ASSESSING CUSTOMER ORIENTATION, COMPETITOR ORIENTATION AND INTER-FUNCTIONAL COORDINATION

Abstract

The purpose of this study was to examine the possible relationship of transactional leadership style on the three tenets of market orientation, thus, competitor orientation, customer orientation and inter-functional coordination. Questionnaires were used to gather data from 200 owner/managers of manufacturing SME’s in the Accra metropolis of Ghana. The obtained data from the questionnaires were analysed through the Structural Equation Modelling using the Partial Least Squares approach (SEM-PLS). The findings showed that transactional leadership style had an inverse but significant relationship to customer orientation and inter-functional coordination. The implication is that, an owner/manager who expresses positive outcomes to employees for performing their duties in line with instructions and also focuses on employee mistakes and complaints and also emphasizes development of process in setting goals, directing, and striving to manipulate and control the situation inhibits the adoption and practice of a market oriented culture. Also with the type of manufacturing SME’s in Ghana, adopting a transactional leadership style will not encourage market oriented culture. It is therefore recommended that owner/managers adopt other styles of leadership which can translate in the practice of market oriented culture.

Keywords: Transactional leadership style, customer orientation, competitor orientation and interfunctional coordination, SMEs, Partial Least Square

1.0 Background

Since 1992, Ghanaian governments have successfully handed over power to other governments without any instability hence making investors have enough confidence without any interruption to their businesses. This has invariably accounted for the increase in number of Small and Medium scale Enterprises (SME) contributing to the economic development of Ghana. SMEs constitute the vast majority of businesses in Ghana providing services and goods to large organisations, hence contributing to expanding output, providing value-added activities in the manufacturing sector, creating employment opportunities especially in the services sector, and contributing to widening Ghana’s export base (Ghana Investment Promotion Centre, 2010).

According to Bastiat Ghana Institute (2014) 85 percent of the SMEs offer employment in the manufacturing sector and they contribute about 75 percent to Ghana’s GDP and account for about 92 percent of businesses in Ghana. Also, statistics from the NBSSI indicates that SMEs constitute about 90 percent of the private sector’s contribution to the GDP of Ghana. These denote that SMEs therefore have catalytic impacts on growth, income and employment opportunities in Ghana. However, entrepreneurship literature teaches that the aspirations and competence of SME owner-managers as well as their strategic management behaviour can influence both the development and performance of their firm. The fast changing global environment has augmented the complexities of business which demands effective leaders. These leaders must not only be able to understand the
rapidly changing business scenario but also be able to adopt the appropriate leadership styles
which can enhance or improve a small business performance (Hayat & Riaz, 2011).

Fiedler (1996), one of the most respected researchers on leadership, provided a
treatise on the importance of leadership while arguing that the effectiveness of a leader is a
major factor to the success or failure of a group, organisation, or even an entire country.
Indeed, it has also been argued that one way in which businesses have sought to cope with the
increasing volatility and turbulence of an external environment is by training and developing
leaders and equipping them with the skills to cope with changing environments (Koech &
Namusonge, 2012). The study of leadership is deeply attached to culture. Leaders need to
practice cultures which will invariably lead to utmost organisational growth and performance.
They need to satisfy both organisational and customer needs to be able to achieve this
growth. Market orientation is therefore seen as an intangible management culture that is
linked to the organisation’s responses to consumers’ needs and wants (Narver & Slater, 1990;
Ruekert 1992) and hence posited to be a source of competitive advantage (Varela & Del Rio
2003). On the condition that, as literature suggests, market orientation plays a key role in
business profitability, then business leaders need a clearer understanding of it in order to
implement the market orientation philosophy. Harris (1996, 1998, 1999), Harris and Piercy
(1997), Harris and Ogbonna (2000), have argued that top management is an antecedent
crucial to the development of market orientation in businesses. However, there is very little
empirical research identifying factors affecting top management behaviour in relation to the
development of market orientation in organisations.

