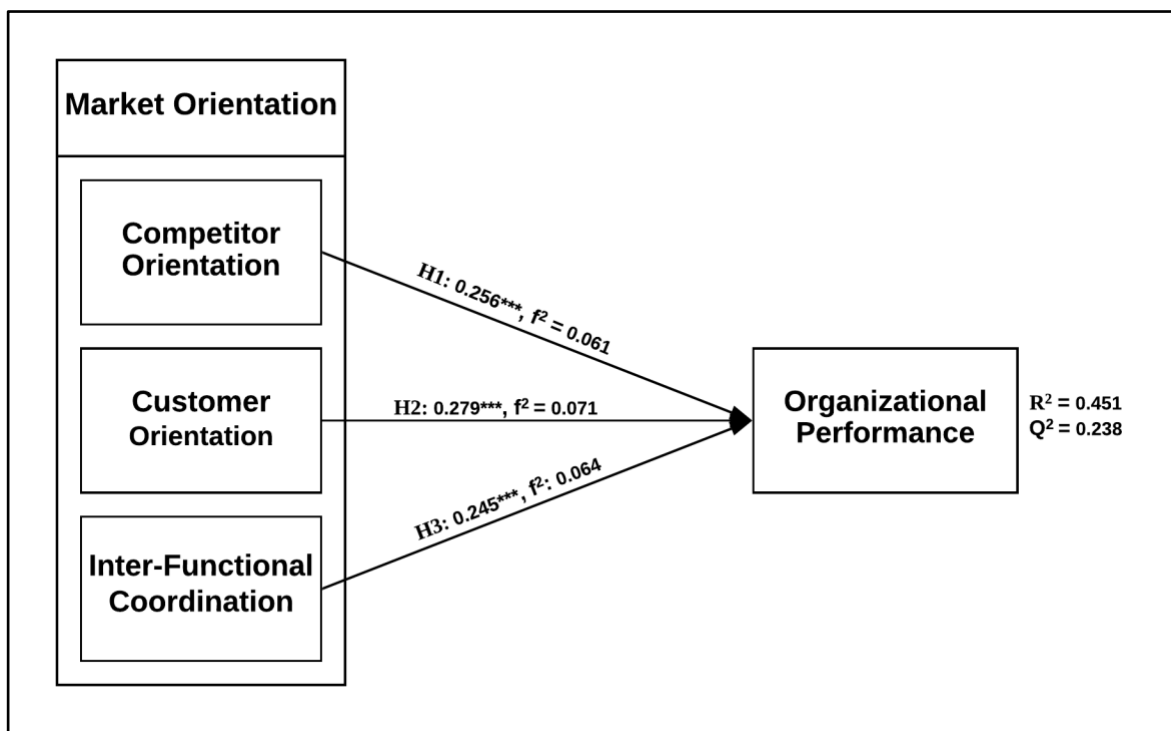


Figure 4. Results from the Structural Model

Based on the results that obtained for hypothesis testing pertaining to dimensions of MO on SMEs performance. The components of MO, (CO, CUO, and IFC), positively and significantly impacted OP with the following respective results; ($\beta = 0.256$, $t = 4.830$, $p < 0.000$), ($\beta = 0.279$, $t = 5.674$, $p < 0.000$) and ($\beta = 0.245$, $t = 4.396$, $p < 0.000$) indicating support for H1, H2 and H3.

DISCUSSION

Even though market orientation (MO) has created essential research interest, in the literature, conflicting results have been pointed out by most researchers concerning the influence of market orientation dimensions represented by competitor orientation, customer orientation, and inter-functional coordination on firms' performance. In general, the present research aims to understand the role that the dimensions of market orientation play to affect organizational performance, thus providing insights into the influence of each component of market orientation on SMEs performance specifically within the Yemeni food and beverage sector.

The present study hypothesized that SMEs performance has been would rise by the increase in the level of three main dimensions of MO. Thus, it founds that all core MO's dimensions have significantly and positively influence on SMEs OP. Where 45% of the variance in SMEs performance is explained by the components of market orientation. Thereby, the current study model's predictive ability in the line with previous researches that have examined the market orientation assuming independent its components [6, 11].

