

**BARRIERS TO AND DETERMINANTS AND ENABLERS OF MARKET  
ORIENTATION: IMPACT ON BUSINESS PERFORMANCE FOR SMALL AND  
MEDIUM ENTERPRISES IN SOUTH AFRICA**

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**November 2012**

## DECLARATION

I declare that this thesis

### **BARRIERS TO AND DETERMINANTS/ENABLERS OF MARKET ORIENTATION: IMPACT ON BUSINESS PERFORMANCE FOR SMALL AND MEDIUM ENTERPRISES IN THE VAAL TRIANGLE**

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## ABSTRACT

Small and medium enterprises (SMEs) are recognised as important for the economic success of countries all over the world because of their contribution to the gross domestic product (GDP), to innovation, to export revenue, to the provision of goods and services to society and large enterprises, to social stability, to employment creation, and to the improvement of economic welfare. These organisations operate within an economic environment characterised by volatility, highly demanding dynamism and tough competition, which often seriously threaten their performance and their survival. The South African business environment in general is constantly changing in the face of an unreceptive economic environment and a subtle political setting which breeds a highly competitive market. For SMEs to withstand the hazards of such a precarious and unfavourable competitive climate, they need to engage in market-oriented strategies.

While market orientation research in large organisations has been studied extensively, little attention has been paid to the market orientation of SMEs. Market orientation models have been developed and tested only for developed countries, which recognise the substantial importance of market orientation in the modern business arena. Despite its importance, market orientation and its implementation and relationship with business performance has not been widely researched in developing economies. This need for a market orientation model that is applicable to developing countries underlies this research, the principal purpose of which is to develop a market orientation–business performance conceptual model and test it in a developing country setting. For this purpose, the researcher applied the market orientation constructs as guided by various proponents in the field.

Market orientation was identified from the large body of literature and a conceptual framework of market orientation–business performance was proposed. The conceptual framework considered barriers to market orientation, determinants and enablers of market orientation and market orientation with its dimensions (customer emphasis, information generation, intelligence dissemination and intelligence responsiveness or taking action) and economic and non-economic performance as consequences. This framework was then tested in order to identify the link between

barriers to market orientation, determinants of market orientation, overall market orientation and business performance. Such efforts have been observed in previous market orientation literature but those studies did not distinguish barriers from determinants.

The objective of this study was to establish the relationship between market orientation and the performance of SMEs measured by financial and non-financial measures of business performance. It also sought to ascertain the barriers to market orientation and the determinants/enablers of market orientation and their relationship with market orientation. Another objective was to examine the extent to which SMEs in South Africa have adopted market-oriented practices. A quantitative method was used. Surveys were conducted with 273 SMEs respondents, which were identified using a convenience sampling method. Data from owners/managers of these SMEs were collected using structured questionnaires.

This study is different from previous studies on various grounds. Firstly, this study on market orientation is particularly focused on SMEs. Secondly, this study considered barriers to market orientation and determinants of market orientation separately, as having two divergent effects on market orientation. Thirdly, this study considered both the economic and non-economic performance measures as business performance indicators, factorising all the dimensions and modelling the relationship structures. Finally, this study was conducted in a developing economy (South Africa) where limited market orientation studies have been carried out with emphasis on market orientation among SMEs.

Quantitative research methods were used to arrive at a valid and convergent conclusion about market orientation and its relationship with business performance. For this purpose, quantitative survey data were obtained from officials of both marketing and non-marketing departments of SMEs in the Vaal Triangle (South Africa). The hypotheses of the study were tested using t-tests statistics, analysis of variance (ANOVA), confirmatory factor analysis (CFA), and structural equation modelling (SEM) goodness of fit.

The findings of the study supported the hypotheses of the study and confirmed the applicability of the proposed market orientation framework. The findings also indicated that the market orientation of SMEs in South Africa is determined by four fundamental factors (top management emphasis, market-based reward system, inter-departmental connectedness and management risk posture). In addition, the findings identified four key barriers to market orientation (centralisation and formalisation, inter-departmental conflict, competitive intensity and turbulence). The study also found a significant effect of market orientation on business performance. The findings of this study are consistent with those of previous market orientation studies undertaken in developed countries.

At the final stage, the first conceptual model of market orientation–business performance applicable to SMEs in a developing country (South Africa) was offered on the basis of the findings of this study. This conceptual model provides insights and groundwork for further research. Therefore, in order to verify its generic application, it is hoped that this model will be used as a starting point for further studies and be tested in other countries in the world, both developed and developing.

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## LIST OF ABBREVIATIONS

ANOVA	Analysis of Variance
BMO	Barriers to Market Orientation
BEE	Black Economic Empowerment
BBBEE	Broad-based Black Economic Empowerment
CFA	Confirmatory Factor Analysis
CSI	Corporate Social Investment
DMO	Determinants of Market Orientation
DTI	Department of Trade and Industry
EFA	Exploratory Factor Analysis
FA	Factor Analysis
GDP	Gross Domestic Product
GEP	Gauteng Enterprise Propeller
IDC	Industrial Development Corporation
ISPESE	Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises
JSME	Japanese Small and Medium Enterprises
KMO	Kaizer-Meyer-Olkin
LBDA	Limpopo Business Development Agency
LSC	Local Service Centres
MARKOR	Market Orientation scale
MO	Market Orientation
MoC	Market-oriented Customer emphasis
MoD	Market-oriented information Dissemination
MoG	Market-oriented information Generation
MoR	Market-oriented Responsiveness
PPPFA	Preferential Procurement Policy Framework Act
ROA	Return on Assets
ROI	Return on Investments
ROS	Return on Sales
RSA	Republic of South Africa
SAMAF	South African Micro-finance Apex Fund
SEM	Structural Equation Modelling
SBDC	Small Business Development Corporation

SEDA	Small Enterprise Development Agency
SME	Small and Medium Enterprises
SMME	Small, Micro and Medium Enterprises
SPSS	Statistical Product and Service Solutions (Statistical Package for Social Sciences)
TEP	Tourism Enterprise Programme
TIPS	Trade and Industrial Policy Strategy

# CHAPTER 1

## INTRODUCTION AND BACKGROUND TO THE STUDY

### 1.1 INTRODUCTION

Expansion, diversification, greater choice, market share, profits and increased competition are the “overarching forces” that drive organisations to embrace marketing concepts such as market orientation. Market orientation has become one of the major research streams developed during the last few decades (Sin *et al.*, 2003:910), and continues to captivate researchers, academicians and managers in strategic marketing (Guo, 2003:1154). Marketing practitioners recognise the importance of market orientation theory as a fundamental framework of the behavioural–strategic business approach (Jones & Hecker, 2006:2). They commonly use market orientation as an indicator of the extent to which an organisation implements the marketing concept (Zebal & Goodwin, 2012:339).

Kohli and Jaworski (1990:15), cited in Narver and Slater (1990:23), set three priorities for market orientation, namely, organisation-wide generation of market intelligence, the dissemination of the intelligence across departments, and organisation-wide responsiveness. Market orientation can also be defined as the process of building and maintaining customer relationships to facilitate the exchange of ideas, products and services that satisfy the goals of both parties (Mohammed *et al.*, 2002:163). The building and maintaining of customer relationships as well as customer satisfaction is an important outcome of the exchange process. Therefore, market orientation unavoidably translates into taking the risk of investing in new product development or service innovations to adapt to ever-changing market needs (Agarwal *et al.*, 2003:68).

Shapiro (1988:119) defined market orientation as deliberate actions that generate the strategic knowledge of customers, competitors and markets, which ensures that customer needs are recognised and met. The significance of marketing for companies is embedded in the prerequisite of market orientation, which prioritises gaining marketing information, performing market research and constant communication with all stakeholders (Zebal & Goodwin, 2012:339). This constitutes a complete

understanding of the different needs and wants of customers potentially serviced by an organisation.

Various researchers assert that market orientation is a vital marketing concept for the performance of all forms of businesses (Deshpandé & Farley, 1999:37; Dursun-Kilic, 2006:93), and for small and medium enterprises (SMEs) there are no exceptions (Jones & Hecker, 2006:2; Shoham *et al.*, 2005:437). Market orientation fosters a culture that effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and thus, continuous superior performance for the business (Harris, 1998:34). A marketing-oriented firm is one that is systematically committed to creating customer value and allows the wants and needs of customers and potential customers to drive the entire firm's strategic decisions and corporate culture. Deshpandé and Farley (1997:213) are of the view that a firm's market orientation refers to the business culture of a firm in which all employees are committed to the continuous creation of greater value for customers.

## **1.2 MOTIVATION OF THE STUDY**

The SME sector is widely regarded as the driving force in economic growth and job creation in both developed and developing countries (White & Simas, 2008:153). In South Africa, the total economic output of small and medium enterprises (SMEs) is nearly 40% of gross domestic product (GDP), and this sector employs in excess of 60 per cent of the total labour force (Statistics SA, 2012:7). As medium-term employment trends in the formal sector are stagnant at the moment, the level of unemployment in the local economy can be reduced meaningfully in the near future only by the successful promotion of SME output (Republic of South Africa, 2010:11). In this sense, SMEs play a far more important role in developing economies than in the industrial countries, since SMEs make a major contribution to socio-political stability. Successful SMEs not only absorb a significant part of the unemployed labour force, but also reduce crime and government expenditure on security and legal services (Longenecker *et al.*, 2003:447). In fact, unless South Africa succeeds in promoting SMEs, the country will remain saddled with a huge unemployment problem and, therefore, excessive crime in its various forms (Watson & Godfrey, 1999:3). Furthermore, creating SMEs is one of the most promising means of

progressively redistributing the ownership of productive assets (Edigheji, 2007:6), i.e. SMEs have the potential to be an engine for black economic empowerment.

The South African government recognises the importance of this sector in achieving the country's national objectives and is committed to its growth. However, a big gap remains which calls for an understanding of the barriers to and the determinants and enablers of market orientation for the SMEs in South Africa. The SMEs in South Africa currently account for 36% of its GDP (Zaayman, 2003:13). All over the world, small and medium enterprises (SMEs) make a remarkable contribution to the GDP, employment and poverty alleviation (Republic of South Africa, 2004:11). The statistical approximations from previous surveys indicate that the total economic output of micro-enterprises and small and medium enterprises (SMEs) contribute significantly to Gross Domestic Product (GDP) (Edigheji, 2007:6).

The SME sector will be the focus of this study in relation to the way in which it adopts and implements market orientation strategies. Although the classification of enterprises is normally based on size, turnover and number of employees, the definition of an SME differs: in the literature, no fixed definition exists (Edigheji, 2010:2). For the purposes of this research the description of SMEs as applied in terms of the South African National Small Business Act, No102 of 1996 will be used. The research will assess and evaluate the extent to which the performance levels of the small and medium enterprises can be linked to market orientation. Small firms develop competencies in networks in order to overcome their limitations with regard to resources and strategic marketing capabilities (Carson *et al.*, 1995:37). At its heart, the new "paradigm" for business development services focuses upon the development of effective markets.

The study will investigate existing frameworks, policies and procedures with a view to adding research value to market orientation for SMEs, thereby creating an enabling environment for businesses to contribute to economic development in South Africa and, particularly, in the Vaal Triangle.

### 1.3 STATEMENT OF THE PROBLEM

Numerous studies have contributed to the notion that market orientation is a key driver of business performance and various research efforts continue to focus on the relationship between the degree of market orientation and business performance (Narver & Slater, 1990:35). Despite the importance of market orientation to business success, systematic inquiries to gain a deeper understanding of the market orientation construct began seriously only in the last two decades, following the pioneering work of Kohli and Jaworski (1990:13) and Narver and Slater (1990:23). Subsequent empirical studies have attempted to assess the association of market orientation with profitability (Bhuian, 1997:319; Greenley & Foxall, 1995:51; Ruekert, 1992:226), market share (Deshpandé *et al.*, 1993:231; Pelham, 2000:49), new product success (Atuahene-Gima, 1995:43), and customer satisfaction (Appiah-Adu, 1997:25)

What is noteworthy is that, although there is abundant research on market orientation, most of the past studies have focused mainly on manufacturing sectors. Recently, some studies have attempted to validate the market orientation model and its scale in some service sectors, such as financial services (Bhuian, 1997:317), health care services (Kumar *et al.*, 1998:201), and architectural services (Barksdale & Clopton, 1994:101). However, very few researchers have addressed, in the empirical sense, the proposition that the adoption of market orientation leads to improved performance for SMEs, especially in a South African context. To fill this existing gap in the literature, the present study attempts to examine the current state of market orientation in SMEs in South Africa.

Despite an avalanche of theoretical contributions made by many scholars on market orientation literature, it appears that most SMEs in South Africa do not embrace market orientation as key to their marketing strategies. While there is considerable optimism that SMEs form one of the leading driving forces for economic expansion in post-apartheid South Africa, market orientation is admittedly the characteristic of a limited number of them. The majority of SMEs fail to develop and exploit the benefits of the concept. Osuagwu (2006:609) posits that the difficulty associated with translating market orientation into action may be traceable to lack of the requisite

marketing know-how, skills and systems, coupled with less competitive business environments.

Market orientation appears to lead to cohesion and focus as to organisational objectives and activities. However, lack of marketing dynamism deters small and medium business performance, retards potential and hinders the capacity to expand and capture new markets. Market orientation could be fundamental to the enhancement of business performance; on the other hand, it is critical to identify specific issues that hinder the performance of small and medium business. Furthermore, while it is held that one of the major reasons for the importance of market orientation is that it results in improved business performance, this link appears to have had limited empirical support.

There are scholarly arguments pertaining to the application of the marketing philosophy or knowledge in developing economies, including South Africa. Further, there are several moral risks encountered by SMEs that affect their performance and one of them is the lack of market orientation, especially in those small and medium businesses where the owner/manager plays a crucial role (Fafchamps, 1992:133).

## **1.4 RESEARCH OBJECTIVES**

### **1.4.1 Main Objective**

The main objective of the research is to establish the barriers to and the determinants and enablers of market orientation and their impact on business performance among SMEs.

### **1.4.2 Theoretical Objectives**

In order to achieve the primary objective, the following theoretical objectives are formulated for the study:

- i) To conduct a literature review on the significance of the small and medium enterprises sector in South Africa.

- ii) To carry out a literature study of the relationship between market orientation and business performance.
- iii) To review the literature on market orientation characteristics and understand the existing market orientation constructs and causal relationships linking market orientation components and business performance.
- iv) To conduct a literature review on the SME marketing environment and the marketing function of market-oriented SMEs.
- v) To review the literature on the barriers to and the determinants and enablers of market orientation in SMEs, applicable within the South African context.

### **1.4.3 Empirical Objectives**

- i) To identify the measurement variables used by SMEs to measure business performance.
- ii) To assess the barriers to and the determinants and enablers of market orientation among SMEs.
- iii) To develop a generic taxonomy of market orientation–business performance for SMEs and highlight factors that may affect their sustained success.
- iv) To establish the relationship between barriers to market orientation, determinants/ enablers of market orientation, market orientation and business performance.
- v) To establish the measures of market orientation and business performance for small and medium enterprises within the South African setting.

## **1.5 RESEARCH QUESTIONS**

The following questions are developed to guide the research focus:

- What measurement variables are in place to evaluate and monitor the performance of SMEs?
- What are the key determinants and enablers of market orientation for SMEs and what effect do they have on overall market orientation?
- What is the impact of market orientation barriers on the adoption and implementation of overall market orientation by SMEs in South Africa?

- Do significant relationships exist between barriers to market orientation, determinants of market orientation, market orientation and business performance?

Based on the research questions, three main hypotheses were proposed, as shown in the following section.

## 1.6 HYPOTHESES

From the formulation of the preliminary hypothesis developed out of the research questions, the following hypotheses were formulated:

- H<sub>1</sub>: A positive relationship exists between determinants and enablers of market orientation (DMO) and overall market orientation (MO) of SMEs.
- H<sub>2</sub>: A negative relationship exists between barriers to market orientation (BMO) and the adoption and implementation of market orientation (MO) by SMEs.
- H<sub>3</sub>: A positive relationship exists between market orientation (MO) and business performance (BP) (as measured by financial performance, employee organisational commitment, repeat customers).

## 1.7 DEMARCATION OF THE STUDY

This study focuses on the SMEs operating in the Vaal Triangle, a region located in Southern Gauteng and part of the Free State Province within the demarcations as provided in Appendix C. Within the South African economy, the SME sector is a subset of the small and medium enterprises and micro-enterprises (SMME) sector but differs from the latter in that micro-enterprises are excluded owing to a survivalist element. SME refers to separate, legal and distinct entities that cannot form part of a group of companies (KNC & Associates 2002:3). The National Small Business Act of 1996 defines SMEs by referring to the number of full-time employees, financial requirements and total annual turnover (Falkena 2000:26). Falkena's (2000:26) classification of SMEs will be followed in the study. What constitutes a small enterprise is one with fewer than 50 employees and an annual turnover of between R2 million and R25 million. A medium enterprise is defined as a business with

between 50 and 200 employees and an annual turnover of between R4 million and R50 million. The research will also comprise owners, managers, marketers and representatives of support organisations such as Gauteng Enterprises Propeller (GEP) and the Small Enterprise Development Agency (SEDA).

## **1.8 SIGNIFICANCE OF THE RESEARCH**

It is widely accepted that SMEs foster economic growth, socio-economic development and job creation. The research endeavours to help identify whether market orientation and business performance are correlated. The framework developed in this study will make a positive contribution to the body of knowledge and could unlock great potential in the SMEs in South Africa and particularly in the Vaal Triangle. The research framework should emerge as one of the key additions to the body of knowledge, assisting in creating market awareness, enhancing the adoption of market orientation, and benefiting entrepreneurial performance and the performance of SMEs, thereby boosting the economic development of the region.

## **1.9 RESEARCH DESIGN**

The research design is a master plan which includes specific methods and procedures for collecting and analysing the desired information (Zikmund, 2000:65). The method of research for purposes of this study comprised a literature review and quantitative interviews.

### **1.9.1 Literature Review**

A literature study was undertaken with the aim of assembling and integrating material relating to market orientation and marketing practices that are relevant to SMEs. The study utilised a wide range of materials, including textbooks, journal articles, conference papers, newspapers, magazines and the Internet, to carry out desk analysis and evaluate and integrate the theoretical background of the formulated problem.

## **1.9.2 An empirical study**

The empirical study comprised one stage. The information was acquired through face-to-face personal interviews with managers, marketers and owners of various SMEs within the Vaal Triangle region. The study made use of a self-administered questionnaire. The design of the survey instrument was based on the MARKOR (market orientation) instrument which measures SME market orientation (Jaworski & Kohli, 1993:56). MARKOR seeks to measure market orientation by collectively analysing perceptions of respondents. Business performance was measured using variables extracted from questionnaires for measuring business performance successfully used by Appiah-Adu (1998:25), Akimova (2000:1128) and Zebal (2003:279) in other developing countries. Other than the MARKOR scales, the scales were applied with minor changes to reflect the situation in the South African SME environment.

### **1.9.2.1 Sampling frame**

A list of registered SMEs was drawn up from the databases of the Small Enterprise Development Agency (SEDA), the Gauteng Enterprise Propeller (GEP) and Emfuleni Municipality in the Vaal Triangle region. The Small Business Directory of the Vaal Triangle was also used in order to gain access to a representative sample. The sampling frame was constituted of small and medium-sized enterprises only. Major towns represented in this demarcation included Vereeniging, Sasolburg and Vanderbijlpark.

### **1.9.2.2 Sampling technique**

Stratified probability sampling was used in the study. This is a sampling method whereby the population was divided into mutually exclusive groups (based on the city in which the SMEs are situated) and random samples were drawn from each group (Armstrong & Kotler, 2007:111). A representative sample was ensured by the inclusion of the three major towns.

### **1.9.2.3 Sample size**

Based on past research studies by Lynn *et al.* (2002:36) and Becherer *et al.* (2003:13), a sample size of 300 was deemed appropriate. The chosen sample size was large enough to form a good representation of SMEs in the Vaal Triangle. The sample size was also consistent with empirical studies undertaken by Van Egeren and O'Connor (1998:39), Advani and Borins (1998:91), Sin *et al.* (2005:36), Shoham *et al.* (2005:437) and White and Simas (2008:153).

## **1.10 DATA ANALYSIS**

The Statistical Package for Social Sciences (SPSS) version 20.0 (for Windows) was employed to perform the data analysis. Initially, descriptive statistics were used to analyse the composition of the sample (Tustin *et al.*, 2005:96). The subsequent statistical methods which were used in carrying out the data analysis in this quantitative research study were: exploratory factor analyses, confirmatory factor analysis, independent t-tests, correlation analysis, analysis of variance (ANOVA), reliability and validity analysis, and AMOS model fit and hypothesis testing using structural equation modelling (SEM).

## **1.11 ETHICAL ISSUES**

The researcher adhered to the following code of ethics during the research:

- The researcher obtained the respondents' permission to participate in the depth-interviews and the completion of the questionnaire.
- The researcher informed each respondent about the purpose of the survey and the interview.
- The questionnaire did not contain any questions detrimental to the self-interest of the respondents.
- The researcher assured respondents' anonymity and confidentiality. The data were analysed as an aggregate without references to specific respondents' responses.

- The main findings of the study would be made available to respondents on request.

## 1.12 CHAPTER CLASSIFICATION

**Chapter 2** describes the SME sector and outlines the background of small enterprises in South Africa. The role, concepts, principles and processes associated with small enterprises will be discussed.

**Chapter 3** provides an elaboration of the important elements and the value of market orientation in general.

**Chapter 4**, the literature review, discusses the marketing environment in which the SMEs operate, the characteristics of the marketing environment, approaches and market competition. It provides detailed explanations of the nature of market oriented SMEs and their operational limitations.

**Chapter 5**, the literature review, continues to examine related studies on market orientation, barriers to market orientation, determinants and enablers of market orientation, and the market orientation–business performance relationship. The chapter also examines existing conceptual models and frameworks on market orientation and business performance.

**Chapter 6** provides a detailed description of the research methodology used in the research study, focusing on the research method and design adopted, the face-to-face interviews and the development and distribution of the questionnaires. Several statistical methods and techniques used are identified and discussed in detail. A brief description of ethical issues is provided. The chapter covers the pre-testing procedure and the reliability and validity of the data gathered for the study.

**Chapter 7** reports the results of the empirical study through an analysis of the data. It includes interpretation and evaluation of the research findings, and an assessment of the reliability and validity of the research instrument.

**Chapter 8** provides a final review of the entire study and provides conclusions and recommendations in an attempt to address the research questions and objectives. The business implications and limitations of the study are discussed and areas for further research presented.

## **CHAPTER 2**

### **OVERVIEW OF SMALL AND MEDIUM ENTERPRISES**

#### **2.1 INTRODUCTION**

The focus of this study necessitates an overview of the small and medium enterprises (SMEs) in the South African market. The value of small businesses in employment creation and economic prosperity for both developed and developing economies has been known for decades. In an economy desperate for economic growth, with high unemployment figures and various other economic challenges, the SME sector presents itself as an opportunity for economic growth in South Africa that can be nurtured.

This chapter begins by placing in perspective SMEs in South Africa. The chapter covers definitions of SMEs, the role of the SME sector in economic growth, and its importance to such growth, and provides a discussion on SMEs and employment creation. Recent research evidence relating to the characteristics, growth and performance of SMEs, the description of the small-business economy and its role within the economy is given. The constraints faced by SMEs are discussed.

It is generally agreed that public policy makers and civic society should assist small businesses in reducing the inhibiting effect of their operational challenges. With the prevailing hostile global economic climate, the need for effective assessment and support in the SMEs sector is stronger than ever. It is widely expected that the effect of the global economic downturn on this sector will be severe. In a developing economy such as South Africa, the impact should not be underestimated. A brief summary of the challenges faced, the growth and performance stimulation strategies and the empowerment interventions aimed at aiding the SME sector provides a conclusion for this chapter.

#### **2.2 GLOBAL PERSPECTIVE OF SMES**

Worldwide, there has been a paradigm shift from the recognition of large enterprises as the driving force in economic growth and job creation to a general recognition of

SMEs as being the backbone of economies (Mahadea & Rawat, 2008:281). SMEs continue to receive tremendous attention from policy makers and academics (Eeden *et al.*, 2003:13). They are a vehicle through which the inequalities and discrepancies of the apartheid era can be redressed, through programmes targeted at contributing to the economic empowerment of previously disadvantaged members of the society (Kesper, 2004:6).

In the United States America (USA), the Small Business and Entrepreneurship Council (SBEC) stated in the small-business index of 2003 that small businesses are the mainstay of the USA economy (Wrycza & Gajda, 2007:4). The study established that SMEs are the primary source of job creation, technological development and innovation, having created 60–80% of net new jobs and 14 times more patents than large businesses. The small-business sector produces 51% of the gross domestic product (GDP) in the USA (Wrycza & Gajda, 2007:4). According to Scarborough and Zimmerer (2000:123), the reason for this is that small businesses create four times as many innovations for each research and development (R&D) dollar as medium-sized businesses do, and twenty-four times as many as large companies. Small businesses also contribute 20% more of these innovations per employee than large businesses.

East Asian countries such as Japan, South Korea and China have strong SME policies that nurture small-business development and sustain industrial sector growth (Subrahmanya *et al.*, 2010:7). This has seen the region becoming more robust, with healthy economic growth (Cobweb Information, 2007:1). These economies with a high proportion of SMEs are resilient to external shocks and experience phenomenal economic growth. Saayman (1997:4) attributed the extremely high economic growth rates experienced by the East Asian countries during the last three decades to their robust SME sectors. The purpose of understanding small businesses is to understand their operational dynamics, their challenges and their contributions (Rensik, 1988:183). Each business must define the goods and services that are better than those of their competitors. Some researchers argue that they contribute to exports (Zhao, 2010:69) while others stress the SMEs' role in innovation and entrepreneurship (Subrahmanya *et al.*, 2010:7).

In Africa, SMEs are purported to be the biggest all-round contributors to the emancipation of under-developed economies (Brink *et al.*, 2003:3). Most African countries have put in place measures and developmental policies surrounding SMEs, with the aim of understanding their challenges and needs. The same applies to sub-Saharan countries such as South Africa. The government of South Africa sees its role as that of facilitator for SMEs (Rogerson, 2004:766). Its aim is to create the infrastructure for and the atmosphere in which the private sector can make use of the available support systems in order to generate growth (Edigheji, 2007:3). The growth in magnitude is needed by South Africa in order to generate enough employment to reduce unemployment, poverty and crime (Ntsika, 2009:3). The government views SMEs as agents of economic development in all the sectors and geographical areas within the country (Manuel, 2010:3).

The various definitions of small-business operations are an indication of their diversity, and their differences in size and in different countries provide an interesting picture. In the following section, various definitions of SMEs are pursued.

### **2.3 DEFINITIONS OF SMES**

Definitions of SMEs differ across regions, countries and sectors of industry. The varied criteria that have been used to classify SMEs provide the various definitions (Rogerson, 1999:3). The most common criteria that have been used to describe the SME sector relate to the number of employees, gross assets, turnover and investment level. Gibson and Van der Vaart (2008:11) assert that the absence of a uniform definition of SMEs amongst different countries has caused challenges in the design, implementation, coordination and evaluation of SME-related policies. This is so because SMEs are so diversified that a small enterprise in one country may be classified as a medium-sized business in another country and large in another (Liedholm & Mead, 1999:11). This often confuses development agencies and institutions in the provision of credit, finance and other forms of assistance needed by SMEs (Asasen *et al.*, 2003:18).

SMEs are recognised as vital elements of the structure of all economies and societies in the world (Goode *et al.*, 2010:1). Developed countries, as well as some

emerging markets with very clear SME sectors, have very strong definitions of SMEs that are relevant to their particular economies. For example, in Japan, the definition of an SME, as guided by the Japanese new Small and Medium Enterprise (JSME) basic law of 2000, is based on amount of capital and number of employees (Lane *et al.*, 2004:32; Tsukahara, 2006:3).

The European Union Commission recommendation (EUC, 2003:3) came up with its own definition for its member countries based on the number of employees, amount of turnover and total assets. The European Union (EU) adopted a categorisation of SMEs for which the basic prerequisite for enterprises to be recognised as small and medium are the limits regarding staff headcount and financial ceilings (Barry & Milner, 2002:317). Headcount refers to the number of people employed by a business while financial ceilings refer to annual turnover (sales figures) and annual balance sheet figures.

The EU definition introduces three different categories of enterprises: small and medium enterprises and micro-enterprises. Each corresponds to a different type of relationship that an enterprise has within the economy (Rensik, 1988:183). This distinction helps to establish a clear picture of an economic situation of an enterprise and to exclude those that are not genuine SMEs (European Committee, 2003:19). The definition puts SMEs into three categories: the small and medium-sized enterprises, the small enterprises and the micro-enterprises. According to Abor and Quarterly (2010:219), the small and medium-sized enterprises (SMEs) are made up of organisations which employ fewer than 250 persons and which have an annual turnover not exceeding fifty million Euros (€50 million), and an annual balance sheet total not exceeding forty million Euros (€43 million). The small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed ten million Euros. The micro-enterprises sometimes fall within the SME category. A micro-enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed two million Euros.

Napier *et al.* (2004:53) opine that SMEs are defined according to the geographical region in which they are found. While one region may consider all the parameters to

classify SMEs, such as number of employees, turnover, total assets, invested capital and net assets, another region may consider only a few of the parameters. This logical view is consistent with that of Meier (1993:2), who states that a big enterprise by the standard of a developing country may be considered small in a developed one.

Tonge (2001:5) revisited the Bolton Committee (1971:1) definition of a small enterprise that espouses the use of both the “economic” and “statistical” classifications. The economic definition classifies an enterprise as small if it has a small share of the market and is managed by owners or part-time owners (Meier, 1993:9). The statistical definition elucidated by Tonge (2001:5) identifies three criteria, the first of which is the contribution to economic aggregates such as the Gross Domestic Product (GDP), employment, exports and innovation. The second is the extent to which the small enterprise has changed its economic contribution over time. Thirdly, comparisons are made between SMEs in one country with those of other countries.

Table 2.1 below, illustrates the varied definitions of SMEs based on their different sectors, employment levels and turnover. Different criteria are used to judge the size of an enterprise in different sectors (Tonge, 2001:6). For example, the manufacturing, mining, and quarrying sectors consider the number of employees; the services sector uses the sales turnover criterion while the catering sector considers the ownership criterion (Tsukahara, 2006:3). With regard to road transport, physical assets such as number of vehicles are considered (Fedderke & Vaze, 2005:437).

**Table 2.1: The Bolton Committee definitions of SMEs**

Sector	Definition
Manufacturing	200 or fewer employees
Construction	25 or fewer employees
Mining and quarrying	25 or fewer employees
Retailing	Turnover of 50 000 dollars or less
Miscellaneous	Turnover of 50 000 dollars or less
Services	Turnover of 50 000 dollars or less
Motor trades	Turnover of 100 000 dollars or less
Wholesale trades	Turnover of 200 000 dollars or less
Road transport	Five or fewer vehicles
Catering	All excluding multiples and brewery-managed houses

Source: *Tonge (2001:6)*

Within the South African context, the definition of a small business, as defined by Visser (1992:3), is "a business that is privately owned by a sole proprietor, partnership, close corporation or private company. The business may have more than one branch, but it is not controlled by a larger organisational group". SMEs constitute a significant sector, although perhaps not yet on par with the SME sectors in developed economies (Fedderke & Vaze, 2005:439). In the early 1990s, the Small Business Development Corporation (SBDC) defined SMEs as having assets of less than about two million rands and employing not more than 200 people. Using this definition, approximately 85% of the businesses in South Africa would be considered SMEs (Herbst, 2008:149).

White (1990:5) views a small business as an independent profit-orientated economic unit that generally has independent ownership, independent management, a simple organisational structure, and a relatively small influence on the market. The Department of Trade and Industry (DTI) definition for a SME is any business with fewer than 200 employees, where a business with fewer than fifty workers is deemed small and one with between 50 and 200 employees is deemed medium-sized (DTI, 2004:13). In addition, the SME has an annual turnover of R5 million and the SME owners are involved directly in the daily management issues of the business (DTI,

2004:13). The SMEs are independently owned, managed by the owners, have less than R750 000 in fixed assets and have a turnover of less than R5 million.

The definition of SMEs in this study will be based on the National Small Business Act No. 102 of 1996 of South Africa. In terms of chapter one, clause fifteen (xv) of the act, an SME is defined as “a separate and distinct business entity, including cooperative enterprises, non-governmental organisations; managed by one owner or more people; which cannot form part of a group of companies; has been established solely for promoting the interests of small and medium enterprises” (Ntsika, 2009:3). This definition is consistent with the SME definition in most developing countries and it will be used consistently throughout the study.

The National Business Act defines and classifies SMEs according to the sector or sub-sector to which they belong (Edigheji, 2010:3). Table 2.2 provides the sector-classification of small businesses in South Africa.

**Table 2.2: Classification of SMEs**

<b>Sector in accordance with the Standard Industrial Classification (SIC)</b>	<b>Size or class</b>	<b>Total full-time equivalent of paid employees (Fewer than)</b>	<b>Total Annual Turnover (Less than)</b>	<b>Total gross asset value, fixed property excluded (Less than)</b>
Agriculture	Medium	100	R4,00m	R4,00m
	Small	50	R2,00m	R2,00m
	Very small	10	R0,40m	R0,40m
	Micro	5	R0,15m	R0,10m
Mining and quarrying	Medium	200	R300,00m	R18,00m
	Small	50	R7,50m	R4,50m
	Very small	20	R3,00m	R1,80m
	Micro	5	R0,15m	R0,10m

<b>Sector in accordance with the Standard Industrial Classification (SIC)</b>	<b>Size or class</b>	<b>Total full-time equivalent of paid employees (Fewer than)</b>	<b>Total Annual Turnover (Less than)</b>	<b>Total gross asset value, fixed property excluded (Less than)</b>
Manufacturing	Medium	100	R40,00m	R15,00m
	Small	50	R10,00m	R3,75m
	Very small	10	R10,00m	R1,50m
	Micro	5	R0,15m	R0,10m
Electricity gas and water	Medium	100	R40,00m	R15,00m
	Small	50	R10,00m	R3,75m
	Very small	10	R10,00m	R1,50m
	Micro	5	R0,15m	R0,10m
Construction	Medium	100	R20,00m	R4,00m
	Small	50	R5,00m	R1,00m
	Very small	10	R2,00m	R0,40m
	Micro	5	R0,15m	R0,10m
Retail and motor trade and repair services	Medium	100	R30,00m	R5,00m
	Small	50	R15,00m	R2,50m
	Very small	10	R3,00m	R0,50m
	Micro	5	R0,15m	R0,10m
Wholesale trade, commercial agents and allied services	Medium	100	R50,00m	R8,00m
	Small	50	R25,00m	R4,00m
	Very small	10	R5,00m	R0,50m
	Micro	5	R0,15m	R0,10m
Catering, accommodation and other trade	Medium	100	R10,00m	R8,00m
	Small	50	R5,00m	R4,00m
	Very small	10	R1,00m	R0,50m
	Micro	5	R0,15m	R0,10m

<b>Sector in accordance with the Standard Industrial Classification (SIC)</b>	<b>Size or class</b>	<b>Total full-time equivalent of paid employees (Fewer than)</b>	<b>Total Annual Turnover (Less than)</b>	<b>Total gross asset value, fixed property excluded (Less than)</b>
Transport, storage and other communications	Medium	100	R20,00m	R5,00m
	Small	50	R10,00m	R2,50m
	Very small	10	R2,00m	R0,50m
	Micro	5	R0,15m	R0,10m
Finance and business services	Medium	100	R20,00m	R4,00m
	Small	50	R10,00m	R2,00m
	Very small	10	R2,00m	R0,40m
	Micro	5	R0,15m	R0,10m
Community, social and personal services	Medium	100	R10,00m	R5,00m
	Small	50	R5,00m	R2,50m
	Very small	10	R1,00m	R0,50m
	Micro	5	R0,15m	R0,10m

Source: *National Business Act No. 102 of 1996 amended 2004*

From the various definitions of SMEs, it is noted that there is a considerable degree of diversity in the definitions of SMEs in different countries (Campbell, 2003:11). These disparities have the potential to distort the generation of SME policy, resulting in misapplication of resources (Edigheji, 2007:6). Major multilateral development institutions should have coherent SME definitions to ensure uniformity in the formulation, implementation and evaluation of policies of the sector (Mahadea & Rawat, 2008:279).

In the next section, the role of SMEs in economic development is discussed. The discussion is based on the assertions of Morrison, Breen and Ali (2003:419) that small businesses are in the best position to stimulate economic prosperity in developing economies. Small businesses are known for their contribution towards employment, stimulation of innovations, enhancing healthy competitive markets, and socio-economic development (Walters, 2002:12).

## 2.4 THE ROLE OF SMES IN ECONOMIC DEVELOPMENT

This section discusses the contribution of SMEs to the economy by looking at the sector's role in key economic aggregates such as employment, innovation and exports (Tambunan, 2011:183). The International Finance Corporation of the World Bank Group (2010:2) is positive about the ability of SMEs to create jobs. In a review of the state of SME banking, it revealed that even if SMEs are confronted with perennial constraints they still provide a majority of jobs in both high and low-income countries (Brink *et al.*, 2003:3). The study also showed that the contribution of the SME sector to formal employment in low-income, middle-income and high-income countries is approximately 20%, 45% and 60% respectively (Audretsch, 1999:19).

To achieve the fundamental objectives of economic growth through competitiveness on one hand and employment creation and income redistribution (equality) on the other, policy attention has increasingly focused on the promotion of SMEs (Rogerson, 2004:766). The South African economy and its trade environment present great opportunities for start-up businesses. Therefore, learning and understanding the small-business market is essential for small-business owners as entrepreneurs (Bekker & Staude, 1996:17). Knowledge of the market is considered a source of encouragement and energy for growing the business through understanding of the market and gaining market shares (Howard & Hine, 2000:113).

The importance of the SMEs in addressing the challenge of sustainable development in South Africa was recently highlighted by Edigheji (2007:6), who states that SME policy formulation and implementation are focused at enabling development. Abor and Biekpe (2007:93-102) identified SMEs as the engines through which the growth objectives of most developing countries can be achieved. However, research into the small-business sector in South Africa has been insufficient, hampering the development of the sector (Watson & Godfrey, 1999:3). The Business Connexion report of 2004 argued that during the apartheid years, South Africa's small-business economy was either neglected by policy makers or, in the case of black-owned enterprises, actively discouraged by repressive measures (Berkowitz, 2004:3). These measures witnessed the small enterprises being generally obliterated from the research agenda of most business schools (Kesper, 2000:2).