In Ghana, among the bigger obstacle to SMEs now is access to funding and ability to
conduct market research which will go a long way to increase their share of market and
increase their customer base (Bastiat Ghana Institute, 2014). Owner/managers’ behaviour is
in this sense obviously crucial in the development of a market oriented culture, especially
because their influence is keenly felt. This study examines the role of transactional leadership
style of owner/managers in adopting a market oriented culture.

This paper is organised as follows. The first part looked at the background to the study. The
second section examined the theoretical review for the paper. This is followed by the
methodology and results and discussions respectively. The final section discussed the
conclusions, recommendations and directions for future research.

2.0 Literature review

Leadership style and Market Orientation

Leadership has been conceived by extant literature as the motivation of group
processes, where the personality exercises power, influence and a form of persuasion as
instruments to achieve particular behaviours (Bass, 1997). It is widely thought that top
organisational leaders within a firm always set the tone for the rest of the organisation. Extant
literature have also indicated the actions of top management within an organisation directly
reflects the corporate culture and ideologies of a firm (Senge, 1990; Hambrick & Mason,
1984; Slater & Narver, 1995). As posited by Slater and Narver (1995), a dynamic
environment facilitates the requisite dynamic style of leadership. Also, these leaders or
managers encourage an environment where innovation and non-conformation with the status
quo is expected (Senge, 1990). Furthermore, Kirca, Jayachandran and Bearden, (2005) also
found that the leader or owner/manager is prominent for implementing market orientation.
The concept of a leaders’ risk tolerance relates to the tendency of risk-taking activities. Thus,
a market-oriented firm must respond to the constantly changing of today’s business
environment in order to continuously provide relevant and timely products that meet the
needs and demands of customers (Jaworski & Kohli, 1993). As Jaworski and Kohli rightly
put it, “new products and programs often run a high risk of failure and tend to be more salient than established products”. This implies that, if a firm is reluctant to accept the possibility of unsuccessful products, then that firm will not achieve a market-oriented culture, because fears of failure will reduce creativity and information sharing. On the contrary, if leaders or owner/managers display a willingness to take up risks and accept occasional failures as a cost of competing in a the market, then invariably, subordinates within the firm will share same beliefs and will be more willing to share in the firms’ ideas and innovative thinking (Jaworski & Kohli, 1993).

Hence it was hypothesised:

H$_1$: Transactional leadership style has a significant relationship with Customer Orientation

H$_2$: Transactional leadership style has a significant relationship with Competitor Orientation

H$_3$: Transactional leadership style has a significant relationship with Inter-functional Coordination

2.1 Theoretical review

Leadership theories

The theories of leadership have moved away from traits, behaviour and situational characteristics that determine leadership. Instead, there is now focus on the relationship between leaders and followers. Thus, the theories are based on social-exchange or relationship based theory, which posits that both leaders and followers commit to working together under a satisfying condition (Cleveland, Stockdale & Murphy, 2000). Leadership is defined as a part of management involved with the supervision of others (Fiedler, 1996). De Pree (2004) also defined leadership as the art of influencing others. Thus, effective leaders influence followers in a desired manner to achieve desired goals and therefore different leadership styles may affect organisational effectiveness or performance. Leadership is perhaps one of the most important aspects of management (Weihrich, Cannice, & Koontz, 2008). Hence, leadership is a major factor which contributes to the general wellbeing of organisations (Robbins & Coulter, 2007).

Two influential relationship-based leadership theories are Transformational and Transactional Leadership by Bass and Avolio (1998). Transformational leadership as one of the relationship based theories refers to a leader influencing major changes in the attitudes and assumptions of organisational members and thus building commitment to strategies of an organisation (Yukl & Fleet, 1992). Within the transformational leadership construct, Bass and Avolio identified factors of leadership behaviours that are classified as transformational: Idealized Influence (Attributed and Behaviour); Inspirational Motivation; Intellectual Stimulation; Individualized Consideration. Again, they presented components that are characteristic of transactional: Contingent Reward; Management-By-Exception (Passive and active). A transformational leader hence, is a person who inspires followers in order to achieve outstanding outcomes (Robbins & Coulter, 2007). They pay attention to all concerns and needs of individual followers and thus create positive energy in the followers whereby each follower is concerned for the other's interests (Warrilow, 2012).

