

EFFECT OF MARKET ORIENTATION TOWARDS BUSINESS  
PERFORMANCE IN MANUFACTURING INDUSTRY: MODERATING ROLE  
OF INNOVATION

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## DECLARATION OF ORIGINAL WORK

I hereby declare that this thesis is my own work towards the award Bachelor of Technology Management (High Technology Marketing) and that, to the best of my knowledge, it contains no material previously published by another person or material which has been accepted for the award of any other degree in any university except where due acknowledgement has been made in the text.

Signature: .....

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Date : .....

## **DEDICATION**

I dedicate this thesis for

My beloved parent

Siblings

Friends

My supervisor: Ms. Sitinor Wardatulaina Bt. Mohd Yusof,

My panel: Assoc. Prof. Dr. Norfaridatul Akmaliah

For all the spirituals and moral support that had been given to me all the time.

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## ABSTRACT

This research was a study about effect of market orientation and moderating role of innovation towards business performance in manufacturing industry of Malaysia. This research was focused on the manufacturing industry in Johor, Melaka and Selangor due to the industrial revolution that involved digitalization and transformation of manufacturing process that lead to competitive market environment. The definition of manufacturing industry, market orientation, innovation and business performance were discussed in this research. This research was conducted using quantitative research method to evaluate the moderating role of innovation towards relationship between market orientation and business performance in manufacturing industry. The questionnaire survey was used to collect data from 150 upper management, middle management and trained professional of manufacturing industry in Johor, Melaka and Selangor. The data collected were then analysed by using SPSS to test the relationship between market orientation, innovation and business performance. The findings of this research showed the characteristic profile of market orientation in manufacturing industry, the Pearson Correlation Coefficient result and multiple regression result. The result showed that the market orientation element which included competitor orientation and inter-functional coordination and innovation had significant relationship with business performance. This research also provided the theoretical and managerial implications as well as the limitation of this research and recommendation for future research.

## ABSTRAK

Kajian ini adalah kajian tentang kesan orientasi pasaran dan peranan inovasi yang sederhana terhadap prestasi perniagaan dalam industri pembuatan Malaysia. Kajian ini menumpukan kepada industri pembuatan di Johor, Melaka dan Selangor kerana revolusi perindustrian yang melibatkan digitalisasi dan transformasi proses pembuatan yang membawa kepada persekitaran pasaran yang kompetitif. Takrif industri pembuatan, orientasi pasaran, inovasi dan prestasi perniagaan telah dibincangkan dalam kajian ini. Kajian ini dijalankan dengan menggunakan kaedah penyelidikan kuantitatif untuk menilai peranan inovasi yang sederhana terhadap hubungan antara orientasi pasaran dan prestasi perniagaan dalam industri pembuatan. Kajian kuesioner ini digunakan untuk mengumpul data dari 150 pengurusan atasan, pengurusan pertengahan dan profesional industri pembuatan terlatih di Johor, Melaka dan Selangor. Data yang dikumpul kemudiannya dianalisis dengan menggunakan SPSS untuk menguji hubungan antara orientasi pasaran, inovasi dan prestasi perniagaan. Penemuan kajian ini menunjukkan profil ciri orientasi pasaran dalam industri pembuatan, hasil Pearson korelasi koefisien dan hasil regresi berganda. Hasilnya menunjukkan bahawa unsur orientasi pasaran yang termasuk orientasi pesaing dan koordinasi dan inovasi antara fungsi mempunyai hubungan yang signifikan dengan prestasi perniagaan. Kajian ini juga menyediakan implikasi teoretikal dan pengurusan serta batasan penyelidikan dan cadangan kajian penyelidikan masa depan.

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## LIST OF ABBREVIATIONS

IoT	Internet of Things
SMEs	Small and Medium-sized Enterprise
BPM	Business Performance Measurement
SBP	Strategic Business Performance
OBP	Operational Business Performance
MKTOR	Cultural Perspective Scale of Market Orientation
MARKOR	Behavioral Perspective Scale of Market Orientation
TQM	Total Quality Management
RMO	Responsive Market Orientation
PMO	Proactive Market Orientation
NPD	New Product Development
FYP	Final Year Project
PSM	Projek Sarjana Muda
FPTT	Fakulti Pengurusan Teknologi dan Teknousahawanan
UTeM	Universiti Teknikal Malaysia Melaka

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Introduction**

Chapter one was the introduction of this study. The purpose of this chapter was to review content of this study. For this study, the main concern was about the relationship between market orientation, innovation and business performance. In this introduction chapter, it explored the background of the study, issue about this study, research questions and research objectives built by researcher, scope and significance of this study.