The Trade and Industrial Policy Strategies (TIPS) economic research institution research study on the economics of small and medium business and micro-enterprises also concluded that research in the area was lacking in terms of its failure to generate detailed accessible information (Rogerson & Rogerson, 1997:93).

The annual report compiled by Berkowitz (2004:3) for the Business Connexion highlighted the paucity of research conducted over a period of ten years on small business. The research has neglected policy implementation and the understanding of the economics of the SME sector (Watson & Godfrey, 1999:7). The TIPS report states that any policy decision concerning small business requires accurate information about numbers, size, and structure, the state of the economy and contribution to the economy (Batchelor & Dunne, 2000:417). The potential of small businesses for economic empowerment must be estimated with a sense of the previously disadvantaged individuals in the ownership of the enterprises (Kesper, 2000:2).

The findings on the profile of small-enterprise economies in most sub-Saharan African countries suggest that there is no overall scarcity of entrepreneurs and that new enterprises are being established at a rapid rate (Liedholm & Mead, 1999:111). The South African government recognises the importance of the SME sector in fulfilling its integrated strategy on the promotion of entrepreneurship and small enterprises (ISPESE), the overall aim of which is the continued creation of new start-up firms by all segments of society and the improvement of the economic and social well-being of the poor through employment creation (DTI, 2005:3). The government is committed to the growth of this sector (Manuel, 2010:3). Economic progress is becoming more entrepreneurial-driven, and innovative adoption of marketing concepts and clientele knowledge is recognised as a wealth-creating asset (Hitt *et al.*, 2002:231).

As noted in the previous section, South African SMEs represent an important mechanism for addressing the challenges of job creation, economic growth and social development (DTI, 2005:7). They play a critical role in reducing unemployment, penetrating new markets and growing economies (Elliot & Sewry,

2006:41). South Africa has emerged as a region of potential importance to foreign investors, with increasing focus on small-business support and development being a major policy issue in the post-apartheid era (Khosa, 2000:175). Contrary to the expectations that SMEs would be the most active adopters of customer-focused strategies (Goode *et al.*, 2010:9), research has shown that it is the large enterprises that have been very active in the implementation of marketing-orientation strategies, which is sadly lacking among SMEs (Riquelme, 2002:277).

#### **2.4.1 SME Sector Contribution to the Economy**

The SME sector plays a critical role in the economic and social development of the country. SMEs make a significant contribution to the GDP, employment and poverty alleviation (DTI, 1995:10) for both developed and developing economies. Worldwide, there is a paradigm shift from large enterprises being the driving force in economic growth and job creation to a general recognition of SMEs (Eeden *et al.*, 2003:13). This sector has therefore received tremendous attention from policy makers and academics (Mahadea & Rawat, 2008:276). SMEs are enterprises with some fundamental economic roles to fulfil (Subrahmanya *et al.*, 2010:7). They contribute to a country's GDP by adding to quantities of manufactured goods as well as to the value of manufactured goods (Manuel, 2007:11). SMEs help the economy through the provision of services to both consumers and/or other enterprises (Ntsika, 2009:3). Their economic role encompasses the provision of products, and, to a lesser extent, services to foreign clients, thereby contributing to overall export performance.

Diverse views exist among scholars and policy makers about the dynamic contribution of SMEs to economic development. Some believe that SMEs make a significant contribution to employment and hence reduction of poverty (International Finance Corporation World Bank Group, 2010:2; Acs & Audretsch, 1988:21). Others argue that if key constraints are removed, SMEs can be key players in generating the productivity and competitiveness of the national production system (Kurokawa *et al.*, 2008:3). Some also argue that they contribute to exports (Zhao, 2005:59, Ishenhoma & Kappel, 2008:11). Others stress their role in innovation and entrepreneurship (Goode *et al.*, 2010:9).

The role of the SME sector is acknowledged in key economic aggregates such as employment, Gross Domestic Product (GDP), innovation and exports, among others.

There are different views among scholars and policy makers about the dynamic contribution of SMEs. According to Tambunan (2011:149), Audretsch *et al.* (2009:19) and Tsukahara (2006:3), SMEs make a significant contribution to poverty reduction as they create employment opportunities. Altenburg and Drachenfels (2006:12) and Kurokawa *et al.* (2008:3) assert that if the challenges confronting SMEs were addressed, they would have huge potential to be key players in generating the productivity and competitiveness of the national production systems. Similarly, Manan (2007:13) views SMEs as crucial in upgrading the skills of owners, managers and their employees, strengthening linkages in economically diverse activities, transferring technological know-how and playing a complementary role to large and multinational corporations.

Several studies, research institutions and researchers have come to the conclusion that small and medium-sized enterprises contribute significantly to economic development (Storey, 1994:3), production, competitiveness, employment, growth, organisational decentralisation and social coherence (Barry & Milner, 2002:316). They also function as the source of new enterprises, innovative products and applications and flexible business forms, while they meet the local needs and form the zoning plan for the distribution of employment and income (Singh & Garg, 2008:17). They provide a variety of goods and services for customers to choose from, some of which may otherwise not be provided by large businesses (Jackson, 2004:6). SMEs act as a catalyst for economic growth as well as the development of the arts, human resources, education and sport (Cronje *et al.*, 2004:6).

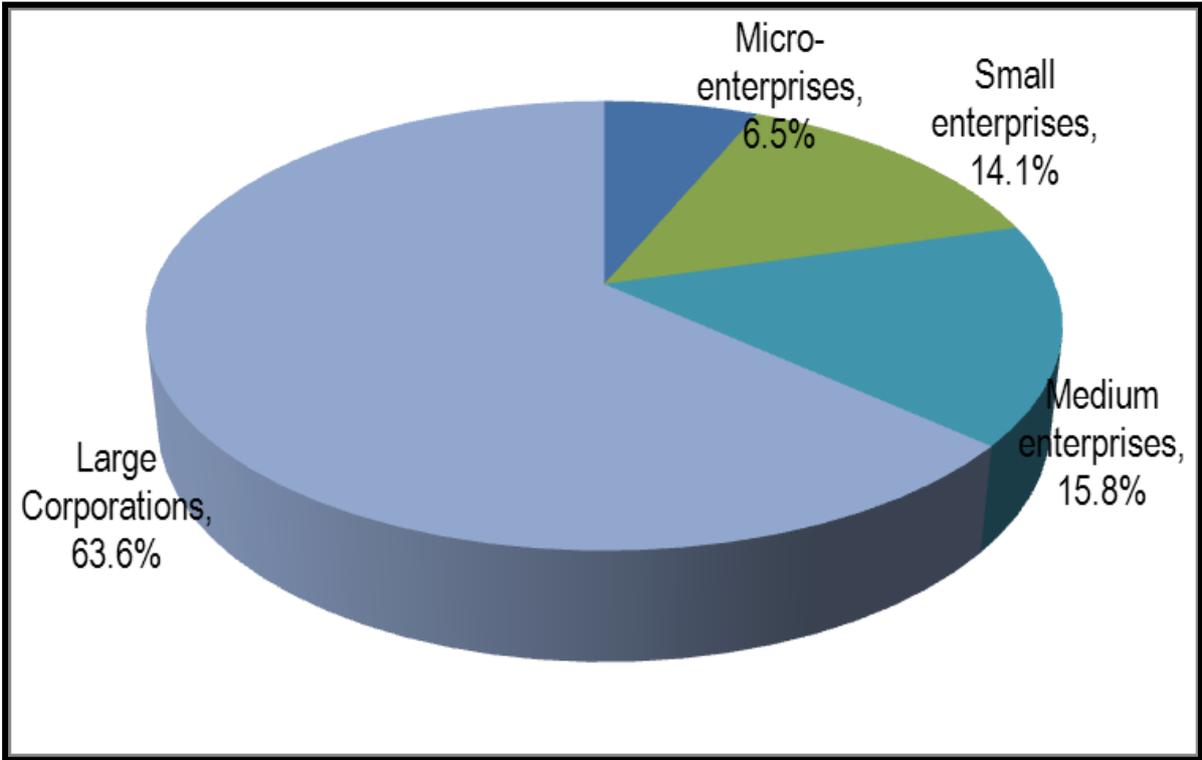
SMEs are flexible and can act as subcontractors to most large enterprises in the economy, ultimately leading to equitable distribution of income (Lloyd, 2002:8). They provide personalised services and make a positive contribution to wealth creation in the South African economy (DTI, 2005:7). They are breeding grounds for entrepreneurial talent and a testing ground for new products (Chaston, 2000:74). They are agents of change, widely facilitating innovation and competition within various national economies (Barry & Milner, 2002:317).

Empirical studies have shown that a large percentage of the growth in GDPs and of the reduction in unemployment rates is due to the activities of the SMEs. Mahemba and Bruijn (2003:162) cite the fact that SMEs make up more than 90% of all business

establishments worldwide. In the Republic of South Africa, it is estimated that 91% of the formal business entities are SMEs. The SME establishments contribute over 80% to global economies as compared with the 63.6% contribution of their larger counterparts (Cronje *et al.*, 2004:5).

The growth pattern and the overall health of the economy depend largely on the dynamic business activity of both large enterprises and SMEs (Saayman, 1997:10). Vosloo (1994:418) summarises the importance of small enterprises as follows: “People make things happen, enterprises begin with people, enterprising people give rise to production, which in turn gives rise to employment. Without the spirit of enterprise as expressed in SMEs activity, there can be no employment creating economic growth.” An example of the economic contribution of SMEs is illustrated in Figure 2.1 (below). The importance of SMEs with regards to the economy expresses itself in their contribution to GDP.

**Figure 2.1: SMEs’ contribution to GDP**



Source: *Statistics SA (2005:7)*

The government has targeted the SME sector in trying to alleviate the problems of economic growth (Subrahmanya *et al.*, 2010:7), wealth distribution, crime reduction,

unemployment and other socio-economic challenges (Mantle *et al.*, 1992:13). Seven principal advantages are mentioned in their research.

- The SME is more labour-absorptive than other sectors.
- The cost of creating a job is lower in the SME than in the large enterprise.
- SMEs allow for more competitive markets.
- They can adapt more rapidly and often use local recycled resources.
- They create employment for all previously disadvantaged persons, young people and women,
- Fewer skills are required in some cases.
- They play a vital role in technical and other innovation.

SMEs do not only supply goods and services, but they are also consumers of the same (Ishengoma & Kappel, 2008:11). This means that SMEs have an important role to play, positioning them in a market by creating purchasing power. They stimulate demand for industrial or consumer goods and add to the activity of supplier organisations for various sectors (Karungu *et al.*, 2000:13). SMEs create demand for the suppliers of industrial goods and are potential suppliers of new products arising from upgraded equipment (Mahadea & Rawat, 2008:283). The additional income-generation potential of SMEs stimulates the demand for both consumption and capital goods within the economy (Altenburg & Stamm, 2004:12).

South Africa's current economic situation is comparable to the above scenario: the excess labour force is "released", not so much from the agricultural sector, but rather from large enterprises in the secondary and tertiary sectors (Dockel & Ligthelm, 2005:54). Generally, these enterprises are not necessarily facing economic recession, but rather are growing and transforming themselves in such a way that their demand for unskilled labour is decreasing (Hallberg, 2000:71). This results in an abundant pool of unskilled labour, which SMEs can possibly employ and upgrade (Barry & Milner, 2002:316).

Harvie (2004:13) promotes the view that subsidising SMEs is important in terms of achieving domestic, regional and global economic growth. In the same vein,

Luetkenhorst (2004:1) stresses the point that SMEs play a critical role within the private sectors in developing countries as they form the base for growth led by the private sector. The author is of the opinion that SMEs are an important agent of structural change that reduces marginalisation and income disparities in economic development. This is in line with the views of Tambunan (2011:188), who asserts that SMEs are a main player in generating primary and secondary sources of income for many low-income and poor households in rural areas. However, Tambunan (2011:188) argues that feminine representation is poor in South Africa, hampering entrepreneurial growth and activity, as well as the country's economic development.

#### **2.4.2 SMEs and Employment Creation**

South Africa, as a developing country, grapples with high unemployment, low levels of working skills, poverty and rampant crime (Karungu *et al.*, 2000:13). Encouraging the development of SMEs might help to alleviate these problems and improve the levels of skills, contributing towards economic growth (Muller, 1990:133). Although the contribution of large enterprises to the growth of the economy of the country is acknowledged (Manuel, 2007:3), there seems to be a great deal of evidence that SMEs have a high labour-absorptive capacity (Campbell, 2003:13), meaning that they have the ability to employ more people. Small businesses contribute immensely in terms of the redefining of social structure, economic emancipation, resource allocation and income generation in most developing countries (Longenecker *et al.*, 1997:29).

Research over the years has shown sizeable employment percentage shares of SMEs in different countries, suggesting that the sector plays a recognizsble role in employment creation (Dockel & Ligthelm, 2005:54). Kuratko and Welsch (2004:5) state that SMEs create the most jobs in the American economy, while Walters (2002:13) confirms that the SME sector in the United States generates more than two-thirds of all new jobs, and that businesses with fewer than five employees generate just over half of those new jobs. De Groot *et al.* (2004:107) state that small businesses in the United Kingdom provide more employment than large businesses and public organisations together. According to Dlodlo and Dhurup (2010:165), "SMEs can prove to be a major source of economic growth for many African

countries if sufficient guidance and support on how best to overcome the challenges of adopting advanced marketing practices is available”.

The International Finance Corporation of the World Bank Group (2010:2) is positive about SMEs' ability to create jobs. In a review of the state of SME banking, it revealed that even though SMEs are confronted with perennial constraints they still provide a majority of jobs in both high- and low-income countries. The study also shows that the contribution of the SME sector to formal employment in low-income, middle-income and high-income countries is approximately 20%, 45% and 60% respectively. Audretsch *et al.* (2009:21) reported on the structure and development of SMEs in the European Union. The report provides evidence that between 2002 and 2007, SMEs in the non-financial business sector created more jobs than did large enterprises.

Policy makers all over the world are turning to small enterprises (especially to the SMEs) to drive sustainable social development and economic growth (Rogerson, 2004:765). SMEs are regarded as the primary creators of jobs and economic stability. Their contribution to the job market cannot be ignored but should rather be recognised (Brink *et al.*, 2003:9). SMEs are considered the “lifeblood of modern economies” (Rao, Metts & Monge 2003:13), creating far more jobs than large businesses do and contributing 37% of employment in South Africa (Hallberg, 2000:12). A previous study confirms that SMEs are important because of their potential for job creation and redistribution of wealth (Wrycza & Gajda, 2007:4).

In Africa, small enterprises are said to be a characteristic feature of the production landscape and have been noted to provide about 85% of manufacturing employment (Aryeetey, 2001:13). In the South African context, SMEs have the potential to generate employment and upgrade human capital (Thomson & Gray, 1999:13). The SMEs contribute to job creation by means of the formation of new businesses, as well as by the expansion of these businesses (Abor & Biekpe, 2007:93).

The fact that small businesses create more employment than big companies do was noted in the USA, where approximately 1.3 million new jobs were created by small manufacturers between 1979 and 1986, while the manufacturing jobs in large

businesses decreased by 100 000 during the same period (Neumark *et al.*, 2006:79). Economic historians have demonstrated the importance of this phenomenon in Europe's industrialisation and the subsequent development of other emerging economies (Howard & Hine, 2000:104). As technological progress in agriculture liberated the agrarian labour force, this unskilled excess labour force was absorbed into small manufacturing industries and exposed to business experience, thereby encouraging a "learning-by-doing" effect. This combination of the employment of an unemployed labour force, and improvement of their skills through business exposure, strongly characterised the process of industrialisation and development.

The SME sector has the ability to identify its existing opportunities and weaknesses, assimilate information, and exploit knowledge and labour from the environment through employment creation (Tsukahara, 2006:3). It has the capacity to employ more people at entry points than the large companies do (Watson & Godfrey, 1999:7), and contributes to achieving South Africa's government vision of an adaptive and a restructured economy, characterised by accelerated economic growth, employment creation and greater equity (DTI, 1995:10). The government's vision of an adaptive and restructured economy can materialise when the citizens of an economy reap the benefits of equitable economic and employment opportunities (Berkowitz, 2004:3).

Vosloo (1994:3) asserts that "jobless growth" and a mismatch between the demand and supply of unskilled labour, coupled with the shift in both the sector composition of the economy and the occurrence of growth in different categories of firms, are an important avenue for the generation of both employment opportunities and growth. Mantle *et al.* (1992:13) argues that SMEs are regarded as more labour-intensive, meaning that they involve more hard work. This makes them more likely to employ unskilled labour, and to be able to provide on-the-job training opportunities and create accessible entry-level job opportunities (Cassard, 2003:4).

SMEs are not only significant in adding to the GDP of a country and providing new jobs, but are also contributors to socio-economic development through various creative business initiatives and activities (Willemse & Van Wyk, 2005:32). The

subsequent section is a detailed discussion of these significant socio-economic benefits that SMEs bring to the South Africa's economic society.

## **2.5 CHARACTERISTICS OF SMES**

This section examines the characteristics and sector composition of the South African small-business sector of the economy that constitutes SMEs. Gibson and Van Der Vaart (2008:10) point out that SMEs have organisational and operational attributes that are similar to those of large enterprises. However, SMEs are less able to prepare and utilise business plans. Nonetheless, they are more flexible and can easily adapt to turbulent market conditions (Ligthelm & Cant, 2003:41). They often hire unskilled personnel who do not meet the requirements of large enterprises (Storey, 1994:3). They are less technologically sophisticated and are slow to take advantage of available and cheap technology; their focus is on short- to medium-term needs and survival rather than on long-term growth (Kayanula & Quarterly, 2000:12). Owing to poor linkages within the government and the financial services sector, SMEs are generally reluctant to spend or borrow money for information technology. According to Pavic *et al.* (2007:323), the SMEs exhibit a strong desire for independence, and are generally dependent upon personal relationships with management and employees of supplier organisations or their customers.

In addition, the small-business sector is highly diverse, with structures, problems, growth potential and access to support differing widely between the businesses based on their size and class (Dockel & Ligthelm, 2005:13). These differences relate to the stages of growth (i.e. start-up, expanding or stagnating) within the economic and industrial sectors (such as retailing, manufacturing, mining and tourism). From a broad strategy perspective, small businesses in South Africa have been grouped into three main categories: small enterprises, micro-enterprises and medium enterprises (Campbell, 2003:11). Although the focus of this research is on the small and medium enterprises (SMEs), it is essential to describe the various categories to bring clarity of focus to the SMEs. Brief definitions and distinctions between the various types of small businesses in South Africa are provided in later sections of this chapter.

### **2.5.1 Informal Businesses (Micro-enterprises)**

Micro-enterprises, which are mainly informal in nature, refer to forms of businesses managed by the owner and a few family members, with a maximum of five employees and an annual turnover that is below half a million (KNC & Associates, 2003:3). They lack formality in terms of business licenses, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures (Storey, 1994:3). Most owners have a limited capital base and only a few rudimentary business skills, and usually operate as unregistered firms.

They include survivalist operations. Survivalist enterprises are usually activities in the informal sector and comprise people who are unable to find regular employment and are attempting to survive (Altenburg & Stamm, 2004:19). In 2000, they constituted over 2.5 million businesses in South Africa (Khosa, 2000:176). The white paper on the National Strategy for the Development and Promotion of Small Business in South Africa states that the incomes fall short of minimum standards; little capital is invested, there is minimum training, and few prospects exist for growth and development into a viable small business (DTI, 1995:5). Support strategies in this category are targeted primarily at helping these people, with a primary focus on women.

In the South African context, survivalist enterprises broadly operate as street vendors, small businesses located on residential sites in residential areas (often located in a room in a house), and businesses located in “old” small shopping centres (Manuel, 2007:4). Many micro-businesses often change into viable small businesses (Zaayman 2003:14) after a few years of successful business operations. The earning levels of most of these businesses differ widely, depending on the particular sector, the growth phase and their access to relevant support.

### **2.5.2 Small Business Operations (Small Enterprises)**

Small enterprises constitute the bulk of the SME establishments, with the employment levels of between 5 and 100 formally employed persons (Altenburg & Stamm, 2004:13). Employees are employed on a full-time basis. The business is owner-managed and sometimes directly controlled by the owner-community, is often registered with local authorities, and business activities are conducted from fixed premises (DTI 2005:5). Although annual turnover is up to R24 million, classification in terms of assets and turnover is difficult, given the wide differences in various business sectors such as retailing, manufacturing, professional services and construction (Lighthelm & Cant, 2003:43).

### **2.5.3 Medium Enterprises**

Medium enterprises employ between 100 and 200 formal employees and contribute about 15% of South Africa's GDP. They have huge potential to grow into large businesses should capital injections be brought into the enterprises. Often they are characterised by a decentralisation of power to a new management layer (Falkena, 2000:27) between the SME operator and the employees. The study will focus on small and medium enterprises (SMEs), excluding survivalist and micro-businesses. The next section elaborates on the importance of the SME sector.

## **2.6 OTHER SOCIO-ECONOMIC BENEFITS OF SMES**

The SME sector contributes to economic growth and employment creation (Tambunan, 2011:179). According to Morrison, Breen and Ali (2003:429), SMEs are best placed to stimulate economic prosperity and can be a means of economic distribution within a country. SMEs offer initiatives and stimulate innovations, enhancing socio-economic development. Dobrev and Barnett (2005:131) acknowledge SMEs as important players in diverse industry sectors. Walters (2002:12) supports this fact and states that SMEs are best placed to take up existing opportunities in the economy. Decision-making for SMEs is fast, with greater freedom in small businesses than in large corporations. This leads to more creative, flexible and aggressive business operations, leading to diversity in the marketplace (Corman

& Lussier, 2001:10). Many of the socio-economic benefits of SMEs can be put into various categories, as illustrated in the ensuing sections:

### **2.6.1 Stimulating Market Competition**

It is widely believed that SMEs have greater flexibility because of their size and decision-making processes (Tambunan, 2011:189). Their operational flexibility allows them to adopt new processes, services, materials and products and to inject healthy rivalry and competition into the economy. The development of SMEs is an economic phenomenon that boosts competitiveness in design and efficiency, thereby preventing large businesses from forming monopolies (Corman & Lussier, 2001:11). Over and above that, SMEs stimulate economic competition by means of increased productivity. This view is supported by Barbie (2005:43), who believes that SMEs are more flexible than large companies and that the more the SMEs grow, the more competitive they become.

A healthy competitive market is regarded as good for economic productivity in general (Morrison, *et al.*, 2003:28), and the SME sector can be seen as the seedbed of the free-market system. A free-market system is an economic system that allows free competition in the market, with minimum trade controls (Campbell, 2003:11). A large number of small businesses can contribute to a healthy price rivalry, and help reduce possible price cartels and other related economic ills. SMEs are very flexible and adaptable when it comes to changes in the market, mainly because of effective communication channels and fewer rules and regulations.

### **2.6.2 Supporting Big Business**

Morrison *et al.* (2003:431) state that all businesses, big and small, are dependent on each other. On the one hand, the big businesses would normally need the smaller businesses to distribute their products, and on the other hand, SMEs would need the bigger businesses to fulfil the role of sub-contractors in the market. It is true to say, therefore, that SMEs contribute to the success of large businesses by means of performing certain functions more efficiently, such as distribution, input supplies and

intermittent services such as manpower training and financial services (Longenecker *et al.*, 1997:33).

Walters (2002:13) attributes the success of most large business to the existence of active SMEs within the economy. The literature has provided evidence that SMEs are a huge source of business dealings for established large companies. As small businesses purchase such products as office equipment, stationery, consumables and other products and services necessary to run the business, they automatically contribute to bigger businesses and companies, stimulating industrial productivity, manufacturing and related factors (Dobrev & Barnett, 2005:93).

### **2.6.3 Socio-economic Diversity**

Socio-economic diversity is explained by Walters (2002:14) as an economic scenario where socio-economic activities are more diverse, with various inter-related business and societal activities. Through socio-economic diversity, an economy offers a greater variety of products and services with a wider outreach to a larger population. Such an economy is expected to be more resilient and to allow open entry and free participation in industry.

The guiding principle is that there are some cost advantages for small businesses over bigger ones, and it can be assumed that bigger is not necessarily better. Walters (2002:15) mentions that small businesses offer more unique services that augment the services and products offered by large corporations. Examples of the unique services offered by SMEs are the restaurants, retail services, outpatient care facilities, providers of health care services, residential care facilities, special trade construction contractors, architectural and engineering services, computer and data-processing services, day-care providers, manpower training, counselling and rehabilitation services. Such organisations play a vital role in society not only as service providers but also by reducing socio-economic challenges within the South African economy (Ntsika, 2009:8). They accounted for about 64% of the 2.5 million new jobs created in 1996 alone (Herbst, 2008:149).

SMEs create a more diverse economy with their willingness to take the risk of investing their money to achieve prosperity by means of fulfilling a market demand. Willemse and Van Wyk (2005:32) state that, by taking this risk, small businesses enhance the economy of a country at the same time. The contributions of small business can also be seen as more economically diverse than those of large businesses (Corman & Lussier, 2001:11).

In the same vein, SMEs can maintain a closer relationship with their customers, employees, and suppliers than large businesses can, provided that they have a better understanding of their markets. The reason for this is that a small business can provide more individual and personal attention to its customers, because of its smaller customer base. Morrison *et al.* (2003:416) adds that it is only SMEs that are willing to serve rural and countryside areas and infiltrate the populous township areas.

#### **2.6.4 Social Investment**

Social investment refers to situations where business organisations take some of their money to fund social activities that are aimed at benefiting the wider community in which they operate (Lunsche, 2004:16). Both large and small organisations must run their operations with the community at the back of their minds. SMEs play a socio-economic role in two ways: the wide variety and quality of personal service and products to consumers, and the willingness to invest within the communities in which they operate. This form of ploughing back of profit is believed to benefit businesses in their quest for future success. The willingness to invest in communities is referred to as corporate social investment (CSI), and can sustain long-term investments (Abor & Quartey, 2010:219).

Cassard (2003:5) enlists a number of organisations whose contribution is made by more mindful and human-scale businesses, such as local bakeries, small farms, boutiques, hardware, bookstores and cafés. The owners of these businesses live and work in the community and are therefore contributing greatly to the local community's quality of life. A further illustration of this is the decision by the MTN Foundation in South Africa to set aside R2 million to create 90 multimedia centres throughout South

Africa (Mari, 2010:2). The foundation has seen more than 79 disadvantaged and rural schools being equipped with these centres in order to improve the quality of education.

The SME sector cannot be ignored as it makes vital contributions to the economy and to the socio-economic landscape. It is essential, however, to have a clear picture of the characteristics and operational dynamics of the SMEs, as provided in the next section. Inasmuch as SMEs are critical elements in the South African economy, they are also subject to challenges and problems (DTI, 2005:5). The challenges and obstacles faced by SMEs are described in the next section.

## **2.7 CHALLENGES AND OBSTACLES FACED BY SMES**

The above section has discussed some of the positive and significant roles played by SMEs in economic growth, innovation, productivity, entrepreneurship, export earnings and job creation in South African and other economies. Although these enterprises serve as an incubator for employment, innovation and growth (Simmons *et al.*, 2007:623), several studies have demonstrated that a very small proportion of SMEs are experiencing long-term growth (Parsley & Halabisky, 2008:12). Studies on small-business dynamics also reveal that the survival rate of new entrants is low and this is often recognised as one of the costs of a system of free competition. With regard to developing economies, Van Biesebroeck (2005:561) summarised the strong consensus that prevails among analysts of the small-business sector: it is characterised by phenomenally high business mortality. The SMEs encounter countless varied challenges, which, besides limiting their important role, also threaten their survival and growth (Brink *et al.*, 2003:2). It is estimated that the SME failure rate in South Africa falls between 70% and 80%, and as a result, in the period between 1997 and 2000, the government lost more than R68 million to failed SMEs (Eeden *et al.*, 2003:13).

In effectively functioning market economies, compared with big businesses, SMEs experience numerous constraints and problems in areas ranging from technology, financial resources, human resources, capital inadequacy and skills shortages to lack of marketing (Madell & Adam, 2002:1). Some of the constraints include legalities

associated with registration and the regulatory compliance process (Du Plessis 2003:25). Their problems also include limited access to information and infrastructure (Zaayman, 2003:17). Lack of financial records and the collateral to secure funding from banking institutions (Jackson, 2004:7) have been reported as other constraints.

Lack of training in management and business skills has been cited as the major contributing factor to SME failure (Devey *et al.*, 2006:14). SMEs also have to deal with limited resources in the form of personnel, finance, knowledge and equipment (Pavic *et al.*, 2007:327; Mcgregor, 2004:62). According to Jones and Tilley (2003:4), a new business encounters a number of barriers to success throughout the start-up period and during their first year of operation. There might be a lack of motivation, government controls, as well as a lack of skilled labour (Entrepreneur Media, 1999:18)

According to the surveys conducted by various international organisations, South Africa ranks high among the countries with serious problems of corruption. Corruption rears its head everywhere, at every level of government (Khosa, 2000:176). This leads to both local and foreign investors wasting their resources and emerging SMEs faltering and start-ups folding. Excessively overstaffed bureaucracy seems to favour the prevalence of corruption in South Africa, creating barriers for SMEs. The corruption mentality is inherited from government to government, and from corrupt state security systems and judicial systems (Watson & Godfrey, 1999:7). It is evident that a poor business environment plays a major role in hindering the development of SMEs (Siropolis, 1990:229). Successive Ministers of Trade and Industry repeatedly admit that government efforts are always met by constant SME failures and poor performance (Van Eeden *et al.*, 2003:13). Morrison, Breen & Ali (2003:434) attribute small-business failure to human factors, such as the lack of knowledge of internal and environmental factors, as well as proper business planning.

### **2.7.1 Poor Planning and Management**

According to Bekker and Staude (1996:126), one needs to begin with a clear understanding of a manager's tasks and responsibilities if professional competences

are to be developed. Managers fail to plan because of their ignorance and a lack of vision (i.e. not knowing what to plan for and believing that careful thought about the business's future will reveal new problems to be faced). They have problems with lack of objectivity and ideas, lack of information on which to make assumptions about the future, as well as lack of self-discipline and the inability to stay close to the goals that have been set. Burns and Dewhurst (1996:46) state that most businesses fail because their plans are sales-oriented and they need a transition in outlook in order to meet customer needs. Since owners of small businesses do not have management training, they end up planning poorly or have no plan at all (Van Eeden *et al.*, 2003:13).

Much has been written about the lack of small-business management skills (Fedderke & Vaze, 2005:436). According to Pickle and Abrahamson (1990:116), most owners of small businesses are not informed about the legal aspects of business and this lack of information can result in financial losses or even the failure of the business. Keasey and Watson (1993:139) provide evidence that one of the major characteristics of small businesses is that the owners have a large stake in the business and a relatively undiversified wealth portfolio. As a result, any business risks are likely to be translated into personal risks for the owner. Moreover, the management team of a small business often lacks experience and expertise and such a business frequently has to depend on a few individuals, often without the support of formal management or career structures.

Murphy (1996:13) cites as the primary issue faced by small business, the attitude of many managers that the business is rooted in their own personality and is therefore personality-driven, i.e. "I am the business; the business is my syndrome" (Fedderke & Vaze, 2005:436). In this case, small-business owners display limited ability to manage financial resources, and have too much informal, fragmented and subjective managerial control. In addition, they tend to be too task-, product- and sales-oriented, to the detriment of their staff, customers and business in general. Longenecker *et al.* (2003:447) found that between the extremes of unskilled and highly professional business owners there is a continuum. At the less professional end of this continuum are business owners and other managers who rely largely on experience, rules of thumb and personal whims in giving direction to their businesses. They do not

emphasise getting the facts and working out logical solutions, which is a neglect of scientific approaches. Therefore, the challenge for small businesses is to develop as much professionalism as possible.

### **2.7.2 Employee Satisfaction and Customer Relations**

According to Hubbard and Hailes (1988:64), a serious problem facing small businesses is working with or hiring family members in their business. Pickle and Abrahamson (1990:34) report that some families have no clear specifications regarding who is in charge of daily operations and as a result, potential for conflict is created. At other times, relatives may be hired, but they may not have the necessary job skills. Karim (2001:121) is of the view that it is not ethical for owners to take employees for granted and to disregard employees' opinions. For example, small-business owners become sensitive, positive, helpful team leaders but do not become so much a part of the team showing leadership. On the other hand, small-business owners wrongly assume that loyal, dependable employees will continue to produce without receiving credit. This assumption arises from the attitude that owners believe that they are doing their employees a favour (Van Biesebroeck, 2005:549). Longenecker *et al.* (2003:390) argue that if small-business owners do not create an environment that encourages personal interaction, employees will seldom do their best in helping the business prosper. Another point regarding employees is that if there is no openness of owners towards employees, the employees will not fully trust the owners and will not show full responsibility on their job (Harris & Ogbonna, 2001:749).

Longenecker *et al.* (2003:415) state that employees in small businesses often learn by methods of trial and error, frequently wasting time, material and money. It is argued that small businesses fail because of lack of daily contact with customers, lack of special promotions, price changes, and lack of new product features (Entrepreneur Media, 1999:58).

Customers are one of the most significant groups of stakeholders that a business must satisfy. However, building and maintaining a base of loyal customers is no easy task. It requires more than just selling buyers a product or a service; the key is to

build relationships with customers. According to Scarborough and Zimmerer (2003:376), the following factors influence customer relations: the right to safety, the right to know, the right to be heard, the right to education, and the right of choice.

In terms of right to safety, there will be no trust in small-business owners if they do not provide customers with safe, quality products and service. With regard to the right to know, i.e. information, small businesses that rely on corrupt pricing tactics and provide a poor quality product and/or service may profit in the short term, but will not last long if they do not inform customers properly (Van Eeden *et al.*, 2003:23). Another factor that plays a role is the ability and willingness to solve customer complaints. If there are no mechanisms in place to resolve complaints of customers, there will be a breakdown in communication between the small-business owner and the customer (Chandra *et al.*, 2001:93). In addition, if there are no educational programmes in place regarding the proper use of products, customers will become dissatisfied. Lastly, few customers will be retained if they do not have the right to choose among competing products and services.

### **2.7.3 Technology Constraints**

Keasy and Watson (1993:229) are of the view that small businesses that are contemplating purchasing new technology experience great difficulties since they do not have adequate knowledge. They also do not have the expertise and opportunity to manage and isolate the cash flow for their business projects (Kesper, 2002:61). Jones and Tilley (2003:8) explain that many small firms lack time, resources, technology or expertise to research and develop new business ideas and innovations. This weakness can become a critical factor limiting growth and expansion in small businesses.

### **2.7.4 Poor Location, Inadequate Infrastructure and Inventory Control**

Pickle and Abrahamson (1990:167) argue that it is unusual for a small-business owner to select a location based primarily on convenience or cost. A location may be chosen because of the availability of a vacant building, proximity to the owner's residence or low rental costs. Often small businesses fail because sites are selected to conduct their business without making a thorough analysis of the potential of the

overall location for the business's survival and growth opportunities (Kerr, 2004:129). According to Siripolis (1990:228), the importance of location is determined by the type of the business, proximity of the business to its customers, i.e. whether customers must travel to the business or whether the business owner must travel to the customers. Other factors to be considered are whether the business offers a special product or service with little direct competition and whether convenience is the key selling point in what the business offers to customers.

According to Longenecker *et al.* (2003:271), the importance of the decision as to business location is underscored by the costs of establishing the business and the challenges of running its operations. As a result, if the choice of location is particularly poor, the business may not be able to get off the ground, even with adequate financing and superior managerial ability (Vosloo, 1992:34). The above view is in congruence with the view expressed by Buckley (1998:53), who affirms that "the best restaurant or retail store will fail if it is in the wrong place". It is important to consider factors such as traffic (how many potential customers pass the business during the course of an afternoon or evening) and convenience (how hard is it for the regular customers to get to the location on a regular basis) when scouting for a location for a business (Janson & Sandberg, 2008:66).

Those SMEs that carry a large volume of inventory require large and ample storage facilities to accommodate their merchandise in order to prevent stock-outs. Some inventories are perishable and larger inventories of these items usually result in some losses due to spoilage. Pickle and Abrahamson (1990:446) are of the view that an organisation will significantly reduce its costs if it maintains good inventory control.

Poor control of inventory encourages employee theft and prevents a business from recognising shoplifting problems (Murphy, 1996:2004). It will fail to establish stock losses resulting from theft. The size of the firm's inventory affects the cash flow, which in turn can have an effect on a chain of related functions and processes. For example, the cash that is tied up in stock cannot be quickly converted into liquid assets. According to Wignaraja (2002:89), carrying costs includes storage costs, insurance premiums, the cost of money tied up in inventory, and loss due to spoilage or obsolescence. However, maintaining inventory at an optimum level, the level that

minimises stock-outs and eliminates excess inventory, saves money and contributes to operating profits (Dockel & Ligthelm, 2005:54).

### **2.7.5 Financial Challenges and Slack Financial Planning**

Poor financial management can be a serious obstacle when starting a business (Ferreira, 2007:46). Poor bookkeeping, poor understanding of taxation issues, lack of knowledge of insurance, lack of financial planning, as well as difficulties in obtaining capital continue to affect SMEs in South Africa (Ladzani, 2009:3). The absence of guaranteed income also presents problems for most start-up businesses (Kerr, 2004:127). Table 2.3 shows that the main factors limiting SMEs in South Africa are the availability, accessibility and structure of debt capital (48%) and financial support structures (24%).

**Table 2.3: Disaggregated analysis – top four factors limiting SMEs**

Limiting factors	Experts mentioning this problem (%)
<b>Financial support:</b> <ul style="list-style-type: none"> <li>• The availability, accessibility and structure of debt capital, loans and credit</li> <li>• General access to finance</li> <li>• Availability and accessibility to early-stage financial support</li> <li>• Funding discrimination: gender, ethnicity and age</li> <li>• Availability and accessibility of second-level finance</li> </ul>	48%  24%  16%  12%  12%
<b>Education and training:</b> <ul style="list-style-type: none"> <li>• Teaching and encouraging entrepreneurial skills amongst teenagers and adults</li> <li>• Discrimination in the education system</li> </ul>	10%  10%
<b>Cultural and social norms:</b> <ul style="list-style-type: none"> <li>• Attitudes to women and other groups discriminated against or disadvantaged</li> <li>• Cultural behaviours and characteristics that limit the tendency to act entrepreneurially</li> </ul>	16%  10%
<b>Capacity in population for entrepreneurship:</b> <ul style="list-style-type: none"> <li>• Entrepreneur expertise (or lack of it)</li> </ul>	22%

Source: *Herrington & Wood (2003:12)*

### 2.7.5.1 Lack of Financial Support

Small businesses normally start with insufficient capital, and therefore experience a lack of working capital (Morrison, Breen & Ali, 2003:417). Capital is the money needed to start a business operation, and working capital is the available funding to keep the business operations running (Wheelen & Hunger, 2004:313). The lack of sufficient capital and credit is often a major handicap in the development of SMEs, particularly those that are in their growth stages. The small profits that are made from the business are diluted by drawings and are often not replaced to ensure the

perpetual existence of the business. Netswera (2001:37) revealed that the majority of SMEs in developing countries rely on personal resources and initiatives of owners. In terms the financing of small business, a number of issues need to be considered if progress is to be made in understanding how financing issues affect the success or failure of these businesses (Keasey & Watson, 1993:15). There is a need to understand how finance is provided and used in situations of limited information concerning future business value. The problem is that a typical small business operates with limited access to information and in highly uncertain environments (Fedderke & Vaze, 2005:453). More specifically, there is a need to understand how banks or financial institutions offer finance and how investors decide to invest in new ventures.

