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THE INNOVATIVENESS IMPACT OF
MARKET ORIENTATION OF MALAYSIAN
MANUFACTURING SMES TOWARDS BUSINESS
PERFORMANCE

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DECLARATION

“I hereby declare that the work of this exercise is mine except for the quotations and summarize that have been duly acknowledge”

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DEDICATION

I would like dedicate the appreciation to my family members especially my father Ghazali Bin Kassim who motivate me in completing this research. He continuously give me support and advice to fulfil the requirement of the research.

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ABSTRACT

This study is to examine the characteristic of manufacturing SMEs in Malaysia, to study the extent to which market orientation is understood by manufacturing SMEs in Malaysia and to determine the overall relationship between innovativeness impact of market orientation and business performance. According to previous study which stated by Kohli and Jawroski (1993), Narver and Slater (1990), Day (1994) and Wood and Bhuian (1993), there is positive relationship between market orientation and business performance. But, actually, there is not enough evidence in supporting the idea in Malaysia context and especially about the innovativeness impact of being market orientation towards business performance to manufacturing SMEs. To test this assertion, the researcher was completed by using the quantitative method and analysis method was finished by using Pearson correlation to measure the relationship between independent variables and dependent variable. Moreover, regression analysis used to ascertain the causal effect of one variable upon another (Sykes, 1993). While, T-test used for hypothesis verification. Finally, the implication of the result to both researchers and practitioners has been discussed; limitations and recommendation for future research have been proposed.

Keywords: Market orientation, Innovativeness, Business Performance, Malaysian manufacturing SMEs

ABSTRAK

Kajian ini adalah untuk mengkaji ciri-ciri IKS pembuatan di Malaysia, untuk mengkaji sejauh mana IKS dalam sektor pembuatan memahami orientasi pasaran di Malaysia dan untuk menentukan hubungan keseluruhan antara kesan inovasi orientasi pasaran dan prestasi perniagaan. Menurut kajian sebelum ini yang dinyatakan oleh Kohli dan Jawroski (1993), Narver dan Slater (1990), Hari (1994) dan Wood dan Bhuian (1993), terdapat hubungan positif antara orientasi pasaran dan prestasi perniagaan. Tetapi, pada hakikatnya, tidak ada bukti yang cukup untuk menyokong idea di dalam konteks Malaysia. Terutamanya mengenai kesan inovasi orientasi pasaran terhadap prestasi perniagaan kepada IKS pembuatan. Untuk mengkaji pernyataan ini., penyelidik telah menggunakan kaedah kuantitatif dan menggunakan korelasi Pearson untuk mengukur hubungan antara pembolehubah bebas dan pembolehubah bersandar. Selain itu, analisis regresi digunakan untuk mengenalpasti sebab dan akibat daripada satu pembolehubah atas yang lain (Sykes, 1993). Sementara itu, ujian-t digunakan untuk pengesahan hipotesis. Akhir sekali, implikasi keputusan ujian kepada kedua-dua penyelidik dan pengamal telah dibincangkan; had dan cadangan kajian lanjutan telah dicadangkan

Kata kunci: Orientasi Pasaran, Inovasi, Prestasi Perniagaan, IKS pembuatan di Malaysia

CONTENTS

CHAPTER	TITLE	PAGE
	DECLARATION	i
	DEDICATION	ii
	ACKNOWLEDGEMENT	iii
	ABSTRACT	iv
	ABSTRAK	v
	CONTENTS	vi
	LIST OF TABLES	x
	LIST OF FIGURES	xii
	LIST OF ABBREVIATION	xiii
	LIST OF SYMBOLS	xiv
	LIST OF APPENDIC	xv
CHAPTER 1	INTRODUCTION	1
	1.1 Background of Study	1
	1.2 Problem Statement	3
	1.3 Research Question	4
	1.4 Research Objective	4
	1.5 Scope	5
	1.6 Limitation	5
	1.7 Significance of Study	6
	1.8 Structure of Study	6
	1.9 Summary	7

CHAPTER 2	LITERATURE RIVIEW	8
	2.1 Introduction	8
	2.2 Definition of Market Orientation (MO)	9
	2.3 Main Behavioral Components of MO	10
	2.3.1 Customer Orientation	10
	2.3.2 Competitor Orientation	11
	2.3.3 Cross-functional Orientation	12
	2.4 Business Performance	13
	2.5 Impacts MO towards Business Performance	14
	2.5.1 Customer Satisfaction	14
	2.5.2 Employee Satisfaction	15
	2.5.3 Innovativeness	15
	2.6 Small and Medium-Sized Enterprises (SMEs)	17
	2.7 Manufacturing Sector in Malaysia	21
	2.8 SMEs Manufacturing in Malaysia	21
	2.9 Performance Measurement	23
	2.10 Theoretical Framework	24
	2.11 Hypothesis	25
	2.12 Summary	25
CHAPTER 3	RESEARCH METHODOLOGY	26
	3.1 Introduction	26
	3.2 Research Design	27
	3.3 Methodology Choice	27
	3.4 Data Collection	28
	3.5 Research Location	29

