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The Impact of Market Orientation and Performance Using Environmental Turbulence as a Moderator

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Abstract

The study examines the moderating effect of environmental turbulence on the relationship between market orientation and MFIs performance. The study data comprises of microfinance institutions operating in North West and South west region of Nigeria. The study questionnaires were distributed to key informants of microfinance such as managing directors, managers and senior managers of microfinance institutions through self-administered method. PLS-SEM was used in testing the hypothesis. The result of PLS algorithm shows that market orientation is significantly related to performance while the study failed to find moderating effect of environmental turbulence on the relationship. In other words, the findings of the study will contribute to the literature and practice of microfinance institutions, policy makers, managing directors, senior managers and researchers. Finally, limitations and suggestions for further studies were presented.

Keywords

Market orientation, Microfinance Performance, Environmental turbulence, PLS algorithm

JEL Codes: M14, M49, O35

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1. Introduction

Although, empirical studies reveals that there is a link between market orientation and performance, however more studies needs to be conducted which can help in understanding and confirming previous literature (Gaur *et al.*, 2011). Firstly, the relationship between market orientation and performance is not clear as studies have revealed inconsistent findings. One possible reason for this ambiguity may be due to contingent factors which affect the relationship between market orientation (MO) and performance. Such contingent factors may be environmental factors, and internal contingencies which arise when a firm tries to align it resources with that of the environment. Secondly, most of empirical studies on MO and organizational performance emancipates from developed countries (Cano *et al.*, 2004). However, researchers have argued that findings in one context may be different from the result obtained in another context especially when culture, nature of the organization and environment are not similar (Singh & Gaur, 2009). The study also studied a contingency factor to confirm the relationship between MO and MP by incorporating environmental turbulence due to the inconsistencies in the literature. To be specific, there are few empirical studies that studied the relationship between MO and financial performance of microfinance institutions in Nigerian context. Similarly, very few studies have investigated the moderating effect of environmental dynamism (Chan *et al.*, 2016; Lin *et al.*, 2016; Prasad & Junni, 2016). One of the main aims of the present study is to investigate the moderating effect of ET on the link between MO and performance of microfinance institutions.

2. Literature review

2.1. Resource base view

The RBV is based on the premise that organizations can only sustain and improve performance by paying attention to the resources and capabilities which it possesses. Resources of a firm can either be tangible and intangible resources, cultural resources which may have capabilities features (Mills *et al.*, 2003). The resource base view is one of the theories which is used in management discipline (Almarri & Gardiner, 2014). Resource base theory was propounded by Barney (1991) and states for a firm to improve performance and gain competitive edge must own tangible and intangible resources. Researchers also stated that for superior and competitive edge of organizations they must possess resource that is valuable, scare, rare and difficult for organizations to imitate (Barney & Clark, 2007).

2.2. Contingency theory

Contingency theorist state that there must be a proper fit between organizational internal resources or strategies and that of the external environment in which the firm as no control over. The basic concept of contingency view is that there must be a

fit between structure and process, organization and context in determining firm performance (Kropp *et al.*, 2006). However, the use of contingency theory in the present study is to view if the degree of market orientation may vary based on the external situation which a firm faces at a particular point in time (Walters, 1993).

The model of the study is inaugurated due to the fact that market orientation of a microfinance institution is important for sustainability performance (Kropp *et al.*, 2006). Nevertheless, there are so many types of internal and external factors which can affect performance of microfinance institutions in trying to meet their basic objective which is the eradication of poverty. Because of such scenarios, a particular orientation which is adopted by a firm as to fit and align with that of its external environment. Therefore, the adoption of contingency theory is based on the fact that for a firm to achieve success in the market place, it must pay close attention to what competitors are offering, provide what customer wants and also pay close attention to the environment in which the firm has no control over. Previous studies have emphasized that firms that organizations that take cognizance of what happens in its environment and aligns it with its strategies achieve success and improved organizational performance (Rauch *et al.*, 2009; Yeoh & Jeong, 1995). Consequently, contingency theory in the present study is based on previous researchers that state and stress the need for organizations to pay attention to turbulent environment and its impact on organizational structure, strategy and context (Rauch *et al.*, 2009; Yeoh & Jeong, 1995).

