

The Relationship between Market Orientation, Marketing Capabilities and Thai OTOP Performance

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ABSTRACT

This research explores the firm performance predictors of Thai OTOP enterprises, examining the relationships among market orientation (MO) and firm performance (FP) through a sample of 706 OTOP enterprises operating in the variety industries. Specifically, this paper tests the mediation impact on the relationships between MO and FP by marketing capabilities. Results show that MO has both direct and indirect effects on FP, through the mediation of marketing capabilities. Marketing capabilities can predict financial performance through marketing outcomes and product performance through marketing and financial outcomes. This study does provide suggestion for best practice for OTOP enterprises in that MO as a construct may not contribute to superior performance, organizations may require organizational competency and resources, such as marketing capabilities, to achieve higher business results.

Keywords: Market Orientation, Marketing Capabilities, Firm Performance, OTOP

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บทคัดย่อ

การวิจัยในครั้งนี้เป็นการสำรวจเพื่อพยากรณ์ผลการดำเนินงานของธุรกิจ OTOP ของไทย โดยทำการศึกษาความสัมพันธ์ระหว่างพฤติกรรมมุ่งการตลาดและผลการดำเนินงานของธุรกิจ จากกลุ่มตัวอย่างธุรกิจ OTOP จำนวน 706 กิจการจากหลากหลายอุตสาหกรรม บทความวิจัยนี้ได้ทำการทดสอบอิทธิพลของความสามารถทางการตลาดในบทบาทตัวแปรต้นกลาง ที่ส่งผลต่อความสัมพันธ์ระหว่างพฤติกรรมมุ่งการตลาดและผลการดำเนินงานของธุรกิจ ผลการวิจัยพบว่า ความสามารถทางการตลาดที่เป็นตัวแปรต้นกลางมีอิทธิพลส่งผลให้พฤติกรรมมุ่งการตลาด มีอิทธิพลทั้งทางตรงและทางอ้อมต่อผลการดำเนินงานของธุรกิจ ความสามารถทางการตลาดจึงถือได้ว่า สามารถพยากรณ์ผลการดำเนินงานทางการเงิน โดยผ่านผลการดำเนินงานทางการตลาด และสามารถพยากรณ์ผลการดำเนินงานทางด้านการผลิตได้ โดยผ่านผลการดำเนินงานทางการตลาดและผลการดำเนินงานทางการเงิน การศึกษาครั้งนี้ได้ให้ข้อเสนอแนะสำหรับแนวปฏิบัติที่ดีที่สุดสำหรับ OTOP โดยให้ข้อเสนอแนะว่า พฤติกรรมมุ่งการตลาด เป็นตัวแปรนามธรรมที่ในบางครั้งอาจไม่ทำให้เกิดผลการดำเนินงานที่ดีเลิศได้ องค์กรอาจจำเป็นต้องอาศัยการนำสมรรถนะขององค์กรและทรัพยากร อาทิ ความสามารถทางการตลาด มาร่วมดำเนินการด้วย เพื่อให้เกิดผลลัพธ์ทางธุรกิจที่สูงขึ้น

คำสำคัญ: พฤติกรรมมุ่งการตลาด ความสามารถทางการตลาด ผลการดำเนินงานของธุรกิจ

โครงการหนึ่งตำบลหนึ่งผลิตภัณฑ์ (OTOP)

1. INTRODUCTION

Social and small business entrepreneurs have been an important role in poverty reduction, inequality distribution and sustainable development in rural and urban communities, particularly in developing countries (Natsuda et al, 2011). Thailand has promoted OTOP project as an effective steering mechanism of grassroots economic system (Jittapon Chumkate, 2015) and the government has provided the local communities the necessary support (i.e. funds, product development, skill training, quality control) as well as promoted and supported the development of OTOP products for global markets (Saifon Suindramedhi, 2015). However, new competitive challenges are continuously forcing firms to improve their deployment of resources and capabilities in an effort to achieve superior performance and sustained competitive advantage (Masa'deh, Al-Henzab, Tarhini & Obeidat, 2018). Therefore, this study highlights that market orientation (MO) and marketing capabilities are competencies that firms can exploit in the pursuit of superior performance (Carmen, Tomás & Sonia, 2012; Ngo & O'Cass, 2012; Laddawan Lekmat, Selvarajah & Hewege, 2018).

This study aims to fill the research gaps in the literature. First, in the strategic management and strategy literature, MO is considered as a critical concept to generate improved firm performance (Yu, Nguyen & Chen, 2016). There has been a vast number of studies focusing on MO-performance relationship (Gellynck et al., 2012; Laukkanen, Nagy, Hirvonen, Reijonen & Pasanen, 2013; Amin, Ramayah, Aldakhil & Kaswuri, 2016; Buli, 2017). Gellynck et al. (2012) support that MO can improve profitability. In the marketing literature, the positive effect of MO and firm outcomes is extensively supported (Narver & Slater, 1990; Jaworski & Kohli, 1993; Baker & Sinkula, 2009; Amin et al, 2016). However, there are also studies that have not found a significant association between MO and business performance (Huhtala, Sihvonen, Frösén, Jaakkola & Tikkanen, 2014; Kajalo & Lindblom, 2015; Yu et al., 2016). Such relationship seems to vary across prior studies because scholars have focused mainly on the direct link between MO and performance and little attention has focused on investigating the indirect performance influence of MO (Kajalo & Lindblom, 2015). Kajalo and Lindblom (2015, p. 580) point out that “MO alone is not sufficient to generate improved results”. Ngo & O'Cass (2012, p. 182) suggest that “MO should complement with other firm resources and capabilities” which, in turn contributes to improve outcomes. Similarly, empirical research findings (i.e., Murray, Gao & Kotabe, 2011; Shin & Aiken, 2012; Pérez-Cabañero, González-Cruz & Ros, 2012; Kajalo & Lindblom, 2015) approve that marketing capabilities lead to firm performance and that marketing capabilities can mediate the link between MO and performance. However, the role of MO and marketing capabilities and their impacts on firm performance have been widely investigated in the western, developed countries (Shin & Aiken, 2012; Laukkanen et al, 2013; Neil et al, 2014), the potential contribution of MO and business outcomes in developing countries is not yet clearly or completely understood (Buli, 2017, p. 294). Particularly, there is no previous research have been studied the link between MO and firm performance in community-based enterprises. Consequently, more research on developing countries are recommended (Laukkanen et al, 2013; Neil et al, 2014).