The results which have been shown by this study totally align with [8] finding. On the other hand, it contradicts some results from previous studies. For example, [7] got that both CO and CUO have a significant impact on business performance, whereas [9] have seen that CUO and IFC have an effect on performance. Some researchers detected that CO is the best determinant

of firms' performance [e.g. 6, 26]. As for [3, 10] have shown that only CUO among all market orientation component has a positive impact on innovation and service performance.

Even though all components of market orientation at the present study influence the performance, each dimension conducts in a unique way. In the other word, the effect size of every single component on the SEMs performance was dissimilar. Whereas this study shows that customer orientation more contribution to SMEs performance than other market orientation components (CO and IFC). customer orientation (CUO) includes clearly knowing target customers now and work intensively towards meeting their wants and needs, as well as create supreme value for buyers constantly. Thus, a strong customer-oriented culture enables SMEs to gain a competitive advantage over their larger competitors and enhance their performance. The present result of the analysis in this study specifically with respect to the effect size of CUO is in line with the findings of [3, 8, 10].

CONTRIBUTION LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

The outcomes of the current research contribute to solve a contradiction about the effect of all main dimensions of the market orientation within the organizational performance of SMEs in a single sector, is the food and beverage sector. The finding supports the research framework and contributes to the RBV (Resource-Based-View) theory, highlighting that the performance of the firm is influenced by the firm's bundle of intangible resources. This study equally provides an opportunity to advance our knowledge on understandings the association among components of MO and organizational performance of food and beverage SMEs. All MO components are being explored; namely "competitor orientation, customer orientation, and inter-functional coordination". Previous research conducted on developed countries, in addition, they focused on big firms. None of them were carried out in Middle East societies or in developing countries, particularly in Yemen.

On the other side, this study has important managerial implications for food and beverage SMEs. The managers/ owners of SMEs operating in the food and beverage sector in Yemen could pursue market orientation to enhance organizational performance. In other words, with a CUO, managers/owners able to observe buyers preferences carefully, continuously as well, thus present offerings that adorably favourable to clients tastes at the right time [10]. Side by side, If the organization has a good understanding of the strengths and limitations of its main current and future rivals, managers/owners can better identify its strategic place. This understanding allows the organization to create a product and service different to effectively rival the other firms that work in same sector [7]. In addition, as consumer expectations are diverse, a business may attempt to predict evolving customer desires by tracking their competition's successes and failures [7]. Moreover, the inter-functional coordination can be pushing the departments the organization-wide to use and develop their resources and capabilities in creating superior customer and client satisfaction [2].

Although this study has numerous contributions, the interpretation of outcomes and the draw conclusions should take into consideration the study's limitations. First, this study adopted a single-industry method by focusing on food and beverage SMEs, aiming to separate the variation within-industry. This method clearly does not allow the researchers to generalize the study findings out of the industry scope that the study was carried out. However, to face this restriction in future research in order to generalize the results for wide-ranging, the

researchers must take advantage of the large size of the manufacturing industry or add the other type of firm size. Secondly, the data in this study depended on the cross-sectional method, which means the data snapping at one particular time-point, so the helpful design to exam the true causality is longitudinal data [6]. Thirdly, the study depends on the subjective scale to measure the organizational performance, the future studies must use the objective scale of performance, which could be an effective approach for assessing firm performance [29]. Fourthly, this study has not examined any mediator variable with the association among MO and performance. Finally, this study is limited to explore SMEs performance by using a single strategic, in future studies, multi-strategic like entrepreneurial and learning orientation have to take.

CONCLUSION

This study examines the impact of three main MO's components in SMEs performance within the single sector, is Yemeni food and beverage sector, particular, we assessed the direct influence of competitor orientation, customer orientation, and inter-functional coordination on the organizational performance of SMEs food and beverage in the Yemeni context. The analysis is taken place on a sample of 459 managers/ owners by using a cross-sectional method. The findings reveal that all MO's dimensions have a positively and significantly impact on OP. However, customer orientation was more impact on performance than competitive orientation and inter-functional coordination.

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