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The Impact of Market Orientation and Entrepreneurial Orientation on Firm Performance of Wholesale and Retailer SMES in Malaysia

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Abstract

There is a considerable signal from empirical studies that many factors influence firm performance. The purpose of this conceptual paper is to review the impact of two (2) important variable which are market orientation and entrepreneurial orientation on the performance of wholesaler and retailer Small and Medium Enterprises (SMEs) operating in Malaysia. Based on a systematic literature review, present conceptual framework has been developed. The present conceptual paper emphasizes on the importance of market orientation and entrepreneurial orientation and how these two factors could have an influence on firm performance. Present paper provides a valuable information to the owner/managers of wholesaler and retailer SMEs in Malaysia regarding their market strategies and entrepreneurial processes. The expected results for the resent conceptual paper would support the hypotheses that market orientation and entrepreneurial orientation have a positive impact on firm performance. Resource-Based View (RBV) theory was used to underlie the conceptual framework. In addition, some implications of this conceptual model for theory and practice are discussed.

Keywords: Market Orientation, Entrepreneurial Orientation, Firm Performance, Wholesaler and Retailer SMEs, Malaysia

Introduction

SMEs play an important role in the business environment and are considered the backbone of Asian economies (Abdullah & Rosli, 2015; Yoshino & Taghizadeh-Hesary, 2015; Yoshino et al., 2016). SMEs account for 90% of national business in emerging countries, and they make up more than 95% of all businesses globally (Auzzir et al., 2018). SMEs play an important role in the growth of rural economies in countries all over the world. As a result, this assessment

emphasizes the importance of SMEs in influencing emerging nations' economic landscapes (Tambunan, 2019). Moreover, SMEs play an increasingly important role in creating and maintaining economic growth in developing and emerging economies (Prasanna et al., 2019). As a result, these countries are searching for innovative ways to strengthen SMEs in their countries in order to ensure potential economic stability (Ndiaye et al., 2018).

Service sector is crucial to a country's growth, as well as access to essential services and the achievement of various other goals, such as poverty reduction (Kim & Wood, 2020). According to SME Corp (2018), the service industry, also known as the tertiary sector, is the primary engine of Malaysia's economic development. The tertiary sector of the economy, in particular, offers services to enterprises and customers. Significantly, the service sector accounted for 23.9 percent of Malaysia's overall exports in the year of 2018. Moreover, the service sector, according to the SME Corporation Malaysia, includes services such as finance and insurance, transportation and storage, real estate and industry, and communication as an intermediary service. However, wholesale and retail industries SMEs is the biggest contributor toward the nations GDP compared to other sub-sector in the service industry as shown in Figure 1. Nevertheless, the wholesale and retail SMEs did not receive much attention and was totally neglected (Tehseen et al., 2017).

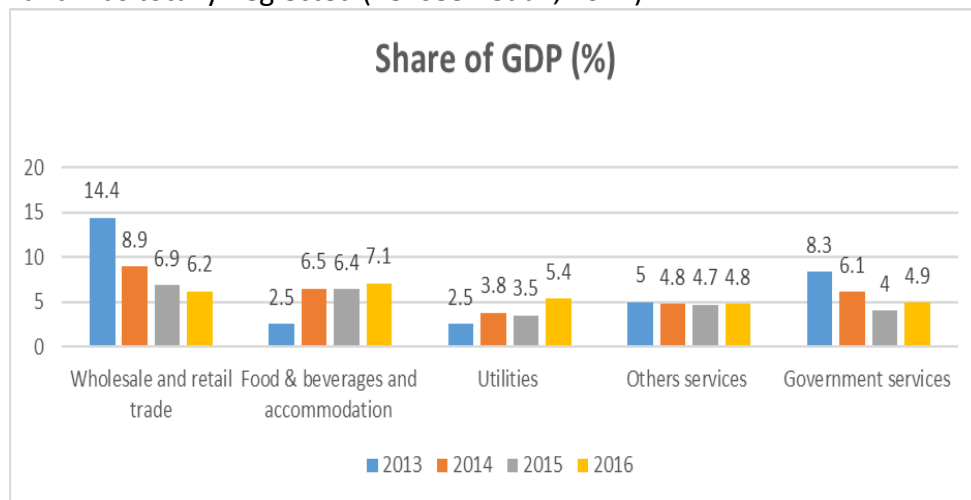


Figure1: Service Subsector performance (Share of GDP)
Source: Bank Negara Malaysia (2017/18)