Second, given that enhancing performance is the vital goal of any firm, however, the relationship between MO and business outcomes is widely debated topic in the literature. Two viewpoints, namely financial and non-financial, have been employed to explain the different domains of firm performance (Venkatraman & Ramanujam, 1986; Perez-Cabanero et al, 2012; Masa'deh et al, 2018). The basis of financial performance has been widely used as the outcome of MO (Lings & Greenley, 2010) and MO has been demonstrated to increase profitability and growth (Matear, Osborne, Garrett & Gray, 2002, Laukkanen et al, 2013; Buli, 2017). However, those traditional performance measures have been argued that are not sufficient for organizations operating in modern markets (Masa'deh et al, 2018). The use of multiple performance constructs has been recommended in the literature (Venkatraman & Ramanujam, 1986; Gonzalez-Benito et al, 2009; Kwon, 2010; Masa'deh et al, 2018). Consequently, non-financial performance measures have been added as the consequences of MO on the current research (Perez-Cabanero, 2012; Laddawan Lekmat et al, 2018; Masa'deh et al, 2018). Moreover, Chao and Spillan (2010) point out that the different MO concepts and organizational outcome measures of different industries may be dissimilar from one country to another. Amin et al (2016, p.41) suggest that MO approach is more suitable for small firms rather than big firm since MO tends to enhance firm outcomes by satisfying customers' needs and enabling the sharing of competitors' information and inter-functional coordination (Narver & Slater, 1990).

Building on the research gaps discussed above, the purpose of this study is to empirically investigate the relationship between MO, market capabilities and firm performance in Thai OTOP context. This study aims to explore the following questions: (1) Does MO play a role in improving OTOP performance? (2) To what extent does MO contribute to OTOP performance? (3) Since this paper views MO as a driver of marketing capabilities, do marketing capabilities mediate the relationship between MO and firm performance? Furthermore, it integrates multiple approaches of firm performance, including financial and non-financial aspects in a single research model. To add the body of knowledge, this study clarifies the multidimensional firm performance of community-based enterprises operating in turbulent business environments using MO and these relationship's mediating effects. This study then allows a more comprehensive view by explaining to what extent MO is associated with performance through marketing capabilities. Furthermore, this study contributes to additionally test whether the MO adoption can be applied in different environment and cultural contexts and strengthen results from previous research.

The paper is structured as follows: it begins with the literature review, the hypotheses' development and the conceptual model. The following section presents the research method, analysis and results. Finally, the study highlights the conclusions and their implications to literature and practice, and recommendation for future research.

2. Literature Review and Hypotheses

The importance of Thailand's OTOP in Economic Development

Thailand's OTOP (One Tambon One Product) is a local entrepreneurship motivation program which aims to promote the use of unique locally wisdom and resources in product development of each village communities all over the country (Royal Thai Embassy, 2010; Jittapon Chumkate, 2015). OTOP program was initiated in 2001, with an aim to encourage village communities to develop their products with good quality and distinctive value-added to meet the needs of both domestic and international markets (Kawinphat Lertpongmanee, 2014; Saifon Suindramedhi, 2015). This project is intended to increase income at the grassroots level and help local communities to become self-reliant (Chuleeporn Lakhanapipat, Smith & Chalongsak Tubsree, 2016). The government provides the local communities the necessary support and assistance in terms of knowledge and management to provide a local and international platforms and networks for the promotion of their products and services (Royal Thai Embassy, 2010; Jittapon Chumkate, 2015).

The OTOP program selects a high quality standard product from each district/village to receive formal branding as an "OTOP product", and promote these products for both local and international markets. In research reported in 2015 from the Thailand Productivity Institute, there were approximately 70,000 OTOP enterprises registered nationwide, and according to the Thai Interior Ministry's Community Development Department, 10,000 of these enterprises have been given a "five-star" rating (Vipada Sitabutr & Paitoon Pimdee, 2017, p. 2). According to the report of the Thai Interior Ministry's Community Development Department (CDD) in December 2018, OTOP's sales was 17,729 million baht (CDD, 2018). This sales score were mostly from domestic market about 92.79% and overseas market at 7.21%. This economic growth occurred mainly in two types of OTOP organization: community-based enterprises (CBEs) and small-and-medium-sized enterprises (SMEs) (Chalermpon Siriwichai & Diefenbach, 2016).

Though they have a potential to contribute to national growth, local communities have face difficulties of remaining in their markets and surviving from some challenges of trading beyond borders, including quality control, production capacity, design preferences and marketing challenges (Royal Thai Embassy, 2010). In addition, the products of OTOP are facing with high competitive environment and dramatic changes in consumer needs after ASEAN economic community (AEC). Every country is more focusing on building community capability and using community strengths, particularly local culture, way of life and knowledge in order to create products and services and marketing opportunities (Jittapon Chumkate, 2015, p. 124). Therefore, this paper argues that in order to stay competitive, OTOP entrepreneurs can benefit from the development of market opportunities by embracing market-oriented (MO) strategy (Gellynck, Banterle, Kühne, Carraresi & Stranieri, 2012; Kajalo & Lindblom, 2015; Neill, Singh, & Pathak, 2014). MO strategy is recognized to generate superior firm performance (Baker & Sinkula, 2009; Laddawan Lekmat, Selvarajah & Hewege, 2018).

