

## Leadership Quality and the Performance of Market Driven Organizations

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**Abstract:** This study aims to examine the role of leadership quality on the relationship between market orientation and the performance of organization. Data collection was conducted with the help of mail questionnaire survey coupled with a simple random sampling method in choosing organizations comprising the sample study. The study sample consisted of one hundred and fifty eight Malaysian manufacturing firms. According to the study's results, leadership quality partially moderated the market orientation- performance of organization relationship. Despite the lack of evidence on the impact of leadership quality on the relationship between market orientation and performance of organization, individual results indicated that leadership quality does moderate the relationship between market focus and performance of organization as well as that between market planning and performance of organization.

**Key words:** Leadership quality, market orientation, organizational performance, malaysian manufacturing sector, Malaysia

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### INTRODUCTION

Organizations have to modify their organizational strategy to align with the environment to ensure their survival (Morgan *et al.*, 2009; Wei and Lau, 2008). Moreover, owing to the fact that business operations in the current times are customer-centric urged organizations to make changes in their operations by restructuring their processes and recreating new initiatives that are centered on market and quality (Bond, 2003; Chong and Rundus, 2004; Day, 1999; Slater and Narver, 1994a; Yam *et al.*, 2005). Added to this, studies have increasingly focused on the quality-orientation of organizations as this affects their performance as well as their competitiveness (Kirca, *et al.*, 2005; Narver and Slater, 1990; Slater and Narver, 1994b). As a consequence, studies dedicated to examining the relationship between individual success factors of quality orientation and marketing are sadly lacking.

**Market orientation:** Market orientation conceptually refers to the marketing concept implementation (Kohli and Jaworski, 1990; McCarthy and Perreault, 1993). Despite the proposed elements of marketing, a huge proportion of studies in literature that examined the concept of marketing are of the consensus that it is formed by three fundamental elements namely customer orientation, integration and coordination and profit orientation (Barksdale and Darden, 1971; Kotler and Levy, 1969). As specified by Kotler (2000) "the marketing concept is a

customer orientation backed by integration marketing aimed at generating customer satisfaction as the key to satisfying organizational goals".

Current studies concerning market orientation has also stressed on the significance of customer orientation, integration and coordination by dividing the concept into several organizational activities and behaviors (Kohli and Jaworski, 1990; Narver and Slater, 1990). For example, market orientation has been referred to as "the organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments and organisation wide responsiveness to it" (Kohli and Jaworski, 1990). Similarly, market orientation has been defined by Narver and Slater (1990) "as the organisation culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and thus, continuous superior performance for the business". Thus, in view of the above argument, market orientation can be considered as an orientation towards meeting and satisfying customer needs through the integration and coordination of the whole organisation. Mokhtar *et al.* (2009) has combined past literatures of market orientation constructs. Gray *et al.* (1998) and Narver and Slater (1990). Their study on manufacturing organisations found out that they were five critical success factors of market orientation practices, specifically market focus, market action, market planning, market coordination and market feedback.

**The impact of market orientation and leadership quality:**

According to studies, both market orientation and quality orientation can serve as elements of competitiveness in organizations that could improve their performance. Specifically, studies concerning market orientation reported a positive relationship between performance and market orientation (Barnabas and Mekoth, 2010; Jaworski and Kohli, 1993; Kara *et al.*, 2005; Kwon, 2010; Maydeu-Olivares and Lado, 2003; Zebal and Goodwin, 2012). Nevertheless, there are other studies that reported no relationship or insignificant relationships for instance, Greenley (1995) revealed no significant relationship between market orientation and performance. Similarly, Diamantopoulos and Hart (1993) highlighted an insignificant association between the two variables while other studies stressed on the contribution of TQM to organizational performance (Agus, 2004; Fotopoulos and Psomas, 2010; Kumar *et al.*, 2008; Pinho, 2008; Salaheldin, 2009; Sun, 2000; Yunis, *et al.*, 2013). It is evident that TQM practices ultimately leads to positive influence on the work-related attitudes among employees (Karia and Asaari, 2006) but some studies reported that some specific factors failed to contribute to organizational performance (Agus, 2004; Sun, 2000). Specifically, Agus (2005) found no evidence of a direct TQM, product quality performance and business performance relationship. Based on the findings by Prajogo and Sohal (2006), TQM is not effective on its own and as such, it is important for organizations to employ it with other resources for successful organizational performance.

