The Influence of Market Orientation, Brand Equity on SMEs Performances

Azmi Amat Murjan[1] and Salniza Md Salleh[2]
[1]Majlis Amanah Rakyat (MARA), Malaysia, mie_phd@yahoo.com
[2]Universiti Utara Malaysia, Malaysia, sal1029@uum.edu.my

ABSTRACT

Performance of SMEs could be increased if they possess resources that are superior to help generate sustainable competitive advantage. Previous research does not provide a comprehensive explanation for SME performance through brand equity perspectives. This study hence, attempts to fill the gap by integrating Brand Equity Creation Process Model and Resource Based View in explaining SMEs performance. In particular this paper, sought to examine SMEs performance by investigating the relationship between market orientation, brand equity and performance. Survey data of 278 SMEs owners and managers all around Malaysia was used to test the relationship between the constructs of the study. In general, this study is in line with resource based theory that proposes that unique, rare, inimitable and non-substitutable resources especially on customer orientation and inter-functional department will create competitive advantage and hence increase performance of SMEs.

Keywords: SME, Performance, Brand Equity, Market Orientation

I INTRODUCTION

Several researchers agree that small and medium enterprises (SMEs) are crucial drivers of economic growth and development of a country (Oke, Burke & Myers, 2007; Woff & Pett, 2006). In Malaysia, SMEs' role is also no exception (Muhammad, Char, Yasoa' & Hassan, 2010; Saleh & Ndubisi, 2006). A report published by SME Annual Report (2010) shows that in 2010 SMEs contributed around 31% to Malaysia's Gross Domestic Product (GDP), 56% to the country's employment, and 19% towards the country's share of export. Approximately 99.3% of business establishments in Malaysia are SMEs (Salleh & Ndubisi, 2006). However, they contribute only 31% to the Malaysia's GDP, which is relatively small compared to that of SMEs in other countries (Nambiar, 2009). For example, SMEs contribute 53% in Germany, 53% in Japan, and 51% in the United Kingdom. In fact, when compared to the neighboring countries, Malaysia' SMEs contribution to GDP is far lower. For example, the SMEs in Singapore contribute 49% percent and 38% in Thailand (SME Annual Report, 2010). Despite the comparatively lower contribution to the country's GDP, there is room for SMEs in Malaysia to increase their competitiveness to survive and grow (Nambiar, 2009; Pierre & Delisle, 2006).

II SMES IN MALAYSIA

SMEs have been defined in various ways, but generally it is classified according to the socioeconomic development of each country (Tahir, Mohamad, & Hasan, 2011). In Malaysia, SMEs are defined as enterprises with net assets on shareholders' fund of not more than RM25 million. According to SME Corp, SMEs in Malaysia can be categorized as micro, small and medium (Saleh & Nbudsi, 2006) based on the employee size and amount of sales turnover (Saleh & Nbudsi, 2006; SME Annual Report, 2010). The 2005 Census of Establishment and Enterprises indicated that 99% of 519,000 Malaysia business establishments are represented by SMEs, of which 412,000 are micro enterprises. From this figure, only 0.8% is large establishment companies, which totaled 4,100 (Normah, 2006). Generally, SMEs operation differs in their scope and importance based on industries and countries. In Malaysia, SMEs are classified according to several segments such as manufacturing, retail and wholesale, finance, agriculture and services.

Despite its significant contribution to the Malaysian economy, SMEs are facing problems with performance (Nambiar, 2009). To strengthen the performance of SMEs, the Malaysian authorities is determined to implement measures to promote SMEs contribution of 37% in the country's GDP compared to 32% in 2009 (Nambiar 2009). The government strategies to accelerate the growth of SMEs are spelled out in the National Economic Policy and Malaysian Development Plans in the Tenth Malaysia Plan (SME Annual Report, 2010).

Lately, however, SMEs began to realize the need to brand themselves correctly. According to the Department of Statistics Malaysia, only 12.9% of SMEs promote their products and only 2.5% of SMEs emphasize developing their brand names (Normah, 2006). In other words, it seems that SMEs are facing problem in marketing especially in responding to customer needs and this impacts negatively their ability in generating sufficient sales and profit margin (Berthon, Ewing, & Napoli, 2008).