Marketing Orientation (MO) and Performance

MO refers to a firm's strategy and ability to respond to changing market demands, and in turn creates superior customer value based on customer and competitor intelligence (Kajalo & Lindblom, 2015; Ngo & O'Cass, 2012; Al Mamun, Mohiuddin, Fazal & Ahmad, 2018). MO is the organizational process that a firm acquires and utilizes marketing information and disseminate it throughout the organization (Yu et al., 2016). Two conceptualizations of MO established by Narver and Slater (1990) and Kohli and Jaworski (1990) are widely accepted among scholars (Kajalo & Lindblom, 2015). Narver and Slater (1990, p. 21) define MO concept as the organizational culture that cultivates the required behaviors for superior customer value and then leads to higher performance of the firm. Narver and Slater (1990) suggest three key behavioral elements of MO, namely customer and competitor orientations and inter-functional coordination. On the other hand, Kohli and Jaworski (1990, p. 6) describe MO concept as the behavioral viewpoint that comprises three main aspects, namely market intelligence generation, dissemination, and responsiveness to market information.

The marketing and strategy literature consider MO as a critical role in the long-term success and superior performance (Narver & Slater, 1990; Jaworski & Kohli, 1993; Yu et al, 2016; Al Mamun et al, 2018). Some studies show a significant correlation between MO and performance (Jawoski & Kohli, 1993; Narver & Slater, 1990; Al Mamun et al, 2018). Al Mamun et al (2018) illustrate the importance of developing marketing competencies and effective use marketing intelligence within the firm, and in turn attain competitive advantage and higher performance. Empirical findings confirm the positive impact that MO has on both financial and non-financial performance (Luakkanen et al, 2013). Luakkanen et al (2013) investigate how different strategic orientations influence three performance measures, including brand performance, marketing performance, and business growth in SME context in Finland and Hungary. The results show that MO has a positive influence on business growth through brand and marketing performance. In addition, MO is reported to leads to increase profitability and customer satisfaction in small firm context (Kajalo & Lindblom, 2015; Lings & Greenley, 2010; Otnes, Ilhan, & Kulkarni, 2012; Buli, 2017). A study conducted by Amin et al (2016) demonstrates that MO has a moderate effect on SME performance in Malaysia. Furthermore, Masa'deh et al (2018) highlight that MO is one of the most important types of strategic orientation to enhance intangible outcomes (i.e. external stakeholder's management, employee and process performance) of a firm. A firm that is more market oriented and utilizes adequate resources may be better at developing new and better products and services because of their ability to understand customer needs (Jaworski & Kohli, 1993; Gatignon & Xuereb, 1997; Lukas & Ferrel, 2000; Ngo & O'Cass, 2012). Therefore, MO seems to be more accurate and comprehensive type of strategic orientation for OTOP. This study thus proposes that MO can enhance a firm's outcomes in three different performance measures: product, finance and marketing. Hence, the following hypotheses are formulated as follows:

Hypothesis 1: In Thai OTOP, MO positively correlates to product performance

Hypothesis 2: In Thai OTOP, MO positively correlates to financial performance

Hypothesis 3: In Thai OTOP, MO positively correlates to marketing performance

MO and Marketing Capabilities (MC)

Marketing capabilities refer to an improvement in the internal organizational processes designed to attain organizational growth (Laddawan Lekmat et al, 2018). To achieve desired marketing outcomes, a firm needs to utilize shared knowledge, skills and resources of a company in order to meet the market needs, increase value to its goods and services, adjust to market environments, exploit market opportunities and confront competitive pressures (Kajalo & Lindblom, 2015, p.582). Moreover, marketing capabilities can improve good marketing processes through an effective deployment of the marketing mix, research, and management (Merrilees, Rundle-Thiele & Lye, 2011). According to Kotler (2003), marketing competencies arise from an effective marketing management practice, which involves exploring market opportunities, determining marketing objectives, and establishing a marketing strategy (Gellynck et al., 2012, p.484).

Previous studies report the positive effect that MO has on marketing capabilities and that firms are likely to gain and sustain competitive advantage (Laddawan Lekmat et al, 2018). Kajalo and Lindblom (2015) address that although MO supports firm performance, it is likely to support smaller retailers when they develop effective marketing practices, focus on their strategy and pay greater attention to the store-level marketing mix. Furthermore, Ngo and O’Cass (2012) suggest that when smaller firms adopt MO, they have a greater opportunity to developing their marketing capabilities and resources. Javalgi, Martin and Young (2006) also reveal significant relationship between MO, market research and customer relation management. Therefore, it is considered that MO leads to customer engagement by generating customer intelligence on their changing needs and driving organization to meet those needs (Al Mamun et al, 2018, p.136). Similarly, in their study of SMEs Gellynck et al. (2012) confirm that that firms with higher market-orientation are likely to have a distinctive marketing capabilities, particularly marketing management processes. Therefore, the following hypotheses are formulated as follows:

Hypothesis 4: In Thai OTOP, MO positively correlates to marketing capabilities

Marketing capabilities and Firm Performance

Empirical research findings (Kajalo & Lindblom, 2015; Perez-Cabanero et al, 2012; Shin & Aiken, 2012) confirm the positive effect that marketing capabilities have on firm performance and that marketing capabilities can positively improve a firm’s overall outcomes. However, the influence of marketing capabilities on firm performance have been adequately studied in the western, developed country

context, the effect of market capabilities on firm performance in developing countries is limited (Kajalo & Lindblom, 2015).

