

**THE RELATIONSHIP BETWEEN MARKET
ORIENTATION AND NEW PRODUCT
PERFORMANCE IN SABAH PROPERTY
INDUSTRY.**



EVELYN JUBLEE

UNIVERSITI MALAYSIA SABAH

**SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITI MALAYSIA SABAH
2008**

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UMS
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**A dissertation submitted in partial
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UNIVERSITI MALAYSIA SABAH

(TANDATANGAN PUSTAKAWAN)

(Penyelia: AZAH @ AZIZAH ABDUL HADIS)

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VIVA DATE : 24th June 2008

DECLARED BY:

1. AZAZE @ AZIZI HAJI ABDUL ADIS



(Signature)

AZAZE @ AZIZI ABDUL ADIS
Pensyarah
Sekolah Perniagaan dan Ekonomi
Universiti Malaysia Sabah

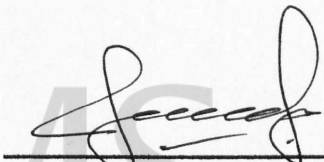
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DECLARED BY:

1. AZAZE @ AZIZI HAJI ABDUL ADIS



(Signature)

AZAZE @ AZIZI ABDUL ADIS
Pensyarah
Sekolah Perniagaan dan Ekonomi
Universiti Malaysia Sabah

DECLARATION

These materials in this thesis are original except for quotations, excerpts, summaries, and references, which have been duly acknowledged.

EVELYN JUBLEE
PE2006-8139
02nd JUNE 2008



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ABSTRACT

This research is aimed to examine the impact of market orientation towards new product performance in Sabah property industry. The study also investigate the intervening factors of product advantage, product value and marketing advantage on their roles to strengthen the relationship between market orientation and new product performance. A total of twenty two (22) Sabah property developers were selected as a sampling population for the study. From the twenty two (22) property developers there were eighty eight (88) products selected as the unit of analysis for the research study. The instruments to measure independent and dependent variables were adapted from the studies done by Langerak et al. 2004 and Wei & Morgan 2000, while the intervening variables were adapted from studies done by Zirger & Maidique, 1990, Li, 2000 and Langerak et al. 2004. SPSS version 15.0 was used to analyze the data. The finding of the study showed that the independent variable of market orientation is related directly to the new product performance, while the intervening factors of product advantage, product value and marketing advantage proved to strengthen the relationship of between those variables.



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ABSTRAK

HUBUNGAN DI ANTARA ORIENTASI PASARAN DENGAN PRESTASI PRODUK BARU DALAM INDUSTRI PEMBINAAN DI NEGERI SABAH

Tujuan utama kajian ini dibuat ialah untuk mengenalpasti hubung kait diantara orientasi pasaran terhadap prestasi produk baru dalam industri pembinaan di negeri Sabah. Kajian ini juga bertujuan untuk mengenalpasti peranan faktor-faktor seperti kelebihan produk, harga/nilai produk dan kelebihan pemasaran yang dijangka menjadi faktor yang dapat membantu menguatkan lagi hubung kait diantara orientasi pasaran dan prestasi produk baru. Sebanyak dua puluh dua (22) syarikat pembinaan di negeri Sabah telah dipilih sebagai sampel populasi kajian. Daripada dua puluh dua (22) syarikat tersebut sebanyak lapan puluh lapan (88) produk baru telah dipilih sebagai unit analisa bagi kajian ini. Alat yang digunapakai bagi mengukur pemboleh ubah tak bersandar dan pemboleh ubah bersandar diadaptasi daripada kajian yang dibuat oleh Langerak et al., 2004 dan Wei & Morgan, 2000. Manakala faktor-faktor campur tangan pemboleh ubah diadaptasi daripada kajian yang telah dibuat oleh Zirger & Maidique, 1990, Li, 2000 dan Langerak et al., 2004. Analisa data telah dibuat dengan menggunakan perisian SPSS versi 15.0 dan penemuan daripada analisa yang dijalankan menunjukkan bahawa terdapat hubunga kait positif diantara orientasi pasaran dengan prestasi produk baru. Selain daripada itu, faktor-faktor kelebihan produk, harga/nilai produk dan kelebihan pemasaran dapat menguatkan lagi hubung kait diantara pemboleh ubah tersebut.

