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MARKET ORIENTATION AS DRIVER OF SMES PERFORMANCE: EMPIRICAL EVIDENCE FROM SMES IN DISTRICT PESHAWAR, PAKISTAN

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Abstract

The present study explores the relation between Market orientation and Performance of small and medium enterprises (SMEs) operating in District Peshawar. Based on the MKTOR model, the study investigated the impact of three dimensions of market orientation i.e., competitor orientation, customer orientation and inter functional coordination, on firm financial and non financial performance. In doing so, the study used cross sectional survey design. Data was collected from 194 small and medium enterprises owner managers using judgmental and convenience sampling. Multiple linear regression analysis was used after diagnostic tests for reliability and correlation using SPSS. The findings reveal that all the dimensions of market orientation have a statistically significant and positive impact on firm financial and non-financial performance. Particularly customer orientation has highest statistically significant effect on both performances. The findings are in lined with Resource Based View; substantiate that market orientation act as strategic capability that provides competitive advantage. The findings depict that adopting market orientation practices can enhance small and medium enterprises growth. Competitor analysis, improving inter functional communication channel, investing in customer feedback system and encouraging training programs can significantly enhance market orientation practices among SMEs operating in Pakistan.

INTRODUCTION

Small and medium enterprises (SMEs) are considered the backbone of most economies (World Bank, 2023). SMEs are playing significant role in creating employment opportunities, fostering innovation and promoting entrepreneurship. According to Word Bank (2023), SMEs represent about 90 percent of all businesses and accounting for more than half of world employment. Particularly, SMEs play pivotal role in productivity, poverty reduction and economic growth in developing economies (World Bank, 2023). As per Ministry of Commerce, Government of Pakistan (2021) in Pakistan, SMEs represent 90 percent of all businesses creating 72 percent employment opportunities for non agricultural labour force at the same time contributing almost 40% to gross domestic product and almost accounts for 25 percent of the total exports. In spite of this prominent contribution, still they face challenges

like low productivity, growth and poor competition ability in both domestic and foreign markets (Arshad et al. 2020).

According to Nikmah et al., (2020) SMEs can overcome these challenges by implementing effective strategies like Market orientation. Market orientation (MO) refers to enterprise's ability to generate and circulate market information across various departments, identify and meet customer's needs and counter competitors effectively (Kohli and Jaworski, 1990, Narver and Slater, 1990). Enterprises with strong market orientation focus on generating greater value to the customers, they focus on customer satisfaction and all their internal business processes well aligned with each other, all of these contribute to business performance (Barinta, Aisjah and Susilowati, 2022).

Studies conducted earlier in developed countries have confirmed the positive association of market orientation and SMEs performance (Grinstien, A. 2008; Slater & Narver, 1999; Kirca et. al., 2005; Kohli, Jaworski and Kumar, 1993; Narver and Slater, 1990). However, in the context of developing countries researches are limited and reveal mixed results. According to Agarwal, Erramili and Dev, (2003), Nikmah et al., (2020), Pramodanie et al., (2019) and Yaskun et al., (2023), market orientation has significant positive impact on innovation, customer satisfaction, quality of service and firm performance. In contrast, Ighomereho et al., (2022) and Mahmoud and Hinson (2012) found insignificant relationship. Similarly, studies from Pakistan also present mixed results. For example, Hussain, Ismail and Chaudhry, (2015) found positive relationship. On the other hand, a negative association without considering mediating variable between the relationship is reported by Yasir, Babar and Zaib, (2022). These contrasting findings regarding the performance and MO relationship highlights the need of investigation within particular regional and organizational context.

The District Peshawar offers unique context for exploring market orientation and firm performance relationship. There are various small and medium enterprises in the said District including trade, construction, services and manufacturing. Although, the District has great economic potentials, however, encounters various challenges like lack of expert managers, terrorism, lack of infrastructure and limited managerial training. These challenges make SMEs less competitive (Ali, Jabeen and Khattak, 2021). Understanding this relationship in such circumstances provides deep insights for the economic growth and development of the area. Therefore, the current study attempts to empirically analyze the affect of 3 dimensions of market orientation (i.e. "inter functional coordination, competitor orientation and customer orientation") on financial and non-financial performance of small and medium enterprises in District Peshawar of Khyber Pakhtunkhwa.