Therefore, this study proposes that marketing capabilities can enhance a firm's outcomes in three different performance measures: (1) product performance (2) financial performance and (3) marketing performance. These organizational outcomes can be achieved with regard to activities and opportunities that can transform organizational capabilities into superior products and service, customer satisfaction and profitability. Two viewpoints, namely financial and non-financial, have been employed to explain the different domains of firm performance (Venkatraman & Ramanujam, 1986; Perez-Cabanero et al, 2012; Masa'deh et al, 2018). The basis of financial performance measures have been noted that are not sufficient for organizations operating in the information era (Masa'deh et al, 2018). The use of multiple performance constructs has been recommended in the literature (Venkatraman & Ramanujam, 1986; Gonzalez-Benito et al, 2009; Kwon, 2010; Masa'deh et al, 2018). Accordingly, non-financial performance indicators have been added as the consequences of marketing competencies on the current studies (Perez-Cabanero, 2012; Laddawan Lekmat et al, 2018; Masa'deh et al, 2018). Laddawan Lekmat et al (2018, p.216) suggest that non-financial indicators may also influence financial facets and vice versa and demonstrate that financial and non-financial measures complement each other, thus motivating a firm to invest in its future growth (Gentry & Shen, 2010). Therefore, the following hypotheses are formulated as follows:

Hypothesis 5: In Thai OTOP, marketing capabilities positively correlate to product performance

Hypothesis 6: In Thai OTOP, marketing capabilities positively correlate to financial performance

Hypothesis 7: In Thai OTOP, marketing capabilities positively correlate to marketing performance

MO, Marketing Capabilities and Performance

Although there is an increasing empirical evidence from western and developed countries that suggests MO to be positively associated to firm performance, such association according to Gruber-Muecke & Hofer (2015) "is mediated by a number of variables such as strategy, economic volatility, supplier relationship and innovation" (p. 561). Some studies (Kajalo & Lindblom, 2015; Ngo & O'Cass, 2012; Shin & Aiken, 2012) report that MO alone may not be enough to promote strong small firm's business outcomes and its impact on performance is required for further examination. The superior firm performance could only be enhanced through the use of MO in developing a firm's marketing capabilities (Kajalo & Lindblom, 2015; Ngo & O'Cass, 2012; Shin & Aiken, 2012). Lings and Greenley (2010) point out that firm that can exploit opportunity, perform better and provide excellent service will ultimately increase customer retention and improve business achievement. In addition, the retailer's effective use of marketing mix and strategy has a huge impact on the firm's sales (Mantrala et al., 2009). Therefore, marketing

capabilities play a critical role for a firm's success by carefully implementing marketing activities and opportunities, and that can transform the organizational capabilities to higher customer satisfaction and profitability.

The existing evidence in the literature is not completely consistent and even sometimes shows a non-significant relationship (Huhtata et al., 2014). Therefore, it is problematic to compare the effects of MO on firm performance. As a result, it is not possible to conclude whether its influence on firm performance is exclusive directly or indirectly, i.e. through its positive effect on market capabilities. Clarifying these complex relationships would benefit not only academic, but also practitioners, as it would help them to know how to improve market capabilities and performance. This study thus aims to fill the research gap in the literature. Particularly, this study empirically studies the relationship between MO, market capabilities, and firm performance in a single model. In addition, this study employ multiple measures of performance, including financial and non-financial indicators. This study, therefore, highlights the multidimensional performance measures would provide a clearer understanding of MO-performance relationship (Buli, 2017, p. 294). Given that the extant literature suggests that the MO relationship to firm performance is both multi-dimensional and uni-dimensional, and that marketing capabilities are viewed as a mediating construct in this relationship, the following hypotheses are formulated as follows:

Hypothesis 8: The positive relationship between MO-firm performance, product performance, financial performance, and marketing performance are mediated by marketing capabilities

3. Research Methodology

Data were collected from a cross-sectional questionnaire survey of Thai OTOP enterprises. The questionnaires were distributed to owners and managers of 1,000 OTOP enterprises at "OTOP Midyear Trade Fair 2018" held by Community Development Department. In total, 721 questionnaires were returned of which 706 were usable, producing a response rate of 71%. These OTOP enterprises represent several manufacturing, retail/wholesale and service industries located across all regions of Thailand. Table 1 lists the respondent characteristics.