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	Page
TITLE	i
DECLARATION	ii
ACKNOWLEDGEMENT	iii
ABSTRACT	iv
ABSTRAK	v
CONTENTS	vi
LIST OF FIGURES	x
LIST OF TABLES	xi
LIST OF ABBREVIATIONS	xii

CHAPTER 1 INTRODUCTION

1.0	Overview	1
1.1	Problem Statement	2
1.2	Research Objectives	3
1.3.	Scope of Study	4
1.4.	Significance of Study	4
1.5.	Definitions of Terms	5
	1.5.1. Market Orientation (MO)	5
	1.5.2. Product Advantage (PA)	5
	1.5.3. Product Value (PV)	5
	1.5.4 Marketing Advantage (MA)	6
	1.5.5 New Product Performance (NPP)	6

CHAPTER 2 LITERATURE REVIEW

2.0	Introduction	7
2.1	Performance	7
2.2.	New Product Performance (Dependent Variable)	7

2.3.	Market Orientation (Independent Variable)	8
2.4	Intervening	10
2.4.1	Product Advantage	11
2.4.2	Product Value	12
2.4.3	Marketing Advantage	13
2.5	Overview of Property Industry in Sabah	13
2.6	Summary	14

CHAPTER 3 RESEARCH METHODOLOGY

3.0	Introduction	16
3.1	Research Framework	16
3.2	Research Hypotheses	17
3.2.1	Product Advantage	17
3.2.2	Product Value	18
3.2.3	Marketing Advantage	19
3.2.4	The Relationship Between Market Orientation and New Product Performance	21
3.3	Research Design	22
3.4	Sampling Design	22
3.5	Research Instrument	23
3.5.1	Questionnaire	23
3.5.2	Measurement	23
3.5.2.1	Market Orientation	23
3.5.2.2	Product Advantage	24
3.5.2.3	Product Value	24
3.5.2.4	Marketing Advantage	24
3.5.2.5	New Product Performance	24
3.6	Data Collection	25
3.7	Data Analysis	25
3.8	Validity of the Research Instruments	25
3.9	Summary	26

CHAPTER 4 ANALYSIS OF RESULTS

4.0	Introduction	27
4.1	Profile of Respondents	27
4.2	Reliability of Measures	29
4.3	Statistics of Variables Overview	30
4.4	Hypothesis Testing and Evaluation of Findings	31
4.4.1	Simple Linear Regression and Hierarchical Regression Analysis	32
4.4.2	Result of Hierarchical Regression Analysis	38
4.5	Summary of Findings	42

CHAPTER 5 DISCUSSION AND CONCLUSION

5.0	Introduction	45
5.1	Recapitulation of the Study	45
5.2	Discussion and Implications of the Study	46
5.2.1	Discussion of the Research	46
5.2.1.1	Relationship of Market Orientation, Product Advantage and New Product Performance	46
5.2.1.2	Relationship of Market Orientation, Product Value and New Product Performance	48
5.2.1.3	Relationship of Market Orientation, Marketing Advantage and New Product Performance	49
5.2.1.4	Relationship of Market Orientation, and New Product Performance	50
5.2.2	Implication of the Study	51
5.3	Limitations of Study	52
5.4	Suggestions for Future Research	52
5.5	Conclusion	53



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LIST OF FIGURES

Figure 2.1: Adapted from Langerak et al. 2004, Zirger & Maidique, 1990, Li, 2000 and Wei & Morgan 2000

Figure 4.1: Adapted from Langerak et al. 2004, Zirger & Maidique, 1990, Li, 2000 and Wei & Morgan 2000

Figure 4.2: Testing Models for Mediating Effects (Adapted from source: <http://davidakenny.net/cm/mediate.htm>).