Janson and Sandberg (2008:66) state that most small businesses suffer from a shortage of capital because of defects in the supply of finance. The SMEs fail to obtain funding from the mainstream banks and other market players (Berkowitz, 2004:13). A number of reasons have been cited as to why financial markets do not work perfectly as far as small firms are concerned. For example, the main obstacles being faced currently include lack of finance for SME development and credit services (Rao, Metts & Monge, 2003:23). This is reflective of poorly developed financial markets and a lack of knowledge of methods of financing on the part of small-business managers. Small firms also face an underdeveloped commercial market for loan finance, combined with a lack of effective participation by government in supplying finance to small firms, either directly, or indirectly by offering guarantees.

### **2.7.5.2 Budgetary Weaknesses**

Keasy and Watson (1993:230) state that most businesses owners have difficulties adhering to budgets, and that some do not even have budgets in place. This results in misuse of business finance. It is generally believed that small businesses in South Africa have access to limited sources of capital (DTI, 2008:7). In addition, Dickey (1994:14) points out the challenges faced by startup business in terms of expanding the customer base and becoming survivors and novices. New business owners need enough finance available to make expansion happen (Chandra *et al.*, 2001:93). Most start-ups, especially those without experience, have no historical base from which to

make financial projections. In some cases, this forces them to use their gut feelings, doing informal information gathering and looking at how other competitors run their businesses (Bates, 2005:343).

### **2.7.5.3 Cash Flow Challenges**

The management of cash flow relates to the tracking and measurement of the amount of cash coming into and going out of a business during its operations at any given moment (Rae *et al.*, 2003:17). Managing cash flow effectively enables smooth running of business operations. Cash flow problems are a frequently expressed concern of small-business owners (Longenecker *et al.*, 2003: 298). Regular cash flows into a business are essential for the day-to-day operations and require systems and processes to be put in place (Van Aardt *et al.*, 2002: 252-3).

Pickle and Abrahamson (1990:2021) are of the view that cash is an essential asset of the business. Availability of cash is the measure of the success of business organisations, providing owners with the funds for daily operations. Herbst (2008:149) lists the following factors that affect small-business cash flow: slow-moving or excessive stock (which gives rise to poor stock or inventory management); too generous credit terms; cash wasted on unprofitable products and services; slack processes and unnecessary expenditure (money spent on buildings, houses, machines, luxury cars).

It is vital to track the cash flow and identify the money coming into and out of the business in order to avoid running short of cash (McGregor, 2004:39). Cash flow projections are useful in the cash flow planning process, are done to assist in arriving at decisions of the amount of cash needed for daily operations, and at the same time to pick up any signals of impending trouble (Tilley *et al.*, 2003:73). If small-business owners do not effectively manage their cash flow positions, their businesses will not flourish (Ladzani, 2009:3).

There seems to be a lack of coherence regarding policies and procedures and multi-agency provisions have done little to help small businesses. The nature of government support to small businesses has been the subject of much discourse.

Accordingly, many challenges of SMEs, such as inability to hire qualified employees, lack of funds for expansion, tax burdens, limited or non-existent credit with suppliers, the high cost of advertising and coping with competition, remain directly linked to improper planning and the misuse of funds. The main factors inherent in most business obstacles revolve around inadequate managerial ability, inadequate financing, as well as poor competitive position. In trying to deal with these various challenges, the South African government and civic society have put in place ways and means to empower the SMEs.

### **2.7.6 Marketing Constraints**

Added to the above obstacles, SMEs also face marketing constraints in accessing both domestic and transnational markets. For example, in accessing domestic markets, South African SMEs are prohibited by such factors as poor organisational location, poor marketing skills, lack of marketing research skills, poor analysis of the markets, low quality of product or service, failure to understand and forecast future customer trends and needs, and failure to prepare marketing plans (Eeden *et al.*, 2003:15). A good example was reported by Ugwu (2009:30), who indicated that small poultry producers and marketing agents in Nigeria have limited information on feed processing, product formulation and packaging. The researcher further stated that these poultry SMEs lack marketing strategies, standards of product packaging, handling and storage, as well as quality standards, attributing this deficiency to lack of training of the small poultry producers.

In terms of the transnational markets, SMEs which have been previously isolated from international competition often face stiff competition from global competitors as a result of relaxed trade restrictions. The results in a study by Viviers and Soontiens (1998:10) revealed that exorbitant costs, inflexible procedures for export cargo clearances, high interest rates and unfavourable exchange regulations are also some of the major impediments facing exporting SMEs. The following section examines the various initiatives undertaken in South Africa in empowering SMEs.

## **2.8 EMPOWERING SMES IN SOUTH AFRICA**

Government and non-governmental organisations have set up various resources to support the SME sector (Herbst, 2008:148). The resources from government are controlled mainly by the DTI and, to a lesser extent, by the Department of Labour, the Department of Social Welfare and the Revenue Services (Dockel & Ligthelm, 2005:54). Government sees its role as a facilitator, trying to create the infrastructure and the atmosphere in which the private sector and SMEs can then make use of these support systems. This is intended to generate the growth in numbers that the country needs in order to generate enough employment and reduce unemployment, poverty and crime. The accusation that the government has been anxious to address is that its support of SMEs has been piecemeal and has lacked coherence (Ferreira, 2007:46). Howard and Hine (2000:7) suggested that small-business owners receive minimum support in the form of mentorship, networking, funding, education and training, consulting and business advisory services.

Various policies and initiatives by the government and private sector as well as government parastatals have been established for assisting SMEs in the developmental process and in promoting SMEs' survival and performance (Herbst, 2008:149). The government has implemented the national policy framework that is embraced and coordinated by groups within the private sector to promote SMEs (DTI 1995:6). According to Madell and Adam (2002:9), local authorities must be empowered to render business development and support services to SMEs and measures should be identified to create corporate partnerships and SME mentorships. Several commercial banks, as well as the state development corporations, have been mobilised to respond to the needs of small business regarding financial matters and business premises (Ferreira, 2007:45). However, over the years, some SMEs have failed, some have been altered and others still exist but are ailing.

The primary objective of the national policy framework is to create an enabling environment for small and medium enterprises and micro-enterprises (SMMEs). The White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa is an attempt by government to contribute to South African

small-business concerns (DTI, 1995:3). For the economy to continue to survive in a dynamic and competitive arena, the SME sector has to play a critical role in expanding productivity and stimulating employment opportunities (Lloyd, 2002:10).

This section provides an overview of the important institutions that have been instrumental in boosting SME activities. The ensuing discussions begin with pro-SME regulatory interventions as guided by the national legislation.

### **2.8.1 Pro-SME Regulatory Interventions**

Regulatory interventions ease the challenges to SME development and wide-ranging structural reforms and improvements assist prospects for enterprise development (Abor & Biekpe, 2007:97). To simplify the regulatory procedures of small enterprises, the National Small Business Act No. 102 was passed in 1996. This act provides formal recognition to the government's involvement in small-business support (Willemse & Van Wyk, 2005:32). It constitutes the statutory base for the Small Enterprise Development Agency (SEDA) among other statutory bodies. In order to facilitate the differentiation of various support facilities, the act also defines the main categories of SMMEs.

According to the act, at national level, the Department of Trade and Industry (DTI) is the coordinating body and vital base linking all national strategies and policies related to the small-business sector (RSA, 1995:16). It is the responsibility of the DTI to coordinate small-business strategies pursued by the provincial governments within the national policy framework.

The Department of Trade and Industry (DTI) houses the Consumer and Corporate Regulation Division, which provides coherent, predictable and transparent regulatory solutions (DTI, 2005:10). The division develops and reviews regulatory systems, including policies and legislation in the areas of competition; consumer, company and intellectual property regulation; as well as public-interest regulation relating to the liquor, credit, national lotteries and gambling sectors. Corporate and consumer regulation has become a creative endeavour that seeks to serve the interests of both

business and consumers, and to create a modern and globally competitive national economy. The SME sector is the key beneficiary of this DTI initiative.

## **2.8.2 Supportive SME Initiatives in South Africa**

Despite some arguments that there has been limited financial support, the South African government and various agents continue to give monetary assistance to promote small-business development and performance (Herbst, 2008:149). This section summarises the core of the national government's SME support programmes that policy interventions and legislation introduced, and the institutions and structures that were set up to implement the national SME strategy. Several organisations and agents have been established in the last 15 years to help and enable SMEs in the South African economy.

The key focus of these institutional interventions has been on strengthening integrated state financial and business development support for small enterprises through strengthened institutional mechanisms and effective co-ordination. One of the core purposes is to ensure a delivery network, integrating both financial and non-financial support for small enterprises throughout South Africa. Some notable support initiatives include the Small Enterprise Development Agency (SEDA), the South African Micro-Finance Apex Fund (SAMAF), Khula and Ntsika.

These institutional interventions and projects to support small enterprises have a broad aim, as detailed hereunder:

- Considering improved financial support to small enterprises, including the Khula direct retail finance option (Khula, 2003:2).
- Leveraging procurement to increase demand for goods and services from small enterprises by aligning the Broad-Based Black Economic Empowerment (BBBEE) Codes of Good Practice and the Preferential Procurement Policy Framework Act (PPPFA) of 2000 (DTI, 2005:8).
- Ensuring that government procurement is from small enterprises, including support for small enterprises by government organisations as a way of promoting SMEs.

- Setting up the small enterprise procurement call centres with appropriate dedicated resources and protocols across all government departments to ensure that payments to small enterprises are made within contractual agreements (Ntsika, 2009:3).
- Strengthening the Tourism Enterprise Programme (TEP) to promote the development of tourism which forms a good proportion of the SMEs sector (Rogerson, 2004:766).

### **2.8.3 Small Enterprise Development Agency (SEDA)**

The Small Enterprise Development Agency (SEDA) was officially launched on 13 December 2004 as an agent of the DTI, operating separately from the DTI, but closely linked to it (DTI, 2005:10). The government established SEDA in order to coordinate and facilitate the implementation of a standard and common national delivery network that will integrate all government-funded small-enterprise support agencies and the different strategy areas that form part of the national small-enterprise strategy (Ensor, 2005:23). SEDA consists of a number of autonomous operational units or subsidiaries (Republic of South Africa, 2004:11).

Provincial government agencies, such as the Gauteng Enterprise Propeller (GEP) and the Limpopo Business Development Agency (LBDA), continue to provide a wide range of business development services to small enterprises at provincial level, thus strengthening the partnership with SEDA (DTI, 2005:9). SEDA's aim is to improve geographic outreach, achieve the desired impact on small enterprises, provide a single access point for small enterprises, establish critical partnerships to leverage resources and to enhance its service-delivery model and optimise resource usage as well as align government's strategy of service delivery in a coherent manner.

Through SEDA offices, entrepreneurs are able to get access to services, including the development of business plans, technical advice and marketing, as well as information on export support, tenders and incentives. The agency is a not-for-profit entity, offering the following specialised services:

- SMEs finance trust and credit-guarantee facility,

- Co-ordination unit for Local Service Centres (LSC),
- SMEs export-support programme,
- Research and Training and Information unit, and
- Technology Acquisition and Implementation unit.

SEDA has technology support centres all over South Africa to enable small businesses access to funding for technology so that they keep abreast of global developments (DTI, 2005:10).

#### **2.8.4 South African Micro-Finance Apex Fund (SAMAF)**

The Department of Trade and Industry launched SAMAF in 2006 to provide affordable and sustainable access to financial services for the poor, thereby feeding into the SMEs sector (DTI, 2008:7). The DTI established 40 financial intermediaries across the country to provide lending windows for SAMAF funds. The role of the fund is to:

- Develop sustainable micro-finance institutions that can reach the very poor,
- Facilitate training for micro-entrepreneurs and financial co-operative clients,
- Provide back-office services for financial intermediary organisations approved as SAMAF financial-services outlets linked through a centralised information technology (IT) platform, and
- Provide mentoring, monitoring and a framework for industry norms and standards, including sustainable lending methods for the developmental micro-finance industry in South Africa.

#### **2.8.5 Ntsika Enterprise Promotion Agency and Khula Enterprise Finance**

Two main institutional support pillars for SMEs are Ntsika Enterprise Promotion Agency, responsible for nonfinancial or business development services, and Khula Enterprise Finance, which functions as a wholesale finance institution supporting a range of retail finance intermediaries that deal directly with the SMEs (Rogerson, 2004:265).

### **2.8.5.1 Ntsika Enterprise Support**

Ntsika Enterprise was established in accordance with the stipulations of the National Small Business Act of 1996. The mission of Ntsika (2009:3) is to render an efficient and effective promotion and support service to small enterprises through a broad range of intermediaries that contribute towards equitable economic growth in South Africa. Ntsika provides several non-financial services like training, advice, and research and business development (Rogerson, 2004:767). The agency facilitates the provision of raw materials, access to markets and information, guided by the National Small Business Act No. 102 of 1996 (Republic of South Africa, 1996:10). Its key objectives are to design and implement support programmes and to create a service delivery network that enhances the contribution of SMEs to the South African economy (National Small Business Act No. 29 of 2004). Programmes designed by Ntsika should facilitate the development of sustainable and competitive enterprises.

### **2.8.5.2 Khula Enterprise Finance**

Khula's primary role is to facilitate small entrepreneurs' access to finance (Khula, 2003:1). It has developed various delivery mechanisms in the public and private sectors. It has strong relationships with commercial banks and the public and corporate sectors, through which it delivers a variety of financial products. In addition to facilitating access to finance, Khula provides mentorship services through Khula Institutional Support Services, which provides counselling and practical support to entrepreneurs in establishing and managing businesses.

Khula Enterprise was instituted by the Department of Trade and Industry (DTI) and tasked with the role of making finance available to SMEs through loans and credit-guarantee schemes (DTI, 2005:8). The goal of facilitating mobilisation and direction of resources towards SME development is anchored by two key Khula initiatives, the retail financial intermediaries (RFIs) and the Credit-Guarantee Scheme (Rogerson, 2004:767). These initiatives are aimed at assuring the sustainability of the SME economy. The institution provides business plans and advice and continuously seeks new ways to improve access to financial support for SMEs across the country (DTI,

2005:11). Khula operates a range of different guarantee products with registered commercial banks and other financial institutions in the private sector that offer financial support to the SMEs (Khula, 2003:2). The guarantee schemes are grounded on the principle of a risk-sharing arrangement whereby Khula assumes a portion of the risk associated with lending banks to extend funding to the SMEs.

The government is committed to continued learning from practices developed in other countries and suitable for adaptation to the South African strategy. Valuable contacts are already in place and networks have been established with the Southern African Development Community (SADC) commission responsible for small-business support in Southern Africa (Republic of South Africa, 1996:11).

### **2.8.6 Industrial Development Corporation (IDC)**

The Industrial Development Corporation (IDC) is a self-financing, South African state-owned national development-finance institution that provides finance to promote industrial and entrepreneurial development (Fedderke & Vaze, 2005:436). While it was established in 1940 to promote economic growth and industrial development in South Africa, it has been recognised for its role in the SMEs sector in securing and stimulating rapid and sustainable sector and economic growth, creating employment and reducing poverty (Riquelme & Watson, 2002:395).

Its primary objectives are to contribute to balanced sustainable economic growth in Africa and to the economic empowerment of the South African population, thereby promoting the economic prosperity of SMEs in South Africa and on the African continent (Berkowitz, 2004:13). It is not limited to SMEs but identifies and funds projects in partnership with others. The IDC focuses on promoting and investing in viable new industries. It differentiates itself through risk-taking and flexibility in structuring, particularly in the promotion of BEE, SMEs, regional investment diversification and job creation (Rogerson, 2004:767).

It is evident from the above discussion that the government, through its various agencies, is trying to put in place various types of support for SMEs. However, the

promotion of the SMEs sector still suffers from poor implementation of policy initiatives.

## **2.9 CONCLUSION**

This chapter has discussed the definition of SMEs as well as the sector's contribution to economic growth and employment creation. The SME sector in South Africa is described. A brief summary of strategies for stimulating the SME sector and interventions aimed in promoting SMEs in South Africa is provided.

SMEs in South Africa have not developed to their full growth potential. Their growth depends on the growth of the macro-economy and on support interventions (Rogerson, 1999:83). It remains empirically unknown whether macro-economic policies have, in the last two decades since 1994, made enough effort to act as a catalyst to the overall performance and growth of SMEs (Fedderke & Vaze, 2005:436).

As annotated in this chapter, South Africa's SME sector is expected to fulfil a number of roles ranging from poverty alleviation and employment creation to international competitiveness (Ntsika, 2009:3). In an economy with a high unemployment rate, small businesses are faced with many challenges (Chandra *et al.*, 2001:93). Small business is all about identifying a need within a business environment, creating a solution to address that need, and sustaining a commitment for an extended period of time (Cassard, 2003:4).

One of the greatest difficulties confronting policy makers is how best to develop an SMEs approach that will achieve a sufficient degree of co-ordination between supply-side effort and demand potential, as well as functional and interventional capacity (Gape, 1999:33). Although there is the risk of investing in resources in improving supply potential where demand constraints are high (e.g. low growth in demand because of economic stagnation), a major question is whether supply-side incentives have frequently been ineffective because of such demand. It is acknowledged that the development of SMEs also requires marketing competencies in the context of the challenges that are clearly relevant for SMEs (Kumar *et al.*, 1998:201). These

challenges may require relevant marketing approaches, such as market orientation, to sustain SME business performance.

In the next chapter (Chapter 3) the concept of marketing orientation is dealt with in detail, elaborating on the important elements and the value of market orientation in general and then focusing it on SMEs specifically. It provides the core of the theoretical foundation of this study. The market orientation and business performance relationship will also be examined. The chapter provides the existing conceptual models and frameworks on market orientation and business performance.

## CHAPTER 3

### MARKET ORIENTATION AND BUSINESS PERFORMANCE

#### 3.1 INTRODUCTION

The focus of the study is to understand the impact of market orientation on the business performance of SMEs by analysing the barriers to market orientation, as well as the determinants and enablers of market orientation (see Chapter 1). Chapter 2 provided a detailed description of the SMEs sector, its dynamics and its importance to the South African economy.

This chapter (Chapter 3) provides a comprehensive overview of the market orientation concept and its association with business performance. In practice, market orientation is not regarded as a new concept in the marketing and management literature (Abor & Biekpe, 2007:92). Scholars argue that the postulation by Drucker (1954:13) that the customers must be the focus of an organisation's operations and the subsequent support given to the idea by Levitt (1960:47) that the customers are the reason for the organisation's existence were all pointing to the fact that market orientation behaviour was necessary during that time. In marketing history, this idea was extended to become known as the marketing concept (McKitterick, 1957:71; Keith, 1960:35; Bartels, 1962:16; McNamara, 1972:51). Following the developments in the field of marketing, the subject of market orientation has received great attention from marketing scholars, who have developed, tested and refined market orientation scales measuring the degree of market orientation that organisations exhibit (among others, Kohli & Jaworski, 1990:1–18; Narver & Slater, 1990:20–35; Hart & Diamantopoulos, 1993:93–122; Kohli *et al.*, 1993:467–77; Deshpandé & Farley, 2004:3–22; Blankson *et al.*, 2006: 572–590 and Vieira, 2010: 44–58).

The chapter is divided into four broad areas. The first section provides a brief overview of the marketing concept, its evolution and key components. The second section distinguishes market orientation from marketing orientation, outlining the approaches and their characteristics. The third section is dedicated to the important elements and the value of market orientation in the business environment and the

key activities encapsulating market orientation. The fourth section discusses the role of market orientation and its relationship to business performance. It also outlines the market orientation scales and the business performance scales, providing the criteria for measuring market orientation and SME performance.

This review of relevant literature on market orientation is important as it lays the theoretical foundation for the study. Three fundamental hypotheses guiding this study are based on the view that marketing philosophy leads to organisational success, and that SMEs could learn about market orientation and improve their performance by adopting the market orientation concept.

## **3.2 THE MARKETING CONCEPT**

The marketing concept is commonly defined as a philosophy or way of thinking that guides an organisation's market-focused allocation of resources and formulation of strategies (Greenley *et al.*, 2004:933). It is a marketing management concept based upon company-wide acceptance of the need for customer orientation, profit orientation, and recognition of the important role of marketing in communicating the needs of the market (Ellis, 2006:1081). Over the years, the marketing concept has evolved to reflect a philosophy of conducting business that can be considered central to flourishing organisational values (Kotler, 2001:16). In order to understand the marketing concept and its related issues, a brief review of marketing history is necessary. The following section provides the different phases of marketing and a brief history of the marketing concept.

### **3.2.1 Evolution of the Marketing Concept**

Some of the elements of modern business and marketing practices can perhaps be traced as far back as the ancient Greeks, the Phoenicians and the Venetian traders (Fullerton, 1988:108). The earliest recorded identification of the "marketing concept" was published in the 1700s by Adam Smith. For more than a generation, from about 1870 until 1930, the concept of production dominated the understanding of marketing, where emphasis was on mass production (Miller & Layton, 2001:29). The production-oriented form of organisation lasted until about the start of the Great

depression in the 1930s (Miller & Layton, 2001:29). The depression in the 1930s changed the perceptions of the production era. The focus was no longer on mass production or growth but rather on how to sell the products or services. The subsequent sales era started with the poor economic conditions of the 1930s and ended in the 1950s, when some desperate firms were motivated to pursue “hard selling” (Mitchell, 1984:63; Lamb *et al.*, 2010:133).

After the 1950s, there was a growing need for problem-solving marketers who could understand customer needs and offer solutions (Bartels, 1962:17; Kotler & Armstrong, 2011:43). This need created the practice of customer problem-solving, which required a fresh approach and expected the marketers to be closer to their customers in order to understand their needs (Levitt, 1960:45). The challenge for any business seeking to remain competitive was to determine what customers really want, which in essence is the philosophy behind marketing (Slater, 2001:233). The understanding of customers and their needs slowly spread into other activities of the business, bringing forth a new marketing philosophy called the marketing concept (Lear, 1963:76; Levitt, 1980:83; Kotler, 2001:13), which has since evolved into market orientation (Dursun-Kilic, 2006:93). Farrell and Oczkowski (2009:153) argue that all organisations should identify themselves as service organisations because customers buy benefits, not only products.

The upsurge of the consumer movement in the late 1960s prompted marketing researchers, practitioners and public policy officials to devote increasing attention to the conceptualising, operationalising and tracking of marketing activities for the marketplace (Kotler, 2001:16), ushering in the marketing concept. Greenley *et al.* (2004:933) acknowledge that during the 1960s and the 1970s the marketing concept was regarded as the saviour of business organisations. In the 1980s the marketing concept was perceived as placing emphasis on the segmentation of markets and the value of customers' desires and needs (Morgan & Strong, 1998:1053). Owing to the dynamic nature of the business environment, the marketing concept needed to evolve with time.

As a result, the customer became a formal issue in the objectives of all organisations and therefore, companies constantly searched for innovative tools to serve their

customers better than their competitors did (Dursun-Kilic, 2006:93). According to Webster (1992:24) and, most recently, Deshpandé and Farley (2004:13), the concept of customer value is at the heart of the marketing concept and must be the core element of all business strategy. In other words, the marketing era evolved, recognising that efficient production and extensive promotion of products did not guarantee that customers would buy (Bartels, 1962:16; Kotler *et al.*, 2008:136). Instead, businesses found that they had to determine what customers want before producing it. This led to the evolution of the marketing concept, which is the cornerstone of marketing thought (Jaworski & Kohli, 1993:53) up to today. The following section provides an insight into the significance of the marketing concept.

### **3.2.2 The Significance of the Marketing Concept**

The marketing concept has been the foundation of modern marketing for the last sixty years. According to Kotler (2001:13), the marketing concept holds the key to attaining organisational objectives and strategic goals. It enables the organisation to be more effective than its competitors in creating, communicating and delivering customer value to target markets. Its acceptability in the modern business world has grown over time because of its superiority and its recognition as one of the best business philosophies (Lamb *et al.*, 2010:96). Greenley *et al.* (2004:933) argue that the marketing concept is a business philosophy that challenges the previous concepts. The marketing concept is a customer-oriented, integrated and profit-oriented business philosophy.

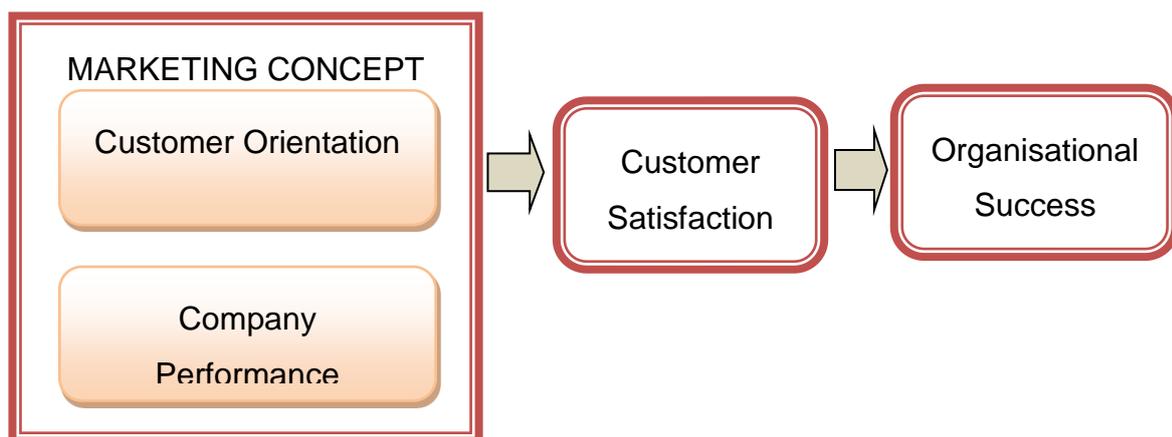
Since the introduction of the marketing concept, many authors have addressed questions concerning the utility and optimality of a business philosophy grounded in the marketing concept (Webster, 1992:23). The concept began as a business philosophy, and is important and helpful in diverse types of businesses (Perreault *et al.*, 2011:41). Accordingly, organisational success depends on the business's ability to deliver on its promises through fulfilling the needs and wants of target markets. This refers to effective and efficient marketing activities that reveal organisational competitiveness (Kotler & Armstrong, 2011:43). Jobber (1999:55) articulates that the marketing concept is the achievement of corporate goals through meeting and exceeding customer needs better than competitors in the market.

The marketing literature confirms that the adoption of the marketing concept is the foundation for successful business performance (Kohli & Jaworski,1990:15). The marketing concept delineates a distinct organisational culture or business philosophy that puts the customer at the centre of the firm's strategy and operations (Deshpandé & Farley, 2004:13). The concept is illustrated in Figure 3.1 to show the key components of the marketing concept. Customer emphasis is seen as the heart of all marketing activities.

Three important pillars are clearly imbedded in the concept:

- *Customer orientation philosophy* – satisfaction of the wants and needs of customers. The marketing concept embraces customer orientation and coordination of marketing activities to achieve company performance objectives.
- *Organisational goal attainment* – achievement of an organisation's goals while satisfying customer needs.
- *Company's integrated marketing performance* – integration of all functional areas of the organisation to attain corporate goals by satisfying the wants and needs of customers.

**Figure 3.1: Components & outcomes of the marketing concept**



Source: *Etzel et al. (2004:11)*

Webster (1992:10) states that a full understanding of customers is essential for each organisation. This suggests that the long-term purpose of a firm is to satisfy customer

needs for the purpose of maximising corporate profits (McCarthy & Perrault, 1993:39). The coordination involves aligning performance objectives with customer satisfaction activities to achieve organisational success (Lamb *et al.*, 2010:133).

Even though the marketing concept was central to the marketing literature, very little progress was made in creating a valid measurement scale and testing the construct empirically until the 1990s (Kotler *et al.*, 2008:136). Research shows that while the interest in the developments of the marketing concept has persisted, there has been a substantial shift in attention towards the implementation of the marketing concept (Lafferty & Hult, 2001:93). While some authors have examined the meaning of the "marketing concept", recent authors have focused on market orientation, which is considered to be the implementation of the marketing concept (Kimery & Rinehart, 1998:17). As market orientation is the operationalisation and implementation of the marketing concept, it follows, therefore, that the fundamental premise of satisfying the needs and wants of customers should be inherent in any basic conceptualisation of market orientation (Lafferty & Hult, 2001:97).

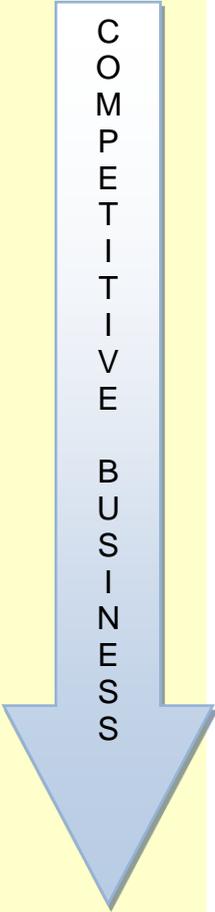
### **3.2.3 Operationalising the Marketing Concept**

The marketing concept is a distinct marketing management path that businesses go through as they evolve toward market orientation (Farrell & Oczkowski, 2009:149). In order to become market oriented, an organisation should accept the marketing concept as its organisational philosophy, consider the implementation issues and meet the required conditions. Wrenn (1997:33) is of the view that the marketing concept is a way of thinking about the organisation, its products, and its customers whereas market orientation is doing those things necessary to put the marketing concept into practice. The implementation of the marketing concept in the contemporary business world is more than just being customer-led (Etzel *et al.*, 2004:31). It requires the full support of the organisation to be fully implemented in the long term and calls for a complete change in organisational culture. Dursun-Kilic (2006:162) is of the view that the key to competitiveness and survival for businesses is in retaining their best customers, rather than focusing only on new customers. Specific marketing activities representing practical operational guidelines that enhance organisational competitiveness are imperative. The guidelines that are

essential for firms that hope to be competitive in the marketplace are aptly illustrated in Figure 3.2.

Deshpandé *et al.*, (1993:27) stated that, “a simple focus on information about the needs of actual and potential customers is inadequate without consideration of the more deeply rooted set of values and beliefs that are likely to reinforce customer focus”. Practical activities that define an effectively competitive organisation must include all the tabulated operational activities in Table 3.2.

**Figure 3.2: Organisational activities for a competitive business**

Practical Operational Activities	Outcome
<ul style="list-style-type: none"> <li>• <i>Create customer focus</i></li> </ul>	
<ul style="list-style-type: none"> <li>• <i>Listen to the customer</i></li> </ul>	
<ul style="list-style-type: none"> <li>• <i>Define and nurture your distinctive competence</i></li> </ul>	
<ul style="list-style-type: none"> <li>• <i>Define marketing as market intelligence.</i></li> </ul>	
<ul style="list-style-type: none"> <li>• <i>Target customers precisely.</i></li> </ul>	
<ul style="list-style-type: none"> <li>• <i>Manage for profitability, not sales volume.</i></li> </ul>	
<ul style="list-style-type: none"> <li>• <i>Make customer value the guiding star.</i></li> </ul>	
<ul style="list-style-type: none"> <li>• <i>Let the customer define quality.</i></li> </ul>	
<ul style="list-style-type: none"> <li>• <i>Measure and manage customer expectations.</i></li> </ul>	
<ul style="list-style-type: none"> <li>• <i>Build customer relationships and loyalty.</i></li> </ul>	
<ul style="list-style-type: none"> <li>• <i>Define the business as a service business.</i></li> </ul>	
<ul style="list-style-type: none"> <li>• <i>Commit to continuous improvement and innovation.</i></li> </ul>	
<ul style="list-style-type: none"> <li>• <i>Manage culture along with strategy and structure.</i></li> </ul>	
<ul style="list-style-type: none"> <li>• <i>Destroy marketing bureaucracy</i></li> </ul>	

Source: Webster (1992:11)

Some authors have linked marketing concept implementation with market orientation. Dobni and Luffman (2000: 897) submit that a market orientation provides a context to

facilitate the implementation of the marketing concept. Deng and Dart (1994:729) state that “market orientation is the implementation of a particular marketing philosophy, such that the level of market orientation of a firm depends on the degree of implementation of the marketing concept”. Perreault *et al.* (2011:43) also supports that view, submitting that market orientation is the more recent term for implementing the marketing concept by focusing on consumer needs and organisation's profit.

Interestingly, some authors are of the view that the conceptualisation and operationalisation of market orientation came as a response to the criticism of the marketing concept (Lawton & Parasuraman, 1980:19; McGee & Spiro, 1988:41; Kohli & Jaworski, 1990:18; Gray *et al.*, 1998:884; Zebal, 2003:19). Market orientation theorists concur that market orientation can be traced from the marketing concept, and that it has consequences on the overall business strategy (Narver & Slater, 1990:29; Dursun-Kilic, 2006:93). In other words, a market-oriented firm is one whose actions are consistent with the marketing concept. Pitt *et al.* (1996:13) supported the view that the level of market orientation is related to the degree to which the marketing concept is implemented. Implementation of the marketing concept characterises a firm's intentions to deliver superior value to its customers (by satisfying their wants and needs) on a continuous basis (Farrell, 2005:261). The following section provides definitions and a detailed discussion of market orientation.

### **3.3 MARKET ORIENTATION**

This section on market orientation is divided into five areas: the first deals with the the description of what market orientation is (definitions); the second distinguishes market orientation from marketing orientation; the third looks at elements of market orientation (characteristics); the fourth reviews the streams of research on market orientation; and the final discusses the key activities in market orientation.

#### **3.3.1 What is Market Orientation?**

Companies rely on market orientation principles that are based on the classic marketing doctrine in order to improve their business performance (Dursun-Kilic, 2006:93). The classic doctrine posits that satisfying customer needs and

requirements is the basic path to the improvement of business performance (Felton, 1959:56). Emanating from this doctrine, market orientation, a deeply rooted marketing philosophy, emerged, focusing on the importance of having a holistic knowledge of the market (Caruana *et al.*, 1999:61). The market orientation concept has received considerable attention in the literature in the past few decades. It is not merely a philosophy, but a concept that permeates the entire firm as a way of doing business in the twenty-first century (Dursun-Kilic, 2006:93). However, before giving the formal definitions espoused in theory, it is essential to give a brief explanation of what market orientation is. On the one hand, the marketing concept is the underlying platform of market orientation, while on the other hand, contemporary marketing theory is grounded upon the construct of market orientation.

Market-oriented organisations focus on adapting their products and services to the needs and expectations of their customers instead of developing a product or service that is then marketed and hopefully sold (Grönroos, 1991:7). To achieve this customer focus, a firm with a high degree of market orientation cultivates a set of shared values and beliefs about putting the customer first and reaps results in the form of a reliable competitive advantage, reduced costs and increased profits (Desphande & Farley, 1999:123). Market orientation is more than market segmentation. Each market-oriented business must possess a business culture aimed at creating a competitive advantage (Maydeu-Olivares & Lado, 2003:286).

Slater and Narver (1994:46) are of the view that market orientation enables the marketer to match or exceed the needs of the intended market and better the competition through continued competitive advantage. Slater (2001:233) posits that market orientation characterises an organisation's corporate culture that encourages employees throughout its operations to uphold market oriented behaviour. This means that market-oriented businesses possess a competitive advantage in both the speed and effectiveness of their responsiveness to opportunities and threats.

Market orientation contributes to continuous learning and accumulation of knowledge through careful continuous gathering of information about customers and competitors and using that information to create superior customer value (Lamb *et al.*, 2010:96). Research has established that market-oriented companies perform better than

companies that are less market oriented (Porter, 1985:103; Ruekert, 1992:229; Desphande & Farley, 1999:123).

Market orientation is also seen as an inter-functional concept that can promote coordination and sharing of responsibility between the marketing department and other departments in the firm (Kohli & Jaworski, 1990:17). In effect, it involves more than the marketing department because it is an organisation-wide concept. The inter-functional co-ordination aspect of market orientation pledges involvement of the firm's various departments in the creation of value for the targeted market segments and responsiveness to customer demands (Porter, 1985:103). Inter-functional co-ordination is important in enabling possible transmission of experience and information, and promoting organisational learning (Lusch & Laczniak, 1987:11). Inter-functional coordination is also a channel for communicating the market expectations to the appropriate departments that can effectively develop products/service delivery in a timely manner (Lenz, 1981:131). The strategic actions which the firm presents to its markets, competitors and macro-environment are a consequence of inter-functional co-ordination, established from market intelligence.

The managerial focus of market orientation is that organisational marketing efforts are the business of all departments with potential to enhance organisational performance (Guiltinan *et al.*, 2000:11). Being market oriented is being concerned with customer orientation, competition orientation, innovation and profit as an inducement for creating satisfied customers (Hunt & Morgan, 1995:11). Market orientation refers to the commitment of an organisation to its customers, and its ability to adapt in a timely way to the dynamic needs of the market (Slater & Narver, 1995:63). It is a bias towards the market, with full knowledge of customer needs and wants, competitor activities and other external committed market forces (Greenley *et al.*, 2004:933) and is considered as the central ingredient of successful organisational behaviour (Dursun-Kilic, 2006:93). The processes involved in the attainment of market orientation help researchers to understand its meaning and definition. The definitions of market orientation are provided in the following section.

### 3.3.2 Definition of Market Orientation

In defining market orientation, it is important to accept that a culture of market orientation is believed to impact an organisation positively (Ruekert, 1992:226). It influences the organisational focus and culture and directly impacts on how employees think and act (Kotler *et al.*, 2008:133).

Although there is no consensus on the definition of market orientation, the conceptualisations of market orientation have been derived from two complementary perspectives. The perspectives converge on linking the adoption and implementation of market orientation to improved business performance (Ngansathil, 2001:93). The philosophical perspective of Kohli and Jaworski (1990:13) focuses on organisational activities related to the generation and dissemination of, and response to, market intelligence, and the behavioural perspective of Narver and Slater (1990:21) focuses on organisational values that encourage behaviours consistent with market orientation. These appear to have gained wide acceptance by many academics and business practitioners and provide the basis for other definitions of market orientation (Gray *et al.*, 1998:885). The leading definitions of market orientation are more comprehensive, informative and widely accepted and frequently cited by marketing scholars (Ellis, 2006:1089).

