OPERATION STRATEGIES AND MARKET ORIENTATIONS IN DETERMINING SMALL AND MEDIUM ENTERPRISE PERFORMANCE IN KOTA KINABALU, SABAH: THE MODERATING EFFECTS OF BUSINESS ENVIRONMENTS

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FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTANCY
UNIVERSITI MALAYSIA SABAH
2017

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I hereby declare that the material in this thesis is my own except for quotations, excepts, equations, summaries and references which have been duly acknowledge.

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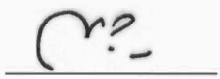

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ABSTRACT

This study aims to identify and investigate the relationship between operations strategy and market orientation in determining Small and Medium Enterprises (SMEs) performance in Kota Kinabalu, Sabah. Simultaneously, this study examines the effect of business environment as a moderator. The Resource-Based View and Contingency Theory was used to gauge and engage the SMEs performance. A total of 242 self-administered questionnaires were distributed among SMEs in service sector in Kota Kinabalu. The findings of this study revealed that there is significant relationship between operations strategy, market orientation and SMEs performance. However, this study partially support this relationship between operations strategy and SMEs performance and relationship between market orientation and SMEs performance whereby quality, flexibility, competitor orientation and inter-functional coordination have significant influence towards SMEs performance. The moderator of this study is business environment. However, this study also partially supports the moderating effect of business environment towards SMEs performance. This study through its research and findings can help to provide the information related the key determinants of SMEs, particularly on the effects of operations strategy and market orientation towards SMEs performance.

Keywords: Operations strategy, Market Orientation, Business Environment, Small and Medium Enterprises (SMEs), Performance

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ABSTRAK

STRATEGI PASARAN DAN ORIENTASI PASARAN DALAM MENENTUKAN PRETASI INDUSTRI KECIL DAN SEDERHANA (IKS) DI KOTA KINABALU, SABAH: KESAN DALAM PERSEKITARAN PERNIAGAAN

Kajian ini bertujuan untuk mengenal pasti dan mengkaji hubungan antara strategi pasaran dan orientasi pasaran dalam menentukan pretasi Industri Kecil dan Sederhana (IKS) di Kota Kinabalu, Sabah. Pada masa yang sama mengkaji kesan persekitaran perniagaan sebagai pengendali. Teori Pandangan Berasaskan Sumber dan Teori Kontingensi telah digunakan untuk mengukur prestasi IKS. Sebanyak 242 soal selidik telah diedarkan dikalangan IKS dalam sektor perkhidmatan di Kota Kinabalu. Dapatan kajian ini menunjukkan bahawa terdapat hubungan yang signifikan di antara strategi pasaran, orientasi pasaran dan pretasi IKS.Walau bagaimanapun, sebahagian daripada kajian ini menyokong hubungan di antara strategi pasaran dan pretasi IKS dan juga hubungan di antara orientasi pasaran dan pretasi IKS di mana kualiti, fleksibiliti, orientasi pesaing dan penyelarasan antara fungsi mempunyai pengaruh penting terhadap prestasi IKS. Pengendali kajian adalah persekitaran perniagaan. Walau bagaimanapun, sebahagian daripada kajian ini juga menyokong kesan persekitaran perniagaan ke arah pretasi IKS. Melalui kajian dan juga dapatan kajian, ia boleh membantu untuk memberikan maklumat berkaitan penentu utama IKS terutamanya kesan di antara strategi pasaran, orientasi pasaran dan prestasi IKS.

Kata kunci: *Strategi pasaran, Orientasi pasaran, Persekitaran perniagaan, Industri Kecil dan Sederhana (IKS), Prestasi*

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CHAPTER 1

INTRODUCTION

1.1 Background of Study

United Nations (2001) indicates that the Small and Medium Enterprises or known as SMEs played a major role in the growth and development of all leading economies in Asia. The shifting of business environment requires firms to adapt rapidly to associate new challenges and competition. In addition, SMEs also are playing a significant contribution in the stability of every country.