The present study contributes by enriching existing literature on market orientation and performance of SMEs in Pakistan. Furthermore, this study provides practical suggestions to policy makers, entrepreneurs and relevant authorities who are looking for improving performance of SMEs through market orientation.

LITERATURE REVIEW

The term "market orientation" has remained highly debated topic in strategic and marketing management research. Scholars have defined it as a business approach which stresses on creation of greater customer value through effective use of market intelligence. However, with the passage of time various models have been proposed by different scholars to explain the concept of market orientation. Kohli and Jaworski (1990) have described market orientation as behavioral process. According to them it involves collection, dissemination and responding market information across organization. The behavioral perspective of market orientation stresses on such actions that can help in translating market intelligence into effective marketing strategies. On the other side, Narver & Slater (1990) described the cultural perspective of market orientation, explaining that it consist of three elements i.e. "customer orientation, competitors orientation and inter functional coordination".

Both approaches have same point of view that is market orientation increases firm's ability to respond changes effectively and maintain healthy performance.

Furthermore, According to Resource Based View (RBV), market orientation is a strategic capability (Barney, 1991). Market orientation is valuable and intangible resource according to this framework which assists in availing opportunities and counter changing customers demand effectively (Hult & Ketchen, 2017). Further, some empirical studies also confirm the proposition of resource based view (such as O Case, Ngo and Siahtiri, 2015; Quershi, Mian and Aziz, 2017). According to these studies market orientation increases responsiveness, adaptability, innovation and learning. Consequently all of these contribute to enhance performance.

As we discussed above according to cultural perspective presented by Narver & Slater (1990) market orientation consists of three dimensions. Customer orientation is the first dimension as per Narver and Slater (1990). It is about understanding and responding to customers' needs and wants. This is customers' first approach. It involves collecting feedback from customers, developing product and services as per customer's demands, building strong customer relationship and delivering value to customers as per their expectations. Prior studies like Khan and Ghouri, (2018) and Kirca et al., (2005) reveal that customer orientation increases brand loyalty, customer retention and profitability. Second dimension is competitor orientation. It refers to being aware of competitor's actions, strategies and capabilities and responding to them (Narver and Slater, 1990). This orientation is essential because it facilitates enterprises in monitoring market trends, in developing strategic response, identify opportunities and overcome threats (Jaworski and Kohli, 1993). Thirdly, Inter functional coordination, Narver and Slater, (1990) explains it as, the collective efforts of all functional areas in generating value to the customer through disseminating market information across departments. Literature depicts that strong inter departmental coordination increases responsiveness and efficiency (Slater and Narver, 1999; Verhees and Meulenberg, 2004). Collectively, all these three dimensions assist in converting the theoretical concept of market orientation into an empirical construct that can be measured, used and practiced to enhance firm performance. However, application of this market orientation framework to SMEs needs contextual adaptation.

In contrast to large enterprises, small and medium enterprises operate with informal structure and limited resources. Further the decision making process of SMEs are informal, centralized and owner driven (Becherer, Halstead and Haynes, 2003 and Hussain, Ismaial and Chaudhry, 2015). The lack of formal structure, informal decision making and low managerial capacities could hinder market intelligence gathering and responsiveness. In these circumstances, customer orientation can play the role of formal marketing department. As SMEs depend on direct relationship with their customers therefore, understanding and responding to the customers demand can affect firm performance. But, lack of marketing expertise and lack of data collection mechanism restricts SMEs ability to transform customers' information into marketing strategies (Kair and Bedi, 2024).

