The Relationship Between Market Orientation Dimensions and Performance of Micro Finance Institutions

Bello Taofik Abidemi a,*, Fairol Halim b, Ahmad Ibrahim Alshuaibi c

a,b,c School of Business Management, Universiti Utara Malaysia

ABSTRACT

Microfinance institutions are established so as to alleviate poverty. However, most of microfinance institution face sustainability issues. The present study aims to give an insight on the three dimensions of market orientation which are inter-functional coordination, customer orientation and competitor orientation influences two aspects of microfinance performance (social and financial performance). The study employed PLS-SEM in testing the hypothesis. A total of 231 responses were used for analysis. The findings revealed that customer orientation, competitor orientation and inter-functional coordination are having significantly positive relationship with financial and social performance measures of microfinance institutions in Nigeria. The data of the study comprises of microfinance banks operating in North West and South west region of Nigeria, using cross sectional design. The findings of the study will contribute to the literature and assist policy makers, managing directors and researchers in better understanding the dimensions of marketing orientation.
1. Introduction

There are many individuals in developing nations that need financial packages such as microfinance (Kazemian, Abdul Rahman, Mohd Sanusi, & Adewale, 2016). Research has shown that over 72 percent of people that stay in developing nations find it difficult in assessing financial services (Honohan, 2008). For this reason, the rate at which people demand for microfinance in developing countries grows rapidly. For instance, the demand for microfinance is high in countries like Bangladesh and Indonesia, which accounts for 80 percent and countries such as Pakistan, Malaysia accounts for more than 50 percent of global reach, while countries like Syria, Jordan and Algeria accounts between 20–40 percent (Hes & Poledňáková, 2013; Karim, Tarazi, & Reille, 2008).

Nigeria has over 900 microfinance institutions in operation. However, these microfinance institutions are faced with so many issues which affects their operations and performance (Abu & Ezike, 2012; Acha Ikechukwu, 2012; Akingunola, Adekunle Olusegun, Adegbesan Kehinde, & Aninkan, 2013). Most of these microfinance institutions in Nigeria always depend on government grant to meet the needs of prospective customers and some of them are unable to reach people who really deserve assistance. Similarly, most of them are faced with poor marketing strategies which drastically affects the performance of these institutions. Against this backdrop, it is pertinent to investigate factors that can influence the performance of microfinance institutions in Nigeria.

However, organizations have implemented different strategies in other to improve performance of their organization, one of which has been studied considerably is market orientation (Hussain, Ismail, & Shah, 2015; Jogaratnam, 2017; Kajalo & Lindblom, 2015; Zehir, Köle, & Yıldız, 2015). Previous literature on marketing orientation acknowledges that it improves organizational performance and gives an edge over competitors (Kajalo & Lindblom, 2015; Zehir et al., 2015). However, very few empirical studies have established a link between market orientation and sustainability performance of microfinance institutions (Joseph & Francis, 2015). Most studies on market orientation seems to focus on commercial banks, small and medium enterprises and neglecting microfinance institutions (Abuzid & Abbas, 2017; Kiessling, Isaksson, & Yasar, 2016; Lonial & Carter, 2015; Mahmoud, Blankson, Owusu-Frimpong, Nwankwo, & Trang, 2016; Zehir et al., 2015). Studies on relationship between market orientation and sustainability performance of microfinance institutions were conducted in Asia such and not in Nigeria (Kazemian, Abdul Rahman, et al., 2016). For microfinance institutions to remain in business, appropriate strategies need to be implemented and configured.
so as to remain competitive and improve performance of such institutions (Kazemian, Abdul Rahman, et al., 2016).

Performance measurement is an important aspect to academicians (Valmohammadi & Servati, 2011). One of the reasons why it is important to scholars is because it shows how firms are faring (Obiwuru, Okwu, Akpa, & Nwankwere, 2011). Different measures have been used in measuring performance from financial and non-financial methods. A critical literature review shows that there is no specific method of measuring microfinance performance since prior researches have measured it differently using financial perspective, social perspective, customer perspective (Homaid, Minai, & Rahman, 2015; Nanayakkara & Iselin, 2012). The study will focus on measuring performance of microfinance based on financial and social performance which shows how effective the organization have been.