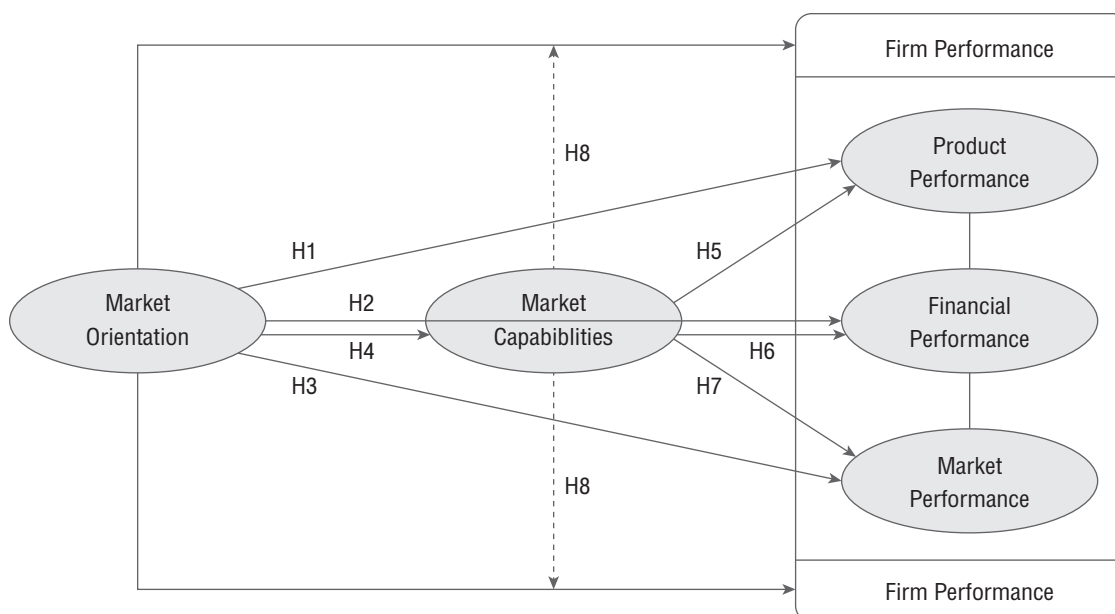


Figure 1: Conceptual Model of the Study

Table 1: Demographic characteristics of the respondents (N = 706)

Description	%
Gender of respondents	
Male	34.3
Female	65.7
Ages of respondents	
35 years or less	28.6
36–45 years	28.6
46–55 years	28.8
Over 55 years	14.0
Position of respondents	
President	26.8
MD	30.3
Manager	42.9

Table 1: Demographic characteristics of the respondents (N = 706) (Cont.)

Description	%
Firm size	
0–5	24.5
6–15	46.9
16–25	11.8
26–50	11.2
51–200	5.5
Business Type	
Manufacturing	50.9
Retail/Wholesale	36.1
Service	13.0
Industry Classification of firms	
Apparel and Textiles	33.2
Souvenirs, gifts and art works	11.9
Food and Beverage	23.7
Instruments and Furniture	10.4
Non-edible herbal products	14.5
Household and decorative items	6.3

Measures

Before implementing the survey, the instrument was reviewed by owners and managers of 10 OTOP enterprises. This aimed to identify any problems regarding the wording, content and ambiguity of the questions, and some minor changes were made based on their recommendations (Masa'deh et al, 2018, p. 3127). All items were measured on a five-point Likert scale. Components employed in each of the constructs were adopted from previous research where they demonstrate to be valid and reliable. The items for measuring MO were adopted from Kajalo and Lindblom (2015) based on Narver and Slater (1990) and Kohli et al. (1990) scales since “both had been previously tested and found to have acceptable measurement properties, particularly for developing economies” (Gruber-Muecke & Hofer, 2015, p. 563). The items comprise three behavioral perspectives mainly involving customer orientation, competitor orientation, and coordination among departments. The items for marketing capabilities were adopted from Kajalo and Lindblom (2015). To capture different characteristics of firm performance, the items for financial and non-financial outcomes, including product, financial, and market criteria were adapted

from Carton and Hofer (2006), Efsthadiades, Boustras, Bratskas, & Michaelides (2007), Kajalo and Lindblom (2015), and Laddawan Lekmat et al (2018). This study used a subjective measure of relative performance in comparison to their competitors. According to Liu, Ko Wai Wai, Ngugi & Takeda (2017, p.1987), the subjective measure of comparative performance is appropriate since it is difficult to obtain objective measurements in the small firm setting. Furthermore, empirical studies approve the convergent validity of subjective and objective performance (Liu et al, 2017).

4. Analysis and Results

Structural Equation Modeling (SEM) was employed to test the conceptual model where factor analysis and multiple regression were combined in a single statistical procedure (Hair et al., 2006). According to suggestion by Anderson and Gerbing (1988), a two-step SEM approach was employed. First, a confirmatory factor analysis (CFA) was proceeded to assess the reliability and validity of the measurement models. Then, a structural model was used to test hypothesized relationships. Furthermore, determining sample size requirements for SEM is very important in any research for the accuracy of the parameter estimates and model fit statistics (Wolf, Harrington, Clark, & Miller, 2013). One rule of thumb is that a sample size below 100 is considered small, a sample size between 100 and 200 is medium, and a sample size exceeding 200 is large (Kline, 2005). This is referred to as an adequate sample size of 100 or above is acceptable to achieving adequate statistical power. Therefore, the sample size ($N = 706$) of this study is acceptable for a given conceptual model.

Common method variance is required to examine when data are obtained via self-reported questionnaires, particularly both the predictor and criterion variables are collected from the same person (Podsakoff, MacKenzie, Lee & Podsakoff, 2003). Podsakoff et al (2003) note that a common method bias may occur from common rater effect and same measurement time effect. Harmon's Single Factor Test was employed to address this issue. According to Podsakoff et al. (2003), all variables used in the current study were entered into an unrotated factor analysis to determine the number of factors. If a single factor emerges from the factor analysis and a first factor explains most of the variance (Podsakoff & Organ, 1986), then a common method variance is assumed to exist. In this study, a single factor did not emerge and factor 1 did not explain the majority of the variance, so that common method bias is not a serious problem in the data in this study.

Measurement Model Analyses

A CFA was used to assess reliability, convergent validity and discriminant validity of each construct. Furthermore, the reliability of each construct was assessed by Cronbach's alpha. All constructs exceeded the suggested level of 0.70, signifying that the constructs had acceptable internal consistency as shown in Table 3. In addition, all factor loadings were statistically significant at $p < 0.01$ and ranged from a low of 0.61 to a high of 0.93, which supported convergent validity as shown in Table 2. Discriminant validity

was evaluated for each construct following Fornell and Larcker (1981). The average variance extracted (AVE) was examined and showed that the AVE scores of all concepts were higher than 0.50 (see Table 3), confirming discriminant validity between the constructs (Tajeddini, 2010).