Transactional leadership

This is another role differentiation and social interaction form of leadership. However at this stage of evolutionary development the influence process has been elevated to acknowledge the reciprocal influence of the subordinate and the leader, and the development of their relative roles over time (Dansereau, Graen & Haga, 1975; Duchon, Green & Taber, 1986). In this theory, the leader may have different types of transactions and different relationships with different subordinates (Hollander, 1958). Comparably, transactional leaders motivate subordinates through the use of contingent rewards, corrective actions and
rule enforcement (Bass, 1985; Bass & Avolio, 1990). Consistent with transformational leadership theory, research has found that transactional behaviours are related to leadership effectiveness in many different types of organisations (Bass, 1997). A transactional leader satisfies employee needs through recognition and rewards for tasks performed for the organisation (Shriberg, Shriberg & Lloyd, 2002). Individuals receive rewards for achieving the goals of the organisation through their performance, with the help of the transactional leader. This relationship between the individual and the transactional leader supports the meaning of exchange between the leader and individual (Tarabishy, Solomon, Fernald, & Sashkin, 2005). A transactional leader expresses positive outcomes to employees for performing their duties in line with instructions and also focuses on employee mistakes and complaints. Leadership drives the success of a small business, and thus, is essential for accomplishing organisational success (Harland, Knight, Lamming & Walker, 2005). Also, transactional leaders emphasize development of process in setting goals, directing, and striving to manipulate and control the situation (McGuire & Kennerly, 2006). This clearly exhibits leaders as having greater influence on strategic decision making that affect the firm’s culture in all areas; marketing, finance, human resources and also structural developments. The upper echelon theory which underpins this study, specifically buttresses the idea that indeed leaders/managers influence the decision of the firm greatly and hence the choice of leadership style should be a matter of grave interest.

**Market orientation**

Market orientation is deemed as a source of competitive advantage and a key to future organisational success (Langerak, 2003). Narver and Slater (1990) had a goal to broaden the understanding of the components that help to build a market orientated culture in an organisation and propose a useable definition of the concept. They further argued that market oriented organisations are not only focused on customers but also on competitors. Additionally, they placed emphasis on inter-functional coordination (more of internal marketing) which connects all functions in the organisation and become part of the whole organisational culture. Subsequently, this definition was developed: “Market orientation consists of three behavioural components; customer orientation, competitor orientation, and inter-functional coordination.” Hence, Narver and Slater argued that profitability is the ultimate goal of a firm, and it results from successful market orientation. A firm can achieve this through the identification and response to customers’ needs and providing products and services that satisfy those needs, thus making market orientation the primary instrument in developing a sustainable competitive advantage (Jaworski & Kohli, 1993; Narver & Slater, 1990; Kumar, Jones, Venkatesan, & Leone, 2011).

**Upper echelon theory**

A number of antecedents have been investigated and suggested in the development of a market orientation of an organisation. Kohli and Jaworski (1990) also discussed the senior management factors preceding the adoption of a market orientation. Upper echelons theory posits that strategic choices and performance levels can be predicted by the leadership composition (Hambrick & Mason 1984). This theory posits observable managerial characteristics are reliable indicators of unobservable perceptions and values because they have influence on the process of strategic choice and the outcomes resulting from these choices (Carpenter, Geletkanycz, & Sanders, 2004). The values of the top management team can affect perception of a situation, which then affects the strategic choice (Hambrick & Mason 1984).
3.0 Methodology