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LIST OF TABLES

- Table 4.1: Respondents Profile
- Table 4.2: Cronbach's Alpha
- Table 4.3: Descriptive Statistics of Variables
- Table 4.4: Summary of the Simple Regression Analysis Model between Market Orientation (Independent) and Product Advantage (Intervening).
- Table 4.5: Summary of Simple Regression Analysis Model between Product Advantage and New Product Performance.
- Table 4.6: Summary of the Hierarchical Regression Analysis Model between New Product Performance (Dependent) and both Market Orientation (Independent) and Product Advantage (Intervening).
- Table 4.7: Summary of the Simple Linear Regression Analysis Model between Market Orientation and Product Value.
- Table 4.8: Summary of Simple Linear Regression Analysis Model between Product Value and New Product Performance.
- Table 4.9: Summary of the Hierarchical Regression Analysis Model between New Product Performance (Dependent) and both Market Orientation (Independent) and Product Value (Intervening).
- Table 4.10: Summary of the Simple Linear Regression Analysis Model between Market Orientation and Marketing Advantage.
- Table 4.11: Summary of Simple Linear Regression Analysis Model between Marketing Advantage and New Product Performance.
- Table 4.12: Summary of the Hierarchical Regression Analysis Model between New Product Performance (Dependent) and both Market Orientation (Independent) and Marketing Advantage (Intervening).
- Table 4.13: Summary of the Simple Regression Analysis Model between Market Orientation and New Product Performance.
- Table 4.14: Result of the Regression Models testing Intervening (Product Advantage)
- Table 4.15: Result of the Regression Models testing Intervening (Product Value)
- Table 4.16: Result of the third Regression Models testing Intervening (Marketing Advantage)
- Table 4.17: Summary for Hypotheses Results

LIST OF ABBREVIATIONS

- MO** : Market Orientation
- NPP** : New Product Performance
- PA** : Product Advantage
- PV** : Product Value
- MA** : Marketing Advantage



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CHAPTER 1

INTRODUCTION

1.0 OVERVIEW

Malaysian economic has gone through phase of fluctuation due to market manipulation in the 1997 financial crisis which had affected all sectors of the economic in Malaysia. Nevertheless, there was one constant investment that has proven resilient to volatility that is the property investment. However, there are mixed responses from property developers, housing developers, valuation surveyors, property managers and real estate agents on how the property development will fare this year. Notably, there has been mass buying of houses in Kota Kinabalu in recent years. Besides that, housing prices appreciated over the past few years.

Based on the 2006 Sabah Property Market Report (KK-Penampang-Inanam Segment), some 31 residential developments were launched by the respective developers with a total of 6,311 units of various types of houses opened for sale in the housing market in 2006 alone.

Today, property developers in Sabah have embarked into building lifestyle projects to cater for the growing demand of up-market property investors in Sabah as purchaser nowadays are becoming more discerning and demanding in terms of building design and quality and most of all, living a quality lifestyle. With the increase in demand in property industry and growing needs of the locals to own their own properties, more and more property developers were formed to cater these positive responses from public. This of course will create a greater competition to the existing property developers, thus buyers will start comparing every detail of the products. The urge to look for the right criteria needed to meet this expectation then become the responsibility of these property developers.

New products are critical for the long-term growth and success of a firm. A firm that has carefully segmented the market, chosen its target customers, identified their need and determined its market positioning will then have to develop new

products. They strive to maintain or acquire competitive advantage in order to survive in a long-term business orientation. However the successful of a new product depends highly on the acceptance of its users or purchasers. This study investigates the relationship between market orientation and new product performance in property industry. The new product to be considered in this study will be based on developed projects from the past five years. This study also will examine whether the property developers, develop projects based on the market orientation.

It is believed that market orientation has significant influence on improving product factors specifically on product advantage, product value and marketing advantage and indirectly influence the performance of new products. Thus, the need to investigate those influences will be more fruitful to add new insights in new product performance area.

1.1 PROBLEM STATEMENT

The successful of a new product has been a critical business consideration for both small and large firms. More researches has been done to find out and understand the customer preferences for example study done by Myers and Marquis (1969) found that new products are more successful if they are designed to satisfy perceived market/customer needs than if they are developed simply to take advantage of a new technology. In addition, previous study of product success and failure concluded that product success was primarily related to five factors: understanding of user needs; attention to marketing and publicity; efficiency of development; effective use of outside technology and external scientific communication; and seniority and authority of the managers responsible for the development of the product (Rothwell et al. 1974). Other the empirical evidence showing that market orientation has a positive relationship with new product success (Baker and Sinkula 1999a; Pelham and Wilson 1996; Slater and Narver 1994a) acknowledges that market-oriented-firms developed products with greater advantage over the competition because product advantage is the number-one factor affecting new product performance (Henard and Szymanski 2001). On the other hand, performance has been one of the most studied outcome variables of market orientation. However, very few if any studies recognize the notion that market orientation is a part of a firm's culture (e.g., Narver and Slater,

1990) and the process by which certain means are achieved (e.g., Kohli and Jaworski, 1990).