Table 2: Construct Measures and Validity Measurement

Constructs	Items	Loadings
<i>F1: Market orientation¹</i>	(MO1) ^a	-
	(MO2)	0.64
	(MO3)	0.77
	(MO4)	0.74
	(MO5)	0.68
<i>F2: Market capabilities¹</i>	(MC1)	0.67
	(MC2)	0.72
	(MC3)	0.83
<i>F3: Product performance²</i>	(PQ1) ^a	-
	(PQ2) ^a	-
	(PQ3)	0.67
	(PQ4) ^a	-
	(PQ5)	0.80
	(PQ6)	0.73
	(PQ7)	0.66
<i>F4: Financial performance²</i>	(FP1)	0.89
	(FP2)	0.93
	(FP3)	0.61
	(FP4)	0.60
<i>F5: Marketing performance²</i>	(MP1)	0.68
	(MP2)	0.80
	(MP3)	0.79
	(MP4)	0.67

Notes: ¹ please indicate how much you agree and disagree with each of the following statements. Five-point scale with 1 = “strongly disagree” to 5 = “strongly agree” scale anchors; ² please indicate how well your firm has performed compared to your competitors. Five-point scale with 1 = “very low” to 5 “very high.” item deleted during the scale validation process.

Table 3: Descriptive statistics and correlations

	Mean	SD	AVE	Alpha	1	2	3	4	5
1. MO	4.27	0.50	0.50	0.74	1				
2. MC	4.38	0.48	0.55	0.75	0.55**	1			
3. Product	4.10	0.52	0.51	0.81	0.38**	0.45**	0.51**	1	
4. Finance	3.73	0.64	0.60	0.85	0.24**	0.27**	0.22**	0.43**	1
5. Marketing	4.08	0.50	0.54	0.80	0.37**	0.39**	0.33**	0.51**	0.62**

** Correlation is significant at the 0.01 level (2-tailed)

Hypotheses Testing

Following the establishment of measurement models, a full structural equation model was evaluated. The model was found not to fit the data, $\chi^2(6) = 343.37$, $p = 0.00$, $CMIN/DF = 57.23$, $RMSEA = 0.28$, $GFI = 0.83$ and $CFI = 0.66$. An assessment of the modification indices based on strategic management theory validation (see Venkatraman & Ramanujam, 1986; Carton & Hofer, 2006) proposed that adding structural paths from ‘financial performance’ to ‘product performance’ and ‘marketing performance’ to ‘financial performance’ could improve the model, $\chi^2(2) = 10.50$, $CMIN/DF = 5.25$, $RMSEA = 0.08$, $GFI = 0.99$ and $CFI = 0.99$. Thus, the adjusted model presented in Figure 2 was considered acceptable.

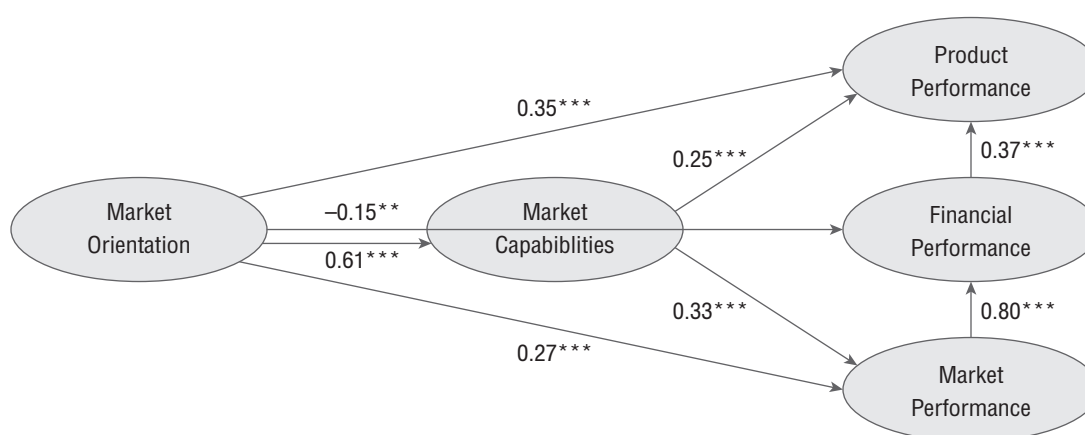


Figure 2: Final model of MO, MC, and Performance

Note: * significant at $p > 0.05$, ** significant at $p > 0.01$, *** significant at $p < 0.001$

The arrows with supportive β coefficients presented at the center of each link in Figure 2 reveal that all hypotheses are supported (also see Table 3). This result indicate that the MO positively associates to product performance ($\beta = 0.35$, $p < 0.001$) and marketing performance ($\beta = 0.27$, $p < 0.001$), thereby supporting $H1$ and $H3$. However, MO is negatively associated with financial performance ($\beta = -0.15$,

$p < 0.01$), thus, $H2$ is partially supported. In addition, MO is positively associated to marketing capabilities ($\beta = 0.61, p < 0.001$), thereby supporting $H4$. Furthermore, marketing capabilities are positively associated with product performance ($\beta = 0.25, p < 0.001$) and marketing performance ($\beta = 0.33, p < 0.001$), thereby supporting $H5$ and $H7$. However, the direct effect of marketing capabilities on financial performance is non-significant, hence $H6$ is rejected. Thus, given the relationships between marketing capabilities and MO and product performance and marketing performance, as shown in the model fit in Figure 2, this study can prove that marketing capabilities mediates between the OTOP constructs. Thus, $H8$ is supported for the mediating role of marketing capabilities in OTOP performance dynamics in Thailand. Beyond the hypothesized model, the findings suggest that financial performance has a moderate effect on product performance ($\beta = 0.37, p < 0.001$), and marketing performance has a strong effect on financial performance ($\beta = 0.80, p < 0.001$). Lastly, the R^2 values indicate that the model explains 37 percent of marketing capabilities, 54, 55 and 29 percent of product, financial and marketing performance respectively.