Although, previous literature reveals a great deal for us to understand the link between market orientation and performance, however there are some important dimensions which can help in advancing the literature (Gaur, Vasudevan, & Gaur, 2011). Similarly, empirical studies on MO and organizational performance emancipates from developed countries (Cano, Carrillat, & Jaramillo, 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 (D. A. Singh & Gaur, 2009). In order to validate the findings of previous literatures on MO and performance relationship in the Nigeria context which is the largest economy in Africa. The present study focus on the dimensions of market orientation to examine if it influences microfinance performance.

2. Literature Review and Hypothesis Development

Market oriented organization have the capacity of achieving competitive edge and sustainable organizational performance by giving superior services to customers, identifying competitor’s strategies and by coordinating the affairs of the firm through communication and interaction (Narver & Slater, 1990).

Empirical studies have been carried out to investigate the relationship between market orientation and organizational performance with most studies having a positive and significant relationship (Amin, Thurasamy, Aldakhil, & Kaswuri, 2016; Boachie-Mensah & Issau, 2015; Chen, Tang, Jin, Li, & Paillé, 2015). Based on previous studies, the present study looks at the dimensions of market orientation in achieving improved performance in microfinance
institutions in Nigeria context. The model proposes looks at the direct relationship between dimensions of market orientation and sustainability performance of microfinance.

Market orientation consist of three dimensions which are customer orientation, inter-functional coordination and competitor orientation. Customer orientation focuses on providing and knowing the current and future needs of customers, creating superior value for customers and focusing on providing and meeting their needs (Narver & Slater, 1990). Research as shown that firms can gain competitive edge and achieve improve performance by catering for future and present needs of customers (S. Singh & Ranchhod, 2004). It is important to note that a market oriented institution places the customer in the center of its business activities, by offering services that are in line with customer’s expectation and desires so as to achieve improved customer satisfaction. Microfinance institutions in Nigeria have to focus on the specific needs of their target market, services which customers requires and creating superior value for customers. Previous research has noted that customer oriented firms leads to profitability and retention of customers (Brady & Cronin Jr, 2001; Reichheld & Sasser, 1990).

In other words, this hypothesis is developed:

H1: there is a positive significant relationship between CO and microfinance financial performance.

H2: there will be a significant and positive relationship between CO on microfinance social performance.

Another dimension of market orientation is competitor orientation which states that for a firm should monitor, gather and analyze what rivals’ firms are offering and pay close attention to their activities so as to make effective decisions (Narver & Slater, 1990). In other words, a competitive oriented firm should know the activities of its competitors, be aware about the competitive intensity in its industry, and gather relevant information about activities of rivalry firms, microfinance institution in Nigeria should be able to keep track about activities of competitors and gain competitive edge by offering services and marketing programs which differentiates it from competitors (Im & Workman Jr, 2004), which helps in attaining competitive edge and sustained performance (Frambach, Prabhu, & Verhallen, 2003; Grinstein, 2008). The study hypothesis that

H3: there is a significant positive relationship between competitor orientation on financial performance of microfinance institutions.
H4: there is a significant positive relationship between competitor orientation on social performance of microfinance institutions.

Inter-functional reflects the act of interacting and communicating that helps firms in providing improved services (Grinstein, 2008). Market oriented firms should strive to always be innovative so as to attract more customers and keep previous customers. Inter-functional coordination seeks to explain how top management and staff interact in better caring for customers. Inter-functional coordination stresses that a market oriented firm should share information with other departments in the firm and work closely with each other so as to better serve customers. The following hypothesis is developed

H5: there is a significant relationship between IFC and financial performance.

H6: there is a significant relationship between IFC and social performance

3. Research Framework

The framework below shows the relationship between market orientation dimensions (CO, COMP and IFC) and organizational performance.