It can therefore be stated that despite the evidence backing the significance of market orientation and quality orientation as sources of competitiveness that contribute to organizational performance, a few studies reported no evidence of such support. Additionally, some other studies dedicated to market orientation and quality orientation revealed indirect association between both orientations and organizational performance (Chong and Rundus, 2004). Along the same line of studies, integration between market orientation and quality orientation has been advocated owing to their complimentary aspect in improving and contributing to organizational performance (Lai and Cheng, 2005; Longbottom *et al.*, 2000; Sittimalakorn and Hart, 2004). On the basis of these contention, this study attempts to provide an insight into the issues by examining the relationships between market orientation and leadership quality and their impact on the Malaysian manufacturing firms. In this regard, the existence of certain barriers of such integration calls for effective support and guidance from management to guarantee coordination along the entire organizational functions. Leaders as well as commitments from

employees throughout the organization are needed for a successful transformation into market-oriented organization (Farrell, 2000; Narver, *et al.*, 1998).

Leaders play active role in developing, monitoring and executing strategic planning and are the driving force behind organisation excellence (Besterfield, 1999; Zhou *et al.*, 2008; Das *et al.*, 2011). ISO 9001 standard specified that planning shall be the responsibility of top management. In specific, top management need to ensure that quality objectives are set up within the organisation functions, measured and implemented to meet the requirements. Successful organizations call for the emphasis on strategic quality management (Maria and Calingo, 1996). Several organizations failed to implement quality because they were unable to match it with strategic planning (Asif *et al.*, 2009; Hansson and Klefsjo, 2003). Implementing quality initiatives should be considered as a strategic approach because in order to realize competitive advantage, organizational strategic goals and quality improvement are a must (Asif *et al.*, 2009; Alidris and Mohamed, 2012). Prior studies highlighted the crucial aspect of strategic quality management for the excellent performance of the organization (Leonard and McAdam, 2001). Das *et al.* (2011)'s study involving 17 organizations that won the Australian Quality Award (1989-1993) evidence that successful change in the quality culture has to be related with the organizational strategic vision and management support.

Strategic quality management requirement is also evidenced by the importance of aligning organizational strategy to the customer requirements for excellent performance. According to Srinidhi (1998), customer satisfaction is possible if there is an effective system that transforms the expectations of customers into tangible managerial activities that can be employed. Hence, strategic quality management establishes a system and guideline for organizations to transform customer expectations into operational activities along the organizational echelons. Meanwhile, market orientation can play a key role in the generation of information from the environment specifically regarding customer requirements. Such information is then distributed to the strategic decision process of the organization and to the senior management as they need it to develop a strategic plan that is customer-centered. The strategy is forwarded to the whole organization in order to ensure that the employees understand their organizational goals.

However, market orientation on its own is not sufficient to drive customer requirement into the organization's internal operation as it lacks strategic quality management in its concepts and aspects such strategic quality management is what facilitates plans to focus on customer requirements. In this regard,

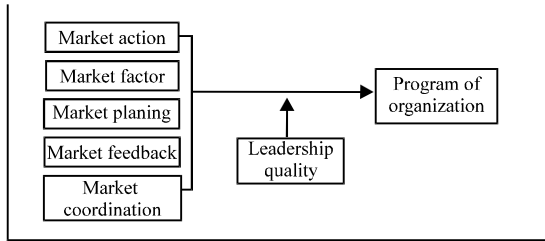


Fig. 1: The conceptual framework

Morgan *et al.* (1998) brought forward the development of strategic quality planning and quality planning match to enhance marketing-quality department relationship. They revealed that the formalization of quality planning led to minimized conflict and the alignment of quality planning maximizes the relationship between marketing and quality departments. Owing to the importance and effect of leadership quality in the provision of leadership for quality and strategic quality management for greater organizational performance, when it is coupled with market orientation, we thus hypothesize that (Fig.1):