The findings of this study demonstrate that MO can lead to improve OTOP performance. This proves the results of previous studies (e.g. Amin et al, 2016; Jaworski & Kohli, 1993; Matsuno, Mentzer & Özsomer, 2002; Narver & Slater, 1990). Amin et al (2016) argue that MO can provide performance benefits to firms when they have a better understanding of customer needs, and a broader market environment than their rivals. Consequently, the MO implemented in business will enhance greater customer value, then the firms can develop superior products and services than their competitors (Jaworski & Kohli, 1993). However, MO is found to be negatively related to financial performance. This result is somewhat unexpected. This finding contrasts with the prior research. For example, the work of Amin et al (2016) report a moderate relation between MO and financial performance in Malaysia. Buli (2017) also demonstrates that MO is positively correlated with financial performance. The literature highlights that the implementation of MO in small firms depends on environment and culture and that seeming different MO adoption exist between small businesses in different environments (Blankson & Cheng, 2005; Luakkanen et al, 2013). Therefore, future research is needed to inspect the degree of impact MO has on financial performance (Raju, Lonial & Crum, 2011).

In addition, the finding of this study suggests that marketing capabilities can be noticed as the relation between ‘MO and performance.’ This confirms the findings of the previous research (e.g. Kajalo & Lindblom, 2015; Murray et al., 2011; Ngo & O’Cass, 2012). Kajalo and Lindblom (2015, p. 590) report that “the relationship between MO and performance cannot be treated in isolation from marketing capabilities.” Thus, MO is required to complement marketing capabilities in order to enhance small business outcomes. Therefore, small businesses need to include marketing capabilities as an internal perspective when exploring the link between MO and business performance (Kajalo & Lindblom, 2015).

Table 4: MO, MC, and Firm Performance Supporting the Hypotheses

Hypotheses	Testing	Status
Hypothesis 1. In Thai OTOP, market orientation (MO) positively relates to product performance (PP)	$(\beta = 0.35, p < 0.001)$	Support
Hypothesis 2. In Thai OTOP, market orientation (MO) positively relates to financial performance (FP)	$(\beta = 0.27, p < 0.001)$	Partially support
Hypothesis 3. In Thai OTOP, market orientation (MO) positively relates to marketing performance (MP)	$(\beta = -0.25, p < 0.01)$	Support
Hypothesis 4. In Thai OTOP, market orientation (MO) positively relates to marketing capabilities (MC) to enhance firm performance	$(\beta = 0.61, p < 0.001)$	High support
Hypothesis 5. In Thai OTOP, marketing capabilities (MC) positively relates to product performance (PP)	$(\beta = 0.25, p < 0.001)$	Support
Hypothesis 6. In Thai OTOP, marketing capabilities (MC) positively relates to financial performance (FP)	n.s.	Reject
Hypothesis 7. In Thai OTOP, marketing capabilities (MC) positively relates to marketing performance (MP)	$(\beta = 0.33, p < 0.001)$	Support
Hypothesis 8. In Thai OTOP, the positive relationships for MO-firm performance, product performance, financial performance, and marketing performance are mediated by marketing capabilities.	$\chi^2(2) = 10.50,$ CMIN/DF = 5.25, RMSEA = 0.08, GFI = 0.99 and CFI = 0.99	Support

The findings lastly demonstrate that marketing capabilities have both direct and indirect impacts (through marketing and financial performance) on product performance, but an indirect impact (through marketing performance) on financial performance. This supports the results of prior studies (e.g. Kajalo & Lindblom, 2015; Ngo & O’Cass, 2012; Shin & Aiken, 2012). Laddawan Lekmat et al (2018, p. 216) report that non-financial indicators may also influence financial facets and vice versa and demonstrate that financial and non-financial measures complement each other, thus motivating a firm to invest in its future growth (Gentry & Shen, 2010). This study, therefore, highlights the multidimensional performance measures would provide a clearer understanding of MO-performance relationship (Buli, 2017, p. 294).

5. Conclusion

The findings of this study suggest that MO leads to enhance OTOP performance, particularly in financial and non-financial both directly and indirectly via marketing capabilities. Based on the review of the literature, it can be noticed that similar studies have not been conducted in community-based enterprise context, specifically OTOP. Consequently, this paper provides new insights into the MO-performance relationship among OTOP enterprises in Thailand. Organizational growth is highly necessary for Thailand as an emerging economy. Though the findings on the MO-firm performance relationship are mixed in some ways, this study suggests that MO plays a critical role in driving success of businesses. It is the essential strategic orientation that could help small firms allocate its valuable resources, competencies, and capabilities, and in turn achieve a sustained competitive advantage and OTOP performance in Thailand. This study confirms that MO successfully adopted in developed markets can be applied to emerging markets.