Nowadays, Malaysia is now entering into a knowledge-based economy (K-economy). The knowledge-based economy will provide the podium to continue a rapid level of economic development and enhance international effectiveness so as to achieve the objectives of Vision 2020. In addition, it will also support Malaysia's ability to transform, adapt and create indigenous technology and design, develop and market new products, thereby providing the foundation for endogenously-driven growth. Bhatiasevi (2010) highlighted that the challenge of globalization has made it vital for Malaysia to move towards K-Economy.

Moreover, SMEs play vital roles and act as the backbone in the Malaysian economy and industrial development in the country. SMEs are diverse in nature. It can be well-known for any kind of business activities such as in urban or rural areas. According to Chelliah, Mohamed and Yusoff (2010), over the past decade, the total number of SMEs in Malaysia has arise 10,000 to 30,000 and were registered with the various ministries.

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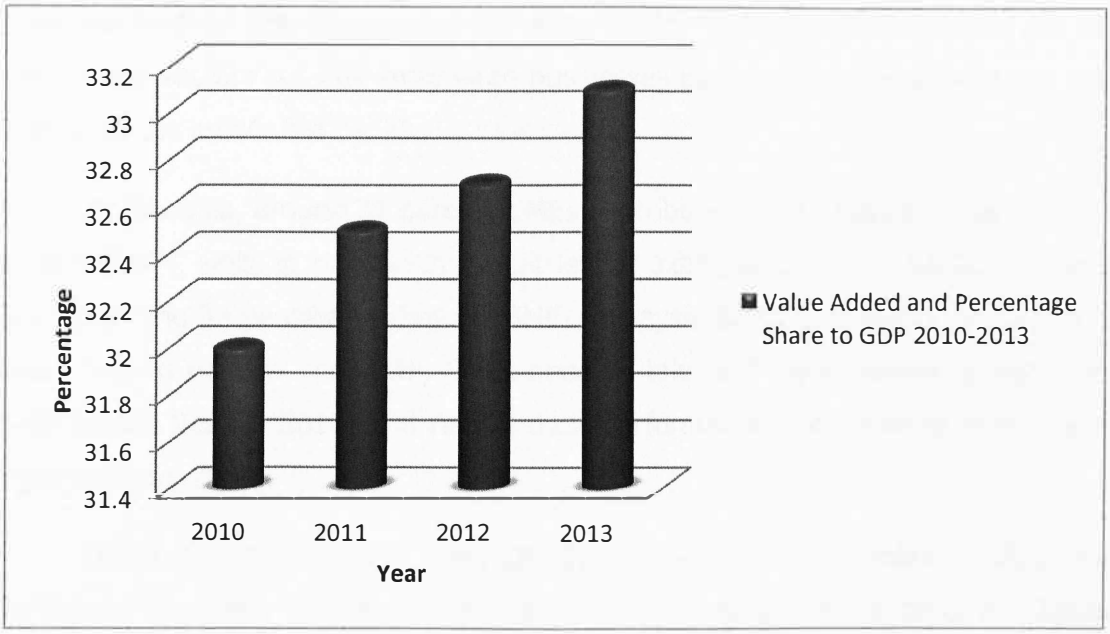
Figure 1.1: Value Added and Percentage Share to GDP 2010-2013



Source: Department of Statistics, Malaysia and SME Corporation Malaysia (2013)

A report published by Department of Statistics, Malaysia (2013) shows that in 2012, SMEs contributed around 32.7 percent to Malaysia's Gross Domestic Product (GDP) compared from previous year in 2010 and 2011, 32 percent and 32.5 percent respectively as depicted in Figure 1.1. In current terms in 2013, the value added and percentage share to GDP rises 0.4 percent from 32.7 percent to 33.1 percent.

The prime movers of SMEs were the manufacturing, services and construction compared from others like agriculture but in term of services, the SMEs recorded a slower momentum of 5.9 percent as compared to 6.4 percent of national growth. This was due to the moderate performance in wholesale and retail trade, accommodation and restaurant (Department of Statistics Malaysia, 2013).