Problem Statement and Study Gap

Despite the fact that SMEs contribute significantly to Malaysia's economic growth, particularly in the service sector, their contribution to GDP is relatively low when compared to other economically advanced countries (Musa & Chinniah, 2016). Furthermore, SMEs in Malaysia suffer a great deal of pressure along with a few issues (Halim et al., 2015). SMEs in Malaysia, on the other hand, faced obstacles such as a lack of resources, a lack of expertise, and a lack of managerial skills (Amin et al., 2016). Furthermore, one of the most important matters that must be discussed is the lower profitability of SMEs in Malaysia as opposed to larger institutions and SMEs in other countries. In this regard, SMEs in Malaysia are unable to compete with larger institutions, both domestically and internationally (OECD, 2017). As a result, elements that may have an impact on SME performance must be investigated (Razali et al., 2018). In Malaysia, SMEs are having considerable difficulties with their business performance (Halim et al., 2015; Muda & Rahman, 2016; Musa & Chinniah, 2016; Tahir, Mohamad & Hassan, 2011; Sani et al., 2019).

Despite of that, wholesale and retail SMEs in Malaysia, like a few other SMEs sectors in Malaysia, are experiencing difficulties in their operations (Falahat et al., 2018). Furthermore, only a few reports on wholesale and retail SMEs and company results have been conducted (Tehseen et al., 2017). Figure 2 illustrates the performance of wholesale and retail SMEs from 2016 to 2020. From 2016 to 2020, there is a fluctuation in market results. In particular, market results in 2016 ranged from -18.8 percent to -31.5 percent. However, the business performance still remained very poor.

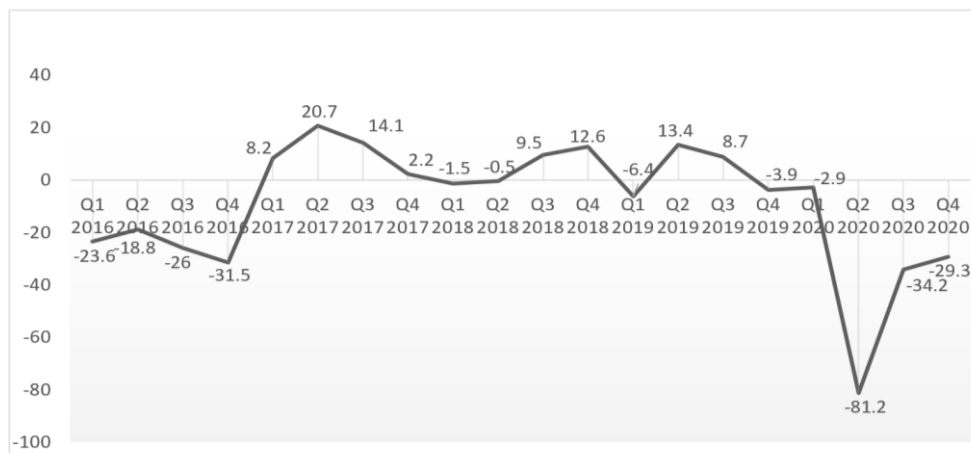


Figure 2: The Current Net Balance of Wholesale & Retail Trade Performance
Source: Department of statistics Malaysia (2021)

Likewise, for successful firm performance, entrepreneurial orientation is a source of long-term competitive advantages (Wiklund & Shepherd, 2011). Since entrepreneurial orientation was discovered to be an antecedent of firm performance, more research needed regarding the relationship between entrepreneurial orientation and firm performance is required. As a consequence, Nwekpa et al (2017) recommended that future study look into the link between entrepreneurial orientation and firm performance. However, market orientation improves an organization's ability to anticipate, react to, and leverage changes in the environment, leading to increased performance (Buli, 2017). Similarly, because of its importance in contributing to business growth, market orientation has gained a lot of interest in both scholarly and business circles (Zebal & Saber, 2014). Moreover, since market orientation was discovered to be an antecedent of firm performance, further research into the relationship between market orientation and firm performance is needed. However, further study, particularly in the case of SMEs, is needed to fully understand the link between market orientation and business performance (Filatotchev et al., 2017; Musthofa et al., 2017).

The objective of this conceptual paper is to contribute to the theory and practice in the era of Wholesaler & Retail SMEs performance in Malaysia. The present conceptual paper makes theoretical contribution by extending the traditional theory the (RBV) theory through constipate understanding regarding the relationship between market orientation, entrepreneurial orientation toward firm performance. Present paper is expected to benefit the owner/managers of SMEs wholesale and retail in Malaysia by creating awareness about the aspects that have an effect on wholesale and retail SMEs firm performance.

