Cost Leadership, Market Orientation and Business Performance: An Empirical Investigation

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**Cost Leadership, Market Orientation and Business Performance: An Empirical Investigation**

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**Abstract**

The study aimed at examining the relationship between cost leadership strategy, market orientation and business performance of manufacturing, Small and Medium Enterprise performance (SMEs). A quantitative survey method was employed, using a cross-sectional research design. The data were collected through self-administered questionnaires from a sample of 287 respondents. The study indicated that SMEs are essential to the economic growth of Nigeria; because they serve as an indispensable source of employment generation. SMEs contribute immensely towards the formation of industries, enhanced capital accumulation, served as an intermediary for goods, and assist in the uplifting the living standard through the provision of variety of products and services. The research model used in this survey was designed in line with the theoretical evidence which in turn lead to the correlation between the research variables. The study employed the Multiple regression method; the findings indicated that cost leadership strategy and market orientation has a significant positive relationship with the performance of SMEs. The discussion provided some limitations and offer suggestions for future research directions.

**Keywords:** Cost Leadership Strategy, Market Orientation, Business Performance, SMEs, Nigeria

**JEL Classification:** M10

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1. Introduction

Today the competitive and economic environment keep changing, which entirely diverted the attention of firms’ and forced it to strive hard on how to maintain both physical and intangible resources to improve their performance and build a competitive advantage (Mata & Aliyu, 2014). Cost leadership strategy and market orientation are the major organizational tools used in boosting industrial performance and promoting competitive advantages. Therefore, Cost leadership strategy is an influential factor that can lead to an active firm’s performance. Similarly, market orientation has been identified as a catalyst for enhancing effective business performance by considering customer needs as the top organizational philosophy. Therefore, it is pertinent to propose that cost leadership strategy (CSS) and market orientation (MO) have common motives for promoting and gaining competitive gain and enhanced organizational performance (Waddell & Stewart, 2008).

One of the essential ingredients of success in the marketplace is the competitive advantage (Birjandi, Jahromi, Darabi & Birjandi, 2014). For any organization to function actively, it must be familiar with its operational terrain. Therefore, all the components of the firm's performance should be expected, controlled, evaluated, and consolidated in the top-level decisions making. An understanding of the significant impact of cost leadership (CLS) and market orientation (MO) on business performance should facilitate an institution in its efforts to align its cost leadership and orientation strategies with the appropriate components of the sustainability of firm performance, which in turn should increase an organization’s ability to achieve a sustainable competitive advantage.

In line with the resource-based views, strategic capabilities are a sum of internal means that generate competitive benefits (Barney, 1991). In turn, these particular and peculiar combinations of resources may improve the firm’s performance and build a sustainable competitive gain (Barney, 1991; Miller & Shamsie, 1996). Given the resource-based view of the firm (RBV), CLS and MO can be viewed as important strategic capabilities and organizational resources which correlated together, and it is expected that the interaction of these two distinct management strategies will increase the efficiency and
performance of the firm. However, each approach is usually studied as a different field of study in the literature.

2. Problem Statement

Cost leadership strategy and market orientation are among the most popular strategy (Li & Li, 2008; Narver & Slater, 1990) that can assist small and medium firms to form and maintain their competitive position. Theoretically, previous studies explained that the investigations carried in examining the effects of CLS, MO practices, and business performance showed mixed and conflicting results.

The review of previous studies with regards to the two constructs reported a positive and significant relationship between them. Notably among them are the studies of Acquaah (2011); Gonzalez-Benito and Suarez-Gonzalez (2010); Valipour, Birjandi, and Honarbakhsh (2012); Frith (1998); Ghanavati (2014); Shehu and Mahmood (2014). Therefore, this research study attempted to enhance the literature by further examining the CLS, MO and business performance within the Nigerian context and SMEs settings.

3. Business Performance

3.1. Cost Leadership and Performance

Cost leadership strategy received more extensive scholarly attention in many management and marketing literature. Li and Li (2008) surveyed two hundred and forty-nine small firms in China and reported that the influence of both cost leadership and dual strategies on financial performance is useful for foreign firms than for small domestic organizations.