1.2 Problem Statement

Small and Medium Enterprises or SMEs rising quickly to face the competition not only from service sectors but also from large businesses participating in marketplaces once considered the preserve of smaller businesses.

In Malaysia, around 31 percent SMEs contributed to Malaysia's Gross Domestic Product (GDP), while in neighboring countries for example Singapore SMEs, contribute 49 percent and 38 percent in Thailand SMEs, Malaysia SMEs contribution to GDP is far lower. Due to the low cost GDP, SMEs need to take serious initiatives to get better (SME Annual Report, 2010) and review their performance from time to time (Najmi, Rigas and Fan, 2005).

Up to date, Hashim and Wafa (2002) revealed that the number of study that highlighted on SMEs in Malaysia is still limited and slow-moving process (Bujang, 2007). Most of the researches that have been conducted so far narrowed to an area such as demographic studies, SMEs profile and SMEs internationalization (Othman, Ghazali and Ong, 2005; Central Bank of Malaysia, 2006; Zizah, Ridzuan, Scott-Ladd and Entrekin, 2007) but there still limited number of studies about SMEs in Malaysia which linked to operation strategies, market orientations, business environments and SMEs performance.

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Besides that, up to 50 percent of new start-up businesses eventually fail and cannot make any profit (Ladzani and Van Vuuren, 2002) compared to the existing resources, more than 50 percent of SMEs in Malaysia collapse within first five years of operation (Reiss, 2006; Ahmad and Seet, 2009). As a result, it reflects that SMEs in Malaysia are facing serious problems and plenty of issues to stay as competitive enterprises in market.

Otherwise, even SMEs are the main segment in the Malaysian economy; Sabah only took the 6th place among 14 states of SMEs companies. As known, the total population of Sabah indicates about 3.14 million and covering 73,997 sq km and become a second largest state in Malaysia in fact Sabah can produce a larger number of SMEs or to be a three top of the position throughout Malaysia (Bernama, 2011). Nandan (2010) highlighted that managing SMEs in terms of training and experience

have significant role to play with respect to observing and control of the activities of SMEs.

The development of operation strategies have received a lot of attention in the operations management literature but as noted by Ward, Duray, Leong and Sum (1995), an understanding of the factors that influence operation strategies has not been broadly considered (Gyampah and Boye, 2000). Further, how owners of firms in underdeveloped countries operate the operation strategies has yet to receive any significant attention among researchers generally in Malaysia and particularly in Sabah. In addition, the research related in operation strategies mostly conducted in manufacturing sectors compared to services sectors (Akgul, Gozlu and Tatoglu, 2015).

Since Narver and Slater (1990) citied a positive relationship between market orientations and firm performance in large firms, it is suggested that the market orientations construct is appropriate in empirical study for small firms. Hassim, Nizam, Talib and Bakar (2011) stated that there has been relatively lack of research that examines the relationship between market orientations and their significances on firm performance in developing countries and most researchers studied on market orientations and performance that related to big firms compared to small firms (Alam, 2010). An evaluation of the literature stated that despite the many studies that have been undertaken to learn about market orientations, some of the important variable such as the business environments in which the business is studied have not been given full attention in literature. This creates a gap in the relationships between market orientations and firm performance (Shehu and Mahmood, 2014).

In this research, the researcher chose Sabah as the research scope because Sabah is the second largest state in the Malaysia and surprisingly that the number of SMEs establish in this state are statistically low in the number compared to the smaller state that generates high establishment's figures in comparison (Department of Statistics, Malaysia, 2011). Moreover, the researcher chose service sector to conduct the research because there are still lacks the number of studies in service industry (Samat, Ramayah and Saad, 2006) that have been done in relation of operation strategies and market orientations, moderating effect of business environments.

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A limited of the literature on SMEs in Malaysia exposes that there is a gap in the research which examines the factors affecting of SMEs in Malaysia.