Similarly, competitor orientation is also important for SMEs, because they operate in competitive environment. Timely decision regarding product differentiation, innovation and pricing is only possible if company is actively monitoring competitors' actions (Blankson et al., 2006; Hult and Ketchen, 2017). However, in countries like Pakistan, many of the SMEs do not use competitive intelligence system rather they depends on owner judgment, priorities and intuition (Khakwani and Case, 2012 and Hussain et. al. 2015). Furthermore, inter functional coordination has positive influence on firm performance as depicted in literature (Mamman et. al., 2021). However, within small and medium enterprises in developing countries are most of the times informal and weak, as a result SMEs become unable to transform market intelligence into workable strategies (Mamman et. al., 2021)

Additionally, Keskin (2006) and Blankson et al. (2006) found that implementing market oriented approach could benefit SMEs, because it increases their rapid responsiveness and compensates for their limited resources. These findings reflect that SMEs can make sound decisions by focusing on market intelligence regarding competitors and customers. In Pakistan, small and medium enterprises are lacking formal marketing practices. According to Ullah et. al. (2011) and Salem et. al. (2011), many of the SMEs are lacking trained marketing staff and data management system leading to improvised decision making. However, SMEs that adopt some of the fundamental market oriented approach, like taking customers feedback, oversee of competitors' actions and promoting employee participation, experience better performance and customer satisfaction (Jaworski & Kohli, 1993).

Several scholars have articulated the association between market orientation and firm performance. Like, Jaworski and Kohli (1993) found that market orientation has statistically positive association with both employee satisfaction and firm performance. Further Meta analyses of Kirca et al. (2005) and Grinstien (2008) established that the relationship between firm performance and market orientation is strong across firm size and industries. In highly developed countries, researchers have found that market orientation increases sales growth, innovation, profitability and customer retention (Baker and Sinkula, 2009; Menguc and Auh, 2066). Similarly, some recent studies from developing countries also found positive association such as Maldonado Guzmán, G. (2025), using sample of 386 SMEs sample from Mexico found that MO positively influences firm performance. The study also found that this positive association further becomes strong when entrepreneurial orientation is used as mediator variable. Another study from Zamfara state, Nigeria by Balarabe, A.L. (2024) also found positive relationship between MO and Performance. Further, Glaydyl C., Q. et. el, (2024) study from Philippines economy also found that MO significantly enhances profitability and performance.

However, empirical evidence reflects complex but positive link between market orientation and performance in Pakistan. For example, this relationship is negative statistically but becomes positive when innovation as mediating variable is used (Alam, Ali, and Zaib, 2022). Arshad et. al. (2024) found that the positive association becomes further stronger in the presence of innovation as mediating variable. Furthermore, Hussain et. al., (2015) study also reports positive link.

To sum up, literature depicts that MO positively influences firm performance by enhancing operating efficiency, responsiveness and competitiveness of the firm. However, there are very limited studies from Pakistan and particularly from Peshawar, Khyber PakhtunKhwa. Secondly, these limited studies have ignored regional context by focusing on national level sample. Finally, these studies have used innovation as mediating variables or have used MO alongside with other variables such as entrepreneurial orientation or learning orientation while studying the relationship between MO and Firm performance. Thus, lacking empirical evidence regarding direct and independent impact of three MO dimensions on non financial and financial performance. Therefore, this study attempts to fill this gap by providing regional specific evidence.

Based on above discussed theories and literature, the current study conceptualizes that the 3 dimensions of market orientation have significant positive association with both performance outcomes of SMEs. Thus following hypotheses are formulated:

H1a: Customer orientation positively influences financial performance of SMEs.

H1b: Competitor orientation has positive impact on financial performance of SMEs.

H1c: Inter functional coordination positively affects financial performance of SMEs.

H2a: Customer orientation has positive relation with non financial performance of SMEs.

H2b: Competitor orientation and non financial performance of SMEs are positively associated.

H2c: Inter functional coordination positively influences non financial performance of SMEs.

Methodology

In order to empirically investigate the relationship between the three dimensions of market orientation and firm non financial and financial performance among SMEs working in Peshawar, KP, Pakistan, the study used explanatory, quantitative and cross sectional research design. SMEs working in Peshawar (having employees from 10 upto 250 as per State Bank of Pakistan definition) consist of population for this study (Ahmad et. al. 2022). The reason for selecting SMEs operating in Peshawar was deliberate, because the District hosts SMEs operating in different sectors, therefore provides a true cross section of SME environment. The study used judgmental and convenience sampling after reviewing relevant literature (Pramodanie et. al. 2019; Keskin, 2006).