#### **1.2 Background of the Study**

Manufacturing process kept revolution from time to time which until today it leveraged third platform technologies to produce product (I-scoop, 2016). Due to the rapid change of technology, the innovation gave impact on the business performance of manufacturer that lead to strong competition in modern market environment. Market orientation also gave impact to business performance because it was important to meet the needs and wants of customer in order to attract them to buy and use the product. Hence, researcher chose to study about effect of market orientation toward business performance with moderating role of innovation. Next paragraph discussed about the business performance.

Business performance was defined as the ability of the business to meet the expectations of the company's key stakeholders (Smith & Reece, 1999). Business performance can be divided into financial performance and non-financial performance. Next discussed about the innovation in manufacturing.

Innovation in manufacturing was defined as generation, evaluation and implementation of new ideas to meet organizations goals (Schroeder, Scudder, & Elm, 1989). Innovation played important role for an organization to improve their performance and customer satisfaction in order to compete and survive in the competitive environment. A lot of studies shown that the innovation correlated with performance (Lin, Peng, & Kao, 2008; Tajudin, Musa, & Musa, 2012). In conclusion, the market orientation and innovation helped manufacturers to gain customer insight, to generate information of competitor, employed inter-functional coordination and employ new idea or process in product to improve their performance level. Then, the concept of market orientation were defined in below paragraph.

Narver & Slater (1990) defined market orientation as the most effective and efficient organization cultural that create superior value for customer and create continuous superior performance for the business. Kohli & Jaworski (1990) defined market orientation as the organizational behaviour that developed capabilities to gain market intelligence, disseminate market intelligence within the company and response by developing products that fulfilled the market needs. Market orientation was critical for an organization to understand their customer in order to attract and retain customer which will impact on the firm's performance. A lot of research done for market orientation have established good achievement in performance (Narver & Slater, 1990; Mokhtar, Yusoff, & Ahmad, 2014; T. Ramayah, Nusrah Samat, 2011). Therefore, there was a need for manufacturers to adapt market orientation concept and applied in their operational lines in order to stay competitive.

### 1.3 Problem Statement

Due to some pitfalls and obstacles in applying market orientation in manufacturing industry, therefore the purpose of this research was to contribute the moderating role of innovation towards relationship between market orientation and business performance. Manufacturing was the process of transferring raw materials into finished goods that have added value. This added value made manufacturing a profitable attempt. However, manufacturing process has changed over time, until today the revolution was known as Industry 4.0. Industry 4.0 was digital transformation of manufacturing those leveraging third platform technologies such as Big Data and innovation accelerators like Internet of Things (IoT) (I-scoop, 2016).

The continuous transformation of industrial base into digital or 'smart' products and driven by innovation, automation and increased productivity was very crucial to Malaysia's economic development (Oxford Business Group, 2016). The sales of Malaysia's manufacturing industry in August 2017 continues to grow 16.5% which rising from RM 55.9 billion to RM 65.1 billion when comparing to last year report according to Department of Statistics Malaysia (2017). In order to achieve growth in sales, the concept of market orientation was very important for the manufacturer to understand their customer needs and wants and also to understand their competitor strength and strategy in order to compete and create excellent performance and competitive advantage in this modern competitive marketplace.

Based on my reading, most of the market orientation studies were done for SMEs in Malaysia. For example, studies that have been done were market orientation and leadership styles of managers in Malaysia SMEs (Kassim & Sulaiman, 2011); market orientation and small business performance in small town in Malaysia (Alam, 2010); organizational culture, market orientation and innovativeness towards new product performance in SMEs in Malaysia (Tajudin et al., 2012). Hence, researcher was interested to investigate the effect of market orientation and innovation towards business performance.

## 1.4 Research Questions

The research questions for this study were:

- I. What are the characteristic profiles of market orientation in manufacturing industry in Malaysia?
- II. How does market orientation is understood by manufacturing industry in Malaysia?
- III. How does market orientation elements effect on business performance?
- IV. What are the overall relationship among market orientation, innovation and business performance in manufacturing industry?