However, the performance of SMEs in Malaysia started to deteriorate. The rate of SME growth declined from 2004 to 2009. From the figure 1, the SMEs rate of performance growth in year of 2004 is 8.3 while contract in 2009 to -0.4% (SME Annual Report, 2010).

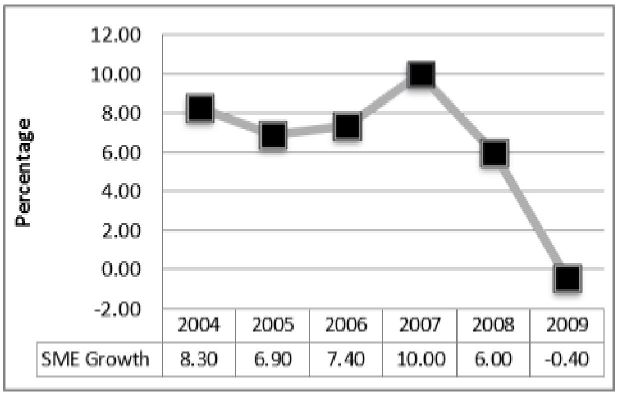

Figure 1. SME Performance Growth 2004-2009

Source: SME Annual Report (2010)

Due to the substantial decline in growth, SMEs need to take serious initiatives to recover (SME Annual Report, 2010) and review their performance from time to time (Najmi, Rigas, & Fan, 2005). This been supported by Tahir, Mohamad, and Hasan (2011), who argue for a need to improve SME performance by identifying the possible factors that influence SME performance. Therefore, it is critical for SMEs to improve their marketing effort to achieve higher performance and generate sustainable growth.

III OBJECTIVES OF THE STUDY

The objective of this study is to determine the relationship between market orientation, brand equity and performance among SMEs in Malaysia. Specifically, the objectives of this study are:

1. To determine the significant relationship between market orientation with performance of SMEs,
2. To determine the significant relationship between SMEs market orientation with brand equity,
3. To determine the significant relationship between SMEs brand equity and performance, and
4. To examine the mediating role of brand equity on the relationship between market orientation with SMEs performances.

IV RESEARCH MODEL AND HYPOTHESES DEVELOPMENT

Figure 2 illustrates the proposed research model which hypothesized that market orientation influences the SMEs performances and mediated by brand equity. The research model development and hypotheses are discussed below:

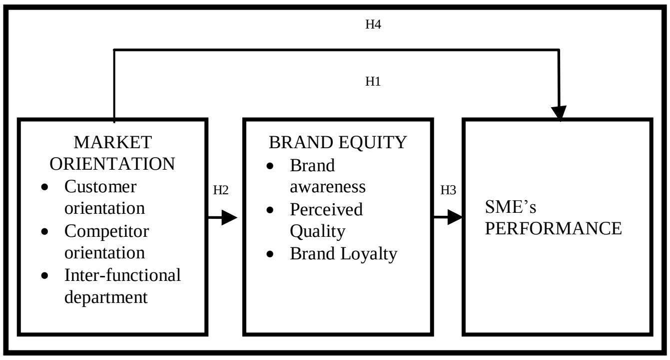

Figure 2. ***Proposed Research Model (Theoretical Framework)***

Brand Equity Creation Process Model

Yoo, Donthu, and Lee (2000) create Brand Equity Creation Process Model (BECPM) to analyze the relationship between marketing efforts, brand equity dimensions, and brand equity towards value to customers and firms (Yoo, Donthu & Lee, 2000). This model asserts that marketing efforts have significant effects on brand equity variable, which in turn strengthen the firms' and customer's value (Tong & Howley, 2009). BECPM model pioneers the argument that developing brand equity could lead to performance. It provides a framework to link between marketing effort, brand equity, and performance (Tong & Howley, 2009). In other words, the relationship between marketing efforts and value to the firms and to the customer (performance) is mediated by brand equity as shown in Figure 3.