3. Hypothesis Development

3.1. Market Orientation and Microfinance Performance

Market orientation is one of the crucial strategies which is regarded by researchers as an important requirement in gaining competitive edge and improving organizational performance (Baker & Sinkula, 2009; Jian & Zhou, 2015; Zhou *et al.*, 2009). Previous studies on market orientation have noted that there is a significant relationship between market orientation and firm performance (Beneke *et al.*, 2016; Boso *et al.*, 2013; Wang *et al.*, 2012). This confirms the notion that market orientated organizations are capable of anticipating customer's needs, take necessary actions in responding to customer needs and adapting to the turbulent environment in order to gain superior organizational performance (Samson & Mahmood, 2015). However, most studies on MO and performance were conducted in SMEs, manufacturing industries while very few studies have focused on microfinance institutions, moreover, these studies were conducted in other countries. Based on previous studies, it is proposed that MO will lead to superior performance of MFIs; the study therefore hypothesizes that

H1: MO has a significant relationship on microfinance financial performance.

3.2. Moderating role of turbulent environment

Turbulent environment can be described as the rapid change, unpredictability that exists in an organization external environment (Dess & Beard, 1984). Environmental dynamism consists of change in technology, changes in customers preference and fluctuating demand for products and services (Jansen *et al.*, 2006). The changes that occur in the environment create new opportunities and threats for organizations and rivals. This necessitates that firms must respond abruptly in order to gain competitive edge against competitors in the market place. They have to move with trend due to the fact that previous technologies become obsolete (Jansen *et al.*, 2006).

Environmental turbulence may create problems for microfinance institutions because they may not have adequate resources to respond to counter that of the external environment. One of the reasons of being market oriented is that firms can better respond to threats posed by environmental turbulence (Subramanian & Gopalakrishna, 2001). With respect to microfinance institutions, there is no research that has investigated the role of environmental turbulence on market oriented activities and performance. For instance, when the needs of customers changes, or the products which competitors offer changes rapidly, it will be pertinent to respond quickly. Market orientation provides opportunities for firms to respond to these contingencies. The research focus on the role of environmental turbulence in affecting MO and performance relationship. Environmental turbulence requires firms to be alert and adaptive so has to quickly respond to changes in environment. In other words, environmental turbulence can help in improving organizational performance and also achieve competitive edge (Yang & Li, 2011). Previous studies also investigated the moderating role of environmental dynamism (Goll & Rasheed, 2004; Li & Liu, 2014; Yang & Li, 2011), however, these studies were conducted in Asian and European nations. In a country such as Nigeria, environmental dynamism will assist microfinance institutions in innovating, which will lead to enhancement of performance and achieve competitive edge. Similarly, environmental dynamism may lead market oriented organizations to decrease market oriented activities. Thus,

H2: Turbulent environment moderates the association between MO and MFIs performance

4. Research framework

The figure below shows the research framework demonstrating the relationships between MO and MFI performance and the effect of ET.