Huang (2008) conducted a longitudinal study, with structural equation modeling (SEM) for data analysis. The findings showed that five financial, three customers, four internal processes, and three innovation and learning perspective indicators of performance measurement have caused and effect relationship among themselves under different strategies.

Similarly, Gonzalez-Benito and Suarez-Gonzalez (2010) investigated one hundred and forty-eight Spanish manufacturer’s and reported that the alignment between business strategy, manufacturing
objectives as well as the manufacturing capabilities influence business performance positively. The study of Acquaah (2011) examined managerial, social capital, strategic orientations and organizational performance of the selected firm in Ghana. The results of the survey showed a significant and positive correlation between social capital and organizational performance.

In the same vein, similarly, Gonzalez-Benito and Suarez-Gonzalez (2010) investigated one hundred and forty-eight Spanish manufacturers’ and reported that the alignment between business strategy, manufacturing objectives as well as the manufacturing capabilities positively influenced the business performance.

Acquaah (2011) examined the effect of business strategy on the performance of the family business. A sample of fifty-four family businesses was used. The outcome from the study shows that the business strategy of cost leadership and differentiation produces a competitive advantage for family business. In the same vein, Valipour et al. (2012) argued on the effects of cost leadership strategy and product differentiation strategy on the firm performance. Data was collected from forty-five firms in the Tehran Security Exchange (TSE), a multiple regression analysis was used for the leadership strategy and firm performance. Based on these arguments, the following hypothesis is formulated:

\[ H_1: \text{Cost leadership strategy has a significant impact on business performance.} \]

### 3.2. Market Orientation and Performance

Market orientation to performance relationship appeared to produce mixed findings, thereby, making their association inconclusive. Frith (1998) in a study argued on market orientation to performance relationship in minority and women owned firms in Central Texas. A sample of one thousand and four small firms was used, and the finding indicated mixed results.

Market orientation to performance relationship was positive as measured by sales growth rate and customer retention, while, a negative correlation was found between market orientation to performance as measured with return on sales. However, the study of Mokhtar (2009) examined one hundred and fifty-eight Malaysian manufacturing firms, through a mail questionnaire survey. The
findings suggested that market action and planning relates positively to financial performance.

Matanda and Ndubuisi (2009) investigated market orientation, superior perceived value and business performance of small firms in Sub-Saharan African nation, using structural equation modeling for the data analysis and two hundred and forty-four respondents. The result reported that customer orientation is found to improve supplier perceived value creation; competitor orientation and inter-functional coordination. In contrast, all the factors were negatively related with supplier perceived value creation.

O'Cass and Ngo (2007) conducted a cross-sectional study, using a convenience sample of one hundred and eighty marketing executives in Australia. A structural equation modeling was used for the data analysis; organizational culture partially mediates between market orientation and performance relationship.

In the same vein, Barnabas and Mekoth (2010) assessed whether the superior autonomy at boundary traversing levels in Service organizations yielded an excellent market orientation and performance. A sample of three hundred and five branch managers was used, employing multiple regression analysis for the data analysis. Superior personnel related and goal setting autonomy at boundary spanning levels have a proper market orientation as well as performance implications.

Shehu and Mahmood (2014) examined market orientation to performance relationship among the Nigerian SMEs, with six hundred and forty owner / managers as respondents. The result of correlation analysis established a positive association between the construct, whereas, a negative relationship was reported through multiple regression results.

Additionally, Ghanavati (2014) argued on corporate culture and market orientation of Iranian industrial SME performance, with a sample of three hundred and ninety two executive marketing managers. A stratified sampling method was used, and a structural equation modelling employed for the data analysis. The finding shows a positive indirect effect of organizational culture on the relationship between market orientation and performance. Based on these arguments, the following hypothesis is formulated:
4. Methodology

4.1. Research Design

The study employed a cross-sectional research plan which entails the collection of data at a specific point. (Gorondutse & Hilman, 2013; Kumar et al., 2013; Zikmund et al., 2013; Sekaran & Bougie, 2003). Also, the study used a quantitative and descriptive survey method aimed at testing the formulated hypotheses built from the previous reviews. The unit of analysis for this study is an organizational level.