Using cross sectional survey questionnaire (adapted from Narver & Slater, 1990; Minai & Lucky, 2011; Agarwal et. al. 2003), Three hundred self administered questionnaire were distributed among SMEs in Peshawar. The respondents were senior managers and owner. 87.63% of the respondents were male and only 12.37% were female. Response rate remained 64.67%. A total of 194 completed questionnaires were considered for analysis. Out of these, 35.57% were manufacturing sector SMEs, service sector SMEs were 37.11% and 27.32% SMEs were from trading sector.

The dimensions of market orientation ("customer orientation, competitor orientation and inter functional coordination") were the independent variable of the study. MKTOR five point likert scale developed by Narver and Slater (1990) was utilized to measure these variables. Many studies in SMEs context have used this scale (Hussain et. al., 2015; Alam et. al., 2022). With minor modification in this scale, 6 items were used for inter functional coordination, seven items for customer orientation and 6 for competitor orientation. Response were taken on five point likert scale (1 = strongly disagree and 5 = strongly agree) and finally mean score calculated mean score for each dimension.

The dependent variables of the study were SMEs financial and non-financial performance. Following Minai and Lucky, (2011) and Agarwal et.al., (2003), the study used 6 objective items to measure financial performance. Whereas, five subjective items were used to measure non financial performance following Minai and Lucky, (2011). The responses were too taken on five point likert scale and mean value for both performance were calculated separately.

Before analysis the data was checked for normality, outliers and missing value. Descriptive analysis, inferential statistics and diagnostics tests were conducted using SPSS version 20. Cronbach's Alpha was used to check reliability of each construct. A test consisting of 20 respondents confirmed internal consistency. The coefficient of Cronbach's alpha for the all constructs were higher than the threshold value of 0.70. Further, multicollinearity issue was checked using Pearson correlation matrix. The correlation coefficients for all independent variable were below 0.70. The test confirmed the absence of multcollinearity problem. In addition, Variance Inflation Factor also confirmed the absence of collinearity among predictor variables yielding a mean VIF of 1.05. Finally, multiple linear regression analysis was used to estimate following regression models to test the hypotheses.

$F.P = \beta 0 + \beta 1 (CustOR) + \beta 2 (CompOR) + \beta 3 (IFCR) + \varepsilon$..... Equation 1

$N.F.P = \beta 0 + \beta 1 (CustOR) + \beta 2 (CompOR) + \beta 3 (IFCR) + \varepsilon$.....Equation 2

Where:

F.P = Financial Performance
N.F.P = Non-Financial Performance
CustOR = Customers Orientation
CompOR= Competitors Orientation
IFCR = Inter functional Coordination
ε = Error term

Higher education commissions of Pakistan's standard ethical research protocols were followed. The consents of the all respondents were taken before filling questionnaires. All the collected data was used only for academic purpose.

Results and Discussion

SMEs Demographics

For summarization of the demographics of SMEs descriptive statistics was used. Results are presented in table 1 given below. As for SMEs demographics, out of 194 sample SMEs, majority were service sector SMEs (37.11%), followed by manufacturing SMEs (35.57%) whereas, trading sector SMEs were 27.32%. Regarding business age, table 1 below depicts that most of the SMEs about 43.30% were operating for last ten years. On the other hand, SMEs with operations more than 20 years were 23.20%. It is also depicted from the results that majority (59.28%) of the firm were small enterprises, with employees' upto 50 and the rest of SMEs were medium size enterprises with employees more than 50 and less than 250 as per state bank of Pakistan definition. Interestingly, only 23.20% of the sample SMEs were having marketing department whereas, 76.80% SMEs was lacking this important department.