This quantitative study used a descriptive research method to examine the relationship between transactional leadership style and the tenets of market orientation of manufacturing SMEs in the Accra metropolis in Ghana. The objectives of the study informed the decision to adopt a descriptive research design. The total number of manufacturing businesses recorded in the NBSSI’s register in the Metropolis was 3,474. The study used Bartlett, Kotrlik and Higgins (2001) sample size determination table to determine a sample of 400 respondents out of the 3,474. Lists of all the registered manufacturing SMEs with their contacts were provided by NBSSI. The various manufacturing SMEs were given codes which were written down on pieces of papers and put in a box. The lottery method was used in selecting the 400 respondents from these questionnaires were sent to all those randomly selected. Primary data was used for the study and collected through the use of questionnaire. The information requirements of this study enabled the adoption of two measures adapted from extant literature- Multifactor Leadership Questionnaire (MLQ) and Market Orientation (MKTOR). The Structural Equation Model (SEM) utilising the Partial Least Square (PLS) was used to analyse the data. The PLS approach to SEM offers an alternative to covariance-based SEM, which is especially suited for conditions when data is not normally distributed. PLS path modelling is referred to as soft-modeling-technique with minimum demands regarding measurement scales, sample sizes and residual distributions. The SEM-PLS approach provides the capability to estimate PLS path models within the R programming environment.

4.0 Results and Discussions

The questionnaires administered yielded a response rate of 50%, representing 200 respondents. This response rate is reasonable as a comparison to other studies in leadership style and market orientation (Keskin, 2006 and Armario, Ruiz & Amario, 2008). This study used the SEM-PLS to examine the relationship between transactional leadership style and the market orientation indicators of manufacturing SMEs in Accra.

4.1 Analysis of the final Measurement Model

The final measurement model clearly explains how the model was tested using the factor loadings, composite reliability and discriminant validity. The composite reliability assisted in evaluating how the measurement model was consistent. The results are shown in Tables 1 and 2.

Table 1: Final Measurement Model

<table>
<thead>
<tr>
<th>Variables</th>
<th>Factor Loadings</th>
<th>AVE</th>
<th>Composite Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitor Orientation</td>
<td>.76-.85</td>
<td>.65</td>
<td>.79</td>
</tr>
<tr>
<td>Customer Orientation</td>
<td>.70-.81</td>
<td>.57</td>
<td>.73</td>
</tr>
<tr>
<td>Inter-functional Coordination</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Transactional</td>
<td>.65-.77</td>
<td>.49</td>
<td>.74</td>
</tr>
</tbody>
</table>

Source: Fieldwork, 2015

Table 1 revealed that the factor loadings of the variables ranged between .65 and .85. The composite reliability values ranged between .73 and .79 which is greater as compared to the .70, maximum level suggested by Nunnally (1978). Again, the Average Variance Explained (AVE) ranged between .49 and .65. Thus, they exceeded the benchmark of 0.4 suggested by Fornell and Larcker (1981) and Chin (2010). Therefore, these results strengthen the reliability of the instrument.
Table 2: Discriminant validity

<table>
<thead>
<tr>
<th></th>
<th>ComOrient</th>
<th>CustOrient</th>
<th>IntCoord</th>
<th>Transac</th>
</tr>
</thead>
<tbody>
<tr>
<td>ComOrient</td>
<td>.81</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CustOrient</td>
<td>-.09</td>
<td>.76</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IntCoord</td>
<td>.07</td>
<td>.17</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Transac</td>
<td>-.19</td>
<td>-.37</td>
<td>-.21</td>
<td>.70</td>
</tr>
</tbody>
</table>

Source: Fieldwork, 2015

Discriminant validity test aids in ascertaining whether concepts or measurements that are supposed to be unrelated are, in fact, unrelated (Campbell & Fiske, 1959). Correlation coefficient between measures of a construct and measures of conceptually different constructs usually gives evidence of discriminant validity. If the correlation coefficients are high, it depicts a lack of discriminant validity or weak discriminant validity, depending on the theoretical relationship and the magnitude of the coefficient. Alternatively, if the correlation coefficients are low to moderate, this demonstrates that the measure has discriminant validity.

4.2 Structural Model

The test of the structural model, the PLS technique was used to estimate the path coefficients and t-statistics of the relationships between the leadership styles, market orientation and firm growth. Figure 1 shows the path coefficients of the relationships between the variables.