Because of many remarkable studies emphasize on the market orientation and new product performance relationship for example study done by Ramaseshan et al., (2002) Baker and Sinkula (1999a), Pelham and Wilson (1996), and Slater and Narver (1994a) found that a strong support for the basic proposition that market orientation influences the overall performance of new products. Thus the need to investigate the role of mediating factors of product advantage, product value and marketing advantage in linking those relationships should be considered. In Malaysia, there were no study focuses on new product performance except study done on new product development by Azaze, Wong and Chan (2008) and Ng, (2002). In this study we will investigate whether there is a relationship between market orientation (MO) and new product performance (NPP) and how market orientation influence new product performance from the developers' perspective in Sabah property industry. This relationship will be strengthen by the influences of intervening variables of product advantage (PA), product value (PV) and marketing advantage (MA).

1.2 RESEARCH OBJECTIVES

Though there have been many studies linking market orientation and new product performance, none has been conducted on the case of property industry. The research objective of this study is to identify the relationship between the Market Orientation and New Product Performance by considering the intervening variables and to investigate how market orientation influence the performance of new product performance from the developers' perspective in property industry specifically in Sabah.

- i. To examine the relationship between MO and PA
- ii. To examine the relationship between PA and NPP
- iii. To examine whether Product advantage mediates the relationship between market orientation and new product performance
- iv. To examine the relationship between MO and PV
- v. To examine the relationship between PV and NPP

- vi. To examine whether Product value mediates the relationship between market orientation and new product performance
- vii. To examine the relationship between MO and MA
- viii. To examine the relationship between MA and NPP
- ix. To examine whether marketing advantage mediates the relationship between market orientation and new product performance
- x. To examine the relationship between MO and NPP

1.3 SCOPE OF STUDY

The scope of this study was the property developers who are registered under Sabah Housing & Real Estate Developers Association (SHAREDADA) and other major property developers in Sabah that has been operating for at least three years in the Sabah property industry while the products to be considered in this study were based on new developed projects during the past five years.

1.4 SIGNIFICANCE OF STUDY

There have been a number of studies done in which linking market orientation on new product performance for example studies done by John Narver (2006), Wei and Morgan (2004), Langerak et al., (2004), Ramaseshan (1999), and Doyle (1998), but there is very few empirical evidence to support the role of market orientation on new product performance and none has been conducted on the case of property industry. In Malaysia, there were no study focuses on new product performance except study done on new product development by Azaze, Wong and Chan, (2008) and Ng, (2002).

The important issue of this research is to examine the relationship between market orientation and new product performance and to determine whether market orientation is an important contributor to new product success especially in Malaysian context of the property industry.

An important implication of this study is that the impact of a market orientation on new product performance is channeled through the intervening factors namely product advantage, product value and marketing advantage. Finally, this

study contributes to the factors and interrelationship importance in understanding the new product success specifically in Sabah property industry.

1.5 DEFINITION OF TERMS

To avoid confusion on some of the terms that will be discussed, the following terms will be clarified.

1.5.1 Market Orientation (MO)

Market orientation is defined as “the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, superior performance for the business.” Market orientation is composed of the dimensions of customer orientation, competitor orientation and interfunctional coordination (Narver and Slater, 1990) while according to Kohli & Jaworski (1990), market orientation is the implementation of the marketing concept.

1.5.2 Product Advantage (PA)

Product advantage refers to the benefits that customers get from the new product (Calantone and di Benedetto, 1988). Henard and Szymanski (2001) and Montoya-Weiss and Calantone (1994) studies concluded that product advantage consistently appears as the most important product characteristic in explaining the adoption and success of the new product. Atuahene-Gima (1995) studies showed a strong positive relationship between market orientation and new product’s market performance. Market orientation is also shown to have a strong positive effect on product advantage and found to be an important factor in the success of new product.

1.5.3 Product Value (PV)

According to Henard & Szymanski (2001), Product value is defined as the core benefits derived from using that particular product. By examining the core benefit in greater perspective a firm can discover its real market position, which is, why it is in business and just what real benefits it purports to offer to its customers (Armstrong, G. et al. (2006).