- H<sub>1</sub>: leadership quality moderates the relationship between market action and the performance of organization
- H<sub>2</sub>: leadership quality moderates the relationship between market focus and the performance of organization
- H<sub>3</sub>: leadership quality moderates the relationship between market planning and the performance of organization
- H<sub>4</sub>: leadership quality moderates the relationship between market feedback and the performance of organization
- H<sub>5</sub>: leadership quality moderates the relationship between market coordination and the performance of organization

**MATERIALS AND METHODS**

Our method of data collection for this study to examine the relationship between the variables was by means of survey method strategy. A total of 500 questionnaires were randomly distributed to chief executive officer or managers of the manufacturing organisations. The list of organisations was based from the Federation of Malaysian Manufacturers (FMM) directory. Respondents were provided with self-addressed, stamped return envelopes with contact telephone and fax numbers in the cover letter to facilitate questionnaire return and correspondence. A cover letter explaining the objectives of the study and the significance of the study to Malaysian business and

Table 1: The moderating effect of leadership quality on the relationship between market orientation and the performance of organization

Variables	Step 1	Step 2	Step 3
	Standardized		
BetaMarket Focus (MF)	0.164*	0.072	0.109
Market Action (MA)	0.075	0.031	0-.004
Market Planning (MP)	0.209**	0.156*	0.148
Market Coordination (MC)	0.174**	0.125	0.147
Market Feedback (MFB)	0.032	0.021	0.009
Leadership Quality (LQ)		0.251**	0.259**
MF x LQ			0.254**
MA x LQ			0.109
MP x LQ			0.280**
MC x LQ			0.030
MFB x LQ			0.017
R2	0.238	0.267	0.301
R2 change	0.238	0.030	0.034
F change	9.357	6.038	1.393
Sig F change	0.000	0.015	0.230

\*\*\* Significant at 0.01; \*\* Significant at 0.05; \* Significant at 0.1

theory development was conducted to appeal participation from the respondents. The cover letter also includes a statement of confidentiality to assure confidentiality of individual responses. Followup mails were sent a month after the first mailing to remind the non-respondent highlighting the significance of the study. 158 complete questionnaires out of 500 questionnaires were returned representing 31.6% of the response rate.

The number of employees representing the organisation indicated that there were not many differences in terms of the percentages; the highest was 29.7 % for 51-150 numbers of employees, followed by 27.8 % for >500 employees, 21.5% for 151-250 and 20.9% between 251-500 employees. In terms of the annual sales turnover, most of the organisations have an annual sales turnover of more than RM 50 million (46.2%). Others include between RM 10 million and <RM 25 million (24.1 %), between RM 25 million and RM 50 million (20.9 %) and less than RM 10 million (8.9 percent). Of the 158 responses, 46.8% were fully local organisations, followed by 24.1% fully foreign organisations, 18.4% were majority local, and 10.8% were majority foreign.

Table 1 illustrates the results of moderated regression analyzing the moderating effect of leadership quality on the relationship between market orientation and the performance of organization. There were three steps involved in the regression analysis. The first step of regression analysis indicated that several market orientation factors have significant predictive power against performance of organization (i.e. market focus, market planning and market coordination). The second step of regression analysis also signified significant difference although at lesser explained variation. The third step of the analysis indicated that the inclusion of LQ, MF x LQ, MA x LQ, MP x LQ, MC x LQ and MFB x LQ provides slight change on the R square value.

Cohen *et al.* (2003), suggests that the moderating effect or interacting effect exists if the interaction term provide a higher contribution over the main effects. Table 1 indicated that the explained variance, R square increased by 0.063 or 26% to 0.301 from 0.238. The results suggest that the moderation effect of leadership quality exists between market orientation and the performance of organization.