4.2. Population and Sample

The study population was made up of 978 manufacturing SMEs situated in Kano – north-western part of Nigeria. The sample size of the study was obtained using a systematic sampling technique and the Krejcie, and Morgan (1970) table for sample size determination to come up with a select sample of 278 manufacturing SMEs firms. A self-administered questionnaire method was used for the data collection. A total of 320 questionnaires were administered, 201 were duly completed and returned representing 72 percent response rate.

4.3. Measurement

The research instruments were chosen from the previous research literature. Firstly the business performance is a variable with 8 items adapted from Val-Mohammadi (2011), while cost leadership items were adopted from Zhang (2001) and Li, Nathan, Nathan and Rao (2006). The measures are represented by 5 dimensions and 16 items, whereas, market orientation measures were adopted from Suliyanto and Rahab (2012); Shehu and Mahmood (2014) with 12 items, all the measures were found to be valid and reliable with good internal consistency and reliability. All items adopted were measured on a 7 point Likert type scale ranging from, ranging from 1 (strongly disagree) to 7 (strongly agree). Expert’s opinion was sought to ensure the face and content validity of the instruments.

5. Results

Table 1 below depicts the demographic profile of respondents. As regards to gender, 204 males were found in the survey, which
constitute 72.9 percent as opposed to 76 who are female representing only 27.1 percent. This clearly shows that male dominated the kano SMEs with a significant proportion. Most of the responses in relation to position came from those with other rank as it constitute the larger percent of 40.7, followed by managers with 26.4; general managers responses constituted 21.1, while 33 of the chief executives responded with 11.8 which is the least.

Table 1: Demographic Profile of Respondents

<table>
<thead>
<tr>
<th>Demographic Variables</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>204</td>
<td>72.9</td>
</tr>
<tr>
<td>Female</td>
<td>76</td>
<td>27.1</td>
</tr>
<tr>
<td>Position</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chief executive</td>
<td>33</td>
<td>11.8</td>
</tr>
<tr>
<td>General manager</td>
<td>59</td>
<td>21.1</td>
</tr>
<tr>
<td>Manager</td>
<td>74</td>
<td>26.4</td>
</tr>
<tr>
<td>Others</td>
<td>114</td>
<td>40.7</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSCE</td>
<td>35</td>
<td>12.5</td>
</tr>
<tr>
<td>Diploma</td>
<td>47</td>
<td>16.8</td>
</tr>
<tr>
<td>Degree/HND</td>
<td>57</td>
<td>20.4</td>
</tr>
<tr>
<td>Master</td>
<td>119</td>
<td>42.5</td>
</tr>
<tr>
<td>Others</td>
<td>22</td>
<td>7.8</td>
</tr>
<tr>
<td>Ownership</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual</td>
<td>127</td>
<td>45.4</td>
</tr>
<tr>
<td>Partnership</td>
<td>81</td>
<td>28.9</td>
</tr>
<tr>
<td>Joint venture</td>
<td>30</td>
<td>10.7</td>
</tr>
<tr>
<td>Others</td>
<td>42</td>
<td>15</td>
</tr>
</tbody>
</table>

According to Cohen (1988) a correlation of 0.5 to 1.0 is considered very strong, a correlation of 0.30 to 0.49 is considered as moderate relationship, a correlation of 0.10 to 0.29 is considered as a weak relationship. Based on this assertion, the correlation coefficients are considered as both moderate and very strong relationships, as shown in Table 2 below.

Majority of the owner/ managers of SMEs are the holders of masters degree which carries 42.5 percent. Holders of either a bachelor degree or higher national diploma constituted the second
category of response with 20.4 percent. However, Diploma, SSCE and others constituted the least response of 16.8, 12.5 and 7.9 percentages respectively. Individual as owners of SMEs carries 45.4 percent, partnership 28.9 percent, others 15 percent while joint venture ownership constituted 10.7 percent; this clearly shows that most of SMEs are owned by individual and also through partnership.

Table 2: Pearson Correlation Analysis Between the Study Variables

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>BP</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost leadership</td>
<td>0.314</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Market orientation</td>
<td>0.454**</td>
<td>0.591**</td>
<td>1</td>
</tr>
</tbody>
</table>

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

Table 3 and 4 below provide the multiple regression results on the impact of cost leadership strategy, market orientation and business performance of manufacturing SMEs in Nigeria. The R square is 0.455.