Literature Review

Firm Performance

Firm performance is complex in nature, and scholars have focused their attention on different facets of the most relevant approach to assessing firm performance (Gupta & Wales, 2017). Performance is widely used in a variety of areas, according to Razali et al. (2018). The degree to which a system or process achieves its goal is referred to as performance. Firm performance defined in the context of SMEs as the capacity of enterprises to lead in the production of employment riches, as well as their capacity to survive and preserve sustainability (Yusuf et al., 2018). Firm performance is a strong measure of its performance (Civelek et al., 2015). As a balanced and effective system, performance management methods offer a systemic view that uses various metrics and viewpoints to assess the business's internal and external context (Jamil & Mohamed, 2011). However, other performance matrices may be used to assist a corporation in defining its strategic objectives, which are then translated into performance metrics (Jamil & Mohamed, 2011). Furthermore, based on previous empirical studies, there are several metrics to assess firm performance. Many researchers have used financial and non-financial variables to assess success in the past (Dijkman et al., 2016; Powers et al., 2015; Tseng & Lee, 2014). Present conceptual paper would measure firm performance based on profit, sales goals and ROI, quality, satisfaction, market effectiveness and efficiency have been achieved by the firm.

Market Orientation

The approvals regarding the processes to target the firm's objectives by marketing activities have been realized as a marketing term in the literature, while marketing plays a fundamental role in every industry (Houtson, 1986). Aside from that, in some marketing literature, the application of the concept of marketing is best understood as market orientation (Ozkaya et al., 2015). Market orientation refers to a company's attitude of identifying and meeting the demands of its customers. Kohli and Jaworski (1990) and Narver and Slater (1990) were the first to investigate business orientation and promote academic study. The second approach to conceptualizing market orientation from a cultural perspective was suggested by Narver and Slater (1990), who introduce market orientation as "The corporate culture that most successfully develops the essential behaviours for the generation of higher value for buyers," and as a result, the company's performance continues to improve.

Authors in the market orientation literature agree on the importance and benefits of using the market orientation concept in organizations. However, market orientation, according to Saleh and Alharbi (2015), is an internal asset that helps companies gain sustainable competitive advantage by incorporating superior consumer value into new goods and services (Song et al., 2015). This value can be achieved by taking into account customers' current and future needs, organizational knowledge and abilities, and the external environment, as well as involving all departmental functions in customer-focused activities and strategies (Fan et al., 2016).

Entrepreneurial Orientation

Numerous research articles have been written on entrepreneurial orientation as an organizational approach (Chavez et al., 2017; Kovacs et al. 2016; Lomborg et al., 2017). The most influential reason behind an organization's pursuit of entrepreneurial activity has been recognized as entrepreneurial orientation, and there has been extensive research in the subject of entrepreneurship studies (Chavez et al., 2017). Entrepreneurial orientation,

according to Kovacs et al (2016), is the essential basis for an entrepreneur, and it performs key roles in entrepreneurship such as idea generator, internal entrepreneur, project leader, technology gatekeeper, and project sponsor. Entrepreneurial practice that presented as a mechanism at the company level is referred to as entrepreneurial orientation. The technique of strategic management can be used to determine entrepreneurial orientation. An entrepreneurial business, according to Miller (1983), is one that engages in product-market innovation, undertakes rather unconventional projects, and is first to come up with 'proactive' inventions, beating rivals to the punch.

Market Orientation and Firm Performance

Market orientation is a term that has been extensively investigated in the past and is known to be very significant in the modern marketing-related decision-making process (Aimin, 2015; Blankson et al., 2013; Mahmoud 2016; Powers et al., 2020). Furthermore, it has been empirically shown that marketing practices improve an organization's financial result. An organization's stronger market orientation practices indicate a keen engagement in identifying new prospects and growth opportunities (Hussain et al., 2021; Reijonen et al., 2014). As a result, firms with a stronger market orientation are more likely to have stronger customer interactions, provide more customer value, and achieve long-term success (Fan et al., 2016; Habib et al., 2020). Based on Bodlaj (2010), market-oriented gives a better businesses performance. According to Wijesekara et al (2016), the firm's market orientation was a significant strength that influenced firm performance.