Table 1: Small and Medium Enterprises Demographics

Demographic Characteristics	Categories	Frequency	Percentage
Types of Business	Manufacturing	69	35.57
	Service	72	37.11
	Trading	53	27.32
Marketing Department Existence	Yes	45	23.20
	No	149	76.80
Business Age	1 To 10 years	84	43.30
	11 To 20 years	65	33.50
	Higher than 20 years	45	23.20
Number of Employees	10 to 50	115	59.28
	51 to 100	31	15.98
	101 to 150	19	9.79
	151 to 200	10	5.16
	201 to 250	19	9.79

Correlation Matrix

The study computed Pearson's correlation coefficient to investigate the direction and strength of the relation between independent and dependent variables. Results presented in table 2 below reveals positive association between MO dimensions and SMEs performance measures. Particularly, it is found that customer orientation strongly correlates with financial performance (r = 0.55) and non financial performance (r = 0.53). The finding depicts that customers centered approaches are important for the success of SMEs.

Table 2: Pearson's Correlation Matrix

Variables	1	2	3	4	5
Customer Orientation	1				
Competitor Orientation	0.52**	1			
Inter-functional Coordination	0.48**	0.46**	1		
Financial Performance	0.55**	0.49**	0.44**	1	
Non-financial Performance	0.53**	0.46**	0.43**	0.60**	1

Note: p < 0.01 (2-tailed)

Regression Results

In order to test hypotheses regarding the three dimensions of market orientation and SMEs financial and non financial performance, the study performed multiple linear regression analysis. The results of the regression analysis regarding the impact of 3 dimensions of market orientation on SMEs financial performance are shown in table 3 below.

Results reveal that the model is overall well fitted with R^2 value of 0.57. Showing that about 57% of variance in SMEs financial performance is explained by 3 dimensions of market orientation. Additionally, F-Statistics value (53.48) having Prob>F= 0.000 confirms that overall model is also statistically significant. This result implies that collectively predictor variables significantly explain the variance in SMEs financial performance.

Further, it is found that all the dimensions of market orientation are statistically significant. The finding depicts that customer orientation has positive and statistically significant relationship with SMEs financial performance ($\beta = 0.41$, $p < 0.01$). This finding suggests that being aware of customers needs and fulfilling those needs accordingly can play important role in increasing financial performance. The finding are in line with past studies (Narver & Slater (1990); Jaworski & Kohli (1993). Thus, the finding validates H1a. Similarly, the results also supported H1b, indicating that competitor orientation has positive and statistically significant relationship with SMEs financial performance ($\beta = 0.32$, $p < 0.01$). The finding is consistent with earlier studies (Jaworski & Kohli, 1993; Keskin, 2006; Arshad et. al., 2024) and highlights the importance of monitoring competitors' moves for designing strategic response. Furthermore, results also validated H1c, showing positive and statistically significant impact of inter functional coordination on SMEs financial performance ($\beta = 0.29$, $p < 0.01$). The finding highlights the importance of inter departmental collaboration and team work in transforming market intelligence into effective strategies. The finding is in line with Narver & Slater, (1990), Verhees & Meulenberg, (2004).

Table 3: Regression Results: Dimensions of MO and Financial Performance

Model Statistics
Dependent Variable: Financial Performance
R^2: 0.57
Adjusted R^2: 0.556
F Stat: 53.48
P>F: 0.000

Predictor Variables	Coefficient	Standard Errors	t-values	P-Values
Customer Orientation	0.41	0.077	5.26	0.000
Competitor Orientation	0.32	0.078	4.07	0.002
Inter-functional Coordination	0.29	0.075	3.86	0.004

Table 4 below presents multiple regression result of model 2 concerning the impact of three dimensions of Market orientation on SMEs non financial performance. R^2 value of the model is 0.53, indicating that around 53% of the variance in non financial performance is explained by explanatory variables of the model. Further, F-statistics value also confirms the significance of overall model (F=50.73 with Prob>F= 0.000). Results displayed in table 4 below depicts that all the dimensions of market orientation are statistically significant. Interestingly, customer orientation with $\beta = 0.37$ and $p < 0.01$ again surfaced as strong predictor. The finding supports H2a, that customer orientation has positive and statistically significant relationship with SMEs non financial performance. The competitor orientation is too significant with $\beta = 0.30$ and $p < 0.01$, validating H2b. Finally, Inter functional coordination seems less influential but still statistically significant with $\beta = 0.28$ and $p < 0.01$, thus H2c also supported.