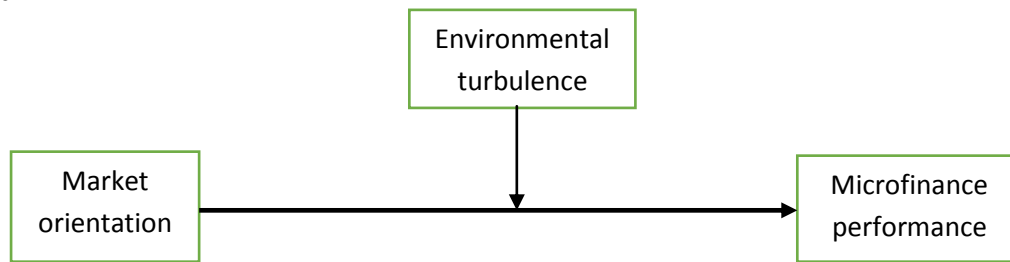


Figure 1. Research framework

5. Methodology of research

The study used quantitative technique using questionnaire research design. The questionnaires were distributed to key informants of microfinance institution who are responsible for the running of the organization and are responsible for strategies used by their firm. Managing directors and general managers were the target respondents, of microfinance operating in Nigeria. A total of 434 questionnaires were distributed and a total of 231 questionnaires were used for data analysis. This represent 53% of the population is considered reasonable. The study employed partial least square (PLS) in data analysis. The study used CGAP (2013) to measure financial performance of MFIs. MO scale were adapted from Narver and Slater (1990) and environmental turbulence from Jansen *et al.* (2005) which was from original scale of Jaworski & Kohli (1993).

6. Analysis and findings

In evaluating the model of the study, the study employed two-stage approach in assessing the measurement model and structural model as suggested by previous researchers (Hair *et al.*, 2014). In assessing the reliability and construct validity of observed variables was carried out through convergent validity, discriminant validity and content validity while structural model was assessed through significance of path coefficient and R-square value.

6.1. Measurement model analysis

As stated earlier, the measurement model was tested through three basic means namely discriminant validity, convergent validity and content validity which was been recommended when using PLS software (Chin, 1998; Hair *et al.*, 2010). In testing the content validity factor loadings was used and the authors recommended that the outer loadings of each construct should be higher than all other loadings. In ascertaining convergent validity, composite reliability, Cronbach's Alpha and AVE were utilized. The Cronbach's Alpha should be greater than 0.70 same with the composite reliability of items should also exceed 0.70 or above while AVE should be greater than 0.50. Table 2 reveals than convergent validity was achieved.

Discriminant validity was established using Fornell-Larcker where the square root of Average Variance Extracted (AVE) was compared to the correlation of each latent construct which is required in achieving discriminant validity. As shown in table 3 and 4, the square root of AVES is greater than the correlation of latent construct which shows that discriminant validity has been achieved in the present study. In other words, since discriminant validity, convergent validity and content validity has been established in the study, shows that the measurement model is accepted in the present study.

Table 1. The Content validity test

	CO	COMP	ET	Financial Performance	IFC
CO1	0.77	0.464	0.176	0.422	0.464
CO2	0.814	0.467	0.278	0.509	0.416
CO3	0.769	0.388	0.228	0.378	0.361
CO4	0.809	0.501	0.256	0.38	0.376
COMP1	0.469	0.841	0.266	0.512	0.412
COMP2	0.523	0.87	0.319	0.554	0.454
COMP3	0.442	0.71	0.253	0.335	0.311
COMP4	0.408	0.77	0.203	0.415	0.366
et1	0.342	0.335	0.764	0.331	0.272
et2	0.273	0.358	0.846	0.299	0.191

	CO	COMP	ET	Financial Performance	IFC
et3	0.187	0.246	0.838	0.232	0.14
et4	0.136	0.163	0.7	0.196	0.071
et5	0.124	0.206	0.723	0.192	0.11
et6	0.226	0.154	0.752	0.285	0.146
FP1	0.517	0.537	0.269	0.918	0.555
FP2	0.418	0.505	0.303	0.871	0.461
FP3	0.518	0.54	0.336	0.952	0.545
FP4	0.505	0.531	0.321	0.943	0.515
FP5	0.509	0.542	0.358	0.936	0.546
IFC1	0.377	0.408	0.107	0.432	0.797
IFC2	0.443	0.466	0.226	0.538	0.876
IFC4	0.478	0.416	0.246	0.493	0.901
IFC5	0.481	0.402	0.161	0.51	0.9