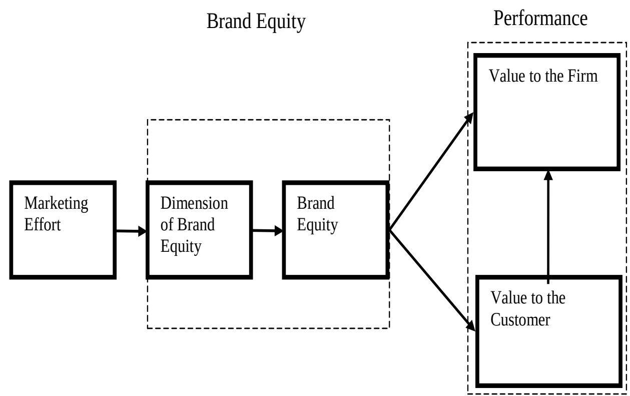

Figure 3. Brand Equity Creation Process Model

Source: Adapted from Aaker (1991) and Yoo, Donthu, and Lee (2000)

Understanding the potential sources of brand equity is important because organizations could develop and manage brand equity to achieve sustainable performance (Baldauf, Cravens, & Binder, 2003). In this study brand equity and brand equity dimension been conceptualized not been separated as two main variables (Baldauf, Cravens & Binder, 2003).

A. **Hypotheses**

Based on the proposed research model, the following hypotheses are proposed as follows:

Market Orientation and Performance

A market-oriented organization responds better to customer needs and is able to achieve superior organization performance (Narver Slater, 1990). Therefore, to achieve sustainable performance, an organization needs to improve it market orientation (Jaworski & Kohli, 1993; Mokhtar, Yusoff, & Arshad, 2009). Market orientation is the main construct involved in the development of organizational performance theory (Deshpande´ & Farley, 1999; Kohli & Jaworski, 1990; Narver & Slater, 1990). Several studies found that market orientation has a significant relationship to organization performance (Narver & Slater, 1990; Shoham, Rose, & Kropp, 2005). Based on the discussion above, the hypotheses are proposed:

H1: Market orientation has a significant positive relationship with performance.

Market Orientation and Brand Equity

An organization could create brand equity through its marketing actions (i.e. market orientation) on the brands (Gil, Andres, & Salinas, 2007). Market orientation directs organizational investment towards market-based assets (McNaughton, Osborne, & Irmie, 2002). Market-based assets refer to large intangible assets consisting of intellectual assets and relational assets (i.e. brand equity). McNaughton, Osborne, and Irmie (2002) found that an organization that implements culturally market orientation will have increased market-based assets and enhanced organizational performance. According to Ind and Bjerke (2007), market orientation through participation of employees, customers and other stakeholder could build and strengthen the organization's brand equity. Organizations that adopt market orientation are likely to inherent a strong brand by fulfilling customer's needs. Abdul Ghani (2011) found relationship between market orientation and brand equity and suggest that the conceptual study between market orientation and brand equity can be extended to the perspective of SME. Based on the discussion above, the following hypotheses are proposed:

H3: Market orientation has a significant positive relationship with brand equity.

Brand Equity and Performance

An organization that creates and maintains strong brand equity is able to achieve higher financial goals (Berthon, Ewing, & Napoli, 2008). According to Yoo, Donthu, and Lee (2000), an organization's brand equity positively affects future profits and achieves more predictable sales. Brand equity is an intangible asset that could lead to superior financial performance. Many researchers found a significant relationship between brand equity and performance (Aaker, 1996; Baldauf, Cravens & Binder, 2003; Kim & Kim, 2005). Based on the discussion above, the subsequent hypotheses are proposed:

H5: Brand equity has a significant positive relationship with performance.

The Mediating Role of Brand Equity

Several researchers assert that market orientation will lead organizations to greater position and superior performance (Low, Chapman & Sloan, 2007). According to Sadler-Smith, Spicer & Chaston (2001), and Matsuno, Metzer & Ozsomer (2002), both market orientation and innovation are needed for the organization to increase its performance. Additionally, existing literatures reveal that performance has a significant relationship with brand equity (Aaker, 1996; Kim & Kim, 2005) and brand equity is an important predictor of performance (Baldauf, Cravens, & Binder, 2003). Yoo, Donthu, and Lee (2000), and Hu et al. (2006) found that a brand equity dimension could act as a mediating variable. Thus, brand equity is posited to mediate innovation and market orientation with performance. Based on the discussion above, the subsequent hypothesis is proposed:

H6: Brand equity mediates the relationship between market orientation and innovation, and performance.