## **RESULTS AND DISCUSSION**

Generally speaking, despite the fact that some of the present hypotheses are rejected (i.e. H<sub>1</sub>, H<sub>4</sub>, and H<sub>5</sub>), the moderating effects results of leadership quality on the market orientation dimensions-organizational performance relationship evidenced the contention in literature that market orientation as well as quality orientation should be employed in complementary to each other in order to realize greater performance in the organization (Lai and Cheng, 2005; Longbottom *et al.*, 2000; Sittimalakorn and Hart, 2004). This is supported by the result of the moderating impact of leadership quality on market focus-performance of organization and market planning-performance of organization relationships (H<sub>2</sub> and H<sub>3</sub>).

According to Lai and Cheng (2005), quality management has a key role in integrating and driving the organization by facilitating the focus of internal processes towards the satisfaction of customer needs and it also has an enhancer role by complementing the marketing role through the stress on ongoing improvement throughout the organization. In this context, Mohr-Jackson (1991) contended that TQM is customer-centered, an element overlooked by market orientation.

As for the moderating influence of leadership quality on performance, such influence is supported by Narver and Slater (1990) who urged leaders to provide their support in order to guarantee that the entire organizational functions are well-coordinated. Leaders are capable of driving organizations to be market-driven (Day, 1999; Farrell, 2000; Narver *et al.*, 1998). This result is also aligned with contentions provided by the experts/gurus who stressed on the importance of leadership quality in achieving organizational excellence (Deming, 1986; Juran, 1988). Prior studies have also reported the positive effect of leadership quality on organizational performance (Mokhtar and Yusof, 2010).

The study findings' contribution is marked by its examination of the moderating role of leadership quality on the relationship between market orientation and organization performance. Prior studies have left this moderating relationship largely untouched, with majority

of them focusing instead on the moderating role of business environmental variables and reported mixed findings (Diamantopoulos and Hart, 1993; Greenley, 1995; Jaworski and Kohli, 1993; Slater and Narver, 1994a). The present study's results emphasized the key role of leadership quality in driving organizations towards excellence. This study highlighted leadership quality as among the top variables contributing to superior performance of organization. The organizational stakeholders should acknowledge the significant role of leadership quality in management. Employing an effective leader could facilitate the right culture for excellence as such leaders possess the required attributes to realize superior organizational performance. Leadership quality role is not confined to coordinating but it also covers the provision of an invisible control through organizational vision and system.

## **CONCLUSION**

In sum, Malaysian manufacturing global competitiveness can be maintained through the adoption of market orientation. In this context, leadership quality is responsible to remind employees of the importance of being sensitive and responsible to market requirements, particularly those of customers. They are also responsible to provide sufficient resources to bring about activities of market orientation like the appropriation of a budget for customer service enhancement, training courses, market intelligence system and an environment that is conducive to team work. Thus, a market-based system will ultimately boost employees' response to market needs in a productive manner indicating that organizations desirous of enhancing market orientation dimensions and performance should make sure that leadership quality has key leadership role in quality management by displaying their commitment towards initiatives that are quality related to the entire workers throughout the organizational functions.

## **LIMITATIONS**

Like similar studies, the present study has specific limitations; for instance, the researchers made use of cross-sectional design for the survey research and this encapsulates the respondents at a certain point in time. As such, causal relationships cannot be evidenced on a longitudinal basis and thus, further work is called for to establish the effects of changes over a longer period of time in terms of market and quality orientation. Longitudinal studies should be undertaken in the future

to investigate the way organizations transform themselves into market and quality organizations and the way such a transformation could impact their performance.

Owing to the fact that data was collected from Malaysian organizations, the generalization of findings across cultures of other countries should be done with caution. This is owing to the fact that different cultures and business environments may have different market orientation and quality organization impact on organizational performance. Future studies should also look into the replication of the present study in other cultures/countries, particularly in terms of the moderating impact of quality orientation attributes. Added to this, it is also advisable for future studies to turn their focus on other sectors/industries other than manufacturing (e.g. services/construction sector). Such studies could assist in generalizing the study findings to a more general context. Another alternative for future studies would be to conduct a cross-cultural comparative analysis that could provide an insight into market and quality orientation in the context various cultures.

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