Market orientation has been seen to have an important impact on firm performance in various studies. (Hinson et al., 2017; Mahmoud, 2016; Migliori et al., 2019; Presutti & Odorici, 2019). The relationship between market orientation and firm performance, on the other hand, yielded mixed results. There is a positive connection between market orientation and firm performance, according to several empirical research (Amin et al., 2016; Beneke et al., 2016; Fatach & Nursyamsiah, 2019; Jaiyeoba, 2014; Joensuu-Salo et al., 2018; Kharabsheh et al., 2017; Mahrous & Genedy, 2019; Mamun et al., 2018; Powers et al., 2015; Song et al., 2015; Tsai & Wang, 2017; Tseng & Liao, 2015; Webster et al., 2014; Yadav et al., 2019).

Entrepreneurial Orientation and Firm Performance

The numerous procedures, practices, and decision-making activities that can aid in raising the value of products and services based on consumer demand and improving the firm's performance are referred to as entrepreneurial orientation (Basco et al., 2020; Chavez et al., 2017; Kajalo & Lindblom, 2015; Lumpkin & Dess, 1996). Organizations with an entrepreneurial orientation are better equipped to adapt and shape changes in a complicated market environment more quickly, boosting their performance and development potential (Galbreath et al., 2020; Rezaei & Ortt, 2018). As a result, companies that actively focus on innovation, proactive components, and risk-taking capabilities may successfully adjust to changing external conditions and capitalize on market possibilities (Haider et al., 2017; Soares & Perin, 2020). According to Arief et al (2013), all organizations must adopt an entrepreneurial orientation and strategic flexibility in order to improve their performance. Entrepreneurial orientation, according to Abebe and Angriawan (2014), allows SMEs to use exploitative and exploratory practices to improve their performance. Several previous empirical researches have revealed a link between entrepreneurial orientation and business performance (Adams et al., 2017; Aloulou, 2019; Alvarez-Torres et al., 2019; Cuevas-Vargas et al., 2019; Soares &

Perin, 2020; Gupta & Batra, 2016; Hussain et al., 2017; Jiang et al., 2018; Kurtulmuş & Warner, 2015; Mkala et al., 2017; Pratono & Mahmood, 2015; Sok et al., 2017; Sahoo & Yadav, 2017; Stanley et al., 2019).

Underpinning Theory

Resource-Based View Theory (RBV)

Resource-Based View (RBV) has become one of the most well-known and cited theories in strategic management research, and it is garnering increasing internal attention (Barney, 1991; Penrose, 1959; Wernerfelt, 1984). There are four (4) key attributes that a resource must possess in order to meet the criterion requirement (VRIN). The resources must be valuable (worth something to the companies), rare (unique, not used by someone else), imperfectly imitable (not readily copied), and non-substitutable (not easily sold or traded) (Barney, 1991). RBV is frequently used to highlight how a company's competitive advantage comes from inside. RBV is significant in the literature on strategic management since it can explain a firm's performance (Penrose, 1959). The resource-based view (RBV) has become one of the most influential frameworks for understanding how businesses may achieve competitive advantages (Barney, 1991; Barney & Arikan, 2001). However, RBV has been shown to be applicable to SMEs in previous studies (Price & Stoica, 2015; Wang et al., 2015).

Resource-Based View Theory (RBV) and Market Orientation

Firm capabilities generate strategic advantage for a firm based on its unique capability (Barney, 1991), such as market orientation and customer relations, according to the Resource-Based View (RBV). This approach emphasized the importance of unique and specialized resources, as well as company competence, such as dependence on technology and tacit knowledge, in gaining a competitive edge (Khana et al., 2020; Tsai & Wang, 2017). According to RBV theory, market orientation practices are a rare, valuable, and resources that difficult to imitate. Furthermore, it was known as the firm's internal capability, and it aided in the generation of a long-term advantage (Joensuu-Salo et al., 2018; Zhou et al., 2008). According to RBV, market orientation is a critical organizational capability and a strategic asset that has helped organizations improve their business performance (Al Marzooqi & Abdulla, 2020; Kiessling et al., 2016).

Resource-Based View Theory (RBV) and Entrepreneurial Orientation

Entrepreneurial orientation as a key resource that enabled the organization to seek out new methods to improve income streams, increase success rates in the worldwide market, and make optimal use of all organizational resources (Kellermanns et al., 2016). Entrepreneurial orientation, according to the RBV principle, is a collection of special tools that can be used to channel the creation of new goods in response to evolving environmental patterns (Jogaratnam, 2017). Entrepreneurial orientation emphasizes the strategic orientation of the organization and represented the manner in which it innovatively attained a competitive edge (Adams et al., 2017).