3.6	Research Strategy	29
3.7	Research Instrument	30
3.8	Questionnaire Design	31
3.9	Sample Design	32
3.10	Time Horizon	33
3.11	Pilot Test	34
3.12	Data Analysis	35
3.12.1	Descriptive Analysis	35
3.12.2	Multiple Regression Analysis	35
3.12.3	Pearson Correlation Analysis	36
3.13	Summary	36
CHAPTER 4	DATA ANALYSIS	37
4.1	Introduction	37
4.2	Reliability Analysis	38
4.3	Validity	40
4.4	Descriptive Analysis	43
4.4.1	Response Rate	43
4.4.2	Profile of Firm	43
4.4.2.1	Year of Operation	44
4.4.2.2	Manufacturing Activities	45
4.4.2.3	Number of Employees	47
4.4.2.4	Annual Sales Turnover	49
4.4.2.5	Region of Firm	50
4.4.3	Respondent Demographic Profile	51
4.4.3.1	Gender	52
4.4.3.2	Age	53
4.4.3.3	Educational Level	54
4.4.3.4	Job Position	55

4.4.4 Descriptive Analysis for IV	56
4.5 Cross Tabulation Analysis	59
4.6 Pearson Correlation	63
4.7 Multiple Regression Analysis	66
4.7.1 Model Summary	67
4.7.2 ANOVA	68
4.7.3 Coefficient	69
4.7.4 Hypothesis Verification	71
4.8 Summary	74
CHAPTER 5	CONCLUSION AND RECOMMENDATION
	75
5.1 Introduction	75
5.2 Conclusion	76
5.2.1 Conclusion for Objective 1	76
5.2.2 Conclusion for Objective 2	77
5.2.3 Conclusion for Objective 3	78
5.3 Limitation and Recommendations	79
REFERENCES	81
APPENDIX A	90
APPENDIX B	92
APPENDIX C	104
APPENDIX D	112

LIST OF TABLES

NO	TITLE	PAGE
2.1	Definition of SMEs Adopted by The EC	17
2.2	Summary of The SME Definition	18
2.3	SMEs' Contribution To The Economy	20
2.4	Statistic of Malaysian Manufacturing SMEs	22
3.1	Four-point Likert Scale's Table	31
3.2	Sections in Questionnaire	31
3.3	Table for Determining Sample Size From A Given Population	33
3.4	Gantt Chart of Timeline of Research	34
3.5	Correlation Coefficient	36
4.1	Cronbach's Alpha Coefficient	38
4.2	Reliability Test of The Questionnaire	39
4.3	Reliability Analysis	39
4.4	Validity Analysis of Independent Variable	40
4.5	Validity Analysis of Dependent Variable	42
4.6	Company's Year of Operation	44
4.7	Manufacturing Sector of Respondent's Company	45
4.8	Total Number of Employees	47
4.9	Company's Annual Sales Turnover	49
4.10	Region of Firm for Respondent's Company	50
4.11	Gender	52
4.12	Age	53
4.13	Educational Level	54
4.14	Job Position	55
4.15	Descriptive Statistic of 38 Items	56
4.16	Descriptive Analysis for Independent Variables	58
4.17	Cross tabulation of Manufacturing Sector with Year Operation	59

4.18	Cross tabulation of Manufacturing Sector with No. Employees	60
4.19	Cross tabulation of Manufacturing Sector with Annual Sales	61
4.20	Cross tabulation of Manufacturing Sector with Region of Firm	62
4.21	Pearson Correlation	63
4.22	Correlations	64
4.23	Model Summary	67
4.24	ANOVA	68
4.25	Coefficients	69
4.26	Ranking of Independent Variable	70
4.27	Hypothesis Testing Result	71

LIST OF FIGURES

NO	TITLE	PAGE
2.1	Distribution (%) of SMEs by Sector	22
2.2	Theoretical Framework	24
4.1	Percentage of Company's Year of Operation	44
4.2	Percentage of Manufacturing Activities (Sector)	45
4.3	Percentage of Total Number of Employees	47
4.4	Percentage of Annual Sales Turnover	49
4.5	Percentage of Region of Firm	50
4.6	Percentage of Gender	52
4.7	Percentage of Age	53
4.8	Percentage of Educational Level	54
4.9	Percentage of Job Position	55
4.10	Guideline for Interpreting Hypothesis Testing	71