Table 4: Regression Results: Dimensions of MO and Non-Financial Performance

Model Statistics
Dependent Variable: Non Financial Performance
R^2: 0.53
Adjusted R^2: 0.51
F Stat: 50.73
P>F: 0.000

Predictor Variables	Coefficient	Standard Errors	t-values	P-Values
Customer Orientation	0.37	0.076	4.89	0.000
Competitor Orientation	0.30	0.075	3.98	0.003
Inter functional Coordination	0.28	0.078	3.55	0.010

Discussion

The findings of the study empirically validated that market oriented approach significantly contributes to enhancing non financial performance and financial of SMEs. The findings of the study are aligned with previous studies. In line with Hussain et. al., (2015) and Jaworski and

Kohli, (1993), customer orientation stood as strong predictor. Implying that customer centered approach improves non financial and financial performance. Similarly, understanding of competitors' strategies assist in positioning themselves effectively, the findings are consistent with Keskin, (2006) and Arshad et. al. (2024). Inter functional coordination found less prominent but contributes significantly with both non financial and financial performance. The finding is similar to Verhees and Meulenberg, (2004) indicating the importance of inter departmental collaboration for SMEs success.

Additionally, the findings of the study substantiate the argument of the resource based view (RBV). This theory argues that strategic abilities and valuable resources assist in getting competitive advantage (Barney, 1991). Thus, market orientation plays the role of such strategic capabilities. Facilitating Small and medium enterprises to collect market intelligence and transform them into effective strategic actions.

To sum up, incorporating market oriented practices in business could lead to a substantial increase in performance even in region where resources are limited such as Peshawar. These insights emphasize the significance of integrating market orientation practices within SMEs across Pakistan.

Conclusion and Recommendations

Conclusion

The current study explored the relation between the 3 dimensions of the market orientation and financial and non financial performance of SMEs working in Peshawar, Pakistan. Employing data from owner and senior managers of 194 small and medium enterprises, the study found that all the dimensions of market orientation are significantly influencing both financial and non financial performance of SMEs. These findings shed light on the significance of market driven behavior in driving firm performance among SMEs in resource constrained region.

Out of the three dimensions of MO, customer orientation stood as a strong predicator. These findings reflects that those SMEs they know their customers and their needs, takes customers feedback and responded accordingly, provide better services to their customers, train employees to resolve the issue of the customers, updates customers with proactive communication and develop strong relationship that makes customers feel valued, will be in a better position to achieve growth, profitability and customer loyalty. This finding confirms the main role of customer centered approach in maintaining competitiveness, especially in highly competitive economies.

The findings of this research are in line with prior research as well as the results are aligning with resource based view, theoretically. The findings are indicating that market orientation, particularly customers' orientation, can play the role of strategic resource for increasing firm competitiveness and make themselves different from competitors in the market. This is especially vital in area like Peshawar, where uncertainty, pressure of competition and resource constraint are often faced by firms. Thus, developing capabilities like market orientation could help SMEs in compensating structural and financial constrains and ultimately enhanced performance.

In conclusion, the present research enriches existing body of knowledge by providing evidence that MO is a crucial driver of firm performance and can play critical role of strategic resource for SMES that aims financial sustainability.

Recommendations

Based on these findings, it is recommended that small and medium enterprise' managers and owners should adopt market oriented practices, this is not only gathering information but also systematically incorporate customers and competitors intelligence in their decision making process. Further, SMEs should spend money on developing system or mechanism to continuously monitor competitor's activities, trend in markets and feedback loops. Additionally, SMEs should uplift departmental coordination that will help in functioning integrated manner and in giving rapid response to changing market trends and bring innovation. Furthermore, in order to increase competitiveness and market responsiveness of SMEs, policymakers, SMEDA

and chambers of commerce should design advisory services and tailored trainings. Finally, to get deeper insight into this relationship, future research may be conducted in other provinces using longitudinal method including innovation and entrepreneurial orientation as moderating variables.

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