## 1.5 Research Objectives

The research objectives of this study were:

- I. To identify the characteristic profile of market orientation in manufacturing industry in Malaysia.
- II. To examine to which extent market orientation is understood by manufacturing industry in Malaysia.
- III. To determine the influence effect of market orientation towards business performance.
- IV. To analyze the overall relationship among market orientation, innovation and business performance in manufacturing industry.

## **1.6 Scope of the Study**

This study focused on market orientation and its impact on business performance in manufacturing industry within Malaysia which moderated by role of innovation. The study was limited for manufacturer in Malaysia. Manufacturers were the company which transferred raw material into finished goods.

Hence, the scope of this study was limited to top management, middle management and trained professional of manufacturers in central and southern region in Malaysia. The study was limited to manufacturers within Selangor, Johor and Melaka because most of the business operated in these regions.

## **1.7 Significance of the Study**

There were several scholars who have done their research about market orientation and its effect on SMEs performance. This study would be significant in contributing practical and theoretical implications for the manufacturing industry in Malaysia.

This study would helped managers of manufacturing industry to understand more about market orientation and adopt it in their operational lines. This study would also provide manufacturers' operators to gain insight about values and usefulness that can be gained from market orientation practices.

Further research can also emanate from this study and it would effectively propel other scholars to look at the market orientation in other industry of economy. This would contributed to knowledge and served as appropriate literature for marketing and strategic management scholars. Necessary to be innovative in business endeavor also have been highlighted in this study as it would helped manufacturers to achieve greater success in operational lines.

## **1.8 Structure of the study**

There were five chapters in this study. The first chapter explained the background of study, issue statement, questions that this study seek to answer, significance of study, scope of the study covered and structure of the study. The second chapter reviewed critically literature on market orientation, innovation and business performance. The third chapter explained about the methodology used to accomplish this study. The fourth chapter discussed about the findings of data collected from manufacturers while the fifth chapter summarized the findings, concluded the study and provided some recommendations.

## **1.9 Summary**

In conclusion, this chapter introduced about this study. In this study, the background of research contained market orientation, innovation and performance. Next chapter reviewed the literature of market orientation, innovation and business performance for previous studies.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Chapter two was the literature review that involved the critically reviewed of the studies. For this study reviewed the effect of market orientation toward business performance which moderated by innovation. In this literature review, it explored the theories of market orientation, definitions of market orientation, innovation and business performance.

#### **2.2 Manufacturing Industry in Malaysia**

Manufacturing can be defined as producing items or goods by using machinery, equipment and labour. Manufacturing activities vary from handicrafts to technological gadgets. However, the term applies to industrial processes that convert raw materials into finished products and prepare for sale (Azer, Hamzah, & Mohamad, 2016).

Manufacturing and service industry dominate Malaysia's economy and agricultural contribution to economic growth seems insignificant (Azer et al., 2016). According to Department of Statistics Malaysia (2017), the sub-sector of manufacturing industry which include electrical and electronic products, petroleum,

chemical, rubber and plastic products and non-metallic mineral products, basic metal and fabricated metal products in Malaysia contributes 80.3% of sales value.

### **2.3 Business Performance**

Business performance is defined as the ability of the business to meet the expectations of the company's key stakeholders (Smith & Reece, 1999). Business performance is necessary to evaluate the accomplishments of a company (Nur, Zulkiffli, Perera, & Siti Nur 'Atikah Zulkiffli and Nelson Perera, 2011). Business performance is assessed by measuring the success or failure of an organization to achieve its goals and can therefore be defined in a number of ways. Performance appraisal may be based on turnover or number of customers, return on investment, profit (Wood, 2006). According to Lee, Kim, Seo, & Hight (2015), there were two type of business performance which were financial performance and non-financial performance. Financial performance measures included achieving net profit and sales, increasing net profit and sales and achieving number of franchise contracts while the non-financial performance measure included increasing employee satisfaction, increasing customer satisfaction, increasing franchisees' satisfaction and improving new product and service capability.

However, other scholar recommend business performance need to be measured through business performance measurement (BPM) system (Mann Burton & Kehoe, 1994; Franco-Santos et al., 2007). Develop a classification system that classifies business performance into strategic business performance (SBP) and operational performance business (OBP). SBP measures refer to the measures normally taken by a company's governing board. They were concerned with measuring the performance of an organization in terms of its main business goals. OBP measures were measures that management and employees take within the organization as a whole. The OBP measure involves recording daily or weekly organizational performance (Mann Burton & Kehoe, 1994).