LIST OF ABBREVIATIONS

SMEs	=	Small and Medium-Sized Enterprises
MO	=	Market Orientation
CTO	=	Customer Orientation
CPO	=	Competitor Orientation
CFO	=	Cross-functional Orientation
IN	=	Innovativeness
IV	=	Independent Variable
DV	=	Dependent Variable

LIST OF SYMBOLS

% = Percent

P = Alpha

LIST OF APPENDIXES

NO	TITLE	PAGES
A	Gantt Chart Timeline for Semester 1 and Semester 2	90
B	Literature Review	92
C	Questionnaire	104
D	T-Distribution Critical Value	113

CHAPTER 1

INTRODUCTION

1.1 Background of study

Generally, market orientation is a business model or a company philosophy that focuses on identifying, discovering, and meeting either the stated or hidden desires, needs and wants of customers through product mix. Market orientation also can be defined as a figure of organizational culture where the members of an organization are committed to continuously create superior customer value, or as a succession of marketing activities that lead to better performance (Kohli, Jaworski, & Kumar, 1993). Besides, market orientation works in reverse, attempting to tailor product to meet the demand of customers. Market orientation in Malaysia is applied as an organizational strategy to develop the overall business performance of an organizational. In addition, market orientation has a significant outcome on business performance and serviced quality (Ramayah, Samat, & Lo, 2011). Apart from that, the research done by Arumugam & Vinitha Guptan (2011) also demonstrates that there is a significant relationship between market orientation and business performance on government-linked companies (GLC) in Malaysia.

Market orientation is derived from marketing concept. In the spite of the fact that firm that adopting the marketing concept is said to be a market-oriented firm (Lamb, Hair, & McDaniel, 2007). McKitterick (1957), Felton, 1957 and Keith, 1960 was formally introduced that marketing concept as a corporate state of mind that insist

on the integration and coordination of all the marketing functions that in turn, are combined with all other corporate functions, for the aim of producing maximum range of organization profits. In order to accomplish market orientation, information from customers, competitors and markets must be obtained, examined and responsive to the market by delivery superior customer value. According to Deshpande (1999), a firm with a high degree of market orientation fosters a set of shared values and belief about putting the customer first in business planning and capture the result in form of a defensible competitive advantage, diminished costs and raised profits.

There are three major behavioral components that included in market orientation which are customer orientation, competitor orientation and inter-functional coordination. Narver & Slater (1990) have hypothesized that customer orientation is the continuous understanding of the needs or requirements of both the present and potential target customers and the consumption of that knowledge for creating customer value. While for competitor orientation, the continuous understanding of the capabilities and strategies of the principal present and potential alternative satisfiers of the target customers and the usage of knowledge in creating superior customer value. Meanwhile, inter-functional coordination is the coordination of all functions in the business utilizing customers and other market information to create superior value for customers.

Small and Medium Enterprises (SMEs) are the main contributors to the local and international economy and commerce. SMEs also exert a robust influence on the economies of all nations and have been the source of employment creation worldwide (Gallear & Ghobadian, 2004; Ladzani & Vuuren, 2002). Based on statistics, there are 99.2% of the total business establishment in Malaysia are SMEs (Amry, 2009; Ang, 2010). Likewise, the census of establishment and enterprise (Census) that was conducted in 2005 and based on the response of 550, 704 business enterprises in the agriculture, manufacturing and service sectors. The census also found that 99.2% which is 546, 218 of the business establishments were SMEs, of which is 433, 517 or about 80% were micro enterprises (Central Bank of Malaysia, 2006). In addition, manufacturing sector also contributes to the economy. The contributions to the gross domestic product (GDP), external trade and job creation. Based on Bank Negara

Malaysia (2014), manufacturing sector has contributed 7.3% to the Malaysian economy in the second quarter of 2014. Latest update from Economic Planning Unit (2015), manufacturing sector contributes to 81.8% to the country's total export and provides 2.5 million job that representing approximately 18% of total employment.

Therefore, in this research, the researcher will explore the innovativeness impact of market orientation of Malaysian manufacturing SMEs towards business performance. Besides that, this study will also identify the relationship between market orientation and business performance. According previous study from Narver & Slater (1990) and Kohli & Jaworski (1993), the market orientation does have positive impact on business performance. Hence, this research will be carry out in Malaysia to examine the innovativeness impact of market orientation of Malaysian manufacturing SMEs on business performance.