V METHODOLOGY

A. Sampling

The population involved in this study is all SMEs registered with SME Corp in Malaysia. The SME Info Directory that has the list of 47 different sectors, organized in an alphabetical order was used as a sampling frame. SME Corp is a Malaysian agency that assists Malaysian SMEs to develop and nurture competitive SMEs through its programs. SME Corp is the policy maker for SMEs in Malaysia. SME Corp acts as an information and referral centre for SMEs, and coordinates data and programs for SMEs. SMEs were chosen because of their significant contribution the country. A total of 1320 sets of questionnaires were distributed to the targeted respondents (owners/managers of SMEs) in 14 states all over Malaysia via postal mail and were given two months to complete and return the questionnaire to the researcher. From 1,320 sets of questionnaires distributed only 310 (23.48%) were received and 278 (21.06%) sets can only be used for further analysis. The response rate in line with traditional mail survey average response rate among Malaysian respondents that is between of 15 to 25 per cent (Othman, Ghani & Arshad, 2001).

B. Scale Reliability

The instruments used in this study were developed from prior research and previously tested for reliability. Some of the questions used were slightly modified to make them more relevant for the purpose of the study. The coefficient alphas of the study variables are shown in Table 1.

Table 1. Reliability Coefficient of the Study Variables

Variables	Total Item	Alpha
Customer Orientation	6	0.931
Competitor Orientation	4	0.767

Inter-functional Coordination	4	0.836
Brand Loyalty	7	0.922
Brand Awareness	5	0.926
Perceived Quality	5	0.838
Performance	4	0.896

As revealed in Table 2, coefficient alphas for all study variables are above the acceptable level of 0.70 (Hair et al., 2006), ranging from a minimum of 0.767 to 0.936. On the whole, the analysis indicated that each instrument is a meaningful measure, represented by the reliable items.

C. Factor Analysis

Construct validity in this study was validated through factor analysis. Factor analysis is performed to find the underlying structures or factors in the variables studied (Hair et al., 2006; Tabachnick & Fidell, 2001). It can help determine the construct adequacy of a measuring device (Coakes et al., 2006. A principle component factor analysis with varimax rotation was performed to investigate interrelationship among the items used in the proposed measures. Principal component was chosen due to it widely used (Hair et. al., 2006). A factor analysis conducted did support a six factors were extracted with eigenvalue values of 1. Component one is brand loyalty, component two customer orientation, component three brand awareness, component four perceived quality, component five inter-functional department, and component six competitor orientation for the total sample of 278 small- and medium-sized firms in this study.

VI RESULTS AND DISCUSSION

A. Sample Characteristics

The profile of the respondents (owners/managers) is presented in Table 2 below. The study sample comprises respondents who vary on characteristics as gender, organization type, organization set up, number of staff, education level and states operate. The samples shown reflect natural SMEs in Malaysia as the sample are selected through systematic random sampling from Malaysian SME Info Directory.

Table 2. Profile of Respondents Demographic Profile

Items	Categories	Frequency	Percentage
Gender	Male	169	60.8
	Female	109	39.2
Organization Type	Manufacturer	78	28.1
	Retail & Wholesaler	72	25.9
	Agriculture	31	11.2
	Finance	6	2.2
	Service	62	22.3
	Others	29	10.3
Organization Set Up	Less than 3 years	10	3.6
	3-6 years	47	16.9
	7-10 years	129	46.8
	11-14 years	64	22.6
	More than 15 years	28	10.1
Number Staff	51-100 people	104	37.4
	101-150 people	118	42.4
	151-250 people	56	20.2
States Operate	Selangor	66	25.7
	Johor	38	13.7
	Kedah	26	9.4
	Serawak	7	2.5
	Pulau Pinang	21	7.6
	Terengganu	12	4.3
	Negeri Sembilan	9	3.2
	Wilayah Persekutuan	32	11.5
	Perak	15	5.4
	Kelantan	15	5.4
	Pahang	19	6.8
	Sabah	6	2.2
	Melaka	11	4.0
	Perlis	1	0.4