Kohli and Jaworski (1990:13) offered a formal operational definition of market orientation. According to them, “market orientation is an organisation-wide generation of market intelligence through decision support systems, marketing information systems, marketing research efforts, dissemination of the intelligence across company departments, and organisation-wide responsiveness to the changes taking place in the environment.” Jaworski and Kohli’s (1993:51) definition of market orientation is based on in-depth field research conducted on 62 managers in four USA cities. It is expanded to include the generation of relevant market intelligence for current and future customer needs and the relative abilities of competitive firms to satisfy customer needs (Jaworski & Kohli, 1993:53). The definition means that the concept focuses on generation of coordinated business intelligence, and dissemination of and responsiveness to market information for efficient and effective decision-making. Dursun-Kilic (2006:48) views effective dissemination of market

intelligence as a vital act since it provides a shared basis for collaborative efforts by different departments.

Various other scholars have either adopted or extended the annotated formal operational definition. According to Ruekert (1992:229), market orientation is “a concept focused on efficient and effective decision-making through coordinated business operations involving market intelligence generation, market-information dissemination and organisational responsiveness”. Maydeu-Olivares and Lado (2003:286) also added value to the formal operational definition when they defined market orientation as “the integration and dissemination of market intelligence across departments and the coordinated design and execution of the firm's strategic response to market opportunities”.

Complementing the works of Kohli and Jaworski (1990:1-18), Narver and Slater (1990:21) defined market orientation as “customer orientation, competitor orientation, and their inter-functional co-ordination, which involves intelligence, dissemination, and managerial action”. Narver *et al.* (1998:241) then extended this definition, suggesting that market orientation is “an organisational culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value”. The stress on creating the necessary behaviour indicates the importance of considering the conditions necessary for the implementation of the marketing concept. The market orientation is a philosophy that identifies consumer needs and integrates marketing activities with all functional areas in the organisation (Day, 1994:37).

Their description encompasses three behavioural components:

- *Customer orientation* – recognising customer needs in order to provide superior value.
- *Competitor orientation* – taking cognisance of the capabilities and aspirations of competitors.
- *Inter-functional coordination* – applying company-wide resources to create value.

Here are some notable subsequent definitions that have broadly been based on the description of Narver and Slater. Day (1994:26) defined market orientation as a form of organisational culture where employees are committed to continuously creating superior customer value. Day (1994:37) emphasises the importance of “superior skills” in understanding and satisfying customers. Greenley (1995:13) describes market orientation as an approach that manoeuvres the formulation of policies and strategies for an organisation and necessitates the allocation of resources with focus on the market. Ellis (2006:1093) views market orientation as vital for organisations to be well informed about the market and have the ability to use information advantage to create superior value for their target customers. Walsh and Lipinski (2009:569), define market orientation as “the degree to which an organisation and all its thinking and acting (internally as well as externally) is guided by and committed to the factors determining the market behaviour of the organisation and its customers”. Baker and Sinkula (1999:411) also identify market orientation as a concept involving organisational culture, innovation, human resource planning and organisational learning, advising that it is a sequence of marketing activities that leads to better performance.

Gounaris and Avlonitis (2001:354) have argued that a true market orientation needs a synthesis of both the philosophical and the behavioural market orientation perspectives. For example, a synthesised description of market orientation states that “market orientation is 1) the systematic gathering of information on customers and competitors, 2) the systematic analysis of the information for the purpose of developing market knowledge, and 3) the systematic use of such knowledge to guide strategy recognition, understanding, creation, selection, implementation and modification” (Hunt & Morgan, 1995:1).

A later definition by Deshpandé and Farley (1999:112) refers to “a set of cross-functional processes and activities directed at creating and satisfying customers through continuous needs-assessment”. A market-oriented firm gathers information about its customers, competitors and markets and holistically utilises the information to deliver superior value to the company's customer. Ruekert (1992:229) states that the level of market orientation in a business is the degree to which the business unit, (1) obtains and uses information from customers; (2) develops a strategy that meets

customer needs, and (3) implements that strategy by being responsive to customer needs and wants. Based on the previous definitions it would appear reasonable to conclude that this definition is an extension of the definitions of Kohli and Jaworski (1990:11) and Narver and Slater (1990:23). This definition focuses on a business unit rather than the individual market as a unit of analysis (Lafferty & Hult, 2001:99). The key components of the definitions of market orientation are summarised in Table 3.1.

**Table 3.1: Market orientation descriptors**

<b>AUTHORS</b>	<b>COMPONENTS</b>
Kohli and Jaworski (1990:1-18)	-Generation of market intelligence -Dissemination of market intelligence -Entire organisation's capacity to respond
Narver and Slater (1990:20-35)	-Customer oriented -Competitor oriented -Inter-functional co-ordination
Day (1994:37), Deng and Dart (1994:751), Baker and Sinkula (1999:411).	-Customer oriented -Competitor oriented -Inter-functional co-ordination -Profit oriented
Hunt and Morgan (1995:1), Deshpandé and Farley (1999:112), Lado, Maydeu-Olivares and Rivera (2001:135)	-Information gathering and analysis on: <ul style="list-style-type: none"> <li>• final customers</li> <li>• distributors</li> <li>• competitors</li> <li>• environment</li> </ul> -Inter-functional co-ordination -Strategic actions on: <ol style="list-style-type: none"> <li>a) final customers</li> <li>b) distributors</li> <li>c) competitors</li> <li>d) environment</li> </ol>

Source: *Maydeu-Olivares & Lado (2003:286)*

The different definitions of market orientation provided in this section are not alternatives to each other but rather complement each other. It is clear that the market orientation perspectives that are widely recognised are customer orientation and market focus, competitor orientation, profit orientation and integrated marketing efforts (Siu & Wilson, 1998:295). According to Gounaris and Avlonitis (2001:354), all of the definitions represent principal features of market orientation. These principal features are:

- A set of beliefs that puts customers' interests first
- The ability of the organisation to generate, disseminate, and use superior information about customers and competitors
- The coordinated application of inter-functional resources to create superior customer value

This view is also supported by Dursun-Kilic (2006: 39), who notes that all the definitions maintain an external focus, have a central focus on customer value creation, have a broader focus on influential forces such as competitors and other stakeholders, and accept the importance of being responsive to customers' needs and wants. Jaworski and Kohli (1993:51) define the responsiveness component as being composed of two sets of activities: Firstly, response design (e.g. using market intelligence to develop plans), and secondly response implementation (e.g. executing such plans). This means that responsiveness involves developing, designing, implementing and altering products and services in response to customers' current and future needs.

### **3.4 MARKET ORIENTATION AND MARKETING ORIENTATION**

The literature provides a variety of terms that have been used interchangeably to address modern marketing issues. Terms such as "market-oriented", "market-driven" (Day, 2000:23; Deshpandé *et al.*, 1993:26), "customer orientation" (Shapiro, 1988:123), "customer focus" or "customer-centric" (Deshpandé & Farley, 1999:113), have often been used synonymously. Following the works of Kohli and Jaworski (1990:1–18) and Narver and Slater (1990:20-35), many scholars have presented various views on the terms "market orientation" and "marketing orientation".

There are notable differences in the literature on the use of market orientation and marketing orientation (Ellis, 2006:1089). Market orientation and marketing orientation differ in that the former addresses organisation-wide concerns while the latter concentrates on the functional focus of the marketing department (Morgan & Strong, 1998:1052). Market orientation is a holistic process involving the whole organisation. It is aimed at market intelligence activities across departments embracing a culture of responsiveness within the whole organisation. This argument can be augmented by

one key component of the market orientation construct that states that inter-functional coordination typically involves more than the marketing department (Desphande & Farley, 1999:113).

Perreault *et al.* (2011:76) observe some discrepancy in the use of the terms "market" and "marketing" orientation. Both encompass (1) customer orientation and targeting; (2) profit orientation; and (3) integrated marketing. In other words they both talk about the integration of effort to satisfy corporate goals by satisfying customer needs and wants. Although the two concepts are loosely used and often seen by some researchers as being synonymous, market orientation is in fact an expanded form of marketing orientation (Zebal & Goodwin, 2012:339). The reasons for this broadening are threefold:

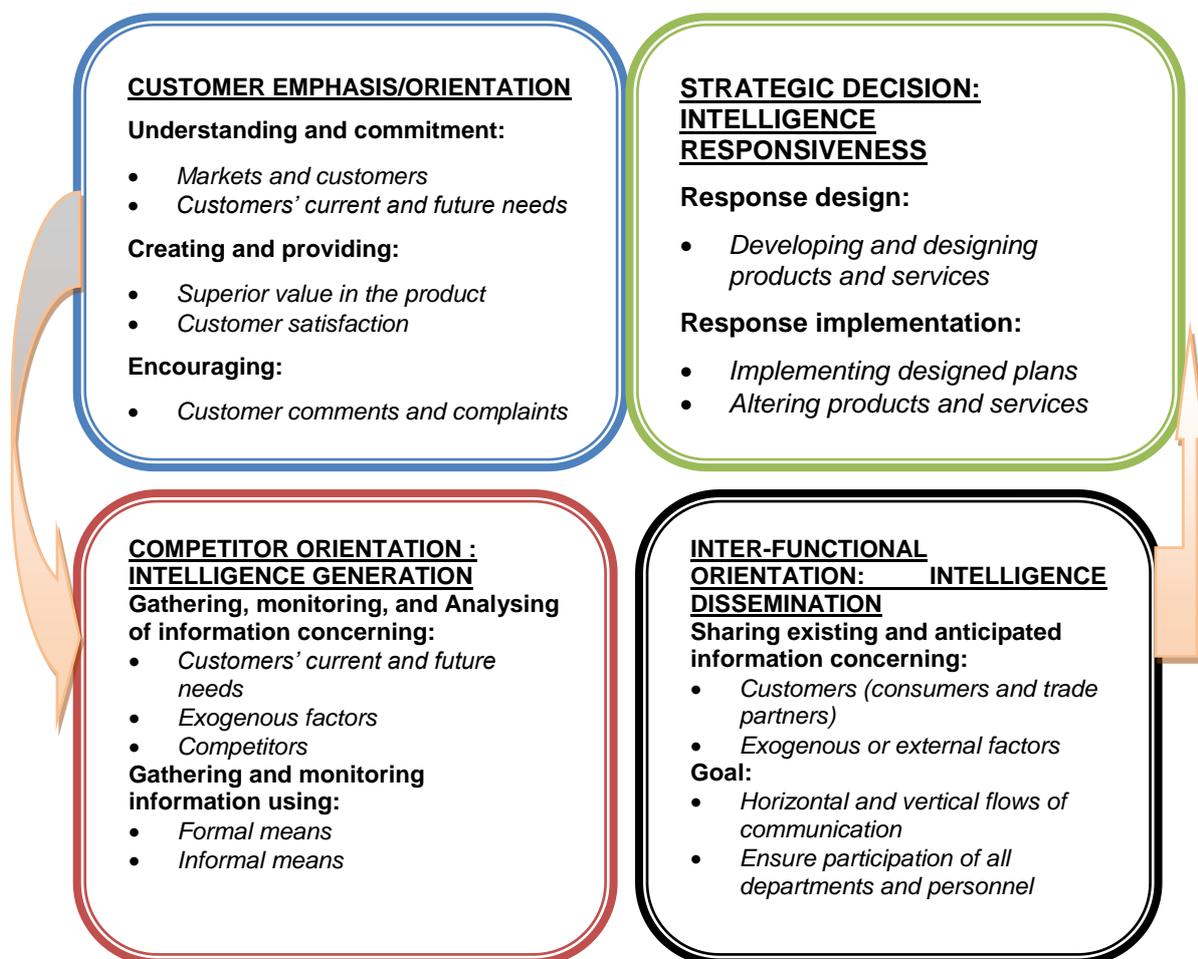
- Market orientation is not simply a concern of the marketing department, but should be organisation-wide (Shapiro, 1977:123; Deshpandé & Farley, 1999:119),
- The level of market orientation can avoid overemphasis on the marketing department within an organisation, and can facilitate coordination and sharing of responsibility between the marketing department and the other departments (Webster, 1992:23),
- Market orientation means focusing attention on the whole market instead of just on specific customers (Dursun-Kilic, 2006:39).

According to Slater (2001:232), market orientation is different from marketing orientation in that marketing is only one management function of the organisation while market orientation is the responsibility of all the departments of the company. The distinction indicates that a business is market oriented when the entire organisation embraces the common market orientation values (Narver & Slater, 1990:29), a scenario in which all the business processes are directed at creating superior customer value. The view is augmented by the third component of the market orientation construct, identifying inter-functional coordination as involving more than just the marketing department (Kohli & Jaworski, 1990:16). In this study the term "market orientation" rather than "marketing orientation" is used.

### 3.5 ELEMENTS OF MARKET-ORIENTED ORGANISATIONS

Market-oriented behaviour often leads to positive effects on customer satisfaction and customer loyalty, resulting in better organisational performance (Lamb *et al.*, 2010:156). An organisation that is market orientated enhances employee satisfaction and cooperation (Gatignon & Xuereb, 1997:81). The characteristics of market orientation indicate a strong customer focus and an understanding of the organisational strengths and weaknesses (Kotler & Armstrong, 2011:29). For an organisation to be market oriented, it also requires a solid understanding of the competition (Shapiro, 1988:121). Wood and Bhuian (1993:31) identified varying activities and approaches prevailing within market-oriented organisations, as illustrated in Figure 3.3.

**Figure 3.3: Elements of a market-oriented firm**



Source: Wood and Bhuian (1993:31)

It is clear from Figure 3.3 that customer emphasis is at the heart of market-oriented activities. The other three elements are intelligence/information generation, intelligence/information dissemination, sometimes called inter-functional coordination, and intelligence responsiveness, also called taking action (Lado & Maydeu-Olivares, 2001:134). The first considers market orientation as organisational culture and the other three elements reveal that market orientation is a specific set of organisational behaviours aimed at enhancing organisational performance.

The common characteristics of market orientation are identified based on the policies and nature of the business organisation (Deshpandé *et al.*, 1993:26). Lichtenthal and Wilson (1992:193) agree with this perspective, stressing that customer emphasis recognises customer needs in order to provide superior value. The authors further state that competitor orientation takes cognisance of the capabilities and aspirations of competitors, while inter-functional coordination involves applying company-wide resources to create value (Turner & Spencer, 1997:109).

In addition to the three elements mentioned above, Zebal (2003:97) notes that market orientation requires strategic commitment from the entire organisation and clear orientation of organisational culture. The strategic guidelines and action plans for implementing market orientation must be clear (Farrell, 2005:261). For most firms, becoming market oriented is a long and difficult process (Dursun-Kilic, 2006:53). The strategic-marketing perspective views organisational culture as effective and efficient in creating the necessary behaviours for superior value for buyers as well as superior performance for the business (Lafferty & Hult, 2001:99).

A detailed discussion of the above behavioural elements or characteristics of market orientation is provided in the following sections.

### **3.5.1 Customer Orientation**

Customer emphasis involves an understanding of and commitment to the customer, creating and providing superior value for the customers and encouraging customer comments and complaints (Dobni & Luffman, 2000:896). The customer orientation is described by Deshpandé *et al.* (1993:27) as "...the set of beliefs that puts the

customer's interest first, while not excluding those of all other stakeholders, such as owners, managers, and employees, in order to develop a long-term profitable enterprise". Organisations should make sure that they place emphasis on the customer on a continuous basis. Continuous customer emphasis is impossible without being committed to the customers (Lamb *et al.*, 2010:93). Market orientation is seen as a straightforward and logical idea that places the customers at the centre of overall activities of an organisation (Dalgic, 1998:46). Insufficient and inappropriate understanding of the customer can lead to problems for organisations. These problems may lead to companies questioning their existence in the marketplace.

A customer orientation is a principle that guides all marketing concepts (Maydeu-Olivares & Lado, 2003:286). It requires that all activities of the company be focused on satisfying consumer needs, demands and preferences (Kotler & Armstrong, 2011:65). This essentially requires an understanding of the psychological and social factors which determine the customer's action (Dhurup, 2005:129).

The generation of market intelligence and information relies on customer surveys and other complementary mechanisms. It stresses the need for the company to understand its markets and customers through market intelligence (Lings & Greenley, 2005:293). Market intelligence is a broader concept that goes beyond the verbalised needs and preferences of customers (Shapiro, 1988:123). Effective market intelligence requires that an organisation should meet the customer's needs "now and in the future". This orientation entails a sufficient understanding of the customer in order to create superior products and value (Narver & Slater, 1990:9). Organisations of this nature must develop strategies to meet customer needs and wants through deliberately placing the customers' interest first (Ruekert, 1992:226). Gounaris and Avlonitis (2001:356) suggest that the availability of the information and company-wide mobilisation aimed at satisfying customer needs and wants are essential. Thus, availability of information on customer needs and wants at a company-wide level is a major issue in the development of market orientation (Kohli & Jaworski, 1990:13). It is imperative for market-oriented firms to embark on a mission to determine what value the customers want, and to assist clients in satisfying their purchase objectives. Deshpandé *et al.* (1993:27) used a customer orientation scale as part of a study on the influence of organisational culture and

organisational innovativeness on business performance in Japan. The findings revealed that improving business performance is associated with customer orientation, innovativeness, and a supportive corporate culture.

The primary interest of all organisational agents must be focused on customer needs. Lafferty and Hult (2001:98) rightly argue that the creation of value for customers is attained with the increase of benefits to customers while decreasing costs. Zebal (2003:141) further contends that this level of understanding of customer needs necessitates gathering relevant information about the customers and understanding the constraints of macro-environmental factors. This propels the firm to take cognisance of the needs of present as well as future customers and devise appropriate plans to satisfy those needs (Kotler, 2001:13). It involves the need to co-ordinate efforts in terms of the elements of the marketing mix for each product. Moreover, because market orientation is an organisation-wide prescription, it is necessary that the whole firm is organised and coordinated around customer service (Morgan *et al.*, 2009:909).

Business objectives must be tailored to achieve total customer satisfaction, and provide for realistic customer needs (Conway *et al.*, 1994:35). Farrell (2005:261) is of the view that organisations must carefully choose their markets and consciously tailor their marketing programmes to include active encouragement of customer comments and complaints, outstanding after-sales service, frequent evaluation of product classification and regular measurement of customer satisfaction levels. According to Craven (2000:6), market-oriented organisations must consider clients' requirements and effectively organise their resources to satisfy clients. Thus, market orientation should permeate every organisation, focusing on the customer, to derive a sustainable competitive advantage.

### **3.5.2 Competitor Orientation**

Competitor orientation entails regular monitoring of competitor activity, the collection of market information on competitors and the development of marketing plans (Zebal, 2003:126). Globalisation, deregulation and the emergence of more sophisticated customers have resulted in a more competitive environment (Farrell & Oczkowski,

2009:149). A market-oriented firm focuses on competitors and customers. The competitor orientation described by Narver and Slater (1990:21) demands that the firm understands the strengths and weaknesses of current and future competitors and, in addition, their long-term capabilities and strategies. The strengths and weaknesses of competitors must be understood. Although the decision-making perspective did not include competitors in its conceptualisation, it was, however, recognised that understanding the strengths and weaknesses of competitors is a part of being a market-oriented organisation (Homburg & Pflesser, 2000:451). Thus, a market-oriented company should consider the competitors and collect and analyse information regarding competitors accordingly.

The source of competitive advantage for market-oriented firms lies in the organisation's focus on developing value for customers and taking clear actions on available information (Lamb *et al.*, 2010:53). Slater and Narver (1990:23) state that market-oriented firms have a strong sense of their markets. They have a pervasive outward-oriented culture that primes the organisations for seeking out and responding to opportunities as they arise. A study undertaken by Slater (2001:230) concluded that a market-oriented organisation is well positioned to address marketplace evolution and to respond to new customer value-focused capabilities through developing innovative goods and services and remaining alert to market dynamics. This requires effort from throughout the organisation to keep track of changes in the market, changes in customer needs, competitor challenges and changes in technology.

Information on competitors can be generated through a variety of formal as well as informal means, such as discussions with distributors (Kohli & Jaworski, 1990:16). Formal and informal information generation is the extent to which the organisation's employees and operations generate information on customers, competitors, and industry (Dobni & Luffman, 2000:913). This implies that a market-oriented firm is likely to gather more information on markets and environments than one that is not market oriented. Ultimately, organisations are identifying competitive advantages based on satisfying both the current needs of customers as well as the latent needs of customers and attempting to do this better than competitors (Day, 2000:23).

Zebal and Goodwin (2012:339) argue that failure to recognise and react to competitive threats can result in major disaster for businesses. They are of the view that organisations that are market oriented would better understand the changes and challenges in the marketing environment. Competitor-oriented firms would be able to identify competitor threat and develop strategies to address competitor challenges (Akimova, 2000:1128). In this regard, Slater and Narver (1995:67) suggest that a true market orientation should maintain a balance between existing and potential competitors which should encourage a sufficient willingness to take risks.

### **3.5.3 Inter-functional Orientation**

Inter-functional orientation involves the effective use of marketing information within various departments (Keskin, 2006:396). This entails involving all departments in the preparation of business plans and strategies and the integration of activities between departments and the marketing personnel (Zebal, 2003:113). According to Kohli and Jaworski (1990:13), various means can be used to disseminate information within organisations, including periodic newsletters, formal meetings, and informal storytelling. In addition, regular inter-departmental meetings are necessary to address market trends and customer needs (Gray *et al.*, 1998:901). Since organisational success depends on appropriate and smooth dissemination procedures, all the departments and employees of the organisation should understand the importance of the effective use of disseminated information and create a favourable climate for using the information through inter-functional coordination (Harris & Ogbonna, 2001:748).

If the entire organisation is market oriented, all the traditional functional areas must exhibit market orientation behaviour (Lichtenthal & Wilson, 1992:193). Market-oriented firms must be effective in achieving all management functions to work in such a way as to achieve superior customer value. Slater (2001:230) asserts that organisations intending to adapt to market needs must communicate this intention to relevant departments and individuals in the organisation, and, if necessary, persuade them of the importance of sharing market information. Market-oriented firms communicate within the various functions, marketing consults with production and finance and so on. If each person functions only within the departmental group

norms, then these individuals will perform to achieve their primary function at unnecessary marginal expense to the organisation. Kohli and Jaworski (1990:7) identify three classes of factors affecting an organisation's degree of inter-functional orientation. These include senior management, inter-departmental dynamics and organisational systems.

According to Farrell (2005:261), inter-functional orientation results in traditional functional barriers becoming permeable, so that persons in other functional areas will understand how to act toward each other and their customers. In that way, the goal is to ensure vertical and horizontal flows of communication within and between departments (Wood & Bhuian, 1993:23). It is argued that the powerful internal connections make for clear communication, strong coordination, and high commitment, while poor coordination results in misuse of resources and failure to seize market opportunities (Dursun-Kilic, 2006:93). Achieving the inter-functional coordination that is necessary to implement market orientation is no easy task. As long as functional managers (for example, purchasing, finance and production) behave in a manner that reflects the norms of their specific functions, the adoption and implementation of market orientation throughout the firm will be restricted (Lichtenthal & Wilson, 1992:200).

#### **3.5.4 Strategic Focus and Decision-making**

Strategic decision-making is an essential element for effective implementation of market orientation. "Strategic focus", therefore, is an approach that enables an organisation to develop an explicit strategy for growth and define measures to track marketing effectiveness (Keskin, 2006:396). Market orientation is conceptualised as an organisational decision-making process that starts from information generation and proceeds to implementation and execution of marketing strategies (Kohli & Jaworski, 1990:9). At the centre of this process is a strong commitment by management to share information inter-departmentally and to practise open decision-making between functional and divisional employees (Jobber, 1999:56).

Šimberová's (2008:11) decision-making perspective states that "the ability to make strategic and tactical decisions is important" for market orientation. This is consistent

with Shapiro (1988:124), whose view is that a market-oriented company must possess the ability to make strategic and tactical decisions inter-functionally and inter-divisionally, in spite of potentially conflicting objectives that mirror differences in the departmental modes of operations. According to Farrell and Oczkowski (2009:149), although the functions of departments such as finance, operations, resource planning and marketing may be different, their focus and decision-making must show a unified understanding of the needs of the market.

There must be an open decision-making process for a company to be market driven (Kotler & Armstrong, 2011:37). This means that “functions and divisions” must be willing to listen to each other and should express their ideas in an open and honest manner. In order to make wise decisions, functions and divisions must recognise their opinions and differences with respect and also exercise an open decision-making process (Ellis, 2006:1089). Decisions must be well co-ordinated. Emphasis must be placed on well-coordinated decisions among the different divisions and functions of an organisation, and those decisions must be executed with a sense of commitment (Appiah-Adu, 1998:29).

### **3.5.5 Organisational Culture Orientation**

Market orientation should be managed as a multi-layered organisational concept deeply embedded in the organisation’s culture. Organisational culture is defined by Turner and Spencer (1997:119) as the set of important beliefs and convictions that members of a community share in common. Gatignon and Xuereb (1997:86) identified various research studies confirming that market orientation is deeply rooted in the corporate culture, and that corporate culture defines the organisation’s identity. This is referred to as a set of deep, culture-driven values and beliefs that guide the organisation’s behaviours toward achieving superior competitive performance (Homburg & Pflesser, 2000:451).

Relying on the theory of organisational culture, Blankson and Omar (2002:123) describe market orientation as a critical aspect of the organisational culture and corporate identity. According to Daft (2007:123), an organisational culture is defined as the values, guiding beliefs, and understandings that members of an organisation

share. Turner (1981:229) states that culture provides organisational participants with a clear understanding of how to act and think. Organisational culture regulates the attitudes and behaviours of all the employees within the organisation and how they perceive their market segments.

As noted in the previous sections, market orientation has received a great deal of attention from academics and a number of studies have been done since the 1990s. The following section delves into the contemporary issues, highlighting and enumerating some notable models of market orientation and studies that have been done.

### **3.6 MODELS AND MEASURES OF MARKET ORIENTATION**

In the early nineties, two different pairs of researchers, Kohli and Jaworski (1990:1–18) and Narver and Slater (1990:20–35) developed frameworks or approaches and introduced market orientation as a mechanism that companies might follow to implement the marketing concept. Consequently, two different models of market orientation were born (Morgan *et al.*, 2009:909). The subsequent sections discuss these two ground-breaking models of market orientation.

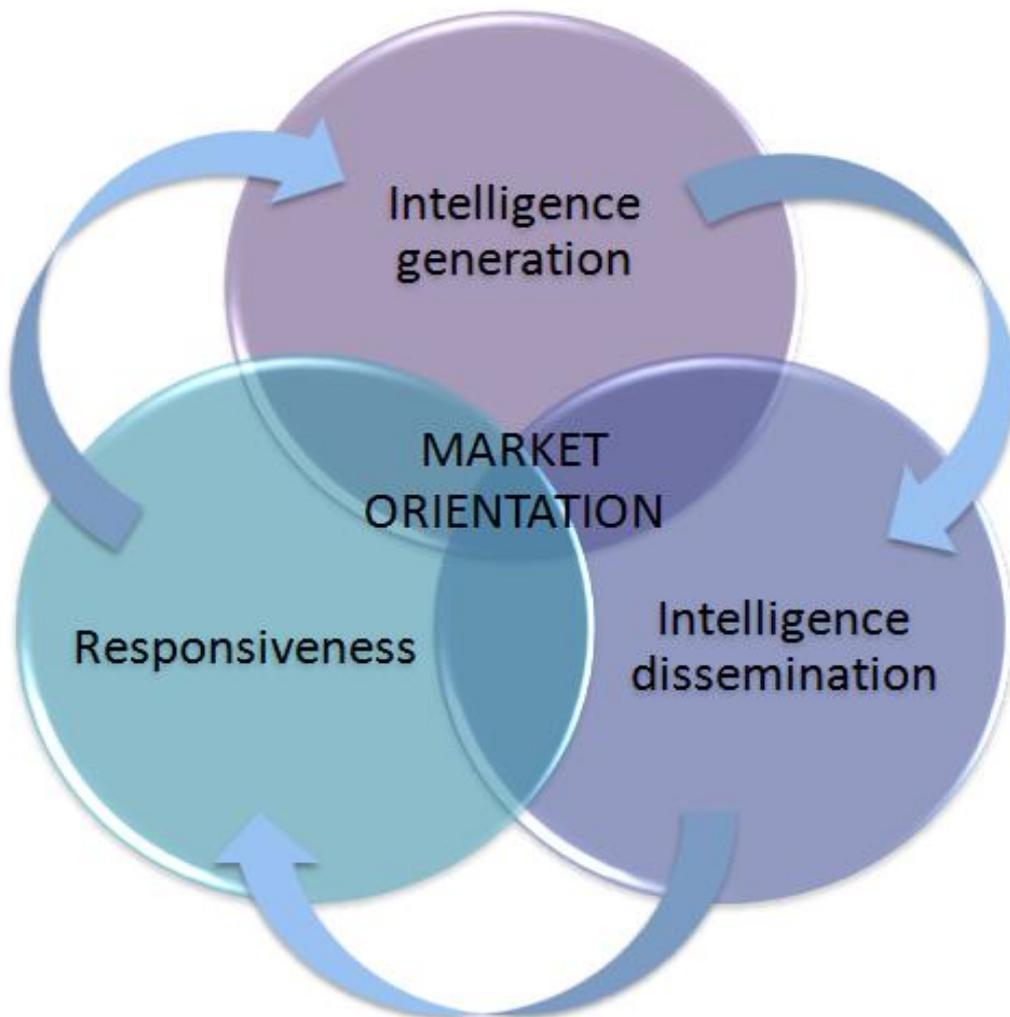
#### **3.6.1 The Kohli and Jaworski Model of Market Orientation**

The first perspective, the pioneering work of Kohli and Jaworski (1990:1–18), involves the modification of the marketing concept focusing on market intelligence. It encompasses key business activities with regard to customer needs, dissemination of inter-departmental information and response to market intelligence (Kohli & Jaworski, 1990:17). Market intelligence refers to the collection and assessment of customers' current and future needs, competitor assessment and the impact of government regulation, competition, technology and other environmental forces (Morgan *et al.*, 2009:909). Market intelligence involves examining customer needs and preferences, and the scrutiny of how consumers may be influenced by environmental factors.

Market intelligence must be communicated and disseminated throughout an organisation in both formal and informal ways (Jaworski & Kohli, 1993:53). Market intelligence is seen as based not just on verbalised customer opinions but also on a broader concept that includes consideration of external market factors such as competitors (Rodrigues & Pinho, 2010:172). It also considers current as well as future needs of customers. Grönroos (1991:11) recognises the need for firms to have a strong information system, particularly those in a relationship-marketing situation. Figure 3.2 is an illustration of market orientation from the point of view of Kohli and Jaworski (1990:13). In a subsequent study, Desphande and Farley (1999:119) showed that market intelligence about customers and competitors is a key prerequisite for building market orientation, and its application leads to a greater competitive advantage. According to Matsuno and Mentzer (2000:9), the model

proposed by Kohli and Jaworski (1990:13) is essentially an organisational process that places emphasis on gathering and dealing with information pertaining to customers and the company's business environment. Figure 3.4 shows how market intelligence forms an integral part of market orientation.

**Figure 3.4: Kohli and Jaworski's view on market orientation.**



Source: *Kohli & Jaworski (1990:3)*

As shown in Figure 3.4, intelligence dissemination relates to the communication and transfer of information to all departments and individuals within an organisation, through both formal and informal channels (Rodrigues & Pinho, 2010:172). Effective dissemination of market orientation is seen as a vital act providing a shared basis for collaborative efforts by different departments. The market intelligence perspective specifies the behaviours that lead to improvement in organisational performance.

Kohli and Jaworski (1990:9) state that environmental scanning activities are included in market intelligence generation. Formal channels would include meetings and formalised discussion sessions, while informal sessions relate to any other way of obtaining information about the market and competition (Rodrigues & Pinho, 2010:172).

Responsiveness is the speed of the actual implementation of a strategy or tactic in response to the intelligence that is generated and disseminated (Dursun-Killic, 2006:49). Without the response of organisations to information, it is impossible to make any progress in countering the competition. As a result, market orientation has been assumed to be a precondition to success and profitability for most companies (Kohli & Jaworski, 1990:13), showing the level of competitiveness of the organisation within the market in which it operates.

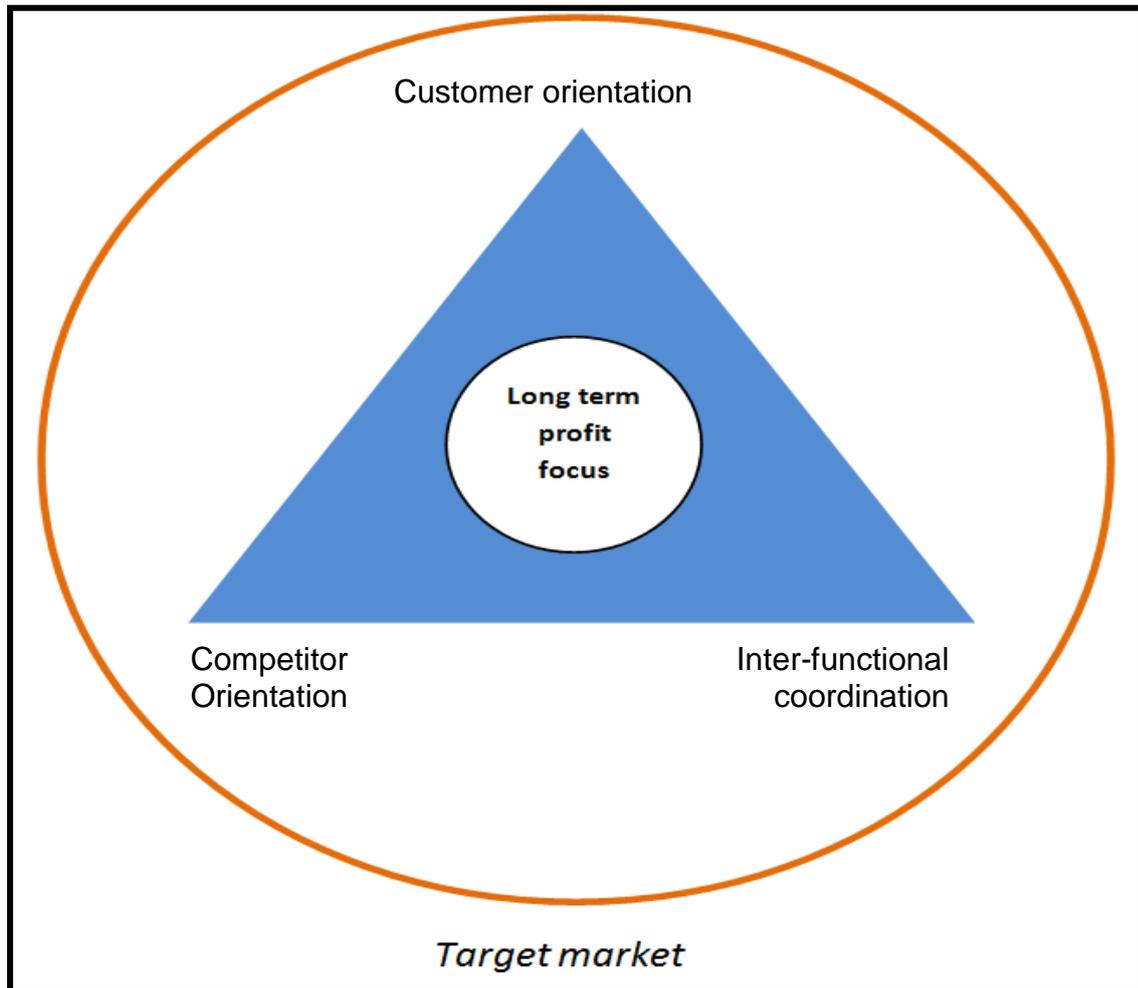
### **3.6.2 The Narver and Slater Model of Market Orientation**

Narver and Slater (1990:20–35) demonstrated through empirical investigation that market orientation has three different dimensions that form the desired organisational culture. These three dimensions, stated in their formal definition of market orientation, are: customer orientation, competitor orientation, and inter-functional coordination. Basically, they emphasise the idea that for a business to be successful it should pay attention to and understand the importance of its customers and its competitors. In support of this perspective, Morgan *et al.* (2009:909) state that organisations must coordinate their resources (including information about customers and competitors) to create the behaviours that would lead to the creation of higher value to customers.

Based upon a review of literature, Narver and Slater (1990:23) proposed five behavioural elements of market orientation, namely (1) customer orientation, (2) competitor orientation, (3) inter-functional coordination, (4) long-term profit focus and, and (5) target market. Narver and Slater (1990:21) put market orientation in measurable terms by identifying three cultural dimensions, derived from a widespread review of the literature on sustainable competitive advantage and marketing strategy. A market-oriented culture is expected to encourage certain

positive behaviours and maintain certain skills and capabilities. Narver and Slater (1990:21) describe market orientation as encompassing inter-functional co-ordination. Their model is illustrated in Figure 3.5.

**Figure 3.5: Narver and Slater's view on market orientation.**



Source: Narver & Slater (1990:29)

It is through the continuous creation of superior customer value that a business can create its long-term profit performance (Blankson & Omar, 2002:123). A short marketing campaign period or sales action might boost sales, but the organisational image and generation of repeat customers evolves over time, along with reputation and word of mouth.

Slater and Narver (1994:24) hold that the value of market orientation lies in the fact that it encourages the organisation to collect information continuously about target

customers' needs and competitors' capabilities and to use this information to create continuously superior customer value. Understanding the customers and keeping the rest of the organisation informed about customer differences is a key management function to maintain (Cervera *et al.*, 2001:1261), propelling the organisation to be better than its competitors. Businesses all over the world strive to develop long-term commitments in order to maintain their relationships with customers through quality, service, and innovation (Rodrigues & Pinho, 2010:172).

### 3.6.3 Unfolding Other Research Streams of Market Orientation

Following the studies of the market orientation construct by Kohli and Jaworski (1990:1–18, 1993:53–73), Narver and Slater (1990:20–35), Slater and Narver (1994:46–53), a number of scholars have carried out studies attempting to integrate, critique and generalise the various market orientation constructs (Deng & Dart, 1994:725; Cadogan & Diamantopoulos, 1995:43; Pitt *et al.*, 1996:23). However, none of the studies are as extensive and novel as the two ground-breaking studies that have been discussed in the earlier sections (Dursun-Kilic, 2006:89). This section looks into and discusses some of these notable research perspectives that have been undertaken since 1990. Table 3.2 reports the various studies, giving the authors, the nature of the sample and the place where the studies were undertaken.