Implications for the Biterature

The results of this research provide some contributions to the literature as follows: first, this study shows that MO influences firm performance directly and indirectly through marketing capabilities. The direct effect of MO on performance is supported by other studies (e.g. Narver & Slater, 1990; Jaworski & Kohli, 1993; Gruber-Muecke & Hofer, 2015; Kwon, 2010; Amin et al, 2016; Yu et al., 2016; Buli, 2017). However, the finding of this study contradicts the results by Kajalo and Lindblom (2015), who suggest that MO does not directly affect business performance in small firms. Furthermore, Murray et al. (2011) also indicate that MO has no direct effect on profitability. As the results of this contradiction, this study argues that MO may not always contribute to superior performance and may require organizational capabilities to attain superior business outcomes (Kajalo & Lindblom, 2015; Kwon, 2010; Murray et al., 2011; Ngo & O’Cass, 2012; Al Mamun et al, 2018). This study thus sheds the light on the indirect impact of MO on performance via marketing capabilities and argues that marketing capabilities can play an important role as the link between MO and performance. Therefore, it is significant to note that MO requires marketing capabilities as complementary resources, competences and capabilities to increase performance of small firms (Ngo & O’Cass, 2012; Laddawan Lekmat et al, 2018).

In addition, it is thought-provoking to highlight that marketing capabilities have direct impact on marketing performance and both direct and indirect impacts (through marketing and financial performance) on product performance and (through marketing performance) on financial performance. Given the emerge of the information era, managing business successfully cannot be done with only financial measures but the non-financial indicators better represent for economic growth of firms (Kotane, 2012). Therefore, financial and non-financial facets can be beneficial when evaluating various aspects of firm performance at different points in time (Carton & Hofer, 2006; Masa’deh et al, 2018). Non-financial measures may also lead to financial aspects and vice versa (Laddawan Lekmat et al, 2018, p. 216). Previous studies demonstrate

that financial and non-financial aspects complement each other, thus inspiring a firm to invest in its future growth (Gentry & Shen, 2010). Firms with high marketing competencies tend to have good customer relationship and create superior customer value. This in turn leads to achieve a higher level of financial outcomes and also positive non-financial aspects than firms with lower marketing competencies. Marketing competencies are considered as one of the essentials for product performance (e.g. product and service quality, overall production effectiveness, and time to market) and marketing performance (e.g. customer satisfaction, market expansion and market growth) since intangible assets (e.g. market goals such as customer engagement) can make significant influence to higher profit, turnover and cash flow and in turn make significant influence to product goals realized. Therefore, the integration of financial and non-financial performance implications can clarify the multidimensional performance of firms operating in highly competitive business environments using MO and these relationship's mediating effects. This study provides a more understanding by explaining to what extent MO is associated with performance through marketing capabilities.

Implications for Practice

This paper also provides some managerial contributions. First, OTOP enterprises should consider strategic management as one of the most significant mechanisms of managing a firm since it contributes to its survival by increasing and sustaining a competitive advantage. According to the perspective of OTOP as community-based enterprises, given their limited resources, choosing the appropriate strategy can be an important aspect for success and survival of a business. This study suggests that the market orientation adopted in business will help organizations improve performance because understanding and responding to customer needs are critical to the success of existing product improvement and new product development in terms of sales level, sales growth, market share and profits. Accordingly managers and owners of OTOP enterprises should identify existing market-based assets in their organizations, analyze and understand their value and fully utilize them in the introduction of new products, attracting new customers and maintaining relationships with external stakeholders. A focus on customer needs and competition by obtaining, disseminating, and using market information for organizational change can help firms become more knowledgeable and in turn make smart decisions. Understanding the MO concept would help firms to anticipate and respond to the changing needs of existing customers and exploit new market opportunities available domestically and internationally. Firms with high MO tend to have good customer relationship and this in turn enhances sales growth, customer retention, market share, profitability, efficiency and sustainability. In doing so, firms would apply useful knowledge, skills and resources for enhancing superior customer value and developing superior products and services.

In addition, the important role of marketing resources cannot be ignored. This study recommends that focusing on MO alone may sometimes not adequate, but require the combination of internal organizational processes to fully achieve higher performance. Specifically, with marketing capabilities,

both financial and non-financial implications may be achieved. Marketing capabilities are needed to create and execute marketing plans and strategies such as target segment and selection, market analysis, selling efforts, pricing, advertising and promotion programs, distribution systems, product/service development and quality control. To gain competitive advantage, OTOP managers and owners should deploy marketing capabilities as a resource of their organization to select the best-targeted markets, promotions and distribution channels, as well as develop and introduce unique product and service. Investing in such marketing-related activities can help firms not only maintain and increase market share but also improve quality of products and services. Hence the effective use of marketing practices including marketing mix components and strategy would illustrate the value creation of MO. Therefore, organizations are recommended to consider strategic orientation –namely market orientation– and evaluate the core competencies together with marketing capabilities.

Limitations and Recommendations for Future Study

The following are some limitations of the study. First, the sample of this study includes the specific enterprises, particularly OTOP. Therefore, future research should be conducted covering similar studies in other business fields and national settings in which the business environment and culture are different from developing countries. Previous research have found that the influence of MO on performance may be different in different environment conditions (e.g., Blankson & Cheng, 2005; Ruju et al, 2011; Luakkanen et al, 2013). Moreover, future research may include other types of strategic orientation (i.e. entrepreneurial orientation, customer orientation, learning orientation etc.) to examine how those strategic orientations enable to provide performance benefits to small firms. It has been highlighted that strategic orientation leads to different levels of performance, and that different styles of strategic orientation might provide a greater business outcomes than others (Luakkanen et al, 2013). In addition, some scholars point out that firms might find it valuable to have a combination of strategic orientations (Grinstein, 2008; Al Mamun et al., 2018). Firms that combining market orientation with other orientation can perform better than firms only adopt market orientation (Luakkanen et al, 2013; Buli, 2017; Masa'deh et al, 2018).

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