Figure 2. R2 value and loadings

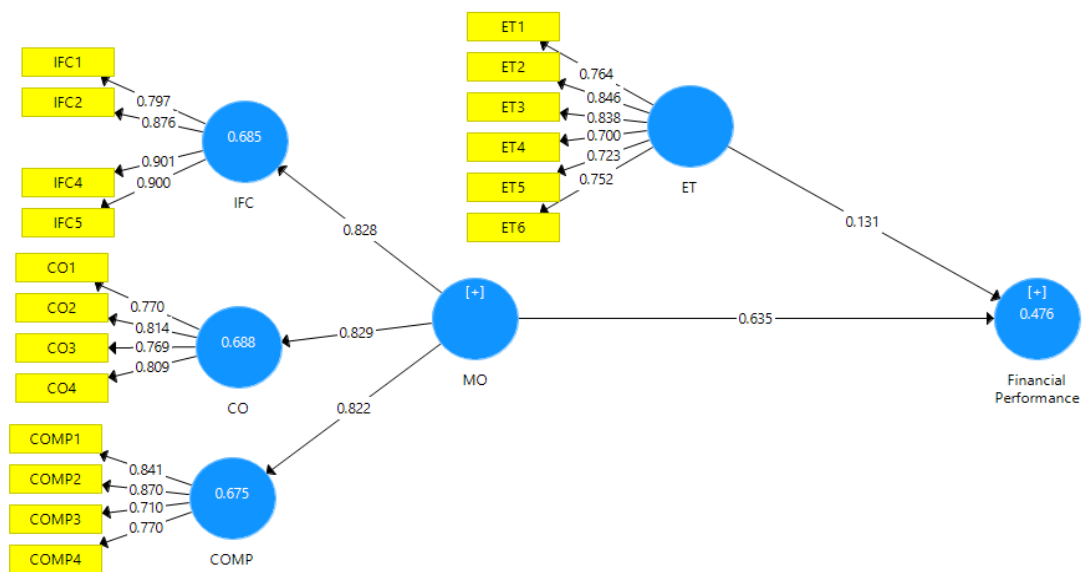


Table 2. Heterotrait-Monotrait Ratio (HTMT)

Construct	Loading	C- Alpha	C R	(AVE)
COMP	0.842	0.811	0.876	0.640
	0.870			
	0.710			
	0.769			
CO	0.770	0.800	0.870	0.626
	0.813			
	0.771			
	0.810			
IFC	0.796	0.892	0.925	0.756
	0.876			
	0.902			
	0.900			
ET	0.765	0.867	0.898	0.597
et1	0.846			
et2	0.838			
et3	0.700			
et4	0.723			
et5	0.752			
et6				

Financial Perf				
FP1	0.918	0.957	0.967	0.855
FP2	0.871	0.936		
FP3	0.952			
FP4	0.943			
FP5				

Table 3. Result of HTMT

	1	2	3	4	5
CO					
COMP	0.714				
Environmental Turbulence	0.332	0.374			
Financial Performance	0.608	0.645	0.362		
IFC	0.604	0.569	0.227	0.613	

Table 4. Fornell- larcker Result

	1	2	3	4	5	6
CO	0.791					
COMP	0.577	0.800				
Environmental Turbulence	0.296	0.328	0.773			
Financial Performance	0.535	0.575	0.344	0.924		
IFC	0.513	0.486	0.215	0.569	0.870	
MO	0.828	0.821	0.335	0.683	0.823	0.643