**Table 3.2: Market orientation studies reviewed**

Kohli And Jaworski (1990)	Interviews with 62 American companies (industrial, service and consumer)
Narver and Slater (1990)	Survey of 140 Western corporations (commodity and non-commodity)
Deshpandé <i>et al.</i> (1993)	Interviews with 50 Japanese companies (various)
Jaworski and Kohli (1993)	Interviews with 222 American companies (various)
Advani (1998)	Survey of 201 airports worldwide
Han <i>et al.</i> (1998)	Survey of 134 American banks
Morgan and Strong (1998)	Survey of 149 UK companies (various)

Van Egeren and O'Connor (1998)	Survey of 289 managers from 67 American service companies
Deshpandé <i>et al.</i> (2000)	Interviews with 148 Japanese, American and European companies(various)
Matsuno and Mentzer (2000)	Survey of 364 American manufacturing companies
Cervera <i>et al.</i> (2001)	Survey of Spanish local governments (responses from 222 Chief Secretaries and 177 Mayors)
Harris (2001)	Survey of 107 UK retail companies
Harris and Ogbonna (2001)	Survey of 342 UK companies (various)
Gray <i>et al.</i> (2002)	Survey of 329 New Zealand companies (goods and service companies)
Perry and Shao (2002)	Survey of 148 foreign subsidiaries of American-based advertising agencies
Agarwal <i>et al.</i> (2003)	Survey of 201 hotels worldwide
Hooley <i>et al.</i> (2003)	Survey of 346 Hungarian, Polish & Slovakian service companies
Kim (2003)	Survey of 61 Korean subsidiaries that entered into North American markets (various)
Pulendran <i>et al.</i> (2003)	Survey of 89 Australian companies (various)
Kaynak and Kara (2004)	Survey of 179 Chinese companies (mainly banking, component and computer hardware manufacturing, consumer product manufacturing)
Kyriakopoulos and Moorman (2004)	Survey of 96 Dutch companies (food processing industry)
Tse <i>et al.</i> (2004)	Survey of 210 Chinese companies (various)
Tuominen <i>et al.</i> (2004)	Survey of 140 Finnish companies (metal, engineering and electro-technical)
Wu (2004)	Survey of 115 Taiwanese companies (travel industry)
Ellis (2006)	Interviews with 57 Chinese export companies

Gainer and Padanyi (2005)	Survey of 453 Canadian companies (social service, community support or arts organisations)
Green <i>et al.</i> (2005)	Survey of 173 American manufacturing companies
Lai and Cheng (2005)	Survey of 342 companies in Hong Kong (construction, service, manufacturing, and public utility)
Lee and Tsai (2005)	Survey of 100 Taiwanese companies (60 manufacturers, 40 service organisations)
Mason <i>et al.</i> (2005)	Interviews with 20 UK companies (motor industry)
Qu <i>et al.</i> (2005)	Survey of 215 Chinese companies (hotels and travel services)
Sin <i>et al.</i> (2005)	Survey of 63 companies in Hong Kong (hotels)
Michael Song and Mark E. Parry(2009)	Survey of 308 US firms (multiple)

Source: *Author compilation, 2012*

Cervera *et al.* (2001:1261) chose to investigate the intelligence perspective and proved that the behavioural model is reliable and valid. While Cervera *et al.* (2001:1259) considered information and knowledge as an asset to be managed, and a variable to be studied and understood, Glazer and Weiss (1993:509) identified the importance of the decision-making process and the time sensitivity of information in a turbulent environment. Maltz and Kohli (1996:49) carried out a study on information dissemination and identified non-linear effects of both dissemination frequency and formality on perceived intelligence quality. Their study also found that the frequency with which market intelligence is disseminated is related to interfunctional distance, employee commitment, and trust.

Cadogan and Diamantopoulos (1995:43) based their work on the integration and internationalisation of Narver and Slater's (1990:20–35) and Kohli and Jaworski's (1990:1–18) market orientation constructs. Their study utilised the intelligence perspective to identify the market-oriented behaviours, the causes and performance consequences in the export sector. They compared the conceptual and operational dimensions of both constructs and noted that the constructs were complementary. In their study, Cadogan and Diamantopoulos (1995:41) discussed the respondents'

view of intelligence generation and whether it was essential for market orientation and for organisational coordination. Although identifying market orientation and its causes and consequences, their research examined the moderating effect of the export environment. The study concluded that firms that demonstrate a high degree of market orientation are involved in generating, disseminating and responding to market intelligence.

Han, Kim and Srivastava (1998:41) utilised banking industry data to carry out a study that confirmed a substantial positive relationship between market orientation and organisational performance. Sigauw *et al.* (1994:107), in their study on market orientation, followed Narver and Slater's (1990:23) perspective and found no significant association between market orientation and the organisational commitment of employees. Sigauw *et al.* (1994:109) further investigated Narver and Slater's (1990:29) three-component scale for measuring market orientation and found a significant influence of market orientation on salesperson–customer orientation and job attitudes. Slater and Narver (1992:92–125; 1994:46–55) and Narver *et al.* (1998:241–256) carried out further research based upon Narver and Slater's (1990:26) study and found market orientation to be both supportive and effective in achieving organisational objectives.

Ruekert (1992:225) examined the relationship between the degree of market orientation from an organisational strategy perspective and organisational process, individual attitudes, and long-run financial performance at the business unit level (i.e. different levels in an organisation) of analysis. The study determined that the degree of market orientation varies across business units within large-scale organisations.

Day (1994:37) followed the strategic perspective and provided a complete picture of the attributes of market-driven organisations, highlighting the roles of culture, information utilisation, and interfunctional coordination. Day (1994:39) suggested at least four distinct managerial representational modes, characterised by their relative emphasis on customer and competitor dimensions, labelling these as self-centred, competitor-centred, customer-oriented, and market-driven orientations.

Further, Morgan and Strong (1998:1053) investigated the association of three futuristic elements (a firm's proactiveness, analysis and futurity) of strategic orientation with market orientation. They claimed that market-oriented activities and behaviours are related to a proactive search for market place opportunities. Their perspective is a problem-solving analytical approach to organisational learning, long-term planning and future positioning considerations for products and services (Plakoyiannaki *et al.*, 2008:268).

Like Webster (1992:16), Morgan and Strong (1998:1059) carried out research on the changing role of marketing in organisations, focusing on managing strategic partnerships. The study focused on firm positioning and the views of vendors and customers in the value chain of delivering superior customer service. The researchers assert that marketing often merges with strategic planning and the strategy development function, encapsulating the responsibilities for information management, environmental scanning, and coordination of network activities. Moorman (1998:89) supported this view, suggesting the importance of information in facilitating competitive responses and consumer dynamics.

Deshpandé *et al.* (1993:26), building on the work of Narver and Slater (1990:20–35), developed the customer orientation perspective and at the same time examined its association with business performance. The study used both the managers' and consumers' assessment. Based on the work of Deshpandé *et al.* (1993:28), Deshpandé and Farley (1999:112) conducted a study analysing how organisational dimensions, corporate culture and market orientation affect major firms in different economic environments. They suggested that a company should perceive these market-oriented activities as a prerequisite. Their market orientation perspective included the decision-making perspective (Shapiro, 1988:123), strategic perspective (Ruekert, 1992:228) and customer-orientation perspective (Deshpandé *et al.*, 1993:26). Perry and Shao (2002:1143) identified the activities of information generation, information dissemination and response to market information in order to understand the market and satisfy the customers.

Gray *et al.* (1998:885) compared the reliability and validity of Narver and Slater's scale (1990:23) and the scale of Jaworski and Kohli (1993:59) with respondents from

New Zealand. They found that Narver and Slater's (1990:26) model outperformed Jaworski and Kohli's (1993:56) model. For example, a number of variables, such as organisational structure, organisational climate, organisational conflict, coordination, and top management emphasis, were identified and examined by previous studies and found to be important for market-oriented firms (Harris & Ogbonna, 2001:649).

### **3.7 INTEGRATION OF MARKET ORIENTATION PERSPECTIVES**

The market orientation perspectives have been summed up by Lafferty and Hult (2001:95) as follows: 1) the market intelligence perspective; 2) the culturally based behavioural perspective; 3) the customer orientation perspective; 4) the strategic perspective and 5) the decision-making perspective. In fact, the term "market-oriented" represents a set of processes touching on all concepts of the company. According to Ruekert (1992:228), a business unit must increase the degree to which it obtains and uses information from customers, develop clear plans to meet customer needs, and implement strategies responsive to customer needs and wants.

According to Lafferty and Hult (2001:96), the conceptualisation of market orientation shown in Table 3.3 indicates that the effective implementation of market orientation requires a strong commitment by management. In operationalising market orientation, information must be shared between functional and divisional personnel (Roomi *et al.*, 2009:273). All the divisions within the organisation must communicate and express themselves openly. The sharing of ideas and discussion of alternative solutions would enhance the strengths of a market-oriented organisation. The market orientation perspectives are summarised and reported in Table 3.3.

**Table 3.3: Market orientation dimensions**

PERSPECTIVE	REPRESENTATIVE REFERENCES
Market intelligence (1990)	Jaworski and Kohli (1993); Jaworski and Kohli (1996) Kohli and Jaworski (1990); Kohli <i>et al.</i> (1993) Avlonitis and Gounaries (1997) Cadogan and Diamantopoulos (1993) Cadogan <i>et al.</i> (1998); Hart and Diamantopoulos (1993) Hooley <i>et al.</i> (1990); Maltz and Kohli (1996) Selnes <i>et al.</i> (1996)
Culturally based behaviours (1992)	Narver and Slater (1990); Narver and Slater (1998) Narver <i>et al.</i> (1998); Cadogen and Diamantopoulos (1995) Han <i>et al.</i> (1998) Siguaw and Diamantopoulos (1994) Siguaw <i>et al.</i> (1994); Slater and Narver (1992) Slater and Narver (1994)
Strategic marketing (1992)	Day (1994); Day and Nedungadi (1994) Gatignon and Xuereb (1997) Morgan and Strong (1998) Moorman (1998); Ruekert (1992) Webster (1992)
Customer orientation (1993)	Deshpandé and Farley (1998a) Deshpandé and Farley (1998b) Deshpandé <i>et al.</i> (1993); Siguaw <i>et al.</i> (1994) Deng and Dart (1994); Narver and Slater (1990)
Decision-making (1998)	Glazer (1991) Glazer and Weiss (1993) Shapiro (1988) Lamin (1996) Lado, Maydeu-Olivares and Rivera (1998)

Source: Lafferty & Hult (2001: 95)

### 3.8 MEASURES OF MARKET ORIENTATION

Most studies measure market orientation by applying the criteria originally developed by Narver and Slater (1990:20-35) and Kohli and Jaworski (1990:1–18) or a variation of these scales. Despite the significance of the construct of market orientation to the theory and practice of marketing strategy, there has been little critical inquiry into the MKTOR (Narver & Slater, 1990:21) and MARKOR (Kohli *et al.*, 1993:467) multi-item scales of market orientation. These measures have been widely accepted by researchers (Greenley *et al.*, 2004:933). This section reviews the MKTOR and the MARKOR constructs' justifying the adoption of the latter for this study.

#### 3.8.1 Market Orientation Constructs

The first empirical measure of market orientation was developed by Narver and Slater (1990:21), and referred to as MKTOR. This was originally conceptualised as a one-dimension construct, comprising three behavioural components, (customer orientation, competitor orientation, and inter-functional coordination), and two decision criteria, (a long-term focus and a profit objective) (Narver & Slater, 1990:22). Their instrument consists of fifteen items, describing the various business practices and gauging market orientation from a behavioural perspective (Slater & Narver, 1994:46).

Kohli and Jaworski (1990:13) share the behavioural concept, having developed an instrument to measure market orientation, encompassing intelligence-related business practice. The notion of intelligence collection, intelligence dissemination and response to intelligence is captured (Rodrigues & Pinho, 2010:172). The original 32-item scale was first proposed by Jaworski and Kohli (1990:13). It was then developed and subsequently refined to a 20-item MARKOR (market orientation scale) scale by Kohli *et al.* (1993:467). The MARKOR scale was used to measure the market orientation of companies and strategic business units. This measure of market orientation is a one-dimensional construct with three behavioural components, (intelligence generation, intelligence dissemination, and responsiveness). It assesses the degree to which an organisation engages in inter-department market intelligence-generation activities, disseminates market intelligence vertically and horizontally

through formal and informal channels, and develops and implements marketing programmes on the basis of the generated intelligence (Zebal, 2003: 85). The MARKOR construct's four main scales are provided in Table 3.4.

**Table 3.4: The 32-item original MARKOR**

INTELLIGENCE GENERATION	
1)	In this business unit, we meet with customers at least once a year to find out what products or services they will need in the future.
2)	Individuals from the manufacturing department interact directly with customers to learn to serve them better.
3)	In this business unit, we do a lot of in-house market research.
4)	We are slow to detect changes in our customers' product preferences.
5)	We poll end-users at least once a year to assess the quality of our products and services.
6)	We often talk with or survey those who can influence our end-users' purchases (e.g. retailers, distributors).
7)	We collect industry information through informal means (e.g. lunch with industry friends, talks with trade partners).
8)	In our business unit, intelligence on our competitors is generated independently by several departments.
9)	We are slow to detect fundamental shifts in our industry (e.g. competition, technology, regulation).
10)	We periodically review the likely effect of changes in our business environment (e.g. regulation) on customers.
INTELLIGENCE DISSEMINATION	
1)	A lot of informal "hall talk" in this business unit concerns our competitors' tactics or strategies.
2)	We have inter-departmental meetings at least once a quarter to discuss market trends and developments.
3)	Marketing personnel in our business unit spend time discussing customers' future needs with other functional departments.
4)	Our business unit periodically circulates documents (e.g. reports, newsletters) that provide information on our customers.

- 5) When something important happens to a major customer or market, the whole business unit knows about it in a short period.
- 6) Data on customer satisfaction are disseminated at all levels in this business unit on a regular basis.
- 7) There is minimal communication between marketing and manufacturing departments concerning market developments.
- 8) When one department finds out something important about competitors, it is slow to alert other departments.

### **RESPONSE DESIGN**

- 1) It takes us forever to decide how to respond to our competitors' price changes.
- 2) Principles of market segmentation drive new-product development efforts in this business unit.
- 3) For one reason or another we tend to ignore changes in our customers' product or service needs.
- 4) We periodically review our product development efforts to ensure that they are in line with what customers want.
- 5) Our business plans are driven more by technological advances than by market research.
- 6) Several departments get together periodically to plan a response to changes taking place in our business environment.
- 7) The product lines we sell depend more on internal politics than real market needs.

### **RESPONSE IMPLEMENTATION**

- 1) If a major competitor were to launch an intensive campaign targeted at our customers, we would implement a response immediately.
- 2) The activities of the different departments in this business unit are well coordinated.
- 3) Customer complaints fall on deaf ears in this business unit.
- 4) Even if we came up with a great marketing plan, we probably would not be able to implement it in a timely fashion.
- 5) We are quick to respond to significant changes in our competitors' pricing structures.
- 6) When we find out that customers are unhappy with the quality of our service,

we take corrective action immediately.

- 7) When we find that customers would like us to modify a product or service, the departments involved make concerted efforts to do so.

Source: *Jaworski & Kohli (1993:65)*

The key attributes of MARKOR include the following: 1) a focus on customers of the organisation and the forces that drive their needs and preferences, 2) activity-based items, and 3) a separation of a general market orientation factor and associated component factors. The relevance of MARKOR is that it addresses a general measure of each one of marketing's central constructs. Harris (2000:603) states that the measure of market orientation has been successfully applied in a number of differing contexts. Despite the emergence of new and expanded market orientation constructs (e.g. Deshpandé & Farley, 1999:123), most studies tend to be based on the Kohli and Jaworski (1993:467) or Narver and Slater (1990:21) constructs, with exact or refined versions of their propositions.

Harris (2000:603) argues that despite the popularity of the Narver and Slater (1990:21) measure of market orientation, the construct has been subject to academic criticism and has not been applied as widely as the Kohli and Jaworski (1990:13) construct. From an academic perspective, Harris and Ogbonna (2001:649) justified the superiority of the Kohli and Jaworski (1993:467) constructs used in market orientation research. Gounaris and Avlonitis (2001:356) conclude that both the above measures are behavioural in nature, focusing on a broad description of organisational practices. In addition, both the measures can be used to measure the extent to which a firm has developed market orientation as a behavioural notion, in that they have been validated for face, discriminant and concurrent validity (Tortosa *et al.*, 2009:1436). Table 3.5 enlists various studies that have applied the main market orientation constructs. It is clear from Table 3.5 that Kohli and Jaworski's instrument is the most widely used construct.

**Table 3.5: Market orientation constructs used in previous studies**

MO construct	Studies
Kohli and Jaworski (1990); Jaworski and Kohli (1993); Kohli <i>et al.</i> (1993)	Kohli and Jaworski (1990); Jaworski and Kohli (1993); Kohli <i>et al.</i> (1993); Advani (1998); Matsuno and Mentzer (2000); Advani and Borins (2001); Cervera <i>et al.</i> (2001); Harris (2001); Perry and Shao (2002); Kim (2003); Pulendran <i>et al.</i> (2003); Kaynak and Kara (2004); Kyriakopoulos and Moorman (2004); Tuominen <i>et al.</i> (2004); Wu (2004); Lai and Cheng (2005); Lee and Tsai (2005); Qu <i>et al.</i> (2005)
Narver and Slater (1990); Narver and Slater (1991)	Narver and Slater (1990); Narver and Slater (1991); Han <i>et al.</i> (1998);Morgan and Strong (1998); Van Egeren and O'Connor (1998); Harris and Ogbonna (2001); Agarwal <i>et al.</i> (2003); Hooley <i>et al.</i> (2003); Tse <i>et al.</i> (2004); Ellis (2006); Gainer and Padanyi (2005); Mason <i>et al.</i> (2005); Sin <i>et al.</i> (2005)
Deshpandé <i>et al.</i> (1993); Deshpandé <i>et al.</i> (2000)	Deshpandé <i>et al.</i> (1993); Deshpandé <i>et al.</i> (2000)
Deshpandé and Farley (1998)	Deshpandé and Farley (1998); Green <i>et al.</i> (2005)

Source: *Dursun-Killic (2006:73)*

Despite supporting the Kohli *et al.* (1993:467) construct, Harris (2000:608) expresses caution in applying the construct directly to different contexts. Although Pitt *et al.* (1996:23) claim that the 20 propositions of the Kohli *et al.* (1993:467) construct can be used across a variety of companies, cultures and industries, Harris (2000:598) recommends that adaptations are needed for different contexts. The construct proposed and validated by Kohli *et al.* (1993:467) is used for several studies for a number of reasons. The construct (or earlier versions of it) has been more widely used in previous studies (see Table 3.5) and is considered to be superior to other

constructs (Harris & Ogbonna, 2001:753). However, more importantly, the construct has already been used and validated in the previous studies so its use would provide comparative findings.

In this regard, Guiltinan *et al.* (2000:14) suggest that the applicability of measuring market orientation can be controversial. They believe that the controversy revolves around the degree to which organisations should focus on customer or client satisfaction, when the essential mission of the company cannot be changed. They suggest that organisations must consider their market orientation within the constraints imposed by their organisational objectives.

### **3.9 MARKET ORIENTATION AND BUSINESS PERFORMANCE**

The aim of this section is to examine the possible importance of market orientation and to illustrate its impact on business performance. Market orientation has attracted professional and scholarly interests as a driver of business performance (Walsh & Lipinski, 2009:569). According to Vieira (2010:48), market orientation is an indicator of the extent to which a firm implements its marketing strategy; facilitating the firm's ability to anticipate, react to and capitalise on environmental changes that lead to superior business performance. Roomi *et al.* (2009:273) argue that the whole reason for adopting market orientation is that this concept has the ability, at the least, to correlate positively with some measure of business performance. This traditional viewpoint (Chakravarthy, 1986:437) implies that if it is not achieved by the organisation, market orientation has no purpose other than just creating management information which is "nice to know". In reviewing the literature on the relationship between market orientation and business performance, it is important to have an understanding of the meaning of business performance.

#### **3.9.1 Defining Business Performance**

Understanding the meaning of business performance is a prerequisite for measuring and managing organisational performance (Kotler & Armstrong, 2011:65). Vieira (2010:49) states that "business performance might be defined in terms of doing the work, as well as in terms of the results achieved". Kotler and Armstrong (2011:65)

claim that performance is a multidimensional construct whose meaning varies depending on the variety of factors that comprise it. In this regard, Dobni and Luffman (2000:897) argued that performance should be defined as the outcomes of work because the outcomes provide the strongest linkage to the strategic goals of the organisation, customer satisfaction, and economic contribution.

Business performance can also be defined with the domain borrowed from the multi-model performance framework (MMPF) of Walsh and Lipinski (2009:569) in order to evaluate the performance impact, and to consider the interest of multiple stakeholder groups. The model consists of four dimensions, including employee motivation, market performance, productivity performance and societal impact. This covers the satisfaction of stakeholders such as customers, investors, employees, suppliers and society.

### **3.9.2 Business Performance Approaches: An Overview**

Business performance (BP) is broadly viewed from two perspectives in the context of market orientation (Chaharbaghi & Willis, 1999:43). It is viewed as both an objective measure and a subjective measure. Objective measures of performance are mainly economic, while a subjective measure relates to non-economic aspects of performance. According to Matsuno and Mentzer (2000:8), business performance should be viewed not only as economic performance (concrete absolute figures representing organisational performance) but also as non-economic performance (customer satisfaction, customer retention, social acceptance, corporate image, and employee satisfaction).

#### **3.9.2.1 The Objective Business Performance Approach**

The objective business performance approach includes absolute financial aspects of the business such as revenue growth, profit margins, market share, investment returns, assets performance indicators, staff turnover rates and many such financial indicators (Plakoyiannaki *et al.*, 2008:268). The economic performance of an organisation is defined by Matsuno and Mentzer (2000:13) as the function of some financial indicators, such as return on investment, profit, market share, sales volume,

revenues, product quality and overall financial position. In practice, these objective measures tend to be less widely used, probably for reasons of confidentiality and the fact that some companies do not like to release performance figures (Zebal, 2003:59) or may not even understand the performance figures that are being requested (Abor & Biekpe, 2007:93). It may also be as a result of the fact that some managers may not be aware of the absolute measures relating to their company. This may be the case with SMEs whose financial records may not be up to date.

### **3.9.2.2 The Subjective Business Performance Approach**

The term “subjective” is used to mean that the company’s performance score is derived using a scale with anchors such as “very poor” to “very good,” or “much lower” to “much higher” compared with competitors, while an “objective” measure would be an actual percentage figure for sales growth or profitability (Doyle, 1995:27). The subjective performance approach focuses on indicators of business performance mainly relating to competition, market performance and operations (Roomi *et al.*, 2009:273). For example, positive customer responses have been associated with the market orientation of organisations (Zebal & Goodwin, 2012:339). As Doyle (1995:27) reasoned, when customers are satisfied with the value being provided in a product they are more likely to repurchase. Kohli and Jaworski (1990:17) also state that market orientation is related to satisfied customers who both recommend the product to other potential customers and themselves keep repurchasing. They further considered employees’ organisational commitment and *esprit de corps* (team spirit) as non-economic performance (Jaworski and Kohli, 1993:53).

This study used subjective performance measures widely used in research on market orientation and its presumed link to company performance. One common feature of research into the effect of market orientation on company performance is that studies generally incorporate subjective measures of performance as the dependent variables (Abor & Quartey, 2010:219). Subjective measures may be more appropriate than objective measures for comparing profit performance in cross-industry SMEs (Lings, 2004:403). This is because profit levels can vary considerably across industries, obscuring any relationship between the independent variables and

company performance. Lings and Greenley (2005:293) are of the view that subjective measures might be appropriate in such situations because managers can take the relative performance of their industry into account when providing a response (e.g. “rate the profit performance of your firm relative to others in your industry”). The measures of business performance are discussed in the following section.

### **3.9.3 Measures of Business Performance**

Every form of business organisation (small manufacturer, distributor, financial institution, professional services, support provider, and countless others) needs to measure how well its business is performing (Appiah-Adu, 1997:25). Organisations measure their business performance in order to check their position (i.e. compare their position or benchmark or monitor progress), communicate their position (communicate performance internally and with the stakeholders), confirm priorities (manage performance, cost and control, focus investment and actions), and compel progress (as a means of motivation and rewards) (Amaratunga & Baldry, 2000:107). Essentially, business performance measurement enables organisations to plan and control their performance and to ensure the sales and marketing initiatives, operating practices, information technology resources, business decision, and employee activities are aligned with strategies to achieve desired business results (Deshpandé, 1999:164).

For instance, it is important to know how performance has been measured in previous studies on market orientation and how performance can be measured within the context of the SMEs sector. Kohli and Jaworski (1990:56) saw business performance as being influenced by four moderators, namely: market turbulence; technological turbulence; competitive intensity; and performance of the economy, which also suggests the possible impact of a national economy. Market and technological turbulence is the rate of change in the composition of customers and their preferences and change in technology that causes an unstable economic climate and continually stirs up the market (Kotler & Armstrong, 2011:29). Competitive intensity is a commonly accepted measure of market concentration, indicative of the extent to which organisations put pressure on each other and limit

each other's profit potential as they compete for profit and market share (Vieira, 2010:49).

Business performance is measured relative to an organisation's major competitors with respect to the following seven items: (1) sales growth, (2) customer retention, (3) return on investment (ROI), (4) market share, (5) trust, (6) customer satisfaction, and (7) return on sales (ROS), also known as the operating profit margin. These variables are essential in measuring "financial performance" and the "marketing performance" of business organisations. The diverse performance indicators can generally be classified into economic measures, operational measures or marketing measures, as shown in Table 3.6.

**Table 3.6: Business performance indicators**

Market Orientation Study	Measure	Indicators
Gray <i>et al.</i> (2002)	Financial/Economic	<ul style="list-style-type: none"> <li>-Domestic market share</li> <li>-Profitability</li> <li>-Total sales income</li> <li>-Domestic sales growth</li> </ul>
Matsuno <i>et al.</i> (2005)	Financial/Economic	<ul style="list-style-type: none"> <li>-Market share growth</li> <li>-Sales growth</li> <li>-Percent of new product sales</li> <li>-Return on sales (ROS)</li> <li>-Return on assets (ROA)</li> <li>-Return on investment (ROI)</li> </ul>

Market Orientation Study	Measure	Indicators
González-Benito and González-Benito (2005)	Operational	<ul style="list-style-type: none"> <li>-Pace of product launching and range of products in catalogue</li> <li>-Time needed for designing and/or - manufacturing products</li> <li>-Flexibility to adapt production to different volumes of demand</li> <li>-Product quality (degree of conformity to specifications)</li> <li>-Capacity to meet customers' requirements in time</li> <li>-Operational costs (supply, production, distribution)</li> </ul>
Gray <i>et al.</i> (2002)  González-Benito and González-Benito (2005)  Sin <i>et al.</i> (2005)	Marketing	<ul style="list-style-type: none"> <li>-Customer satisfaction</li> <li>-Loyalty and brand awareness</li> <li>-Customer retention</li> <li>-Company reputation and image</li> <li>-Alignment between company's offer and market expectations</li> <li>-Success of new product launches</li> <li>-Customer trust</li> <li>-Customer satisfaction</li> </ul>

Source: Kumar (2002:373)

Early works on the consequences of market orientation on performance (e.g. Jaworski and Kohli, 1993:56) hypothesised and tested three main groups of performances: consumers' response (e.g. satisfaction and loyalty), employees' response (e.g. *esprit de corps*, employment satisfaction and organisation commitment) and economic performance. Generally, economic performance measures appear to be the most widely used measure of performance in previous market orientation studies, although such measures are not necessarily a consequence of market orientation (Zebal & Goodwin, 2012:339). For instance,

Agarwal *et al.* (2003:69) state that: “the main goal of market-orientated companies should be the creation and retention of satisfied customers”. The creation and retention of satisfied customers can then result in an improvement in the economic performance of a company. The objective of market orientation should also be to improve the company’s effectiveness in the marketplace (White & Simas, 2008:153), which for SMEs can be measured according to their growth in market share.

### **3.9.4 The Relation of Market Orientation to Business Performance**

Studies by Jaworski and Kohli (1993:467–477), Kumar (2002:371–376), Narver and Slater (1990:20–35), Pelham and Wilson (1996:27–43), as well as Slater and Narver (1994:46–55), found unequivocal support for a positive association between market orientation and performance. The notion that market orientation provides firms with a source of competitive advantage is widely accepted (Aziz & Yassin, 2010:156); its effects on business performance confirms a positive relationship.

Hart and Diamantopoulos (1993:96) identified a positive relationship between market orientation and business performance and recommended the adoption of market orientation as critical for daily business practice. Jaworski and Kohli (1993:53) supported their earlier intelligence perspective, confirming its positive relationship with business performance. Secondly, it found the degree of market orientation to be positively related to the broader organisational process, including “recruiting, training, and wages”. It also identified market orientation to be positively related to a business unit’s long-term performance. Gatignon and Xuereb (1997:83) also followed the strategic orientation approach and found a positive relationship between strategic orientation and new product performance. Their study identified similar business performance despite the different economic environments.

Jaworski and Kohli (1993:63) show that a direct, significant and strong association is present between business performance and market orientation where “overall performance is assessed using judgemental measures”. In recent years, a market-oriented culture has been considered a core element of superior company performance. It would be expected that market-oriented firms will implement strategies that are customer-focused and information-based. Dobni and Luffnan

(2000:901) submit that firms with low levels of market orientation are internally focused and that firms with high market orientations are well informed and are at the cutting edge of industry developments.

At least three different consequences of market orientation have been identified from the market orientation literature (Vieira, 2010:49). These include business performance, employee commitment and team spirit, as well as customer satisfaction and their repeat patronage. Pelham, (2000:51) claims that an increase in market orientation is expected to result in higher performance in business. Market orientation facilitates clarity of focus and vision in an organisation's strategy and generates pride in belonging to an organisation (Plakoyiannaki *et al.*, 2008:268). This results in higher employee morale and greater organisational commitment. The other benefit is customer satisfaction that results in repeat purchases and draws new customers to the business.

There has been a steady stream of research focused on the impact of market orientation on business performance. These studies have found undeniable support for a positive association between market orientation and business performance (Pelham, 2000:49). Market orientation has also been singled out in recent studies as being of particular importance to the understanding of competitive advantage (Day, 1994:23). In the last two decades, empirical studies have focused on the link between market orientation and business performance (Narver & Slater, 1990:26). Researchers like Keith (1960:39), Levitt (1980:86), Day (1994:26), Deshpandé (1999:63), and Zebal (2003:61) all subscribed to the belief that market orientation is the key to successful business performance.

According to Dawes (2000:176), the outcomes associated with the adoption of a market orientation stance are well documented in the literature. Outcomes can be categorised as being financial, customer-associated, and employee-associated. The relationship with financial outcomes has been a primary focus of several researchers. Not only has financial performance in terms of profitability been explored but also in terms of subsets such as sales volumes, return on investment (ROI) and market share (Jaworski & Kohli, 1993:473). As has been consistently found, there is a positive relationship between an organisation's financial performance and market

orientation. Lado and Olivares (2001:131) summarise (refer to Table 3.7) the empirical research on the relationship between market orientation and business performance.

**Table 3.7: Previous studies on market orientation and performance**

Author (s)	Domicile	Conclusions
Narver and Slater, 1990	USA	Positive relation MO-BP
Ruekert, 1992	USA	Positive relation MO-BP
Jaworski And Kohli, 1993	USA	Positive relation MO-BP
Kohli, Jaworski and Kumar, 1993	USA	Positive relation MO-BP
Diamantopoulos and Hart, 1993	UK	Mixed results about MO-BP relation
Slater and Narver, 1994	USA	Positive relation MO-BP
Deng and Dart, 1994	Canada	Positive relation MO-BP
Deshpandé, Farley and Webster, 1993	Japan	Positive relation customer orientation-BP
Van Bruggen and Smidts, 1995	Netherlands	Positive relation MO-BP
Greenley, 1995	UK	Positive relation MO-BP
Lambin, 1996	Belgium	Positive relation MO-BP
Fritz, 1996	Germany	Positive relation MO-BP
Pitt, Caruana and Berthon, 1996	UK, Malta	Positive relation MO-BP in both countries
Selnes, Jaworski and Kohli, 1996	USA, Scandinavia	Positive relation MO-BP
Pelharn and Wilson, 1996	USA	Positive relation MO-BP
Atuahene-Gima, 1995, 1996	Australia	MO is an factor in new products success
Bhuiyan, 1997	Saudi Arabia	Non-significant MO-BP

Author (s)	Domicile	Conclusions
Gatignon and Xuereb, 1997	USA	Different strategic orientations have different impacts on innovation performance according to market characteristics
Greenley and Foxall, 1997, 1998	UK	The impact of multiple stakeholder orientation on performance is moderated by the external environment
Gray <i>et al.</i> , 1998	New Zealand	Positive relation MO-BP
Caruana, Pitt and Berthon, 1999	UK	Non-significant relation MO-BP
Avlonitis and Gounaris, 1997	Greece	Positive relation MO-BP
Ladomydeu-Olivares and Rivera, 1998	Spain, Belgium	Positive relation MO-BP
Kumar, Subramanian and Yauger, 1998	USA	Positive relation MO-BP
Appiah-adu, 1998	Ghana	Positive relation MO--BP
Deshpandé and Farley, 1998	USA, EU	Positive relation MO-BP
Han, Kim and Srivastava, 1998	USA	Positive relation MO-innovation-BP
Sargeant and Mohamed, 1999	USA	Non-significant relation MO-BP
Baker and Sinkula, 1999	USA	Positive relation MO-BP
Pelham, 2000	USA	Positive relation MO-BP

Source: *Lado & Olivares (2001:131)*

The above table shows clearly that the vast majority of empirical research has focused on the consequences of market orientation. Similarly, Dobni and Luffman (2000:901), when discussing the relationship between market orientation and performance, concede that market-orientated companies would not engage in practices of cost leadership such as discount pricing, no-frills service, minimising

marketing expenditures, and to a lesser degree, standardising products and services, and offering limited lines. On the other hand, they suggest that companies with a low market orientation would be positively linked to actions consistent with standardisation and cost leadership, in the form of providing no-frills service, discounting prices, product/service standardisation, cutting marketing expenses, offering limited lines and pursuing cost reductions.

### **3.10 SUMMARY**

This chapter has discussed the theoretical relationship between market orientation and business performance firstly by providing concept definitions as well as a brief history of the evolution of the marketing concept. Market orientation is grounded in the marketing concept and is the cornerstone of marketing management and the marketing strategy paradigm. In this context, the importance of the marketing concept as a central tenet of market orientation has been discussed. Its meaning and components are given and the characteristics of market orientation explained. A discussion of the contemporary conceptualisation of market orientation and its implementation is provided, with explanations of the meaning of the term market orientation. A brief summary of the difference between market orientation and marketing orientation is included in this chapter.

The chapter also provides a summary of a body of literature that was dedicated to investigating the link between marketing orientation and superior organisational performance. A review of some of these studies provided support for the existence of a strong link between market orientation and business performance, highlighting the importance of the implementation of market orientation. Implementation of market orientation characterises organisational intentions to deliver superior value by continuously satisfying the customer's needs and wants.

Various sections of the chapter are dedicated to the important elements and value of market orientation in the business environment and the key activities pertaining to market orientation. These are key business activities that the SMEs can apply in the quest for business success. The chapter also outlines the market orientation scales

and the business performance scales providing the criteria for measuring market orientation and SME performance.

The next chapter (Chapter 4) discusses marketing for SMEs. It provides the literature and elaborates the important elements and challenges of the small-business marketing environment in general and then focuses on SMEs specifically. It provides the core of the SMEs marketing activities. The role of the marketing function is revisited with a view to understanding the marketing activities of SMEs in the South African context.

## CHAPTER 4

### THE MARKETING ENVIRONMENT AND MARKETING DYNAMICS OF SMEs

#### 4.1 INTRODUCTION

The previous chapter (Chapter 3) revealed that market orientation is recognised by both researchers and practitioners who advocate market-oriented business strategy as important for positive organisational performance. Previous studies (Chapter 3, Table 3.2) placed an emphasis mainly on the application of market orientation in large-scale organisations, yet it is also correspondingly germane to SMEs, as shown in Chapter 2. It is only recently that researchers have investigated the patterns of market orientation in small and medium scale organisations (SMEs) (Blankson *et al.*, 2006:572–590). The unique characteristics of SMEs are determined by the inherent character and behaviour of the owner/manager as well as by the inherent characteristics of the SME, such as the size and stage of the enterprise development (Zeithaml & Bitner, 2003:81).

Market-oriented SMEs are those small businesses that purposely adopt effective marketing strategies involving critical understanding of the environment in which the business operates (Abor & Biekpe, 2007:93). If SMEs understand the landscape in which they operate, they can begin efficiently and effectively to serve their market through market-orientated strategies. Conventional wisdom holds that market orientation provides better understanding of customers, competitors, and environment, which consequently leads to superior organisational performance (Lamb *et al.*, 2010:63). Inevitably, the effective way to market a small business is to create a well-rounded programme that combines operational activities with marketing tactics by adopting a market-oriented approach that adds value to organisational interactions with the market (Morrison *et al.*, 2003:417). This chapter is focused on discussing the marketing environment and the marketing dynamics of these SMEs.

The chapter is divided into four broad areas. The first section provides a brief background to small-business marketing and the importance of adopting the marketing approach. The second section discusses the marketing environment in which the SMEs operate, characteristics of the marketing environment, approaches and market competition. The third section provides detailed explanations of the

nature of market-oriented SMEs and their operational limitations. The section also provides the key activities encapsulating market orientation. The remainder of the chapter deals with the role of the marketing function within market-oriented business environments, providing a synopsis of the literature in this chapter. The literature is in agreement with the fundamental purpose guiding this study. Market orientation leads to organisational success and the SMEs could improve their performance by adopting and implementing it in their marketing strategies. Perreault *et al.* (2011:41) state that market orientation is being more widely accepted by various forms of businesses. On the basis of marketing literature, Abor and Quartey (2010:219) suggest that market orientation can be adapted by the SMEs, and that it can be regarded as the degree to which small businesses generate, communicate and act on information about their customer needs and preferences and the factors that influence them.

## **4.2 RELEVANCE OF SMALL-BUSINESS MARKETING**

Marketing is one of the most important functions, requiring specific skills and including activities such as sales, customer services, innovation and market research (Lamb *et al.*, 2010:89). Most small businesses utilise marketing for increasing their market share and for introducing new products or building relationships with customers (Porter, 2008:89). The prevalent business environment for SMEs is highly competitive and is characterised by deregulation of markets, aggressive competition and rising expectations of customers (Lancaster & Waddelow, 1998:855). To compete and survive in a severely competitive global marketplace, SMEs have to pay more attention to the needs of customers. They must constantly innovate in every aspect of their business including market orientation and adoption of technology (Baker & Sinkula, 1999:411). Suggested marketing activities could include designing websites and also continuously seeking improvement in their products and services so as to ensure a positive performance (Šimberová, 2008:13). Generally, firms have changed their business operations from a production-oriented approach to a market-oriented approach (Lamb *et al.*, 2010:167). For SMEs, this requires a formalised approach to marketing strategies.