4. Methodology

4.1 Sample and Data Collection

The study investigates microfinance institutions in Nigeria. The target population consist of microfinance institutions located in northwest and south west geopolitical zones in Nigeria. The study sample size was 217. It was increased so as to avoid nonresponse and sample size error. A total of 437 questionnaires were distributed. 26 questionnaires were damaged because of straight line answers and were removed. A total of 231 questionnaires was used for analysis. SPSS version 25 was used for data screening and coding.
5. Data Analysis

5.1 Demographics of Respondents

The descriptive result of respondents revealed that 61.5% are managing directors, 22.1% represent general managers and the remaining 16.5% represents senior managers. The education of respondents reveals that 60.6% have master degree while 3.4 percent have first degree. The descriptive statistics also reveals that 92.2% of respondent are married while 7.8% are still single.

5.2 Measures and Goodness of Measures

The questionnaire was administered based on five-point Likert scale in gathering data for the constructs in the research model. All the measures used were adapted from previous studies, which were modified to measure performance.

5.2.1. Goodness of Measures

The two basic criteria used in testing goodness of measures are validity and reliability. Reliability test is performed to know how consistent an instrument measures the concept it supposed to measure while validity test is a measure that states how well the items developed measures the concept it ought to measure (Sekaran & Bougie, 2013).

5.3 Measurement Model Analysis

In determining the validity and reliability of measures, Henseler, Ringle and Sinkovics (2009) recommended the two-way approach which was used in the present study (Henseler, Ringle, & Sinkovics, 2009). The study first employed convergent validity and reliability which was followed by assessing the discriminant validity of constructs. Table 1 below shows the internal consistency of items and also reliability of items. Base on the rule of thumb, construct validity of all items is greater than 0.7, composite reliability is also more than 0.7 and the average variance is more than the cut off of 0.5 (Henseler et al., 2014).
Table 1
Result of Measurement Model Reliability and Validity (n=231)

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Items</th>
<th>Cross Loadings</th>
<th>Composite Reliability</th>
<th>Average Variance Extracted (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer orientation</td>
<td>CO1</td>
<td>0.776</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CO2</td>
<td>0.840</td>
<td>0.888</td>
<td>0.624</td>
</tr>
<tr>
<td></td>
<td>CO3</td>
<td>0.756</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CO4</td>
<td>0.785</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitor orientation</td>
<td>COMP1</td>
<td>0.879</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>COMP2</td>
<td>0.887</td>
<td>0.869</td>
<td>0.725</td>
</tr>
<tr>
<td></td>
<td>COMP4</td>
<td>0.785</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inter-functional coordination</td>
<td>IFC1</td>
<td>0.820</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>IFC2</td>
<td>0.903</td>
<td>0.905</td>
<td>0.760</td>
</tr>
<tr>
<td></td>
<td>IFC5</td>
<td>0.890</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial performance</td>
<td>FP1</td>
<td>0.932</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>FP2</td>
<td>0.904</td>
<td>0.950</td>
<td>0.864</td>
</tr>
<tr>
<td></td>
<td>FP3</td>
<td>0.952</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social performance</td>
<td>SP1</td>
<td>0.898</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SP2</td>
<td>0.773</td>
<td>0.887</td>
<td>0.723</td>
</tr>
<tr>
<td></td>
<td>SP3</td>
<td>0.875</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 2
SmartPLS Algorithms (Measurement Model)
In meeting the criteria of composite reliability of 0.70 and above, and AVE 0.50 or higher, some items were deleted, FP 2 items, IFC 2 items, and COMP 1 item, CO 1 item which was recommended by (Henseler et al., 2014). As shown above, composite reliability is above 0.70 which shows the reliability of the measurement model. The AVE is also ranges between 0.624 and 0.864. This shows that the result for convergent validity has been established.