B. Multiple Regression Analysis

Hypothesis 1 posited that there is a positive relationship between market orientation (customer orientation, competitor orientation and inter-functional department) with performance. This hypothesis was partially supported between two dimension of market orientation (customer orientation and inter-functional department) towards performance are significant while competitor orientation show no significant relationship with performance (β = 0.071, p>0.05). Hypothesis 2 posited there is a positive relationship between market orientation (customer orientation, competitor orientation and inter-functional department) with brand equity (brand awareness, brand loyalty and perceived quality). The result indicates partial support of this hypothesis whereby competitor orientation and inter-functional department does not have significant relationship with perceived quality. Hypothesis 3 posited there is significant relationship between brand equity (brand awareness, brand loyalty and perceived quality) with performance. This hypothesis was fully supported between three dimensions of brand equity towards performance where brand awareness (β = 0.472, p<.0.05), follow by brand loyalty (β = 0.434, p <0.05) and perceived quality (β = 0.108, p<0.05) towards performance relationship. Hypothesis 4 posited that brand equity mediate the relationship between market orientation towards performance. The result indicates only two out of three dimension of brand equity (brand awareness and brand loyalty) mediate the relationship between market orientations towards performance as per table 3.

Table 3. Summary of Relationship of Mediation between Independent Variables and Dependent Variables (Performance)

	Mediating Variables		
Independent Variables	Brand Loyalty	Brand Awareness	Perceived Quality
Customer Orientation	Partial Mediator	Partial Mediator	Not Qualified as Mediator
Competitor Orientation	-	-	-
Inter-functional Department	Full Mediator	Not Qualified as Mediator	Not Qualified as Mediator

Note: - Variable does not fulfilled the first and second requirement for mediation.

In summary, our findings give support to the recent studies suggesting that the SMEs in Malaysia are more focus on customer orientation and inter-functional department and not on competitor orientation towards performance. This unlocks a new knowledge that not all dimension of market orientation have a positive relationship with performance.

VII CONCLUSION

The vast research effort devoted to understanding performance in SMEs reflects both the importance of the issue and the controversy that still surrounds the nature of the performance phenomenon. The findings of the present study may have both practical for improving SMEs' business performance. SMEs usually constitute over 99 percent of a nation's business development and 31% GDP. Increase in a SME's market orientation capability may constitute a significant increase in national income.

This study contributes to the growing body of marketing research investigating the relationship between a market orientation with SMEs organization performance. The findings from this study provide several conclusion regarding the role and impact of a market orientation in disaggregate level towards SME organizational performance. The results from past market orientation towards organizational performance has been generally mixed and puzzling. For example, a mixed results of market orientation and performance been emphasized by Doyle, Saunders and Wong, (1992) and Matanda and Ndubisi (2009). Therefore, this study introduces brand equity as mediator between market orientations with organizational performance. The results of this study provide evidence of a strong and positive relationship between market orientations towards organizational performance mediated by brand equity.

There are several limitations to this study, Firstly; this research utilized a cross-sectional sample of SMEs, consequently, it may be that there is a lagged effect in some of the relationships. Therefore, future research studies may need to consider more longitudinal designs that incorporate market orientation, brand equity and organizational performance measures. Secondly, although this research examined mediator between marketing effort and organizational performance, the study does not identify possible moderator into this relationship. Environmental turbulence and age of the firms could be moderating variables between marketing effort and performance for the future study for this model. Thirdly, future research should examine the impact of additional non marketing mix marketing effort that able build up long term brand equity and ultimately impact on organization performance using Brand Equity Creation Process Model (BECPM). Finally, considering that the data gathered in this empirical effort were based on the subjective assessments that based on respondents' perception of one internal firm-critical informant, there is a likelihood that some of the responses are susceptible to various cognitive biases (e.g. position bias) and, thus, subsequent studies could utilize data gathering techniques involving multiple respondents in individual firms.

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