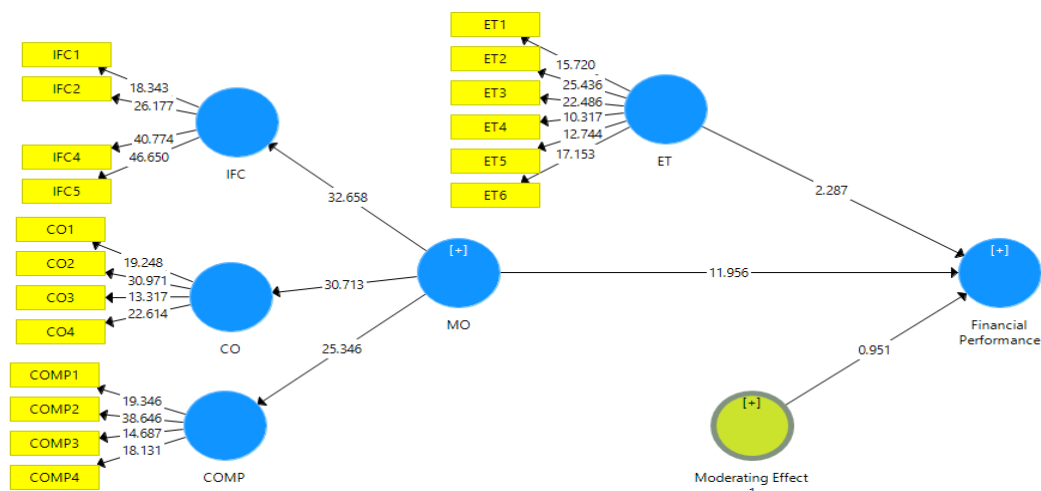


Figure 3. Significance of factor loadings and path coefficient

A cross validated redundancy technique (Q^2) was used in assessing the predictive relevance of the conceptual model (Henseler & Chin, 2010; Hair *et al.*, 2014; Hair *et al.*, 2011;). A model which has predictive relevance Q^2 greater than zero is said to have predictive relevance. As shown in the table below, cross validated redundancy is above zero which suggest adequate predictive relevance of the model (Henseler & Chin, 2010).

Table 5. R2 and cross validated redundancy table

Variable	R2	Cross validated redundancy Q^2 (=1-SSE/SSO)
Microfinance performance	47.6%	0.387

6.2. Assessment of R^2

The coefficient of determination (R^2) of the model shows and explains the percentage of microfinance financial performance. In essence, the study states that MO and environmental turbulence explains 47.6% of variance for microfinance financial performance which is adequate.

Table 6. Summary of result

Hypothesis	relationship	P-coefficient	S- error	P.value	T.Value	Decision
H1	MO-> MFP	0.634	0.053	0.000	11.956	Supported
H2	MO *ET -> MFP	0.24	0.252	0.341	0.951	Not supported

From table 6 above, only hypothesis 1 is supported using PLS software while hypothesis 2 showing the moderating effect of environmental turbulence was not supported.

7. Conclusions

The study adds to the literature by testing the model in the microfinance sector which as both financial sustainability and social performance which has been not been empirically tested. Similarly, the study also examined MO as a construct on microfinance financial performance paying attention to resource base theory and contingency theory. Market orientation is a useful tool in attaining competitive edge and improving performance for management of MFI and managers in Nigeria context. It also illustrates the important effect of market orientation implementation in achieving competitive edge and improved performance.

On the other hand, the result of PLS algorithm shows that MO is significantly related with microfinance financial performance at ($\beta = 0.634$, $t = 11.956$, $p > 0.0001$). The findings of the study are consistent with previous literatures which examined relationship between MO and performance such as (Boso *et al.*, 2013; Amin *et al.*, 2016; Gaur *et al.*, 2011). The study also supports RBV theory which states that organizational resources and capabilities are key requirement and prerequisite for firms in improving performance. In conclusion, proper implementation of market orientation by microfinance institutions leads to superior financial performance. Similarly, the result of bootstrapping did not find any moderating effect of environmental turbulence ($\beta = 0.24$ $t = 0.951$, $p > 0.341$). The finding is consistent with previous studies that failed to find moderating effect of environmental turbulence (Pratono & Mahmood, 2014; Samson & Mahmood, 2015).

Even though the study adds to the literature, there is still room for future studies. For instance, the present study is limited to MFIs only, future studies can be conducted in other sectors like banking, textile, manufacturing and even same sector. The same variables investigated can also be used in developing countries so as to generalize the findings. Other key resources such as market orientation can be included in the framework and a longitudinal approach to see if the same results will be obtained.

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