Table 2
Discriminant validity (Fornell-Lerckert)

<table>
<thead>
<tr>
<th>Constructs</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitor orientation</td>
<td>0.852</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer orientation</td>
<td>0.551</td>
<td>0.790</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial performance</td>
<td>0.579</td>
<td>0.530</td>
<td>0.929</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFC</td>
<td>0.488</td>
<td>0.502</td>
<td>0.561</td>
<td>0.872</td>
<td></td>
</tr>
<tr>
<td>Social performance</td>
<td>0.693</td>
<td>0.541</td>
<td>0.599</td>
<td>0.553</td>
<td>0.851</td>
</tr>
</tbody>
</table>

Table 3
Discriminant validity (HTMT)

<table>
<thead>
<tr>
<th>Construct</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitor orientation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.678</td>
</tr>
<tr>
<td>Customer orientation</td>
<td>0.667</td>
<td>0.605</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial performance</td>
<td>0.587</td>
<td>0.603</td>
<td>0.631</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.828</td>
</tr>
<tr>
<td>Social performance</td>
<td>0.645</td>
<td>0.680</td>
<td>0.656</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The study measured discriminant validity in to see how unique each construct are (Hair, Hult, & Ringle, 2014). This was assessed using Fornell-larckert criterion and also Henslers heterotrait-monotrait ratio (HTMT) (Hair et al., 2014). In order words, discriminant validity was assessed by comparing the square root of AVE for each construct with correlation. Table 2 and table 3 shows the result of Fornell-Leckert and HTMT respectively. As shown in the table above discriminant validity is achieved since no correlation is above 0.90.

5.3 Hypothesis Testing

The next is to test the path analysis of the six hypothesis. The R2 value for financial performance and social performance were 46.2 and 55.5 respectively, it shows that 46.2 percent and 55.5 percent is explained by competitor orientation, customer orientation and inter-functional coordination respectively.

The present study tests the relationship between customer orientation, competitor orientation, inter-functional coordination on microfinance performance measured multidimensional (social and financial performance). the result of hypothesis testing was summarized the table below.
H1 shows that there is a positive and significant relationship between customer orientation and financial performance (Beta value at = 0.201; t = 3.284) hence H1 is supported. H2 shows that customer orientation has a significant influence on financial performance (Beta value at = 0.150; t = 2.141) hence hypothesis 2 is supported. H3 shows that there is a significant positive effect of competitor orientation on financial performance (Beta value at = 0.321; t = 4.926). hence H3 is supported. H4 states that there is a significant influence between competitor orientation and social performance (Beta value at = 0.495; t = 5.054) hence hypothesis 4 is supported. H5 states that there is a significant influence of inter-functional coordination on financial performance of microfinance institutions (Beta value at = 0.303; t = 4.264), hence hypothesis 5 is supported. Lastly, H6 states that there is a significant influence of inter-functional coordination and social performance (Beta value at = 0.237; t = 2.864). hence hypothesis 6 is supported.

Table 4
Summary of hypothesis

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Relationship</th>
<th>Beta</th>
<th>T-value</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Customer orientation -&gt; FP</td>
<td>0.201</td>
<td>3.284</td>
<td>supported</td>
</tr>
<tr>
<td>H2</td>
<td>Customer orientation -&gt; SP</td>
<td>0.150</td>
<td>2.141</td>
<td>supported</td>
</tr>
<tr>
<td>H3</td>
<td>Competitor orientation -&gt; FP</td>
<td>0.321</td>
<td>4.926</td>
<td>supported</td>
</tr>
<tr>
<td>H4</td>
<td>Competitor orientation -&gt; SP</td>
<td>0.495</td>
<td>5.054</td>
<td>supported</td>
</tr>
<tr>
<td>H5</td>
<td>IFC-&gt;FP</td>
<td>0.303</td>
<td>4.264</td>
<td>supported</td>
</tr>
<tr>
<td>H6</td>
<td>IFC-&gt;SP</td>
<td>0.237</td>
<td>2.864</td>
<td>supported</td>
</tr>
</tbody>
</table>

Figure 3
SmartPLS Bootstrapping (Direct Relationship)
The study also assesses the (f2) effect size in assessing the contribution of each construct. The table below shows the measurement of total effect size (f2).