Entrepreneurial orientation is viewed as a resource that allows a company to gain a competitive advantage and improve its performance (Lonial & Karter, 2015). Barney (2001; Kollmann & Stöckmann, 2014) defined entrepreneurial orientation as resources that are not replicable, rare, and valuable without a substitute. According to Sonenshein (2014), entrepreneurial orientation helped organization reach its goals, maintain their vision, and

gain a competitive advantage. Many empirical studies have shown that having an entrepreneurial mindset helps businesses maintain a competitive advantage and perform well (Bogatyreva et al., 2017; Imran et al., 2019; Pratono & Mahmood, 2015). The RBV hypothesis is used to gain deeper insights into entrepreneurial orientation and firm success based on the above claims.

Conceptual Framework

Based on the preceding discussion, a conceptual framework is proposed as depicted in Figure 2. To conceptualize the relationship between market orientation and entrepreneurial orientation on firm performance grounded by resources-based view (RBV) theory. Moreover, it is reasonable that firm performance will be enhanced theory high emphasising on market orientation and Entrepreneurial orientation.

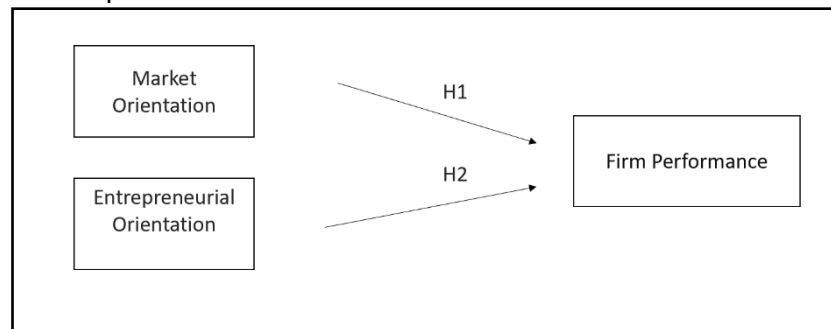


Figure 2: Conceptual Framework

Propositions

Based on the above literature review and past studies findings, the following hypothesis was established:

H₁: Market orientation will have a positive relationship on firm performance

H₂: Entrepreneurial orientation will have a positive relationship on firm performance

Research Design/Methodology/Approach

A systematic review was conducted by five (5) reviewers who focus on the acquisition and synthesis of information blindly and in tandem. Furthermore, the review process was well-designed to minimize biases and exclude obsolete or low-quality studies. In a systematic analysis, the first step is to carefully formulate the study topic, which is followed by the implementation of a technique.

Furthermore, utilizing a systematic review technique is critical to conduct a systematic and complete literature review. As a consequence, all findings will open access, including those that are particularly relevant to our work. Hence, a rigorous, factual, and repeatable literature review is required; A systematic analysis differs from a traditional narrative study in many ways. Following the study selection, an accurate, comprehensive, and systematic overview of all information given in each published paper was addressed.

Results and Discussion

A detailed review of journal articles, proceedings, conferences, and books relevant to the keywords was used to create the conceptual paper. Based on the scope of the literature review and the research discrepancy, the following theoretical framework was created (Figure 2).

Conclusion

This paper acts as a platform for Wholesaler and retailer SMEs and the Malaysian government to place a greater and revived emphasis on facets of firm success and their determinants. Empirical evidence shows that market orientation and entrepreneurial orientation have a significant contributor to firm performance. Although various studies regarding market orientation and entrepreneurial orientation and classifications along with firm performance have been reported in the literature (Adams et al., 2017; Aloulou, 2019; Alvarez-Torres et al., 2019; Hinson et al., 2017; Mahmoud, 2016; Migliori et al., 2019). In addition, understanding the value of market orientation and entrepreneurial orientation and their antecedents essential to business success and superior performance. Based on the past literatures discussed above, the main findings of the present conceptual paper are that market orientation and entrepreneurial orientation are significant antecedents of firm success and has a significant effect on the performance of SMEs. Moreover, further refinement of market orientation and entrepreneurial orientation may be important to the firm performance of wholesales and retailer SMEs in Malaysia. The present conceptual paper is not free from limitation, there are few limitations future researchers might address. Firstly, the present conceptual framework has not been tested empirically, where future researcher can conduct the study using quantitative approach. Secondly, mediation or moderation role can be addressing such as innovation. Thirdly, future researcher can extend the present conceptual framework by adding new independent variable such as organizational learning. Considering the important of market orientation and entrepreneurial orientation in wholesales and retailer SMEs, present conceptual paper suggest future researcher to test the present framework in wholesales and retailer SMEs in Malaysia to address the performance issues which would provide a valuable information to the owner/manager of wholesales and retailer SMEs operating in Malaysia as well as the policy makers.

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