### 4.2.1 Importance of a Marketing Approach

Research on the topic of marketing for SMEs indicates the acceptance and status of marketing in the small-business sector, appropriately suggesting the need for SMEs to embrace the principles of marketing and become more market oriented (Abor & Quartey, 2010:219). It may be possible that SMEs are struggling with the adoption of managerialism and market orientation (Caruana *et al.*, 1997:294). Managerialism relates to the importation of business management practices, designed specifically to increase profit and efficiency within business operations (White & Simas, 2008:153). The current economic dynamics are juxtaposed against the globalisation of capital, which demands that SMEs compete on a worldwide scale (Buchbinder, 1993:331). Drummond *et al.* (2000:571) share this view and point out that, with the market becoming increasingly knowledgeable and demanding high levels of service, SMEs must adjust their approach and implement market-orientated approaches.

The challenge for any small business in seeking to survive and remain competitive is to determine and fulfil the needs and wants of its customers (Deshpandé & Farley, 1997:216). That is essentially the philosophy behind small-business marketing. The fundamental activities of marketing are provided in a marketing plan. A marketing plan is a written and systematic formulation of the marketing activities of the business (Kotler & Armstrong, 2011:43). The marketing plan should give an indication of the competitive advantage of the business, detail the goals and objectives (derived from the business mission), outline strategies, time constraints, marketing mix strategies, target markets, resource requirements, budget, expected objectives/results, control measurements and contingency plans of the business enterprise (Oczkowski & Farrell, 1998:3). The main goal and focus of the marketing planning process is identifying and creating a competitive advantage for the business (Lancaster & Waddelow, 1998:876). In essence, that is the starting point for SMEs that wish to implement a market orientation

Marketing has the potential to enable SMEs to respond instantaneously to market needs and adapt accordingly (Brooksbank, 1996:16). McDonald (1995:21) states that effective marketing tools can prevent misunderstandings and stimulate clearer, more organised thinking, even if the process is more informal, such as are prevalent

among SMEs. The marketing skills and the utilisation of the marketing networks are vital when formulating the marketing plan (Carson *et al.*, 1995:223). Both the external and the internal marketing environment must be analysed to create a formal plan that outlines the marketing strategies (Farrell, 2005:261). The advantages of a formal plan are the more effective allocation of resources, better organising, a more realistic budget and the stimulation of innovation and new ideas, among other benefits.

Despite the above-mentioned advantages of a market orientation approach of a business, many SMEs do not have formal marketing strategies (Lancaster & Waddelow, 1998:854). Owner-managers seem to experience problems in designing, writing and implementing marketing strategies (Morrison *et al.*, 2003:417). The most common shortcomings associated with their marketing are that they lack realism, they do not provide complete competitive analysis and have a short-term focus (Kotler & Armstrong, 2011:43). Baker, Simpson and Sigauw (1999:53) are of the opinion that carefully prepared marketing plans can offer SMEs the following advantages:

- They attract the attention of parties who may consider investing in the business.
- They offer direction to the owner and management of the business regarding the functioning of the business.
- They provide direction and motivate employees and provide an environment attracting consumers and potential employees.

For SMEs, the adoption of the marketing approach is conditioned by management's own conception of marketing, which may be substantially different from that proposed, in a paradigmatic way, by academics (Baker & Sinkula, 1999:419). This implies that the potential benefits for SMEs of the adoption of a marketing approach,, rely upon what they really do when they think they are implementing a marketing programme. Owner-managers tend to argue that the formulation of a market orientation plan is too time-consuming and that the plan can be outdated once it is has been completed (Lancaster & Waddelow, 1998:855). Goetsch (1993:49) states that small-business managers are not able to put marketing plans into writing. Due to the work culture in SMEs of "getting things done" owner-managers tend to allocate

too little or no time to “thinking” (Lancaster & Waddelow, 1998:855). In particular, since SMEs usually lack marketing specialists and their owners are usually the sole decision makers; the choice to adopt a marketing approach relies on what they think marketing is and their expectations about the consequences of the adoption of such an approach in their organisations (Abor & Quartey, 2010:219). Lehman and Winer (1997:6) suggest that market orientation should serve as a guideline, with a strict time schedule to be followed.

Brooksbank (1996:19) suggests a simplified framework consisting of five stages for an effective marketing plan for SMEs. This framework is not conclusive but provides a structure for marketers and owner-managers of SMEs to perform marketing functions.

- Firstly, the management should establish a consumer-focused business culture.
- Secondly, a detailed analysis of the competitive position of the business should be performed.
- Thirdly, marketing goals and objectives should be formulated, as well as a positioning strategy enabling the business to establish a competitive advantage.
- Then a suitable marketing mix should be developed and a supportive marketing operation should be designed for implementing strategies.
- Finally, a marketing information system should be developed according to which performance can be evaluated as the marketing plan is being realised.

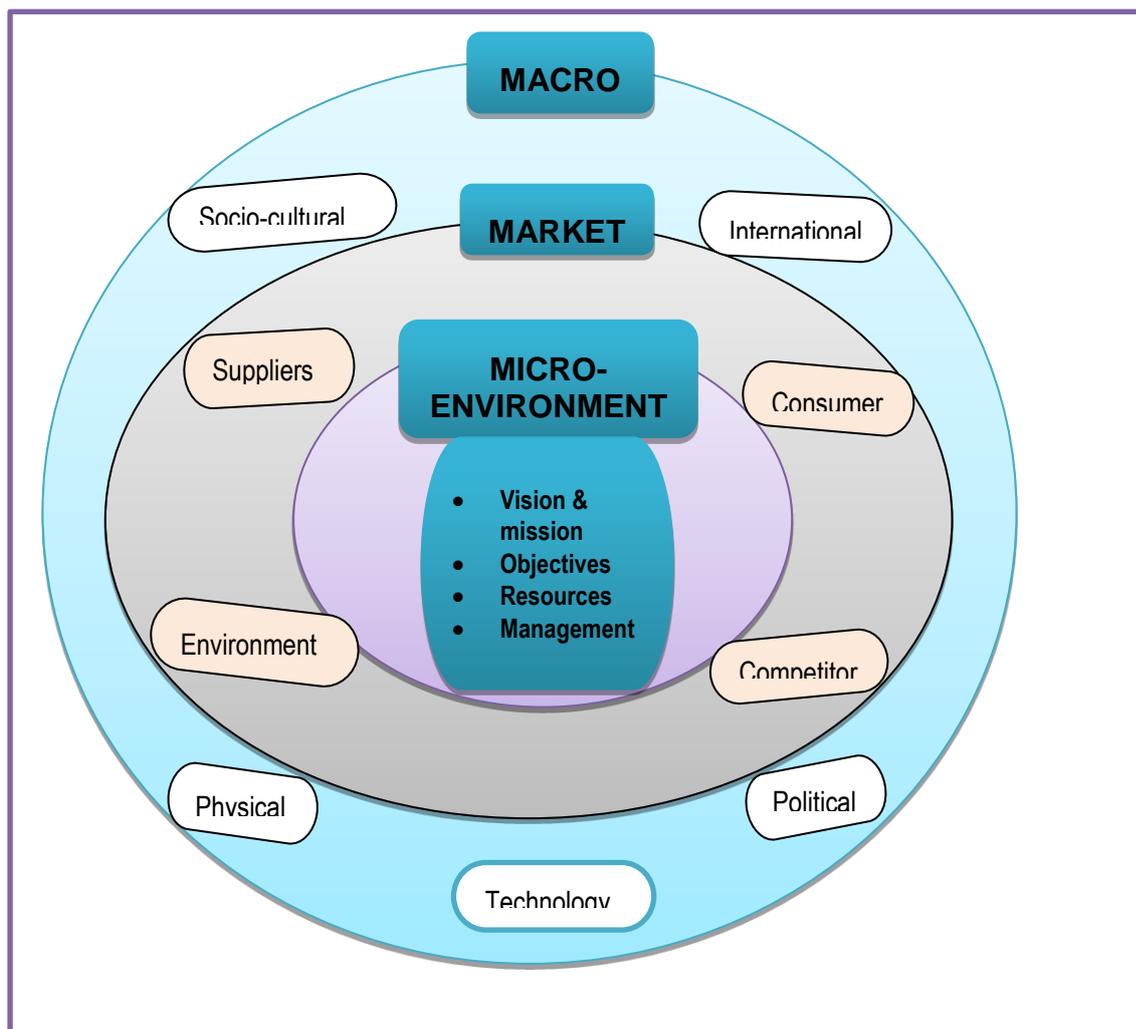
#### **4.2.2 The Marketing Environment Revisited**

Every business organisation operates within a certain marketing environment: the sub-environment that is outside the organisation itself. Porter (2008:89) defined marketing environment as “the external forces that directly or indirectly influence an organisation’s capability to undertake its business”. The marketing environment consists of trading forces operating in a marketplace over which a business has no direct control (Achrol & Kotler, 1999:146), but these forces will shape the manner in which the business functions and is able to satisfy its customers.

According to Baker *et al.* (1999:56) a market environment is the sum total of all the variables that exist outside the organisation and that may positively or negatively influence its growth and existence. The variables in the market environment will influence the organisation. It is the function of management to evaluate these variables, their influence on the business, and to implement strategies that take advantage of the opportunities in the market environment and to address any threats from competitors (Morrison *et al.*, 2003:417).

A firm's marketing environment can be split into three parts: internal environment, macro-environment and micro-environment. Kotler (2001:13) also identifies three sub-environments, namely, the macro-environment, the market environment and the micro-environment. The marketing macro-environment consists of six core forces: political, legal, regulatory, societal/green, technological, plus economic/competitive issues. The marketing micro-environment includes company-specific forces: types of more competition, supplier power, buyer power and business operational challenges. These key variables in the market environment are illustrated in Figure 4.1. The diagram also shows the positions of the consumers, the competitors, suppliers of resources and the micro-environment within the market environment. The market environment itself exists within the macro-environment consisting of political, socio-cultural, international, regulatory, physical and technological settings.

**Figure 4.1 Components of the marketing environment**



Source: *Tustin et al. (2005:96)*

The characteristics of the environment as illustrated in (Figure 4.1) emphasise the need for the constant scanning and analysis of the dynamic marketing environment. Marketing managers need to engage in environmental scanning and analysis. In this regard, Matsuno and Mentzer (2000:6) classify the trends in the marketing environment into three groups. First are the trends that represent opportunities for the organisation. These are the favourable situations which can lead to a competitive advantage for the organisation on condition the organisation has the resources to exploit them early. Second are the trends that pose threats to the organisation: unfavourable situations which may have detrimental effects on the performance or survival of the business organisation (Goetsch, 1993:49). Finally, some trends will not have any effect on the functioning of a business organisation.

Successful organisations know the importance of constantly assessing and adapting to the changing environment. With systematic environmental scanning, marketers are able to revise and adapt marketing strategies to meet challenges and opportunities in the marketplace (Achrol & Kotler, 1999:147).

### **4.2.3 Consumers in the Marketing Environment**

Consumers are the people purchasing the organisation's products and services. Identifying the target market of the company is one of the most important management activities to be undertaken (Hamel & Prahalad, 1994:71). The market or customers in the market environment are the ultimate target at which the businesses direct their products and services (Oczkowski & Farrell, 1998:3). Consumer markets consist of individuals and householders that purchase goods and services for personal consumption (Achrol & Kotler, 1999:146). As competition among private and public organisations intensifies, a need for a thorough understanding of the marketing environment is vital.

Business markets or industrial markets buy products for further processing or for use in the production process. Kotler and Armstrong (2011:44) suggest that organisations supplying business markets encounter well trained and informed professional buyers who are qualified in assessing competitive suppliers. Research points out that the organisation must emphasise how their products or services will assist customers in achieving their goals. It must be noted that some SMEs have marketed themselves effectively and consequently enjoy repeat patronage and excellent business performance (Kotler & Fox, 1995:26). In addition, international markets are created by foreign buyers of products and services.

SMEs must concentrate on satisfying consumer needs and strive to operate under optimal business conditions (Aziz & Yassin, 2010:154). A fine balance between these two objectives is important, especially if the organisation is to be market oriented. Each market type has special attributes that require careful study by management. SMEs need to understand how the various market segments differ in their decision-making behaviour (Trueman, 2004:7). It is also essential that the approach to the market, which is the consumer, is appropriate. The individual SME in particular and

the SMEs sector in general will need to seek ways of becoming internationally competitive in order to succeed within the dynamic competitive marketplace.

#### **4.2.4 SMEs and Competitive Marketing**

The competitive environment refers to any group or organisations that compete for the attention, resources or loyalty of a target group or market (Matsuno & Mentzer, 2000:6). The success of an organisation in a competitive market depends on how well it understands its competitors and to what extent it monitors the strategies and tactics of its rivals (Simkin & Cheng, 1997:124). In this connection, Kotler *et al.* (2008:13) suggested that, in order to gain a competitive advantage, a company should design offers that satisfy targeted customer needs better than competitors do. Hence Aaker (1995:36) argues that it is necessary to gain a clear understanding of the abilities and strategies and current and future activities of competitors through the collection of information about them.

It is imperative for SMEs to understand that competition is part of a capitalistic society in which they operate; businesses have become accustomed to the fact that various competitors compete for a share in the market (Aziz & Yassin, 2010:154). In this regard, Matsuno and Mentzer (2000:6) suggest that after years of isolation from international competitors, South Africa has had to adapt to the high levels of foreign competition. As a variable in the market environment, competition is described as "a situation in the market environment in which several businesses offering more or less the same product or service compete for the support of the same consumers" (Simkin & Cheng, 1997:129). They further contend that competition acts as a market mechanism to keep excessive profits in check, acts as an incentive for higher productivity and also encourages technological innovation.

Customer product needs and service expectations are dynamic; therefore the SMEs' goals are to meet customer expectations better than the competitors do (Zeithaml & Bitner, 2003:79). The collective strength of the five forces of competition determines the competitiveness in the industry and the profitability of the industry (Matsuno & Mentzer, 2000:6). Wrenn (1997:32) contends that the intensity of vertical competition is linked to the bargaining power of suppliers and buyers. Matsuno and Mentzer

(2000:3) identify five factors that will determine the nature and intensity of competition.

#### **4.2.4.1 The threat of potential new entrants**

Profitable markets that yield high returns will attract new firms. This results in many new entrants, which eventually will decrease profitability for all firms in the industry. According to Trueman (2004:10), the entry of new firms can be blocked by incumbents through the existence of barriers to entry (patents, rights, etc.). Often, the most attractive market segment is one in which entry barriers are high and exit barriers are low. A newcomer that has gained a market share in the marketplace is an important competitor in any market. Existing organisations can also discourage new competition by aggressive expansion and other types of entry barriers (Wrenn, 1997:32).

#### **4.2.4.2 The bargaining power of suppliers**

The bargaining power of suppliers is also described as the market of inputs. Suppliers of raw materials, components, labour, and services (such as expertise) to the firm can be a source of power over the firm when there are few substitutes (Trueman, 2004:11). Suppliers may refuse to work with the firm, or possibly charge excessively high prices for unique resources. The bargaining power of the supplier can have an effect on the competitive situation in the marketplace. Privately owned businesses are more innovative and cost-effective than public organisations (Wrenn, 1997:32), while SMEs strive to create good working relationships with their suppliers.

#### **4.2.4.3 The bargaining power of consumers**

The bargaining power of customers is also described as the market of outputs: the ability of customers to put firms under pressure, which also affects the customer's sensitivity to price changes (Trueman, 2004:9). Consumers may decide to use their purchasing power to influence their suppliers. The threat of consumer boycotts of certain organisations and products is a means for the market to become more competitive.

#### **4.2.4.4 The availability of substitute products**

Some products can be substituted with other products, which will result in more competition. The existence of products outside of the realm of the common product boundaries increases the propensity of customers to switch to alternatives (Goetsch, 1993:49). Note that this should not be confused with competitors' similar products but entirely different ones instead. For example, tap water might be considered a substitute for Coke, whereas Pepsi is a competitor's similar product. Increased marketing for drinking tap water might "shrink the pie" for both Coke and Pepsi, whereas increased Pepsi advertising would likely "grow the pie" (increase consumption of all soft drinks), albeit while giving Pepsi a larger slice at Coke's expense

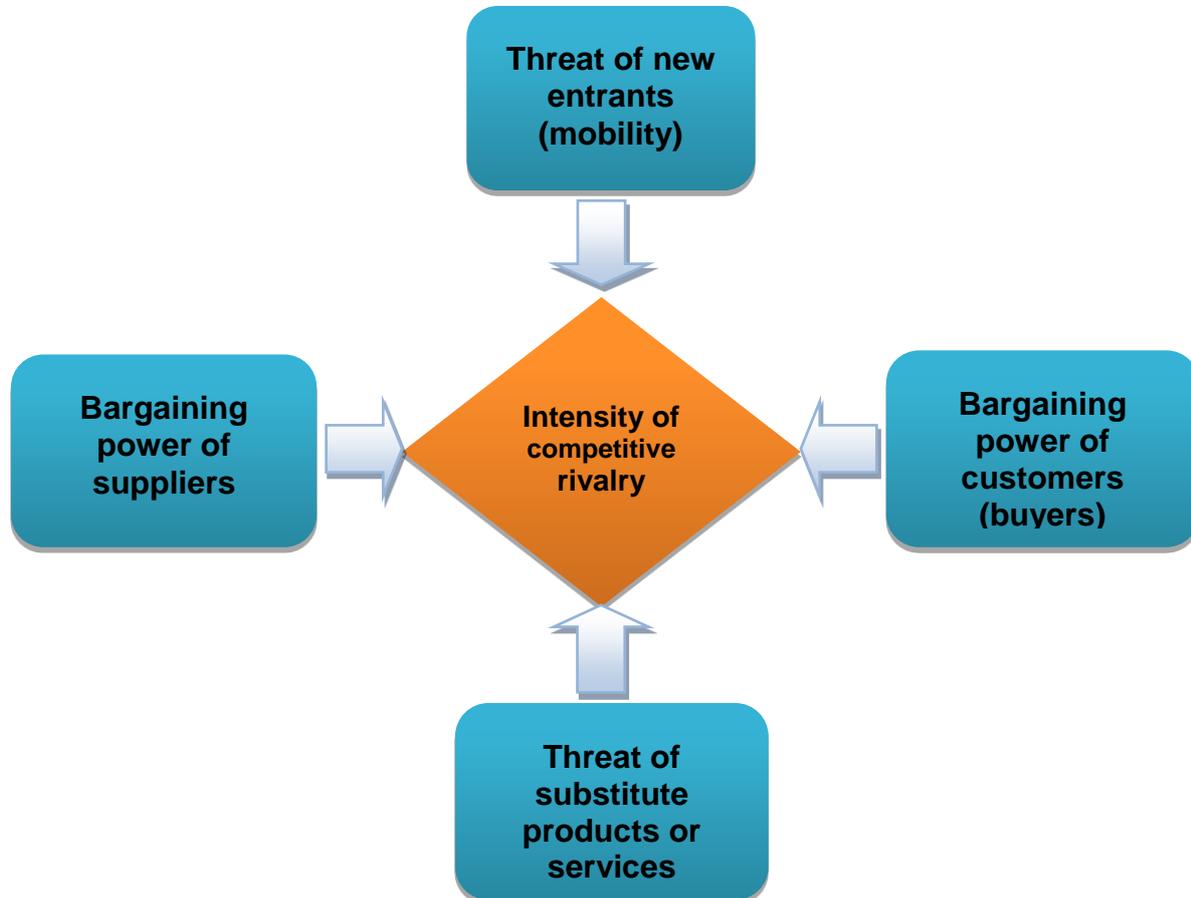
#### **4.2.4.5 The number of existing competitors**

For most industries, the intensity of competitive rivalry is the major determinant of the competitiveness of the industry. The more the competitors in the market the tougher the business conditions and the more competition in the marketplace, especially price competition (Goetsch, 1993:49). In competitive product and service organisations, organisations often raise the level of service and quality of products to maintain or to increase their market share. In this regard, Zeithaml and Bitner, (2003:73) suggest that in a highly competitive and turbulent environment, monitoring the service expectations and product quality is crucial. It is a known fact that in most cases profitability will decrease when competition increases.

The model of competitive forces states that there are five competitive forces that identify the competitive power in any business situation (Wrenn, 1997:32). These five competitive forces responsible for industry competitiveness are illustrated in following Figure 4.2. The important result of Porter's (2008:103) approach to competition is that the competitive arena may be changed as a result of the impact of the five forces on the industry. They consist of those forces close to a company that affect its ability to serve its customers and make a profit. A change in any of the forces normally

requires a business unit to re-assess the marketplace, given the overall change in industry information (Keller, 2008:89).

**Figure 4.2: Five forces that shape industry competition**



Source: Keller (2008:89)

The overall attractiveness of the industry does not imply that every organisation in the industry will return the same profitability (Deshpandé & Farley, 1999:121). Firms are able to apply their core competencies, business model or network to achieve a profit above the industry average. A clear example of this is the airline industry. As an industry, profitability is low and yet individual companies, by applying unique business models, have been able to make a return large enough to remain afloat (Goetsch, 1993:49). These situations are the reasons for advertising wars, price wars and modifications, so that ultimately costs increase and it is difficult to compete.

### 4.3 THE MARKETING ENVIRONMENT OF SMEs

The marketing environment has an influence on the success of all forms businesses, their employees and their consumers (Lamb *et al.*, 2010:113). The marketing environment includes all variables inside and outside the organisation that impact on the decisions of marketing management (Aaker, 1995:36). Wrenn (1997:32) describes the marketing environment as "the sum total of the variables and forces inside as well as outside the organisation which influence marketing managers' decisions". The effects of the marketing environment or business environment may influence an organisation directly and indirectly.

The internal environment is described as the micro-environment, while the external environment is outside the organisation and affects the growth and existence of the organisation (Wrenn, 1997:32). The external environment includes the market environment and macro-environments. An organisation operates within an external environment over which it has no control (Tustin *et al.*, 2005:97). It must be noted that marketing and non-marketing resources exist within the organisation, over which management has control. The influence of marketing in the marketing environment is aptly described by Lamb *et al.* (2000:31) as operating at three levels:

- Direct control and responsibility;
- No control, but some influence; and
- Neither any influence nor control.

The business must consider the environment in which it operates when developing marketing strategies. Ward (2004:176) identifies the characteristics of the environment as follows:

- The environment changes constantly.
- The organisation must be in line with the changing environment.
- Opportunities and threats exist in the business environment.
- The establishment, growth and survival of an organisation is influenced by the environment.

- The environment has an impact on the future of an organisation.

The characteristics of the environment emphasise the need for the constant scanning and analysis of the dynamic marketing environment. To monitor trends in the marketing environment, marketing managers need to engage in environmental scanning and analysis. In this regard, Keller (2008:36) classifies the trends in the marketing environment into three groups, as follows:

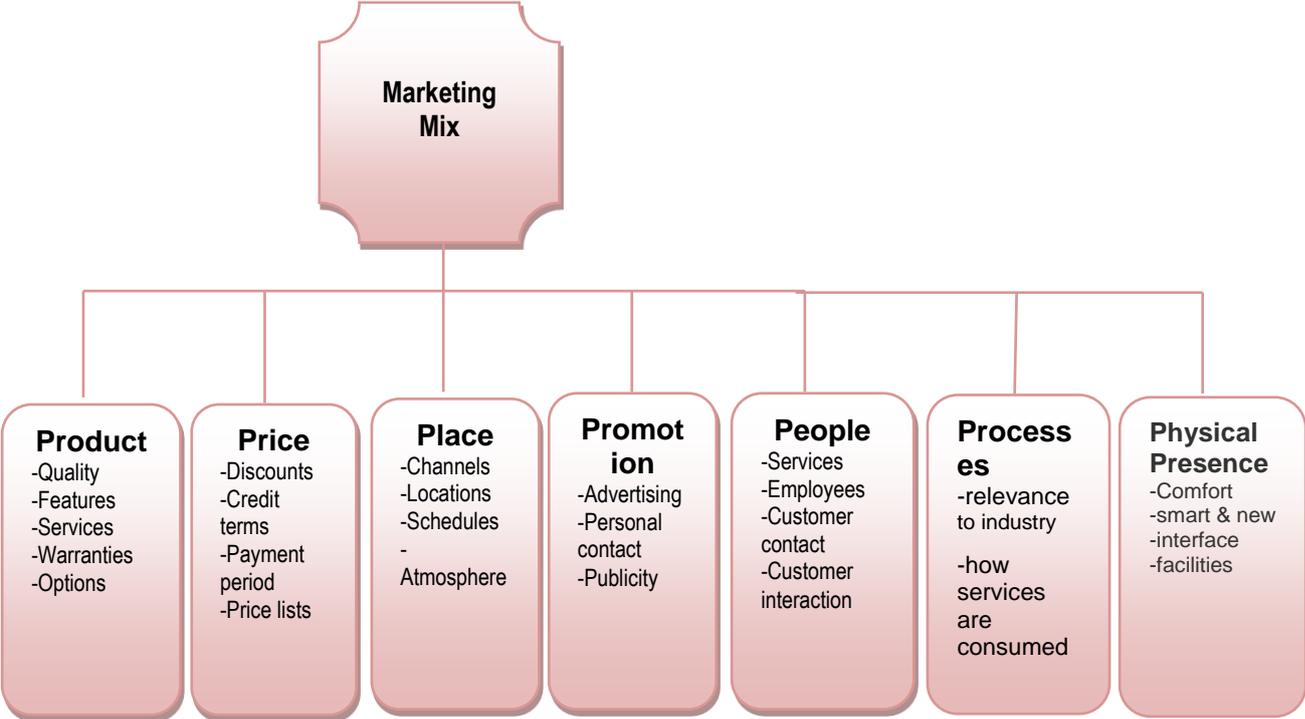
- Trends that represent opportunities for the organisation denote favourable situations which can lead to a competitive advantage for the organisation on condition the organisation has the resources to exploit them early.
- Trends that pose threats to the organisation refer to unfavourable situations which may have detrimental effect on the performance or survival of the business organisation if management is not capable of decisive action.
- Finally, some trends will not have any effect on the functioning of a business organisation. Successful organisations realise the importance of constantly assessing and adapting to the changing environment. With systematic environmental scanning, marketers are able to revise and adapt marketing strategies to meet challenges and opportunities in the marketplace (Achrol & Kotler, 1999:151).

#### **4.4 MARKETING MIX AND SMES**

The classic structure of a marketing mix comprises the 4 Ps, which is the combination of the product, how it is distributed and promoted and its price (Kotler, 2001:67). Marketing mix strategy for SMEs is no different; they are equally concerned with decisions regarding the marketing mix. Kotler and Fox (1995:153) define marketing strategy as "the particular blend of controllable marketing variables that the institution uses to achieve its objectives in the target market". The controllable marketing variables are the elements of the marketing mix, namely the product, the price, the place, (distribution) and promotion decisions. Three more elements of the marketing mix have been advocated in the last few years, making up the 7 Ps, with the addition of people, process and physical surroundings (Aziz & Yassin, 2010:154).

The "people" element in business includes the management, employees and the customers themselves. Process and physical surroundings can be easily included in the other four elements of the marketing mix. Physical surroundings can be accommodated by broadening the concept of place to include the ambience and physical environment from which the business operates (Grewal & Tansuhaj, 2001:67). Chatterjee and Wernerfelt (1991:33) add that the element "process" would shape every aspect of marketing and is central to effective marketing and therefore cannot be seen as an extra element of the marketing mix. Each element of the marketing mix contains numerous alternatives and permutations, as shown in Figure 4.3.

**Figure 4.3 The 7 Ps of the marketing mix**



Source: Adapted from Kotler et al. (2008:81)

The elements of the marketing mix as illustrated in Figure 4.3 are interrelated and invariably the decisions in each area will affect actions in the other (Kotler et al., 2008:81). The 7P framework is one of the most popular frameworks for deciding a marketing strategy, right from strategy formulation to actual implementation. It is essential for market-oriented SMEs.

## 4.5 THE NATURE OF MARKET-ORIENTED SMES

As noted in the previous sections, a market orientation is understood as an organisation's culture (Deshpandé & Webster, 1989:13) and not merely a set of processes and activities separate from the organisation's culture (Deshpandé & Farley, 1999:37). Unless the desired customer-value commitments and behaviours emanate from the organisation's culture, the commitments and behaviours will not endure (Reichheld & Sasser, 1990:106), nor will it command the allegiance of all functions in the organisation. If creating a market orientation were simply a matter of directing certain desired behaviours, there would be fewer businesses failing to create and maintain a market orientation (Webster, 1994:31). A market orientation manifests four important behaviours related to the creation of superior value for customers. These are: (1) Clarity on value disciplines (Treacy & Wiersema, 1995:71) and value proposition (i.e. market targeting, positioning and business definition), (2) leading the customers and not merely following them (Hamel & Prahalad, 1994:69), (3) seeing business as a service business (Webster, 1981:9, Slater *et al.*, 2010:469), and (4) managing operations in terms of key customers and employees for life (Reichheld & Sasser, 1990:106).

Increasing a market orientation means intensifying a particular customer-centric kind of culture (Dursun-Killic, 2006:113). When Drucker (1954:13) first articulated the marketing concept by stating that marketing was not a separate function but rather the whole business seen from the customer's point of view, he was asserting a distinct organisational culture, one with a fundamental shared set of beliefs and values that puts the customer in the centre of its thinking about strategy and operations (Deshpandé, 1999:63). It is clear that a market orientation consists of one overriding value, which is the commitment by all members of the organisation to continuously create superior value for customers (Slater *et al.*, 2010:469). Based on this value, the central principle of a market orientation is that every person in the organisation understands that each and every individual and function can, and must, continuously contribute skills and knowledge to creating superior value for customers (Kotler & Armstrong, 2011:43). The idea that customer value will be maximised only if it is created from across all functional areas of the business has been discussed at

length. To become market oriented, an SME should accept the marketing concept as its organisational philosophy, consider the implementation issues and meet the required conditions (Slater *et al.*, 2010:469)

The appropriate implementation of the marketing concept depends on the successful identification of the favourable and unfavourable conditions of marketing. Harris and Piercy (1999:113) suggest that certain management behaviours significantly determine the successful implementation of marketing strategies. The argument is that these behaviours should be considered in achieving market orientation. Harris (2002:63) states that the conditions such as the organisational structure, strategy, and system characteristics are vital for the implementation of market orientation. Gounaris and Avlonitis (1997:389) argue that company-specific factors, management factors, and market-specific factors are the fundamental conditions of the implementation of the marketing concept. According to Hayes and Abernathy (1980:69), the successful market orientation of an organisation depends on the successful application of the determinants of market orientation.

Dobni and Luffinan (2000:897) submit that a market orientation provides a context to facilitate the implementation of marketing strategy. The thrust of their argument is that the key challenge for an organisation aiming to achieve a competitive advantage lies in the implementation of strategy. The competitive advantage afforded by market orientation is the result of an organisation's culture. The first stage in defining implementation is connected to marketing-related employee behaviours. In this regard, Lafferty and Hult (2001:95) specify the following actions in implementing a market orientation philosophy:

- Explore which business opportunities give the company the best chance to create satisfied customers.
- Analyse the customer's decision process and address the different preferences patterns in the market.
- Evaluate competitive advantages and competitors' market position.
- Measure market opportunity and assess the impact on profitability of plans in respect of enhancing customer satisfaction or competitive advantage.

- Use the marketing knowledge from market intelligence to change the design of the market offering.

It becomes clear that all the market planning for SMEs must be market oriented, a culture that influences how employees think and act. According to Dobni and Luffinan (2000:897), the relationship between culture and strategy must be understood to appreciate fully the role of market orientation in driving strategy, and consequently performance. There is a fit between culture, strategy and the context in which a firm must operate.

Dobni and Luffinan (2000:909) report on the relationship between the degree of market orientation and business performance. They state that companies with similar market orientations have a tendency to implement similar marketing strategies in the same industry, and types of strategies selected are related to the operational behaviours that manifest a market orientation (Grewal & Tansuhaj, 2001:67). The results of their research indicate that it is possible for SMEs to be market oriented and the optimal level of market orientation would depend on the competitive environment, managerial values and resources available to the organisation.

#### **4.6 STRATEGIES OF MARKET-ORIENTED SMES**

The long-term survival of SMEs in the increasingly competitive environment may depend on the ability to satisfy customer demands efficiently and effectively (Kumar, 2002:371). The adoption of a market orientation could help SMEs design and offer product and service mixes that are perceived by core customers as being of superior quality (Greenley, 1995:1). In the process, it could help them make a profit and build a competitive advantage.

The adoption of a market orientation can assist in designing and offering superior quality and making a profit. The success of an organisation depends on how well it understands its competitors and to what extent it monitors the strategies and tactics of its rivals (Ruekert, 1992:233). In this regard, a company should design offerings that satisfy targeted customer needs better than competitors do in order to gain competitive advantage (Zebal & Goodwin, 2012:339). It is necessary to gain a clear

understanding of organisational abilities and strategies as well as of the current and future activities of competitors. In order to thrive in the marketplace, an organisation should recognise and exceed competitors (Wood & Bhuian, 1993:26). Organisations that recognise competition and perceive it to be a threat to achieving their goals have a greater tendency to evaluate it (Day, 1994:23). Thus, it can be said that the greater the perceived competition, the greater the tendency to adopt a market orientation.

The organisation must analyse the current system and prepare a plan to create the normal structure that will support the degree of market orientation (Houston, 1986:89; Zebal, 2003:71)). The entire firm needs to know how a market orientation approach supports total business effort. Gounaris and Avlonitis (2001:354) argue that in spite of the significant research conducted on market orientation, many organisations fail to develop or implement it. A firm should institute changes so that the entire firm moves towards a market orientation that is embedded within its corporate culture (Lichtenthal & Wilson, 1992:205). What is often implemented in the name of a market orientation may therefore differ considerably from one firm to another (McGee & Spiro, 1988:43). To become market oriented, firms need to change their opinions of the market, as well as their perspective. A firm that wishes to become market oriented should state its mission as attaining a market orientation throughout its functions without setting specific functional guidelines (Lichtenthal & Wilson, 1992:203).

Lado and Maydeu-Olivares (2001:141) pointed out that firms must devote significantly greater efforts to analysing the environment and implement focused strategic marketing actions. Market orientation should be a visible hand that guides the behaviour of individuals each day in executing their functions (Zebal & Goodwin, 2012:339). The implementation of market orientation is a challenging task that would depend on active inter-functional coordination (Guiltinan *et al.*, 2000:14). Masiello (1998:93) identifies four reasons hampering companies from being market orientated. These reasons include functional misunderstanding of the concept of being market driven, where most employees do not know how to translate their classical functional responsibilities into market-responsive actions. Most functions do not understand the role of other functions, and the employees in each functional area do not contribute to the marketing direction of the enterprise. According to Harris and

Ogbonna (2001:748), management behaviour is significant for market orientation development. They submit that management behaviour is an important factor in instigating and installing improved market orientation.

#### **4.7 THE CHANGING ROLE OF THE MARKETING FUNCTION**

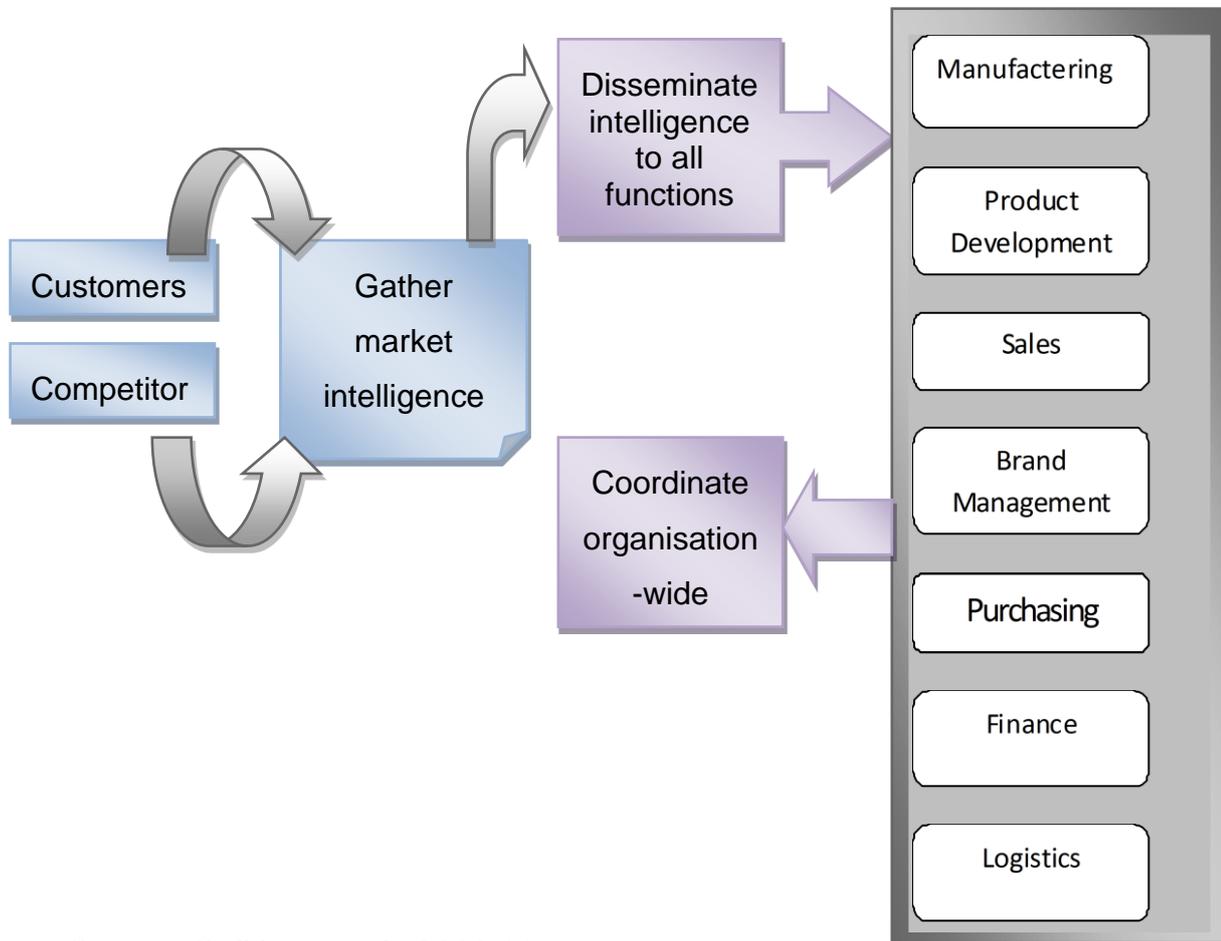
Research on market orientation has propelled the change in perspective of the marketing function, to a view that the marketing approach must be everyone's task (Greenley *et al.*, 2004:933). This approach diffuses the marketing function's role, increasing marketing's impact. In this regard, McKenna (1991:68) contends that, "marketing is everything and everything is marketing" and Haeckel (1997:9) affirms that "marketing's future is not a function of business, but is the function of the whole business". Marketing continues to be accorded increasing importance as a set of processes that business units participate in, and the role of marketing function is vital for market-oriented organisations (Slater *et al.*, 2010:469).