**Table 5**
Measurement of total effect size (f2)

<table>
<thead>
<tr>
<th>Item</th>
<th>Financial Performance</th>
<th>Social Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitor orientation</td>
<td>0.122</td>
<td>0.350</td>
</tr>
<tr>
<td>Customer orientation</td>
<td>0.047</td>
<td>0.032</td>
</tr>
<tr>
<td>IFC</td>
<td>0.117</td>
<td>0.086</td>
</tr>
</tbody>
</table>

5. Conclusion

The objective of the paper is to investigate the relationship between market orientation dimensions and performance of microfinance institutions in Nigeria. The hypothesis was tested using smart PLS and the finding revealed that all the hypothesis was supported. The findings of H1 indicates that customer orientation is significant with financial sustainability of microfinance institutions. The findings are consistent with the result of (Ghani & Mahmood, 2011; Kazemian, Kazemian, et al., 2016; Megicks, Mishra, & Lean, 2005; Ruekert, 1992). Similarly, H2 indicates that there is a significant relationship between customer orientation and social performance of microfinance institution which is consistent with the findings of (Ghani & Mahmood, 2011; Kazemian, Kazemian, et al., 2016; Megicks et al., 2005; Ruekert, 1992). The findings indicate that microfinance institutions in Nigeria put the customers at the heart of its business activities by trying to meet their present and future needs. One of such is microfinance institutions try as much as possible to collaborate with commercial banks in providing microfinance customers with debit cards. Hypothesis 3 indicates that there is a significant positive relationship between competitor orientation and financial performance which is consistent with the findings of (Ghani & Mahmood, 2011; Megicks et al., 2005). Hypothesis 4 also indicates that competitor orientation is positively significant with social performance which is also consistent with findings of previous studies (Ghani & Mahmood, 2011; Megicks et al., 2005; Ruekert, 1992). Hypothesis 5 indicates that inter-functional coordination is significant with financial performance of microfinance institutions in Nigeria. The findings of the study are consistent with (Chung, 2012; Gresham, Hafer, & Markowski, 2006; Kazemian, Kazemian, et al., 2016; Narver & Slater, 1990). Lastly hypothesis 6 indicates that inter-functional coordination is significant with social performance which is consistent with the findings of (Chung, 2012; Gresham et al., 2006; Kazemian, Kazemian, et al., 2016;
Narver & Slater, 1990). The findings show that organizations that interact and communicate can give rise to improved performance and sustainability of the institution. This shows that all the dimensions of market orientation have a positive and significant influence on performance of microfinance institutions. The findings of the study are also consistent with the resource base view theory.

5.1 Contribution

The findings of the study indicate that the sample microfinance institutions engage in market oriented activities so as to improve performance. The study supports that market orientated is essential and critical for microfinance institutions in ensuring their sustainability and outreach. It also supports that each market orientation dimensions (CO, COMP and IFC) are important strategies if adopted by firms can generate improved performance. For a developing country like Nigeria, it will be pertinent for microfinance institutions to adopt market oriented activities so as to gain superior performance. It is important for microfinance institutions to be customer oriented that is putting the customer in the middle of it business activities, pay close attention to activities of competitors and also each department in the organization should interact and communicate effectively so has to offer customers better services.

The present study has contributed to the literature by looking at the relationship between market orientation dimensions and performance measured multidimensionality. The result of the study contributes to the literature on CO, COMP and IFC which are dimensions of market orientation on microfinance performance. The findings will also support managers of microfinance institutions in making managerial decisions to achieve competitive edge and sustained performance. In other words, decision makers of microfinance institutions have demonstrated that market orientation leads to improved performance.

5.2 Limitations and Direction for Future Studies

there is no study without limitation. First the study focused on the dimension of market orientation, future research should take market orientation as a single construct in investigating the relationship between market orientation and performance of other sectors such as telecommunication sector, banking sector, manufacturing sector. This will help in generalizing the research findings. Similarly, the measures used in the present study were adapted from previous studies conducted in the western world, future studies should develop indicators that may be appropriate in Nigeria context. He study was cross sectional, future studies can conduct
experimental survey and was limited to microfinance institutions in North west and south west of Nigeria.

References

Abu, I., & Ezike, J. (2012). The role and sustainability of microfinance banks in reducing poverty and development of entrepreneurship in urban and rural areas in Nigeria.