Figure 1: Structural model

Source: Fieldwork, 2015

Hypotheses testing

The study examined the effect of owner/manager leadership style on market orientation of manufacturing SME’s in the Accra metropolis. The interpretations of the hypotheses are summarized in Table 3.

Table 3: Path Coefficients

<table>
<thead>
<tr>
<th>Path Coefficients</th>
<th>Original Sample (O)</th>
<th>Standard Error (STERR)</th>
<th>T Statistics (O/STERR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transac -&gt; ComOrient</td>
<td>-0.1565</td>
<td>1.1012</td>
<td>1.5469</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transac -&gt; CustOrient</td>
<td>-0.3347</td>
<td>0.0806</td>
<td>4.1499***</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transac -&gt; IntCoord</td>
<td>-0.1852</td>
<td>0.0867</td>
<td>2.1359**</td>
</tr>
</tbody>
</table>

*p<.10. **p<.05. ***p<.01.

Source: Fieldwork, 2015
Table 3 shows that transactional leadership style had a negative but significant relationship with customer orientation ($\beta = -0.33$, $t = 4.15$, $p < 0.05$), and inter-functional coordination ($\beta = -0.19$, $t = 2.14$, $p < 0.05$). This implies a transactional leader does not encourage market orientation. The results are consistent with that of Wong, Saunders, and Doyle (1989), who also surveyed a manufacturing industry and found the most dominant impediment to market orientation practice being management attitudes and behaviours. Likewise, Harris and Ogbonna (1998) also confirmed that a leadership style that seeks to be directive impedes market orientation. The transactional leadership style seeks to allocate tasks and procedures which do not support market orientation development. Harris and Piercy (1999) additionally revealed that formalised, conflicted, or politically motivated management behaviours are negatively associated with the extent of market orientation practiced.

The market orientation concept is explained as a distinct organisational culture, with set of beliefs and values that put the customer at the centre of the business’ thinking about strategy and operations (Deshpande & Webster, 1989). Thus, from an individual manager’s perspective, top management behaviour is frequently mentioned as a key barrier to developing a market oriented culture (Harris, 1996; Harris & Ogbonna, 1998). Founders of companies play an important role as symbols and influence organisational culture (Harris, 1996). According to Harris, if the owner/manager of the company has a dominant personality and influence in the company; his/her behaviour acts as a major restriction on marketing activity. In sum, existing research of obstacles to market orientation has consistently found leadership behaviour which does not transform followers’ behaviour, as a significant obstacle to market orientation development and practice.

5.0 Conclusions and implications

The findings of this study have implications for the owner/managers of SME’s, academic and policy makers with particular interest in how important leadership style is, and also in developing a market orientated culture for manufacturing SME’s in the Accra Metropolis in Ghana. The study revealed that an unrelated antecedent to market orientation is transactional leadership style. Thus, owner/managers of manufacturing SME’s should avoid transactional leadership behaviours if they indeed want to encourage market orientated culture. Accordingly, transactional leadership style is an impediment to the market orientation development. It buttresses the fact that, leaders must rally support from followers if growth is to be achieved. Further, it is widely acknowledged that developing a market orientation is a complex process (Howell & Avolio, 1993) and hence will need support from the whole firm for it to be actualised. For academic purposes, the study contributes to knowledge by providing evidence of relevant market orientation antecedent. It further provides divergent view on transactional leadership style and market orientation and also broadens understanding of leadership style and it linkages with market oriented culture. The study recommends that owner managers not to adopt transactional leadership style if they hope to practice a market oriented culture as it stiffens processes and leaves no room for creativity by workers. Policy makers should encourage owner/managers to adopt market oriented cultures that may achieve growth in the long run.

5.1 Limitations and directions for future studies

The study focused on manufacturing SMEs in the list compiled by the NBSSI. The results should therefore, not be generalized for all other sectors of SMEs in other areas. Furthermore, this current study only concentrated on a single style of leadership as it relates to market orientation. Further research is suggested on investigating other leadership styles in relation to market orientation. Finally, a longitudinal study is highly recommended if a
replication of this study is made due to the high chances of respondents (owner/managers) changing their preferences in terms of their leadership styles.

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