Superior product quality and reliability was another form of value for the customer (Zirger and Maidique, 1990). Product value has been one of the most important aspects in order to be competitive in the business industry. Zirger and Maidique (1990) stated that new products must provide significant value to the customer. In order to create superior value for customers, sellers were required to understand the client's entire chain value as it evolved over time. With in depth knowledge of the customer's problems, a firm can develop solutions that provide a significant value (Utterback et al. 1987). Value can be manifested in terms of the product's cost saving, quality (Buzzell and Gale 1987), performance advantages or a combination of features. In order to understand the value of particular features to customers, the developing firm must have close contact between the development team and the end user (Zirger and Maidique, 1990). Most of the time, developing firms interact with the lead customers frequently (Von Hippel 1986), particularly with those who were trend setters in their industry and could provide insightful and suggestions during product development. Zirger and Maidique, (1990) concluded that significant value of a product is needed for the success of new products.

1.5.4 Marketing Advantage (MA)

Marketing is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders (American Marketing Association's most recent definition of marketing, as reported by Keefe, 2004, p. 17).

1.5.5 New Product Performance (NPP)

According to Business Dictionary (2006), performance is defined as accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. The performance of a new product can be defined as the successfulness of the products or services in fulfilling customers' requirement which will contribute into high or low sales generation.

CHAPTER 2

LITERATURE REVIEW

2.0 INTRODUCTION

The importance of this study is to expand our understanding and to contribute to the new product success especially in Malaysian context of the property industry. It hopes to contribute to literature on new product performance and able to provide knowledge to generate success rate of new product and give new insights to the Sabah property developers specially on the factors that they should emphasis in order to be competitive.

An important implication of this study is that the impact of a market orientation on new product performance is channeled through the intervening factors namely product advantage, product value and marketing advantage.

2.1 PERFORMANCE

In any activities or processes to transform input to required output, the outcome must be easily measured or quantified. The success or failure of these activities reflects the performance of those particular activities. According to Business Dictionary (2006), performance is defined as accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. Therefore, it is crucial for businesses to measure its performance to ensure and sustain its existence in the marketplace, especially so when introducing new products to the market.

2.2 NEW PRODUCT PERFORMANCE (DEPENDENT VARIABLE)

The performance of a new product can be defined as the successfulness of the products or services in fulfilling customers' requirement which will contribute into high or low sales generation. Hence, it is widely accepted that the short term performance of a new product will be measured based on its demand i.e. sales. The

most successful way to develop new products is to emphasize satisfying needs consumers aren't even aware they have¹. That is, in developing new products a business relies solely on what customers say they want in a new product, the business is economically very vulnerable to strong competition.

John Narver (2006) found that by paying special attention to what customers' do, not what they say, is key to the successful development and marketing of new product. While Doyle (1998) concluded that by studying patterns of customer behavior, a company can truly understand its consumers' needs and can, in good conscience, occasionally disregard what they claim to want."

In this study the performance of a new product will be analyzed by looking at the market orientation and the intervening variables influencing the relationship, from the perspective of property developers in Sabah. A similar study by Ramaseshan (1999), show a strong positive relationship between market orientation and the overall performance of new products. Langerak et al., 2004, study shows that market orientation only influences new product performance through product advantage and the proficiency in launch tactics. Other study done by Wei and Morgan (2004), indicated that an effort to improve firms' new product performance is by enhancing the flow and utilization of market intelligence.

2.3 MARKET ORIENTATION (INDEPENDENT VARIABLE)

According to Kohli & Jaworski (1990), market orientation is the implementation of the marketing concept. While West and Ford (2006) stated that in the early 1990s, it was argued that companies need to pay equal attention to both customers and competitors, that is, to adopt a market orientation. How significant is the adoption of a market orientation on firm's performance? The results of empirical research in this field vary. For example, Kohli and Jaworski (1990) found that a market orientation provides a unifying focus for the efforts and projects of individuals, thereby leading to superior performance.

Similar results were found by Narver and Slater (1990), who concluded that a market orientation has, in some cases, a substantial positive effect on profitability.

¹ John Naver (2006), Prof. Emeritus, University of Washington