The marketing function in a market-oriented business organisation identifies two structures: a functional marketing organisation and a process marketing organisation. Moorman and Rust (1999:182) describe a marketing function as one where there is a concentration of the responsibility for marketing activities of specialists in the organisation, and a marketing process as one where marketing activities are dispersed across non-specialists in the organisation. Accordingly, marketing is not only a management function but is seen as a philosophy and orientation that is espoused and practised throughout the corporation (Moorman & Rust, 1999:183). It is increasingly regarded as critical for the success of SMEs. The empirical findings by Moorman *et al.* (1999:189) support the contention that market orientation is important and that the marketing function has a crucial role to play.

The marketing function of a market-oriented organisation is responsible for the identification of consumer needs and preferences, and the coordination of the organisation's marketing effort (Guiltinan *et al.*, 2000:11). In essence, the marketing function ensures that all departments and functions are clearly aware of their product line or service offering and the environment in which they operate. Figure 4.4

illustrates that information gathered from customers and competitors must flow to and from various organisational departments and be properly coordinated.

**Figure 4.4: Market-oriented activities of the marketing function**



Source: *Gultinan et al. (2000:11)*

Marketing is best seen as the function that manages links between the firm and the customer (Kotler & Armstrong, 2011:43). Research submits that managers need to address the level of market orientation they should pursue and take cognisance of market orientation factors that would have the greatest impact on their organisation (Harris & Ogbonna, 2001:748). The core links may be stated as customer product, customer-service delivery, and the customer financial accountability. The extent to which the marketing function manages these operational links has a direct impact on financial performance, customer relationship performance and new product performance (Baker & Sinkula, 1999:417). This goes beyond the contribution of an organisation-wide marketing orientation. The marketing function contributes to the organisation by increasing its scope beyond the traditional customer-product

connection to include more emphasis on service delivery and financial accountability. Marketing education attempts to address this expanded focus.

It is clear from these observations that the marketing function impacts on each business's financial, customer and new product performance beyond what is explained by an organisation's market orientation (Harris & Ogbonna, 2000:319). Managers may not be directly involved in decision-making in everyday operations, but are expected to give the strategic support and resources to implement market orientation (Goetsch, 1993:49). Many organisations attempt to develop market orientation by merely changing departmental and/or managerial titles and levels of management. These efforts are unsuccessful because market orientation needs more than superficial company restructuring (Gounaris & Avlonitis, 1997:389), and existing barriers of market orientation are not limited only to management. The following section (4.8) provides a detailed overview of the annotated barriers.

#### **4.8 LIMITATIONS OF SME MARKETING**

It is well documented that SMEs have unique characteristics that differentiate them from conventional large organisations, requiring unique approaches to their marketing strategies (Carson, 1999:3). These characteristics may be determined by inherent characteristics and behaviours of the manager, and they may be determined by the inherent size and stage of business development. Ward (2004:173) states that small-business owners exhibit certain personality traits that are responsible for the success or failure of their businesses. Inadequate marketing skills of owners create marketing problems in the small-business sector. The marketing activities of SMEs determine whether their business will succeed or go under in the long term. The assumption is that, if the potential customers are not aware of their products or services, no one will do business with them.

Such limitations can be summarised as: limited resources (such as finance, time, and marketing knowledge); lack of specialist expertise (owner-managers tend to be generalists rather than specialists); and limited impact in the marketplace (Piercy, 1995:29). In addition, marketing by SMEs is haphazard and informal because of the way owner-managers do business: because they make most decisions on their own,

and respond to current opportunities and circumstances, decision-making occurs in a haphazard and apparently chaotic way, according to personal and business priorities at any given point in time (Chatterjee & Wernerfelt, 1991:33). Clearly such limitations will influence, indeed determine, the marketing characteristics of SMEs. The SMEs do not conform to the conventional marketing characteristics of marketing textbook theories; instead, their marketing is characterised by the limitations outlined above (Fonfara, 2001:31). Thus, SME marketing is expected to be haphazard, informal, loose, unstructured, spontaneous, reactive, built upon and conforming to industry norms of small and medium enterprise. This could also be due to the small firms' peculiar characteristics, such as organisational flexibility, specialisation, the lack of resources, limited marketing knowledge and lack of skills.

SME managers and entrepreneurs who choose to adopt the marketing approach are likely to implement something that is substantially different from the marketing in larger firms (Abor & Quartey, 2010:219). In fact, while marketing decision-making processes in the large organisations tend to be formal and highly structured, for the small firms, such processes tend to be simple, informal, instinctive, and, thus, also different from the theoretical paradigms developed in the managerial literature (Carson, 1999:3). Some authors (Carson, 1999:4; Chaston, 1997:819; Hill & Wright, 2001:436) have referred to this "haphazard" marketing approach often adopted by SMEs as "entrepreneurial marketing", thus stressing its intuitive and situation-specific nature, as well as its unplanned, informal application and implementation.

#### **4.9 CONCLUSION**

This chapter discussed the the marketing environment in which the SMEs operate. It outlined the characteristics of the marketing environment, and the approaches and competitive dynamics intrinsic within the marketplace. The discussions clearly indicate that the development of SME marketing initiatives should be based on thorough understanding and effective use of environmental opportunities and threats while taking into account the business's strengths and weaknesses (Rogerson, 2004:766). It is noted that environmental uncertainty, coupled with increasing pressure on organisations to create and sustain a distinctive competency (Achrol & Kotler, 1999:146), requires a good knowledge of the marketing environment.

The marketing environment is made up of all of the elements that affect the way it operates (Kotler *et al.*, 2008:136). The forces of the marketing macro-environment are the enormous issues that affect all forces active in a particular market and indeed all customers in a target market segment (Simmons *et al.*, 2007:623). While individual businesses or customers may well be better placed to accommodate such issues and their implications, these forces do affect everyone in a market. Some sections of the chapter are dedicated to discussing the components and the role of the marketing function and the limitations of marketing in SMEs. This marketing process, important to every organisation, involves scanning and analysis of the internal and external market environment.

Cassard (2003:4) advises that SMEs identify a need within a business environment, creating a solution to address that need, and sustaining their offering. That can be achieved through environmental scanning: gathering information about the forces of the marketing environment. SMEs that adopt environmental scanning adequately monitor these key forces of the marketing environment. These SMEs are considered to be market oriented, and deliberately assess evolving trends and the implications of marketing environmental changes (Aziz & Yassin, 2010:156). Accordingly, such organisations tend to override many market-driven crises and often gain competitive advantage over rivals that fail to understand the implications of particular environmental occurrences in the market (Zeithaml & Bitner, 2003:79).

At the core of every organisation's marketing strategy is the emphasis on adding value to the customers and the firm simultaneously (Kotler *et al.*, 2008:136). SMEs' marketing activities are affected by various aspects, centring on the role of the owner-manager, firm strategy and the lack of distinct marketing plans. Some of the factors in a firm's marketing environment can be controlled by the firm but some are uncontrollable. Firms need to understand their marketing environment so that they can make the most of positive factors and manage the impact of negative factors.

In the next chapter (Chapter 5) the barriers to and determinants and enablers of marketing orientation are dealt with in detail, elaborating on the important elements and the value of these elements that either inhibit or facilitate market orientation in

general and then focusing them specifically on SMEs. The chapter discusses the existing conceptual models and frameworks for market orientation barriers and adoption patterns, including mediating factors such as organisational characteristics, managerial characteristics, external factors and inter-departmental dynamics. It provides vital discussions of some fundamental dimensions of the theoretical foundation of this study.

## **CHAPTER 5**

### **BARRIERS TO AND DETERMINANTS AND ENABLERS OF MARKET ORIENTATION**

#### **5.1 INTRODUCTION**

The previous chapters (Chapters 3 and 4) revealed the need for SMEs to be market oriented. Key issues relating to market orientation demonstrated from previous research and theory showed its importance for superior organisational performance. Accordingly, various studies in marketing have emphasised that a market-oriented organisation will benefit from adopting and implementing market orientation (Kotler, 1984:123; Kotler & Andreasen, 1987:67; Levitt, 1960:57; Narver & Slater 1990:23; Kohli & Jaworski, 1990:11). The adoption and implementation of market orientation is essential for organisational survival. Successful businesses must differentiate themselves and show increased growth and profits by having well thought out, consumer-focused marketing strategies. In competitive business environments, market orientation involves thorough preparation of marketing plans and full knowledge of the market dynamics (Blewett, 1999:20).

This current chapter (Chapter 5) focuses on three important issues in the implementation and the success of market orientation: the barriers to and the determinants and the enablers of market orientation. In discussing these fundamental pillars, it is essential to revisit the literature that delineates these three pillars of market orientation. The chapter essentially reviews existing literature on the antecedents of market orientation and how these antecedents could be either impediments to or enablers of market orientation implementation and adoption.

The chapter is divided into four broad areas: the first section provides a brief background to the antecedent conditions of market orientation, outlining the importance of a market-oriented business environment. The second section outlines the description and definitions of the barriers to market orientation and the determinants/enablers of market orientation. The third section provides detailed explanations of the various barriers to and determinants/enablers of the adoption and implementation of market orientation in the business environment. The section also

clarifies the key activities characterising market orientation. It provides a theoretical framework of the relationships between the dimensions of market orientation, business performance, the barriers to market orientation and the determinants/enablers of market orientation.

## **5.2 ANTECEDENTS OF MARKET ORIENTATION**

This section will focus the extent to which an organisation can successfully achieve market orientation. Antecedents of market orientation are the factors that inhibit, impede or promote and enhance the development of market orientation and therefore become possible barriers and constraints or determinants and enablers (Grewal & Tansuhaj, 2001:67). It is possible to identify, understand and review the antecedent conditions/factors that foster or discourage market orientation. Most academic studies on market orientation have focused mainly on the consequences of being market oriented and not on the conditions and factors driving market orientation. According to Harris and Piercy (1999:131), relatively little systematic effort has been devoted to understanding the methods by which market orientation could be developed. In fact, Narver and Slater (1990:23) and Jaworski and Kohli (1993:51) emphasised the need to tap into the “drivers” of market orientation. It was the Jaworski and Kohli (1993:56) study that initially examined the antecedents of market orientation.

If market orientation plays a pivotal role in the achievement of superior business performance then what are the factors that drive or hinder market-oriented activity? Without a proper diagnosis of these specific forces, managers cannot choose the best methods with which to enhance their current performance (Jaworski & Kohli, 1993:54). The identification of these factors is of critical importance to organisations seeking to initiate change processes directed at building market orientation. Kotler and Armstrong, (2011:43) proposed several “factors” which they suggest influence the development and the success of a market orientation within a business organisation. The factors are grouped together to form what is named “antecedent conditions” or determinants of market orientation. These conditions are the “organisational factors that enhance or impede the implementation of the market

orientation” (Zabal, 2003:157). The determinants act as drivers of market orientation, resulting in some organisations being more market oriented than others (Keller, 2008:32). Previous studies have identified both internal and external antecedents to market orientation. External antecedents are environmental factors beyond the organisation while internal antecedents are factors existing within the organisation that impede or drive market orientation.

### **5.3 BARRIERS TO MARKET ORIENTATION**

Although market orientation is critical for its influence on business performance, there are several barriers that impede its implementation and usage. Generally, barriers to market orientation have received limited analysis (Oczkowski & Farrell, 1998:3). The available literature does identify barriers to market orientation development which are complex, interrelated and numerous. It is worth noting that most studies on barriers to market orientation share the common theme of behaviour (Piercy, 1995:28). The first group includes the studies that are focused on people, emphasising on the control of employee behaviour; the second group comprises the structure-focused studies, which investigate and emphasise the manifestations of behaviour in the form of structures, systems and processes (Hill & Wright, 2001:436). The diversity of academic opinion regarding the components of market orientation is matched by the variety of barriers to market orientation (Garver & Gagnon, 2002:39). Consequently, the review of the literature on the barriers to market orientation is limited to studies that have identified market orientation components. The barriers to market orientation can be divided into three broad areas. The first area is the external environment, the second area is operational environment and the third area is the internal environment. These are explained in detail in the following sections.

#### **5.3.1 External Environmental Barriers**

External environment barriers result from three elements: the state, the economy and technological changes (Kotler & Armstrong, 2011:48). Elements of the external environment are uncontrollable, difficult to deal with and may not be eliminated by the organisation in itself (Hill & Wright, 2001:436). The factors that constitute the external

environment are competition, market turbulence, technological changes and the general economic conditions (Blewett, 1999:33). Constant monitoring of the market, or environment scanning, is essential, as rightly argued by Keller (2008:32). Environmental scanning refers to gathering information in respect of the organisation's external environment, analysing the information and forecasting the impact of the trends as indicated in the analysis. The link between market orientation and business performance appears to be robust across market environment contexts. These are distinguishable by their varying degrees of market turbulence, competitive intensity, and societal, economic and technological turbulence.

The characteristics of the environment in which a business operates, as much as the quality of its operations and management, will determine its survival. Kotler and Fox (1995:99) provide three distinctions of the degrees of stability of a business environment. First, the stable environment is the one in which the major forces of technology, social, economic and political situations remain stable from year to year (Hill & Wright, 2001:436). The second is the slowly evolving environment, where smooth and fairly predictable changes happen. Third is a turbulent environment with unstable market conditions, in which the SMEs find themselves, facing major and unpredictable changes (Sull, 2009:10). It seems that more and more SMEs are operating in turbulent environments (Cravens *et al.*, 1998:29). In this regard, three tasks are identified for organisations operating in turbulent environments: systematically scanning the environment, identifying environmental threats and opportunities, and implementing necessary adaptations to the changing environment (Chaston, 1997:819).

#### **5.3.1.1 Level of competitiveness**

If the competitive forces are intense in the environment in which a business operates, as they are in such industries as airlines, textiles, and hotels, no organisations will earn attractive returns on investment (Gummesson, 1991:61). If the forces are benign, as they are in industries such as software, soft drinks, and toiletries, many companies become profitable. It is industry structure that drives competition and

profitability, not whether an industry produces a product or service, is emerging or mature, high-tech or low-tech, regulated or unregulated (Hill & Wright, 2001:436). While a myriad of factors (including the weather and the business cycle) affect industry profitability in the short run, industry structure, manifested in the competitive forces, prompts industry profitability in the medium and long run. It is clear that the level of competitiveness of the industry can deter operations and hence be a barrier to market orientation.

### **5.3.1.2 Unpredictable market turbulence**

Jaworski and Kohli (1993:54) define market turbulence as the rate of change in the composition of customers and their preferences. The salient role of market turbulence in the development of market orientation has been documented in several studies (Felton, 1959:56; Levitt, 1960:46; Kotler, 1965:49; Kotler, 1977:67; Narver & Slater, 1990:24; Slater, 2001:231). Levitt (1960:57) augments this by arguing that the organisation does not have to develop a market orientation if it operates in a familiar, stable and predictable market. However, a problem arises when markets do not remain stable or predictable all the time and thus an organisation should make more effort to cope with this instability and unpredictability (e.g. the organisation should become market oriented), “while those who fail to do, simply die” (Day, 1994:37). Jaworski and Kohli (1993:53) assert that organisations that operate in the more turbulent markets are likely to have to modify their products and services continually in order to satisfactorily cater to customers’ changing preferences. Gummesson (1991:61) contends that market orientation is counterproductive in such conditions as those where there is no demand for a particular good or service, there is no supply of a desired good or service, the terms of the exchange are unchangeable and the cost of collecting information is greater than its value.

### **5.3.1.3 Failure to adapt to technological changes**

All forms of business environment are affected by innovation and change, which is the cornerstone of the modern marketing strategies such as market orientation.

Technological changes create opportunities and threats for all organisations (Cravens *et al.*, 1998:29). Technological improvements lead to better production processes, durable products, cheaper products and increased productivity (Beverland, 2005:581). This creates challenges for SMEs which do not have economies of scale and conduct very little or no research and development. According to Helfert *et al.* (2002:1119), the involvement of marketing management in technological renewal is in identifying new consumer needs and wants and satisfying them with new technology. Second, technological innovations are marketed to the consumer by marketing management. Third, marketing management makes a contribution by exploring new applications for technological products. SMEs do not always keep abreast of technology and therefore have to relinquish their share of the market; hence this becomes a barrier to market orientation.

#### **5.3.1.4 General economic conditions**

The economic conditions cover the growth rate of the economy, employment levels, consumer income and the inflation rate (Dubihlela, 2010:23). In this regard, Lamb *et al.* (2000:46) suggest that the general economic conditions prevailing in the country should be the starting point of market orientation: assessing opportunities and threats in the marketplace. Three economic areas are of great concern, namely, distribution of consumer income, inflation and recession. It requires astute management to be aware of the economy and changes that are taking place in it (Pearce & Michael, 2007:301). The main trends linking changes in the economic environment with the organisation include the growth rate of the economy, consumer income, inflation and monetary and fiscal policy (Helfert *et al.*, 2002:1123). The economic factors affect both the SMEs' and the consumer's decisions and actions. Pulendran *et al.*, (2000:123) suggest that in difficult economic times, SMEs have to work even harder because of the effects of stringent budgets. A marketing programme is also affected by economic factors such as the stage of the business cycle, inflation and interest rates (Grewal & Tansuhaj, 2001:67).

### **5.3.2 Operational Environment Barriers**

Environmental barriers are those barriers of market orientation at an operational level, mainly caused by the stakeholders of the organisation. Managers find operational environment barriers much easier to manipulate than external environment barriers (Perreault & McCarthy, 1999:111). Elements of sectoral environments are final customers, distributors, competitors and suppliers (Koprlová, 2008:67). The nature of the relationships that exist among the stakeholders plays the key role in environment barriers (Tomášková, 2009:3). Building strategic alliances is one of the possibilities for eliminating negative relationships amongst stakeholders (Koprlová, 2008:93).

#### **5.3.2.1 Organisational culture**

In order to examine organisational difficulties and impediments to the implementation of market orientation, it is suggested that a cultural perspective must be utilised (Harris, 1999:113). The cultural perspective, according to Narver and Slater (1990:24), is regarded as the principal obstacle to the development of market orientation. Messikomer (1987:53) also identifies the concept of organisational culture as the major barrier to market orientation. The author contends that the difficulty is often not so much in getting management to accept the vision, but rather in overcoming the inbred sluggishness of individual organisational cultures. Creating a marketing community involves changing the fundamental ways in which an organisation and its employees see themselves, their business environment, and their future (Chaston, 1997:819).

The theme of culture is expanded by the works of Harris (1998:354, 1999:113). Harris (1998:356) states that if market orientation is viewed as a form of culture (Narver & Slater, 1990:27), then impediments to market orientation are most appropriately categorised via a contemporary organisational culture framework. It is supposed that organisational culture falls into the second group of important elements connected with internal barriers of market orientation. Organisational

culture influences the systems, the structure and the procedures of the firm as well as communication within the firm (Sull, 2009:10). It has a great influence on other internal elements such as employee behaviour.

While the culture-based studies of Messikomer (1987:53) and Harris (1998:355) are theoretically valid, they do little to contribute to research into specific barriers to market orientation. This shortcoming is overcome in the study of Kotler *et al.* (2008:73), which provides a practical insight into the barriers to the development of greater market orientation. The authors established that functional managers find it difficult to change their way of doing things and way of thinking. They also state that the self-interest of staff within their units can be great barriers to market orientation.

It is supposed that the organisational culture is an important element connected with internal barriers to market orientation (Kumar *et al.*, 2011:19). Organisational culture influences system, structure, procedure and communication in an organisation (Sull, 2009:10). The theory of Harris (1998:355) is extended by the further work of Harris (2002:63), which argues that the development of an organisation-wide market-oriented culture is dependent upon the dominance of market orientation over other organisational sub-cultures (such as professional ideologies). Furthermore, Harris (1999:114) states that the likelihood of market-oriented cultural dominance is dependent on organisational contingencies such as organisational leadership, mission and vision.

### **5.3.2.2 Inter-departmental conflict**

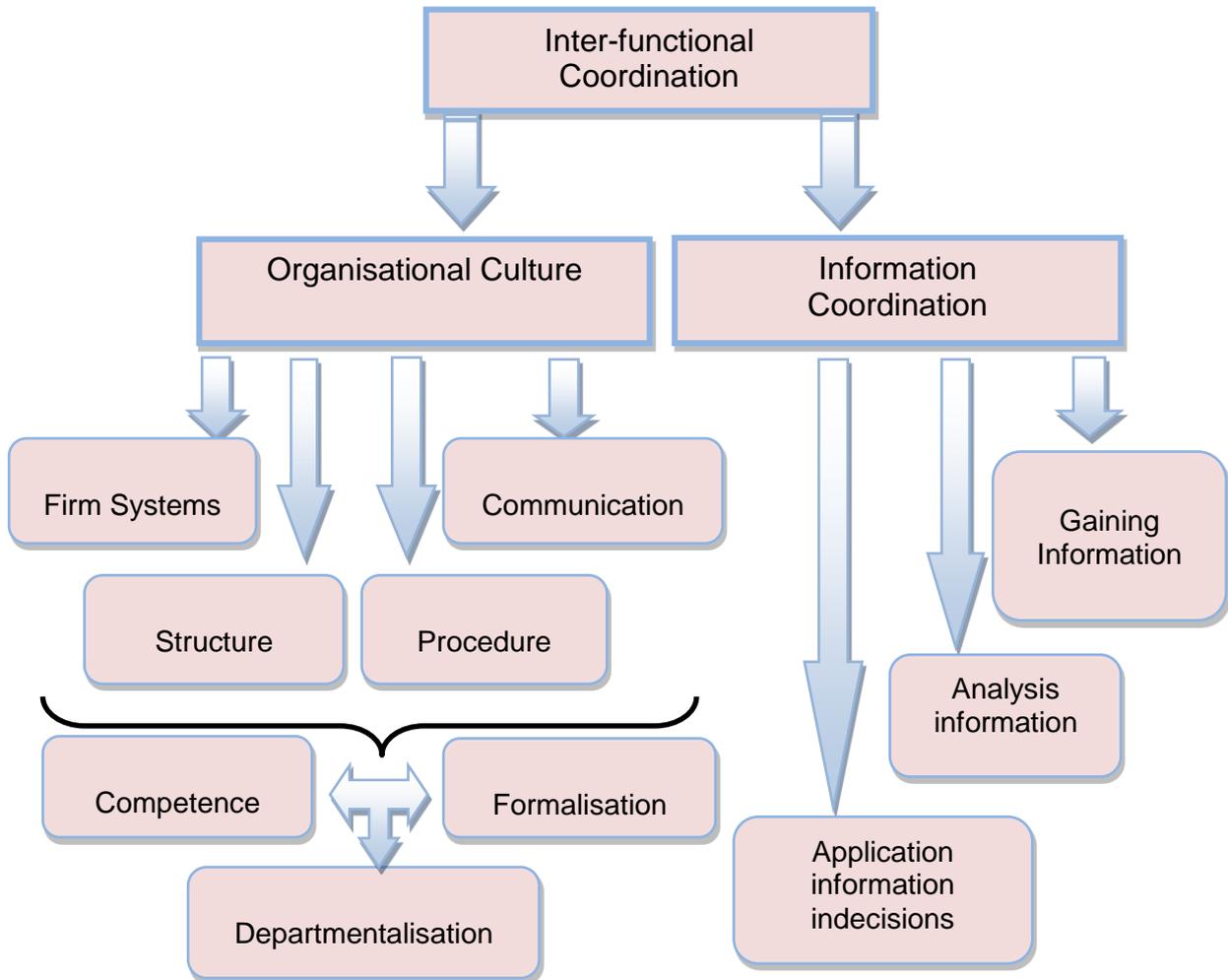
Lack of cooperation and co-ordination among functional units often results in inter-departmental conflicts and is noted as a barrier to market orientation (Pearce & Michael, 2007:301). A number of authors have identified inter-functional coordination as imperative to the implementation of market orientation (Slater & Narver, 1990:23; Harris, 2002:63; Lafferty & Hult, 2001:93). A lack of such coordination however, creates a barrier to market orientation. Firm culture and organisational systems in the firm are some of these groups of barriers. Firm culture is connected with systems and structural and procedural barriers. Fonfara (2001:31) emphasises cooperation

between various business units and levels of management as one crucial factor for doing business. Inter-departmental conflict is found to affect intelligence dissemination while connectedness influences all components of market orientation (Kumar *et al.*, 2011:19).

Challenges of inter-departmental conflict can be eliminated by adopting a flexible and prompt reaction to situations arising in the market (Slater & Narver, 1990:29). All employees need to have all necessary information for production and for services, along with the customers' requests and needs. Communication is necessary for employees to provide palatable service to customers and to each other. This not only helps to produce goods of high quality, but is a very important tool for developing good relationships among employees (Sull, 2009:10). If there are some weak links in the system, structure, procedure or communication, barriers related to centralisation, formalisation or departmentalisation will increase. Furthermore, centralisation could have a negative impact on innovation, and on the speed and flexible realisation of new decisions in managing firms (Trueman, 2004:3).

Various aspects of organisations' operational activities that have an impact on inter-departmental coordination are shown in Figure 5.1. These illustrated activities and aspects of organisational operations are the ones that often cause inter-departmental conflicts when they are not manipulated for the cooperation and cohesion of functional units.

**Figure 5.1: Organisational characteristics impacting inter-functional coordination**



Source: Tomášková (2009:4)

As shown in Figure 5.1, the organisational culture-based conflicts emanate from competence levels, level of formalisation, communication systems, structure, procedures, organisational systems and communication strategies. Lack of information coordination relates to the receiving of information, its analysis and how it is applied within the organisation.

### 5.3.2.3 Lack of information coordination

Market-oriented organisations must obtain information, and disseminate and use that information to develop and implement strategies in their efforts to meet customer

needs and wants effectively (Kohli & Jaworski, 1990:13). Information coordination is closely related to inter functional coordination and can be a barrier to market orientation if information flow within the organisation is not smooth (Harris & Ogbonna, 2001:748). It is necessary to obtain information timeously, analyse the information and apply the results in the decision-making process. Based on the Kohli and Jaworski (1990:13) information-based view of market orientation, the amount of emphasis which businesses place on marketing information greatly affects each component of market orientation.

#### **5.3.2.4 Organisational political behaviour**

Organisational characteristics such as organisational conflicts and politically motivated behaviours are sometimes barriers to market orientation. Maydeu-Olivares and Lado (2003:284) posit that centralisation is often connected with formalisation, conflict and politically motivated management behaviour. Research has shown that a high level of centralisation is often connected with high level of formalisation. Formalisation is seen as having the same negative effects on market orientation as centralisation (Pulendran *et al.*, 2000:123).

Departmentalisation is one key organisational characteristic which can lead to competition within a firm (Pearce & Michael, 2007:301). The result of this situation could be decreasing quantity or quality of production, experts leaving the firm and a destruction of the firm (Sull, 2009:10). Lack of communication and deficient integration are also identified as some of the organisational characteristics forming systematic barriers to market orientation (Harris, 2000:58).

#### **5.3.2.5 Attitudes towards policies and procedures**

Policies are an organisation's business rules and guidelines that ensure consistency and compliance with the business strategic direction (Pumphrey, 2004:13). The policies lay out the business rules under which an organisation, division, or department will operate. Procedures define the specific instructions necessary to perform a task or part of a process. According to Harris and Ogbonna (2001:748),

procedures can take the form of a work instruction, a desk-top blueprint, a quick reference guide, or a more detailed manual.

Even when an enabling environment is created, the attitudes and practices of policy makers sometimes constrain the development of sustainable innovation capacity in a fundamental manner (Pearce & Michael, 2007:301). Policy interventions are sometimes ineffective unless they are accompanied by efforts to change prevailing attitudes and practices among policy makers and other senior decision makers (Harris, 1998:356). Often policy makers regard business in a suspicious way and as inherently exploitative and this requires a change in attitude so that the market-driven approaches take precedence (Jaworski & Kohli, 1993:11).

### **5.3.3 Internal Environmental Barriers**

The literature considering the internal environment barriers highlights a wide variety of potential impediments to market orientation. First, many of the previous studies tend to concentrate on the strategic business unit level (for example, Kotler *et al.*, 2008:27; Jaworski & Kohli, 1993:9) or to review potential barriers to market orientation at an organisational level of analysis (Harris, 2000:59; Messikomer, 1987:53). Second, the unit of analysis or the key informants are the management or executives, normally marketing managers or chief executives. Third, those market orientation impediments which are identifiable at non-managerial level, such as obstacles at shop-floor level, have been identified only sparingly. These are the elements related to employees within the organisation, and are also barriers that impact the implementation of market orientation (Lafferty & Hult, 2001:93).

The two key broad categories of internal barriers to market orientation are related mostly to management and employees (Kumar *et al.*, 2011:19). These barriers emanate from risk-aversion attitudes and a reward system (Harris & Ogbonna, 2000:319). Unlike the influence of external barriers, the influence of the elements of the organisational internal environment on market orientation is easy to change or manage through a change in the mindset of various role players.

### **5.3.3.1 Organisational structure**

Organisational structure is often cited as an obstacle to the implementation and improvement of market orientation (Zebal, 2003:132). Pelham (2000:46) argues that although the market-oriented approach is better suited to the needs, wants and demands of customers, the approach often entails massive complications emanating from a bureaucratic organisational structure (Amabile, 1995:423). The demand for operational efficiency often exerted on the organisational structure sometimes acts as a restriction to the level of market orientation. In support of that view, Flavian and Lozano (2006:447) identified structure as an impediment to market orientation, affirming that certain characteristics of organisational structure may act as significant barriers to market orientation.

### **5.3.3.2 Management style and approach**

The formal structure and informal systems which are in place within the organisation will all have an impact on the ability of the organisation to be market orientated (Sull, 2009:10). Greater control may assist in the implementation of market orientation, but at the same time it may impede its success by limiting the generation of ideas and deterring market intelligence (Harris, 1998:359). This is because a higher quantity of rules and regulations with tight managerial control on decisions is likely to inhibit innovation activities (Zebal, 2000:166).

Managers are the spirit of the organisation; their weaknesses are weaknesses of the whole organisation (Chaston, 1997:819). Where connectedness of departments is sorely missing within the organisation and the behaviour of employees is not consistent with market-oriented behaviour then top management leadership style and approach is considered poor (Zebal, 2003:271). The “management style” barrier is dependent on the style of leadership and the interpersonal skills and personalities of those in leadership roles (Harris & Ogbonna, 2001:749). Leadership style may have an important influence on employee motivation and, ultimately, organisational performance. Managerial perceptions of market orientation and the character,

knowledge and experiences of managers are critical for the success of market orientation (Trueman, 2004:3). On management barriers, Harris and Ogbonna (2001:749) advise that narrow spheres of enquiry, limited understanding of customer satisfaction and assumptions of proactivity can be a source of problems. Generally, the internal environment of market orientation is influenced by the opinions and approach of top management, inter-functional coordination and employees (see Figure 5.2).

**Figure 5.2 Key elements of management style and approach**



Source: Tomášková (2009:5)

Figure 5.2 illustrates the linkages of top management, employees and the inter-functional coordination that breed market orientation within the organisation. Pumphrey (2004:7) is of the view that behaviour of top management within an organisation impacts on the adoption of market orientation. Top management which astutely adopts new ideas, embraces innovativeness, encourages communication, facilitates inter-departmental co-ordination and appreciates inputs from employees has a greater chance of succeeding in making the firm market oriented. Harris and Ogbonna (2001:748) affirm that management behaviour may, therefore, impact positively or negatively on the firm's performance. In this regard, Zebal (2003:113) points out that management behaviour is a significant obstacle to the development of market orientation if it does not facilitate inter-functional coordination and staff

morale. The author lists the following managerial behaviours as important for effective market orientation:

- Top management must be committed to the vision, mission, and norms of the business's strategic orientation and must effectively disseminate it to lower level staff.
- Communication of values and information among stakeholders should be decentralised, less formal and less rigid as rigidity would hamper the quick access to valuable customer information and delay response to market opportunities.
- Performance management systems must be based on market-oriented behaviours.
- Incentives should be given to those employees who exhibit market-oriented behaviours, norms and values more than any other parameter
- Relationships between employees must be based on the customer–supplier system. Encourage information sharing and inculcate team spirit (*esprit de corps*).
- Treat all employees as customers as well; within the organisation the sender would serve as the supplier and the receiver as customer.

According to Tomášková (2009:7), top management who practise the above organisational behaviours are influenced by their personality and perception of market orientation, managerial knowledge, skills and commitment. Seven prerequisites for being market oriented (creativity, sense of risk, competence, responsibility, long-term horizon, planning, and monitoring the achievement of goals) are identified. These identified elements influence management style, mission, goals and strategy.

### **5.3.3.3 Management training and education**

Training provides managers and staff with the knowledge, practical skills and motivation to carry out work-related tasks. Training assists in ongoing, long-term improvement of employees' skills, enabling them to fulfil their potential within their organisation (Sull, 2009:10). Since there is a clear relationship between organisational performance and investment in management and leadership development, it is imperative to train and develop employees (Pelham, 2000:46). Through developing management and leadership capability, an organisation will be able to achieve organisational objectives, manage change in a complex business environment, increase levels of employee engagement, develop competitive advantage and support business growth and performance.

### **5.3.3.4 Lack of management commitment**

This barrier is concerned with management's commitment to market orientation. Managers ought to have a high level of commitment to the success of organisational marketing strategies in order to execute their market-oriented duties effectively (Verona & Ravasi, 2003:581). This can be achieved through continuous research and development. In this case, managers are responsible for building an innovative and creative environment so that continuous research and development (R&D) efforts can be properly maintained.

### **5.3.3.5 Limited resource availability**

SMEs often have to face the liability of smallness in that they lack the legitimacy and the economies of scale that larger organisations have. Lack of legitimacy in this case is the lack of formalisation of the business, such as company registration, and economies of scale refers to a situation where a company has enough resources to expand and increase production units, enabling it to have a better chance of decreasing its costs (Dockel & Ligthelm, 2005:54). It is generally acknowledged that

SMEs find it more difficult to gain access to critical resources than large organisations do (Dockel & Ligthelm, 2005:54). This problem is further exacerbated when the SMEs operate in an environment where institutional assistance is limited, as it is in South Africa (Kumar, 2009:115; Singh, 2009:117).

Among market-oriented organisations, some have more resources than others. With abundant resources, market-oriented organisations can achieve huge benefits such as economies of scale (Kohli & Jaworski, 1990:6). For organisations that have limited resources, being market-oriented would significantly enhance their business performance (Narver & Slater, 1990:23). For example, organisations that have enough resources can make better use of the customer-related data that they may gather as a result of being customer oriented. On the other hand, if an organisation does not have resources, no amount of customer data may be of any use because it would not be able to respond to the demands of the customers, even if it understands those demands (Ngansathil, 2001:23).

#### **5.3.3.6 Negativity towards learning orientation**

Learning orientation refers to organisation-wide activities of creating and using knowledge to enhance organisational competitiveness. The components of learning orientation include commitment to learning, shared vision, open-mindedness, information sharing and knowledge sharing. This includes obtaining information about customer needs, about market changes, and about competitor actions, as well as the development of new technologies to create new products that are superior. According to Farrell (2000:213), managers must have positive attitudes towards gaining new information and should have a high learning orientation. Lack of learning orientation can be a barrier to market orientation.

It is vital for all employees to share information timeously in a changing environment and to have positive attitudes towards information in order to integrate the resources of the whole organisation in response to the changes in the market (Verona & Ravasi, 2003:581). Information sharing within the organisation requires the collective

beliefs or behavioural routines that are related to the spread of information among different units within an organisation (Hogarth-Scott *et al.*, 1996:6). It keeps alive the knowledge and information gathered from various sources and serves as a reference for future action. For example, the marketing department's experience with customers may be valuable to the R&D unit in developing products or services to fit customer needs.

#### **5.3.3.7 Indistinct mission, goals and strategy**

Mission, goals and strategy could be another barrier if improperly developed and articulated across an organisation (Pearce & Michael, 2007:301). Firms without mission are not market-oriented; they do not apprehend their operations systematically (Hogarth-Scott *et al.*, 1996:6). The mission statement explains what the organisation stands for and why it exists. A strong mission statement symbolises legitimacy to external audiences such as investors, customers, and suppliers. Likewise, a clear mission statement allows employees to identify with the overall purpose of the organisation and commit to preserving it (Pelham, 2000:49). Verona and Ravasi (2003:579) stress that without a clear mission an organisation is less likely to be market-oriented. One widespread problem in organisations is that many creative ideas are never implemented for lack of a common direction. Great ideas fail to be translated into action because of diverse interests in the organisation.