Table 3: Multiple Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>$t$-Value</th>
<th>$p$-value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>3.532</td>
<td>0.765</td>
<td>4.615</td>
<td>0.000</td>
</tr>
<tr>
<td>Cost lead</td>
<td>0.165</td>
<td>0.013</td>
<td>0.574</td>
<td>13.058</td>
</tr>
<tr>
<td>MO</td>
<td>0.762</td>
<td>0.025</td>
<td>1.365</td>
<td>31.042</td>
</tr>
</tbody>
</table>

As suggested by Cohen (1988), 0.26 substantial, 0.13 moderate and 0.02 weak; the $R^2$ here is considered substantial, this explains that 45.5 percent of cost leadership strategy and market orientations are affected by business performance, which suggests that the contribution of each variable to the model is very substantial (Cohen, 1988). See Table 4.

Table 4: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>$R$</th>
<th>$R^2$</th>
<th>Adjusted $R^2$</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.525</td>
<td>0.455</td>
<td>0.454</td>
<td>3.475</td>
<td>0.455</td>
</tr>
</tbody>
</table>
Table 3 clearly shows that market orientation is the most important variable in predicting business performance of SMEs with ($\beta = 0.762$, $t = 31.042$, $p$-value $= 0.000$), whereas, cost leadership strategy was next to market orientation with the following values ($\beta = 0.165$, $t = 13.058$, $p$-value $= 0.000$). Both market orientation and cost leadership strategy were found to have a significant and positive relationship with business performance of Nigerian manufacturing SMEs, hence $H_1$ and $H_2$ were supported.

6. Discussions

The findings from this study are consistent with the previous researches which found significant association between cost leadership strategy and performance Li et al. (2006); Kaliappen and Hilman (2013). However, previous studies of Allens and Helms (2006); Hilman (2009); Kaliappen and Hilman (2013); Kirca et al. (2005); Shavarini, Salimian, Nazemi and Alborzi (2013) on the association between cost leadership and performance reveals significant results between the study constructs.

Similarly, findings of Perry and Shoa (2002) on market orientation and incumbent performance in dynamic market showed that MO directly and indirectly affects performance, however, perception of traditional competitors is found to directly and indirectly affect the performance. Arising from this, O’cass and Ngo (2007) examined MO versus innovative culture toward superior brand performance. The study is cross-sectional in nature, which employed structural equation modelling for data analysis and 180 marketing executives conveniently selected in Australia. Organizational culture was found to partially mediate between MO and OP.

Additionally, the study of Mokhtar, Yusoff, and Ahmad (2014) examined MO essential success factors of Malaysian manufacturer and its impact on financial performance. The study used a mail questionnaire survey method and reported that market action and market planning were positively related to financial performance. The survey of Kwon (2010) indicated a similar finding that MO - OP were positively correlated. However the result of Shin (2012), Kivipold and Vadi (2013), Ghavavati (2014), Shehu and Mahmood (2014) all indicted significant and positive correlation between market orientation to performance relationship.
constructs. In contrast, Au and Tse (1995) reported a perfect negative correlation between MO performances. Likewise, the study of Mokhtar, Yusoff, and Ahmad (2014) with a sample of one hundred and forty SMEs in Malaysia, reported mixed results on a critical element of market orientation to performance relationship.

7. Implications, Limitations and Suggestions for Future Research

This article makes an outstanding contribution in adding to the literature on performance research. By employing cost leadership market orientation, this study demonstrated how variables could influence the relationship between exogenous and endogenous constructs. This will continue to be a subject of productive research that could help researchers and policymakers to understand these constructs better and plummeting the occurrence of this phenomenon under investigations.

The present study adopted a cross-sectional design, where the data was obtained at a given point in time. Therefore, it is suggested that prospective researchers should use a longitudinal survey design. Also, the study only considered the manufacturing SMEs. Hence, it is recommended that future studies should look at the other SME classification such as service, education, transport, and communication. However, other variables such as alliance orientation, total quality management and corporate entrepreneurship can be added to either moderate or mediate the relationship between strategic orientations and business performance relationships. Therefore, it is suggested that in the future studies on market orientation should incorporate the influences of cost leadership and market orientation on the innovativeness of goods and services, to discover more about its working, and how it may be a useful tool for a strategic firm capability.

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