1.3 Research Questions

RQ1: Does operation strategies (cost, quality, flexibility and delivery) influence the SMEs performance in Kota Kinabalu, Sabah?

RQ2: Does market orientations (customer orientations, competitor orientations and inter-functional coordination) influence the SMEs performance in Kota Kinabalu Sabah?

RQ3: Does business environments (competitive hostility, business cost, labor availability and dynamism) moderate the relationship between operation strategies, market orientations and the SMEs performance in Kota Kinabalu, Sabah?

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1.4 Research Objectives

In light of the concerns addressed in the research background, the study sought to achieve the following objectives:

RO1: To investigate whether operation strategies (cost, quality, flexibility and delivery) influences the SMEs performance in Kota Kinabalu, Sabah.

RO2: To study whether market orientations (customer orientations, competitor orientations and inter-functional coordination) influences the SMEs performance in Kota Kinabalu Sabah.

RO3: To examine whether business environments (competitive hostility, business cost, labor availability and dynamism) moderates the relationship between operation strategies, market orientations and the SMEs performance in Kota Kinabalu, Sabah.

1.5 Scope of Study

The scope of this study is to investigate operation strategies and market orientations in determining SMEs performance, the moderating effect of business environments. This studies focus in Kota Kinabalu, Sabah.

Based on the SME information provided by the Department of Statistics of Malaysia, even though there is successful historical evidence regarding the performance of SMEs in Malaysia, the performance of the SMEs in East Malaysia such as Sabah only recorded to 6th place in term of the number of SMEs companies from the list of 14 states in Malaysia even as known as Sabah is the second largest state in Malaysia that covered by 73,997 sq km with a total of 40 884 of SMEs in fact, Sabah can produce a larger number of SMEs (Bernama, 2011).

Therefore, Sabah has been chosen by the researcher as a scope of study. The selected respondent for this study is the founder or owner of the SMEs which are located in Kota Kinabalu, Sabah on the SMEs in services sectors by using random sampling technique.

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1.6 Significance of Study

What is the value of this study? First, Small and Medium Enterprises or SMEs are generally viewed as the energetic power of economic growth, job creation and reduction of poverty in developing countries. Job creation leads to more people having stable income which lead to increase in the demand for goods and services which also results in high purchases of goods and services which lead to economic growth. As a result of improved economic growth, the overall standard of living of people can be developed and improved.

Second, gathering of the data will lead to a well-understanding of the influencing level of SMEs performance in Kota Kinabalu itself. The outcomes of this study will not only contribute to the awareness of the relationship between variables but it will also reflect to the SMEs manager for quality development to increase their performance. Throughout the statistical analysis, a conclusion of this research between

operation strategies, market orientations determined SMEs performance, moderates by business environments will be more obvious.

Furthermore, the other significance of the research is to strengthen the body of knowledge and literature review in this area and also contributes important knowledge to the service industry since there is still a lack of studies that have been done in relation to SMEs performance. In addition, it also to help SMEs managers or owners of the firm to understand what is needed to attract customers and alert the factors that can improve to a better performance.

Last but not least, the study looks to assist the SMEs industry in Kota Kinabalu, Sabah as generally in obtaining a better picture of key factors of operation strategies and market orientations, moderates by business environments attributes in determinant of the SMEs performance and also to help governments and politicians to encourage SMEs between various entrepreneurship development programs or training to supports them.

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1.7 Definition of Terms

1.7.1 Operation Strategies

Operation strategies is generally defined as the development of specific competitive strengths based on the operation function that is aimed at helping an organization accomplish its long-term competitive goals (Amoako-Gyampah and Boye, 2001) and it is characterized by four dimensions which are the familiar competitive priorities of low cost, quality, flexibility and delivery (Swamidass and Newell, 1987; Ward *et al*, 1995).

1.7.2 Market Orientations

According to Narver and Slater (1990), market orientations consist of three behavioral components which included customer orientation, competitor orientation and inter-functional coordination.