1.2 Problem Statement

As we know there are a lot of Small and Medium Sized Enterprise in Malaysia. According to the Economic Census 2011, SMEs account for 97.3% or 645, 136 of total business establishment in 2010. SMEs' concentration are in the services sector with 90% or 580, 985 establishments. Meanwhile, 6% of total SMEs (37,861) are in the manufacturing sector, followed by 3% in the construction sector (19,283) and the remaining 1% (6,708) in the agriculture sector and 0.1% in the mining and quarrying sector. SMEs have their own main challenges, as a point of fact, is running and keeping the business alive (Boey, 2009). Thus, the most important issue to deal with is actually how to make the organizations stay alive and sustain in the industry for years and later on expand their present operation to a higher level.

Previous studies have been proven that market orientation plays an essential role in influencing the business performance (Kohli & Jaworski, 1993). Moreover, problem arises when it comes to the application of market orientation into the manufacturing SMEs. Adopting a market orientation strategy is consider as a critical strategy for manufacturing SMEs, especially in Malaysia. It includes the culture

change within the whole organization. However, it is not easy to embrace the market orientation in manufacturing SMEs. There could be some pitfalls and obstacles in applying market orientation strategy in manufacturing SMEs in Malaysia. Due to the lack of knowledge about market orientation in manufacturing SMEs. Therefore, this research would further identify the overall relationship between market orientation and business performance of manufacturing SMEs.

1.3 Research Question

The research question, which served as a guide to the research are:

- i. What are characteristic of manufacturing SMEs?
- ii. How does market orientation is understood by manufacturing SMEs in Malaysia?
- iii. What are the overall relationship between innovativeness impact of market orientation and business performance?

1.4 Research Objective

According the problem statement, some questions about the market orientation toward manufacturing SMEs' business performance is aroused. The objectives of the study are:

- i. To examine the characteristic of manufacturing SMEs in Malaysia.
- ii. To study the extent to which market orientation is understood by manufacturing SMEs in Malaysia.
- iii. To determine the overall relationship between innovativeness impact of market orientation and business performance.

1.5 Scope

This study is carrying out among the respondents in Malaysia and focus on the SMEs of manufacturing sector. The scope of this research is to identify the innovativeness impact of market orientation of Malaysian manufacturing SMEs towards business performance. 350 companies will be selected randomly by using simple random sampling to participate in the questionnaire session. The targeted respondents of the organizations would be middle management group. Questionnaire will be distributed to the companies via electronic mail. Besides, the researcher will go to the company directly and go to any fair to find the respondents. Hence, the respondents will response via electronic mail, fill up the questionnaire directly. By completing this research, the relationship of market orientation and business performance in Malaysian manufacturing SMEs could be explored thoroughly.

1.6 Limitation

Although the research was carefully prepared, the researcher still aware of its unavoidable limitations and shortcomings. First, because of the time limit. The duration of the research is about eight months. Eight months is not enough for the researcher to finish all of the study. It is also can caused insufficient to obtain feedback from a wider range of respondents.

Second, the sample size of this research. The researcher only target 380 of SMEs Manufacturing in Malaysia to conduct the survey. There are 2600 manufacturing companies operate in Malaysia that registered under Federal Manufacturing Malaysia (FMM). While, the total SMEs in manufacturing sector in Malaysia is 37, 861. The larger the size of respondents, the more solid and convincing the result of this research would be.

Last but not least, the limitation of this research is location. This research only carried out in Malaysia. However, due to organizational culture and practices, organizations from other countries might have diverse perspectives on this research.

Attaining the response from people who resides at different geographical areas might allow the research to collect wider range of opinions.

1.7 Significance of Study

The findings of this study will redound to the benefit of society and entrepreneurs considering that market orientation have innovativeness impact towards business performance. It is very pivotal to disseminate the importance of market orientation in organizations.

Furthermore, the organizations are able to get more detail of information about the customer's needs and wants. It is also expects to increase the customer satisfaction. Other than that, local employees are also able to understand better on how market orientation can give impact on business performance.

In addition, this research would benefited future academician. For their future research on similar topic, they can refer to this research. They might be overwhelmed the present limitation and obtain a more convincing result for this particular topic.

1.8 Structure of Study

In this research, the researcher study about the innovativeness impact of market orientation of Malaysian manufacturing SMEs towards business performance. Therefore, the body of the research consist of five chapters as following:

Chapter 1: Introduction of the study

Chapter 2: Literature review of the study

Chapter 3: Research methodology of study

Chapter 4: Data analysis of the study

Chapter 5: Conclusion of the study