#### **5.3.3.8 Lack of creativity and innovation**

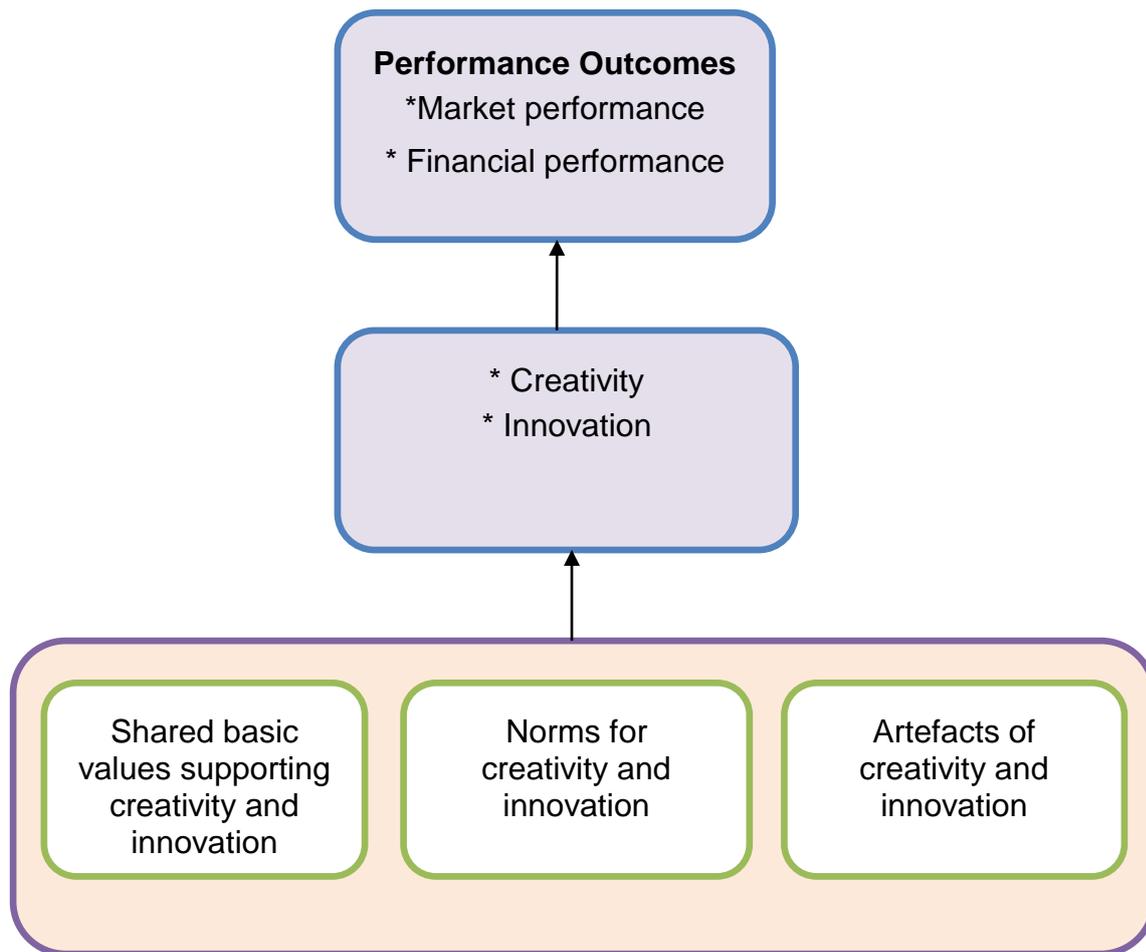
Creativity refers to the generation of new ideas, whereas innovation refers to the implementation of new ideas. Creativity is defined as the tendency to generate or recognise ideas, alternatives, or possibilities that may be useful in solving problems, and communicating these to others (Hemsley-Brown & Oplatka, 2010:204). Generally, competitive changes within business environments require new and creative ways of organising and managing business operations (Kumar *et al.*, 2011:19). In order for organisations to be ahead of competitors in identifying and meeting customer needs, creative thoughts and entrepreneurial mindsets are

essential (Verona & Ravasi, 2003:581). Managerial behaviour that supports creativity and facilitates the adoption of innovative practices, improves organisational ability to remain competitive within uncertain business environments.

Innovation is defined as the “generation, acceptance, and implementation of new ideas, processes, products, or services” (Thompson, 2002:419). Rogers (1995:39) posits that innovativeness is about an idea, a practice, or material artefact perceived as new by the relevant organisation adopting it. Amabile (1995:423) affirms the definition, stating that innovation is the successful implementation of creative ideas within an organisation, ideas that are vital for organisational competitiveness.

The illustration in Figure 5.3 shows that an organisational culture supporting creativity and innovation (through values, norms and artefacts) is a crucial precursor of creative and innovative behaviours which lead to effective market orientation as measured by market performance and financial performance (Kotler & Armstrong, 2011:43).

**Figure 5.3: Organisational creativity, innovation and performance**



Source: *Homburg & Pflesser (2000:449)*

As shown in Figure 5.3, it is clear that both creativity and innovation are essential attributes for managers that are focused on creating significant competitive advantage and increasing business performance (Hemsley-Brown & Oplatka, 2010:204). Behaviours are reinforced when organisations recognise and reward those behaviours that reflect desired organisational values of creativity and innovation (Parasuraman, 1987:83). For SMEs, therefore, lack of creativity can be a barrier to the implementation of market orientation.

### **5.3.3.9 Risk aversion**

Lafferty and Hult (2001:92) specify that proactive management's level of risk affinity, quick response reaction and preparedness is necessary for market orientation and

business performance. Risk aversion and risk avoidance is recognised to be a barrier to the adoption of market orientation and implementation (Kumar *et al.*, 2011:19). Marketing orientation is a state at which the business arrives, passing through several phases that represent different levels of adaptation to the market (Chatterjee & Wernerfelt, 1991:33). This process is risky because it entails significant re-allocation of resources and power within the organisation while the results of the effort can be seen and evaluated only after the process (risk behaviour) is completed. Consequently, initiating it requires that the organisation is prepared to assume a risk. This means that the attitude of management towards risky decisions, activities and unanticipated changes in the market can be a barrier to market orientation.

#### **5.3.3.10 Managerial incompetence (poor-quality management)**

Barriers associated with managerial capacity and incompetence emanate from top managers' level of acceptance of the importance of quality and proficiency (Chatterjee & Wernerfelt, 1991:34). Competence refers to a set of skills, related knowledge and attributes that allows an individual to perform a task or any activity. Homburg and Pflesser (2000:453) describe competence as behaviour enabling individuals, teams and organisations to perform at outstanding levels in an unpredictable, complex and fast-changing environment.

In understanding responsible business behaviour, the starting point remains the leadership qualities that are in the domain of the personal attributes and beliefs of management. These are the deep-seated personal qualities that change and develop only slowly over time. World-class organisations use competencies to delineate and drive high performance (Pelham, 2000:51). Most managers and those responsible for management development and learning agree that competencies comprise a mixture of specific job roles. This allows managers and those responsible for their development to grasp what is required to reach improved levels of excellence and performance by providing a common framework which articulates the skills, knowledge and attitudes relevant to successful business practice (Harris & Ogbonna, 2001:159).

### **5.3.3.11 Centralisation of power**

Delegation means the assigning of certain responsibilities, along with the necessary authority, by a superior to subordinates. Delegation also helps in breaking the monotony of the subordinates' work so that they can be more creative and efficient (Kotler & Armstrong, 2011:45). It is inevitable, along with the expansion and growth of a business enterprise. Delegation does not mean surrender of authority by the higher-level manager; it simply denotes the transfer of certain responsibilities to subordinates and giving them the necessary authority to discharge the responsibilities properly (Dockel & Ligthelm, 2005:56). Delegation of authority, in a way, gives enough room and space to the subordinates to display their abilities and skill.

Liu (1996:59) suggests that organisational control mechanisms are associated with market orientation. He argues that the way in which an organisation exerts control over people and processes may act as an impediment to developing market orientation. Some managers have problems with delegating power and responsibilities to their employees (Harris & Ogbonna, 2000:319). A rigid attitude could be the possible cause of disincentives for other developments within the firm. Delegation of authority is a vital organisational process which reduces the workload of managers, whose focus and energy could be redirected to important and critical issues of concern (Zebal, 2003:73). In this way management can bring effectiveness to individual deliverables and the efficiency of the work units, effectively helping managers to prove their ability and skills.

Through the delegation of powers to subordinates, they get a feeling of importance. They are motivated to work and this motivation provides appropriate results to the business. Satisfaction is an important criterion for stability and soundness in the relationship between superiors and subordinates (Harris & Ogbonna, 2001:748). Delegation of authority is not only helpful to the subordinates but it also helps the managers to develop their talents and skills. Since, through delegation, the managers get enough time to concentrate on important issues, their decision-making skills are

strengthened and they have an opportunity to display the talents which are required in a manager (Hogarth-Scott, Watson & Wilson, 1996:6). By granting powers and getting the work done, managers acquire communication skills, are able to give supervision and guidance, motivate effectively and display leadership traits.

#### **5.3.3.12 Poor planning and unclear objectives**

The other group of barriers is associated with the planning and setting of objectives. Planning is a crucial activity intended to design the map and set the groundwork for the other operational activities (Kotler, 2001:13). A plan specifies what should be done, by whom, where, when, and how. All businesses (from the smallest restaurant to the largest multinational corporation) need to develop effective plans for achieving success (Harris & Ogbonna, 2000:319). However, before an organisation can plan a course of action, it must first determine what it wants to achieve (objectives). Objectives are the end results desired by the organisation, either in the short term or the long term. Harris (2002:63) highlights planning as a part of strategy which has the same importance as other operational factors. According to Pulendran, Speed and Widing (2000:126), a high-quality planning system has the potential to enhance market orientation.

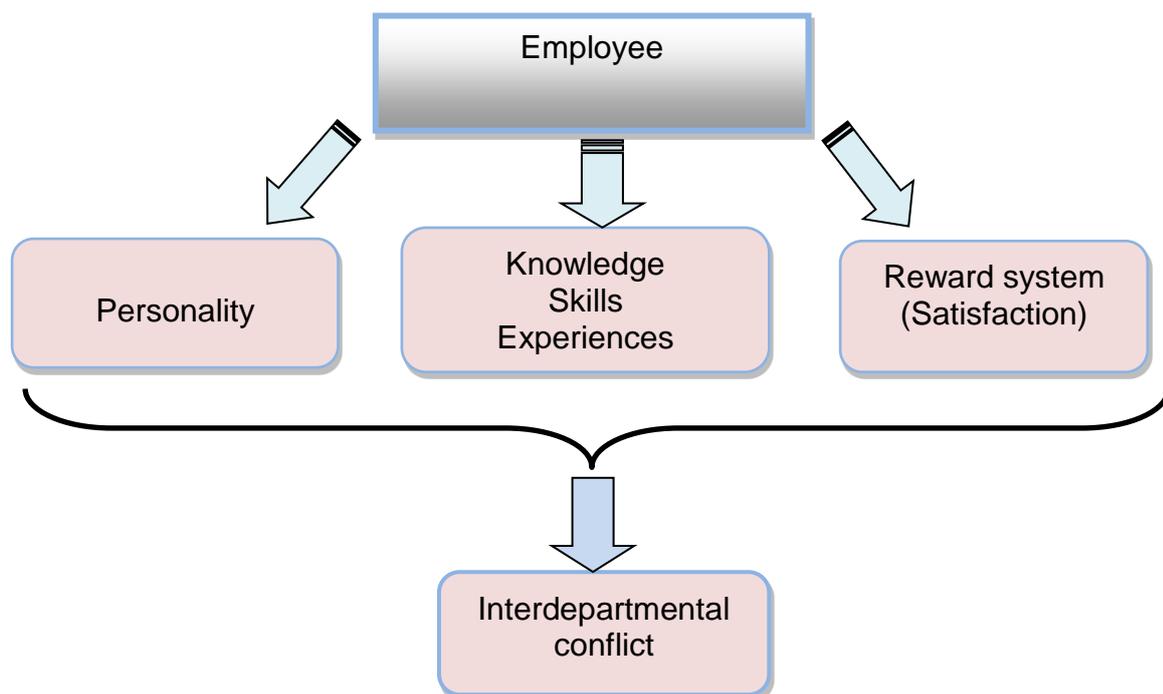
#### **5.3.4 Employee-related Barriers**

Employees are equally important to the organisation as the management are, and they can also be a deterrence to market orientation implementation (Kotler & Armstrong, 2011:43). Although employees are important assets of the whole organisation, they can cause some barriers to market orientation. They can lead to inter-departmental conflict. The goal should be to have highly qualified and satisfied employees with a sense of teamwork, and a flexible system that is less formalised, centralised and departmentalised. Harris (1999:86) suggested that employees are potential barriers to creating and/or sustaining a market orientation for a variety of reasons. Employees tend to have a short-term perspective that runs counter to the longer-term focus within the market orientation construct (Singh, 2009:119). Employees tend to focus their efforts on their own productivity rather than on how

their productivity benefits others in their organisation (Garver & Gagnon, 2002:41). Most employees overlook the fact that their efforts are connected to the organisation's customers, negating the customer-oriented aspect of the market orientation.

The behaviour of every employee is one of the factors which affect organisational cost-efficiencies. Depending on the level of organisational cohesion and staff satisfaction, employees can create inter-departmental conflicts. The main goal for all companies is to have qualified and satisfied competent personnel who have a good sense of teamwork. This can be achieved through applying a flexible and a less formalised, less centralised and departmentalised operational system (Harris & Ogbonna, 2001:159). Such a system is said to inject some sort of motivation and satisfaction, which results in committed employee performance.

**Figure 5.4 Employee-related market orientation barriers**



Source: Tomášková (2009:5)

Figure 5.4 illustrates some of the components of the employee-related market orientation barriers. These market orientation barriers emanating from the employees are regarded as being associated with the reward system (Tomášková, 2009:5),

knowledge skills and experience and personality (Pulendran *et al.*, 2000:123) as well as inter-functional conflict (Homburg & Pflesser, 2000:115). Ruekert (1992:226) identified not only reward system orientation but recruiting and training of personnel.

Research has indicated that low levels of motivation, dissatisfaction and lack of commitment directly impede the development of market orientation (Trueman, 2004:6). The negative consequences of uncommitted staff include apathy, instrumentality, limited power, short-termism, compartmentalisation, ignorance, weak management support, and ineffective vertical communication. These consequences can be barriers to the implementation of market orientation (Maydeu-Olivares & Lado, 2003:279). As with management, the first barriers could emerge from the personality of workers (Hogarth-Scott *et al.*, 1996:6). In this case, some of the employees may not be acceptable for the specific operational tasks and others may not exhibit openness, responsiveness and good teamwork, leading to bad work relations that daunt market orientation. Lack of experience or personal skills is a second barrier connected with employees. Some of the market orientation barriers related to employees are discussed in the subsequent paragraphs.

#### **5.3.4.1 Employee short-sightedness**

A potential cause of employee apathy towards developing market-oriented behaviours is deeply embedded in what the employees believe to be the value derived from such behaviour. While managers and executives are aware of the potential performance advantages in developing market orientation and are frequently rewarded for market-oriented behaviour, employees may see little personal reward for organisational market orientation (Deshpandé *et al.*, 1993:23). In that regard, the short-term perspective of the future value of market-oriented behaviour for the employees often becomes a barrier to the adoption of market orientation.

Firstly, the employees perceive market-oriented strategies as geared towards the long term and not of their own concern (Kotler, 2001:13), and secondly, the short-

term nature of employment within the SMEs sector checks the continuity of a culture, restricting the ability to sustain market orientation in the long term (Kotler & Armstrong, 2011:43). Indeed, the compartmentalisation of employee tasks and job definitions in organisations clearly restricts the ability of employees to focus on the needs of markets. The majority of the shop floor staff is generally short-sightedly focused purely on their narrow tasks.

#### **5.3.4.2 Employee ignorance**

While managers and executives may generally be well versed in the theory and practice of market orientation, the majority of employees are ignorant of the nature and implications of market orientation (Grinstein, 2008:119). A number of the previously identified and discussed reasons, which appear to restrict the development of market orientation for employees, are also considered to emanate from the way management relates to subordinates. This is evident particularly in situations where there is limited employee empowerment and more task-compartmentalisation. It is also prevalent in cases where employees are confused over what their operational terms are. Most of the difficulties in developing and advancing employees appear to be caused by limited commitment, lack of knowledge and ineffective communication, which eventually hinder adaptation to market-oriented behaviour (Kotler, 2001:13). This is because most functional areas or departmental units often do not ordinarily understand the concept of being market driven, and the employees are ignorant of how to translate their regular responsibilities into market-oriented and customer-responsive activities.

#### **5.3.4.3 Short-termism**

The employee factors which emerge as key impediments to developing and implementing market orientation at the general staff level include short-termism (Hampton *et al.*, 2009:87). Short-termism is a perspective developed by workers over time that considers only the benefits to them of working in an organisation, without considering the long-term survival and future of the organisation. Short-termism has

the potential to cause inter-departmental conflict that may be prompted by some individuals or groups of employees who have personalised interests (Harris & Ogbonna, 2000:319). These employees have their own individual objectives within the firm or they may have their own vision of what the business is supposed to be like. Although there are many barriers, as discussed in the previous sections, these barriers can be overcome by understanding and appropriately espousing the determinants and enablers of market orientation, as detailed in the following sections.

#### **5.4 DETERMINANTS AND ENABLERS OF MARKET ORIENTATION**

In considering organisational determinants and enablers of market orientation behaviour, the literature begins to link up with organisation theory, and more specifically the literature on organisation design (Payne, 1988:46). From the relatively long and unstructured list of variables that this study identified in the literature, it is clear that the terms “determinants” and “enablers” are generally used interchangeably (Dickson, 1992:69; Day, 1994:41; Sinkula, 1994:36; Maydeu-Olivares & Lado, 2003:279; Kumar, 2009:115). Additional research is required to distinguish their similarities and differences, particularly with respect to the specific relationships between enablers and the generation, dissemination and use of market intelligence, as well as the interrelationships between the enablers and the determinants (Harris & Ogbonna, 2000:319).

Determinants and enablers of market orientation refer to those factors that influence the development of a set of attitudes and practices that encompass the market orientation construct (Zebal, 2003:67). Market orientation employs superior marketing processes that can provide an organisation with positional advantages for as long as the competitors employ less efficient processes (Kim & Mauborgne, 2009:73). In the long run, it is important that the organisation builds a dynamic market capability, one that enables and empowers the organisational stakeholders to adapt to change (Pelham, 2000:51). Such a capability provides an organisation with the means for adapting the marketing processes to changes in an environment, such as the changes in customer demands, the emergence of new markets and channels, or competitive moves (Kumar *et al.*, 2011:19). In other words, the determinants and

enablers are the fundamental elements generating a favourable environment for adopting and implementing a market orientation.

Organisations must build dynamic marketing capabilities that enable them to adapt, change, and renew operational approaches over time (Homburg & Pflesser, 2000:115). These capabilities must provide the means for adapting the operational processes to changes in the environment, such as changes in customer demands, the emergence of new markets and channels, and competitive changes (Sinkula *et al.*, 1997:316). In fact, an organisation that wishes to become market oriented must state its mission as attaining a market orientation throughout its operations. This may include setting specific departmental guidelines that guide their departments to achieve some market orientation (Lichtenthal & Wilson, 1992:197). These operational procedures and guidelines, systems, activity frameworks, structures and processes, as well as the marketing and operational capabilities that can be adjusted to drive a market orientation culture, are the market orientation enablers (Kim & Mauborgne, 2009:73).

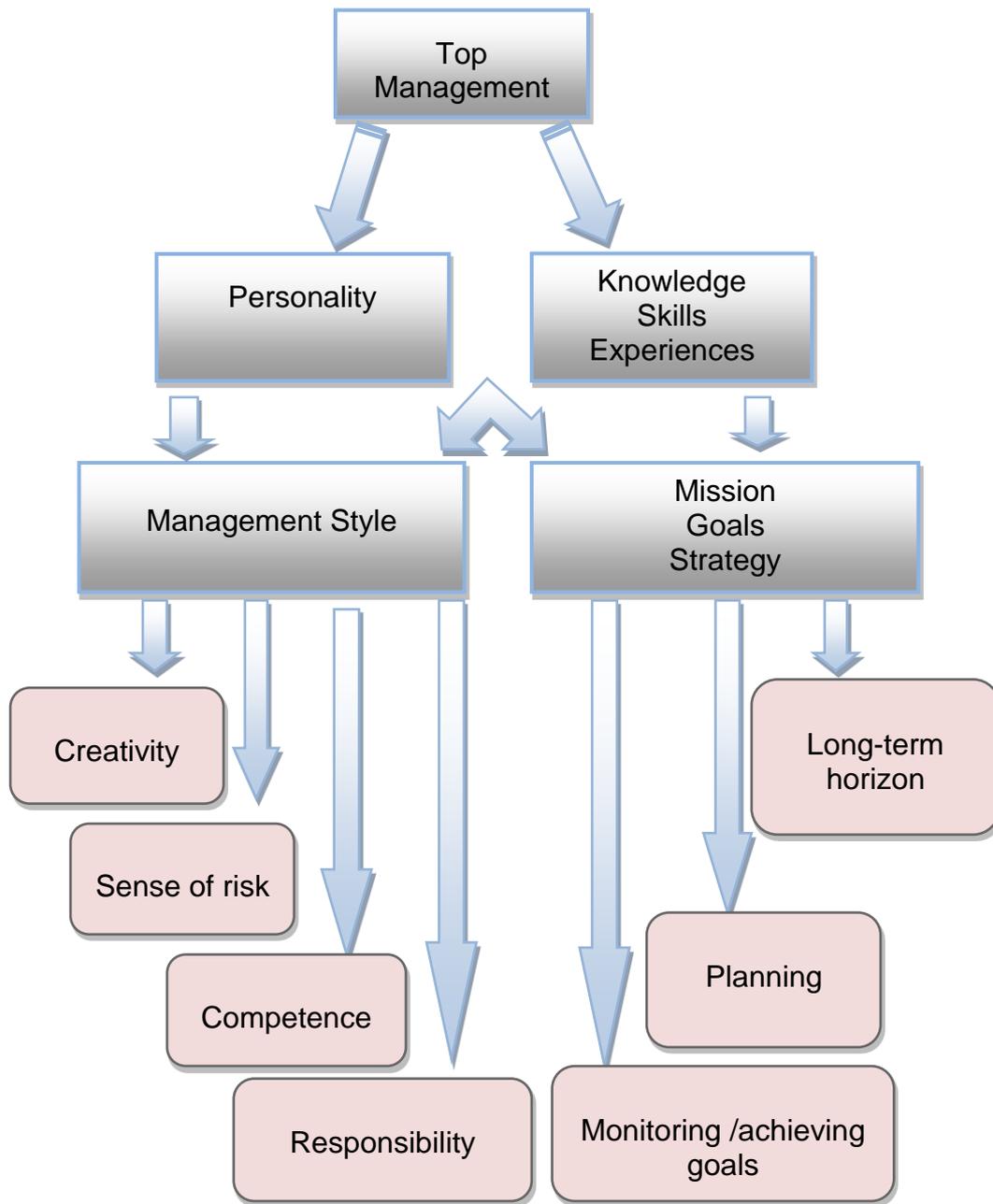
According to Gounaris and Avlonitis (1997:386), market orientation of organisations requires embracing a philosophy, attitudes and behaviours that are conducive to and enabling for market-oriented strategies. As organisations increasingly recognise the strategic importance of becoming more market oriented, they will of necessity focus on the problem of driving market orientation deep into their organisational cultures (Kumar, 2009:118). This focus will bring the organisations face-to-face with the barriers and difficulties of implementing a market orientation; hence the need for market orientation determinants and enablers.

The following sections provide elaborate and detailed discussions of the determinants and enablers of market orientation.

#### **5.4.1 Managerial influence**

Managers have an important influence on the implementation of market orientation within all forms of organisations. Managers influence both inter-functional coordination and other elements of the internal environment, such as employee encounters, employee perceptions of market orientation, employee knowledge, and organisational commitment (Homburg & Pflesser, 2000:115). These elements also impact the approach of management style, mission, goals and strategy to be followed within an organisation. According to Narver and Slater (1990:23) managers influence various elements for market orientation within organisations to thrive. These elements, illustrated in Figure 5.5, are: creativity, sense of risk, competence, responsibility, long-term horizon, planning, and monitoring achievement of goals (Tomášková, 2009:6).

**Figure 5.5: Management prerequisites for market orientation**



Source: Kim & Mauborgne (2009:73)

Figure 5.5 clearly shows how the behaviour of top management has an impact on the style of management. The management style is revealed in the form of creativity, sense of risk aversion, level of competence and sense of responsibility (Qu, 2009:573). Figure 5.5 also shows how management knowledge, skills and experience have a bearing on the organisational strategy, as revealed in the organisational vision, strategy, goal orientation and planning horizons (Tomášková,

2009:5).

According to Garver and Gagnon (2002:35), moving an organisation to a market orientation requires the achievement of two management objectives: a change in employee attitudes and a change in employee behaviour. The first focus should be to improve employee skills and attitudes (Kim & Mauborgne, 2009:73) in a way that reflects an organisation-wide market-oriented culture. However, changing knowledge and attitudes is not sufficient to build a long-lasting market-oriented culture (Narver & Slater, 1990:23). Hence the second focus aims at changing employee behaviour in a way that focuses the employees on better satisfying customers, and ultimately helping the organisation to perform better (Maydeu-Olivares & Lado, 2003:279). To achieve this, managers must make all stakeholders aware of the importance of specific market-oriented behaviours and distribute organisational resources in a manner that will drive organisational success.

#### **5.4.2 Availability and accessibility of firm's resources**

A resource-based view of the organisation suggests that businesses achieve superior performance when they possess resources which are rare, valuable, inimitable, and un-substitutable (Singh, 2009:119). These resources help the businesses to develop capabilities and core competencies, which are essential for achieving sustainable competitive advantage.

Likewise, organisations need resources to invest in systems for product improvements and new product development in order to respond to the challenges created by competitors, and that calls for good understanding of the competition (Deshpandé, Farley & Webster, 1993:23). Clearly, it is meaningful to adopt a market orientation strategy only if firms are able to invest in product and process enhancements to meet customer expectations, competitor challenges and organisational challenges (Miller & Freisen, 1982:867). Those organisations that have more resources at their disposal are likely to have a greater capability to respond to the demands arising out of a higher level of market orientation (Kim & Mauborgne, 2009:73). Consequently, a better implementation of the market

orientation strategy means that organisations can benefit more from the market-oriented strategies. Thus organisational resources have an effect on the relationship between various dimensions of market orientation and business performance.

### **5.4.3 Environmental factors**

The role of environment as an important contingency factor has been long espoused by organisational researchers (Subramanian & Gopalakrishna, 2001:13). Maydeu-Olivares and Lado (2003:291) confirm that business organisations seem to devote significantly greater efforts to analysing the environment and implementing environment focussed strategic actions. Sound understanding of the external environment often strongly positions the firm's strategic actions and often yields the benefits that a firm can derive from those actions (Miller & Freisen, 1982:867). A greater level of environmental dynamism and complexity requires that firms be more responsive to fluctuations and changes in the market environment. The external environment poses challenges for SMEs that often do not have resources to counter the external pressures (Homburg & Pflesser, 2000:115). The importance of being market-oriented increases under such conditions because a market-oriented firm has a better understanding of the external environment, and consequently, such firms can better respond to the demands of the external environment (Subramanian & Gopalakrishna, 2001:19).

There are three important components of the external environment: competitive intensity, market turbulence and technological turbulence (Jaworski & Kohli, 1993:11). Environmental factors relate to market dynamics, competition and technological changes, significantly affecting organisational ability to manage its operations efficiently. For example, when competitors' products or services change rapidly or when customers' needs fluctuate, it becomes important to understand the changes in order to react appropriately. Chaston (1997:819) concurs that market orientation provides firms with the ability to deal with these constraints. The following sections elaborate on the role played by the three dimensions of external environment which are determinants of market orientation.

#### **5.4.4 The competitive intensity effect**

Competitive intensity refers to the extent of rivalry among different players in an industry. According to Porter (2008:87), competitive intensity is an important determinant of the profitability of a firm in a given industry. The level of competitive intensity determines a firm's choice of strategic actions and responses (Chen & Miller, 1996:419). The likelihood of a response depends on the visibility of the competitive actions and rivals' ability to gauge the consequences of a competitive action (Miller & Freisen, 1982:867). The level of market orientation of an organisation determines whether it will be able to process all the information and take appropriate actions or not (Subramanian & Gopalakrishna, 2001:14).

If the environment has low competitive intensity, customers do not have much choice and they remain stagnant with whatever is available in the market place in terms of product choice or service. In such an environment, organisations may perform well even if they place less emphasis on market orientation (Kohli & Jaworski, 1990:13). In contrast, under conditions of intense competition, customers have many options and may reject the products and services that do not meet their expectations. In such situations, it is necessary for organisations to be competitor- and customer-conscious (Gatignon & Robertson (1991:231). There is, therefore, a need for SMEs to better understand customer expectations and adopt a high level of coordinated efforts to respond effectively to the challenges of the marketplace (Jaworski & Kohli, 1993:12). In this regard, when there is a greater level of competitive intensity, the positive effects of different magnitudes of market orientation become stronger.

#### **5.4.5 Market turbulence effect**

Market turbulence refers to the level of instability in the external market environment which forces organisations to vary their strategies in the face of changing customer needs (Chen & Miller, 1996:423). In an environment characterised by high levels of market turbulence, products and services can become obsolete very fast, forcing businesses to change their operations (Lamb *et al.*, 2010:93). In this case, the

instability in the market environment often compels organisations to adopt market-oriented behaviours. The organisations constantly strive to adapt and respond to challenges from competitors and the evolving needs of customers in a turbulent environment (Goetsch & Davis, 1997:19).

The economic liberalisation of 1994 has resulted in several foreign companies entering the South Africa market, providing customers with wide choices not only in terms of brands, but also in terms of quality (Singh, 2009:119). As a result, consumers have generally become very sophisticated, changing their preferences frequently (Beverland, 2005:581). To cope up with the resultant increase in the level of market turbulence, organisations need to keep themselves abreast of the latest demands and trends on a continuous basis (Koprlová, 2008:93). Managers of an organisation with a high level of market orientation may be better able to understand market expectations in a turbulent environment.

#### **5.4.6 Technology turbulence effect**

The rate of technological change, referred to as technological turbulence, influences efforts by organisations to adopt and implement market orientation. The importance of technological turbulence emanates from the fact that technology has emerged as a major source of competitive advantage (Subramanian & Gopalakrishna, 2001:16). Chen and Miller (1996:423) suggested that organisations actively engaged in changing customer preferences and competitor behaviour, and integrating such knowledge in the operations, outperform their counterparts that neglect technological developments. However, effectively integrating technological considerations into organisational processes is a challenging task that requires coordination of multiple functions, including technical, marketing, financial and human resource management (Harris & Ogbonna, 2001:159). The challenges associated with managing technology are compounded by several factors, such as the complexity and pace of technology development, costs associated with such development, the high failure rate of the commercialisation of technology and acceptance of end products by the customers (Homburg & Pflesser, 2000:115).

A greater level of market orientation helps organisations to effectively deal with the challenges arising as a result of technological turbulence (Beverland, 2005:581). For example, the failure in commercialisation of new technologies and the costs associated with these activities can be minimised if organisations can integrate the technological knowledge with the knowledge of customers' expectations (Harris & Ogbonna, 2001:159). Such integration, however, requires a great level of understanding of not only what customers expect and what the competition has to offer, but also a great level of coordination between different departments (Slater, 2001:231). On the other hand, when the technological turbulence is low, firms can keep their product offerings stable, and can do well even without a very high level of market orientation. Technological turbulence, therefore, increases the positive effect of market orientation on organisational performance (Kumar, 2009:115).

These sections have discussed the determinants of market orientation in an organisation: factors stimulating its usage in the processes of value conception and value generation. However, merely identifying and displaying these determinants is probably not enough. The organisation may find it difficult to translate a market-oriented attitude into actual behaviour because certain organisational enablers may be absent. These enablers are discussed in the ensuing sections.

#### **5.4.7 Customer service orientation**

A customer service culture is an organisational culture designed to create higher customer value by executing the required actions by the most efficient and effective means available, thereby maintaining a high level of firm performance (Narver & Slater, 1990:23). Payne (1988:46) classifies market-oriented service culture not as a set of actions but as a constituent of group culture within a firm that assumes that the interactions among the organisational functions are dynamic. A study by Schneider (1980:52) emphasised the importance of customer service orientation as an organisation-wide commitment which requires organisational arrangements and an organisational climate that is supportive of excellent customer service (Schneider, 1980:56). Based on the literature, it can be said of market orientation that it increases customer service levels and positively affects firm performance.

#### **5.4.8 Understanding marketing information**

A good understanding of the market, also referred to as market intelligence, is a core input in a market-oriented organisational environment (Pelham, 2000:51). Available market information and intelligence enables market orientation that is committed to identifying the "best practice" for the organisation (Harris & Ogbonna, 2001:159). A market-oriented organisation creates and manages strategic alliances with all parties and remains externally focused and capable of a quick and flexible response to the changing market (Webster, 1992:30). Market intelligence enables the organisation to know more about the market dynamics and to learn faster than its competitors. Current market information is considered one of the key sources, and the only sustainable source, of competitive advantage (Sigauw *et al.*, 1994:106). It seems that market information and an understanding of market dynamics plays a major role in improving an organisation's competence and in enabling organisations to learn critical skills from one another. Slater (2001:231) maintains that, to inspire breakthroughs, market-oriented firms must carry out market experiments, gather information, and modify their offerings based on the new knowledge and insights of the marketplace.

#### **5.4.9 The organisational learning environment**

There are various definitions of organisational learning. It is a process of improving actions through better knowledge and understanding (Fiol & Lyles, 1985:803), applicable within an organisation that is skilled at creating, acquiring, and transferring knowledge. A learning organisation enables behavioural modifications to reflect new knowledge and new insights (Garvin, 1993:79). A learning environment weaves a continuous and an enhanced capacity to learn, and to adapt to change processes within an organisation to maintain or improve performance based on experience (Nevis *et al.*, 1995:76). Slater and Narver (1995:73) argue that learning enables and facilitates behavioural change that leads to improved organisational performance. In explaining this, Slater and Narver (1995:71) state that organisational learning should lead to superior outcomes, such as superior product success, customer retention, superior growth, and profitability. It embeds organisational ability to focus on

understanding and satisfying the expressed and latent needs of customers through new products, services and ways of doing business (Day 1994:38; Kohli, Jaworski & Kumar, 1993:469; Sinkula, 1994:35). Sinkula, Baker and Noordewier (1997:313) also support the notion that the success of market orientation is associated with organisational learning activities inspired by organisational performance objectives.

#### **5.4.10 Market-based reward system**

Reward systems can shape the behaviour of employees within the organisation, and hence enable market orientation (Kohli *et al.*, 1993:467). More clearly, Pulendran *et al.* (2000:119) affirm that there is a positive correlation between market-oriented operations and reward systems. Based on this assertion, it can be concluded that an organisation implementing the system of rewards based on performance marketing will encourage the growth of market orientation within its operations. Various studies have shown that reward systems can be instrumental in shaping employee behaviour (Anderson & Oliver, 1987:79; Payne, 1988:49; Sigauw *et al.*, 1994:106). Ngansathil (2001:23) states that marketing-based reward systems influence the degree of market orientation in both the domestic companies and export companies that perform marketing activities. In line with these studies, Zebal (2003:97) in his research on manufacturing companies found that marketing-based reward systems always have a positive influence on market orientation. Reward systems and centralisation both affect all elements of market orientation. These assertions are generally consistent with the literature and add much to the validity of the Kohli and Jaworski (1990:16) market orientation construct.

### **5.5 ACTIVITIES FOR EFFECTIVE MARKET ORIENTATION**

This section relates to organisational support systems and the operational aspects of the organisation upon which holistic operations of the business are dependent, necessitating effective and efficient operations (Schlesinger & Heskett, 1991:73). The essential foundation of effective organisational operations must be in place if market orientation is to be successful. Table 5.1 illustrates that the market orientation employee behaviour can be effective market orientation enablers. It shows how

management can identify what management actions to take at each point within the organisation by knowing the abilities, the opportunities and motivational feedback (Zebal, 2003:113).

**Table 5.1: Enablers of market-oriented behaviour**

	Enabler	Management Action
<b>Motivation</b>	Feedback	Evaluate and reward collection, dissemination, and use of market intelligence, and provide employees with information about their market performance.
	Management behaviour	Display exemplary behaviour and consistently engage in providing feedback.
<b>Opportunity</b>	Information exchange networking	Implement networking activities and arrange the physical networks location of people in such a way that internal and external networks can develop.
	Roles & responsibilities Tools	Incorporate market-oriented activities in job design. Invest in tools (e.g. information technology) to support market-oriented behaviours.
	Resources	Make available the necessary budgets, manpower, and time to fulfil the desired responsibilities.
	Processes & procedures	Develop and communicate desired processes and procedures.
<b>Ability</b>	Skills	Develop an appropriate skills base via recruitment, selection, and training.

Source: Zebal (2003:97)

Various studies on market orientation have listed quite a number of enablers of market orientation that facilitate its implementation and usage pattern (Ruekert &

Walker, 1987:18; Kohli& Jaworski, 1990:11; Ruekert, 1992:225). These enablers are sometimes called “organisational support processes” (Ruekert, 1992:225), “antecedents” (Jaworski & Kohli, 1993:9) or “facilitators” (Biemans, 1995:47). Based on the literature it is suggested that the following eight enablers be considered in this category of operational process facilitators.

### **5.5.1 Effective Operational Efficiency**

Support systems are the systems that are put in place to help achieve the main organisational objective, in this case, the objective of achieving market orientation. Ruekert (1992:227) uses the term “organisational support processes” when explaining operational support systems. These operational support systems assist in enabling market-oriented activities in the day-to-day and sometimes routine operational activities. The organisation must analyse the current system and prepare a plan to create the new structure that will support the degree of market orientation. Accordingly, the long-term shift towards a market orientation would require a more permanent shift in organisational processes that are supportive of the marketing activities (Ruekert, 1992:243). The ideal objective is to have effective operational efficiency within all organisational functions.

### **5.5.2 Committed Leadership**

Leadership is a dynamic relationship based on mutual influence and common purpose between leaders and collaborators in which both are moved to higher levels of motivation and moral development as they bring about real, intended change (Baker & Sinkula, 1999:417). Leaders in an organisation need to motivate others to behave in a market-oriented way by giving the right example and by providing opportunities for market-oriented behaviour via empowerment of employees, for example (Jaworski & Kohli, 1993:12). Leadership is about sound organisational management through the effective partnering of functional specialists and operational managers. A management process is required that is structured to bring about this change in employee behaviour.

According to Schlesinger and Heskett (1991:76), motivated leaders inculcate an environment that promotes continuous learning, ensures that people have the required competencies and skills to perform their jobs well and discharge their responsibilities, and provides appropriate incentives for achieving results (Kohli & Jaworski, 1990:11). The organisational leadership or management must communicate the desired market-oriented culture, and this must be done on a continuous basis (Day, 1994:38; Jaworski & Kohli, 1993:10). However, top-down communication is not sufficient to bring about the desired change in employee behaviour.

### **5.5.3 Performance Appraisal Measurement System**

The use of market-based factors for evaluating and rewarding employees is one of the most effective motivators of market-oriented behaviour; it can be used for creating and sustaining market-oriented behaviours throughout the organisation (Day, 1994:39; Jaworski & Kohli, 1996:119). Performance appraisals are a vital facet of any organisation that encourages employee loyalty and growth (Ruekert, 1992:231). Nothing is more empowering for an employee than to receive constructive feedback pertaining to the employee's individual performance. There is ample evidence demonstrating that behaviour-based performance evaluations are consistent with improved customer service (Anderson & Oliver, 1987:76; George, 1990:63). When organisational rewards are tied to specific employee behaviours, a performance management system is created. Behaviour-based evaluations appraise employees on how they act rather than on the specific outcomes achieved. Accordingly, such behaviours would form the criteria upon which the actual performance appraisal is based and would be included in each employee's performance evaluation (George, 1990:65).

Porras and Silvers (1991:53) advise that a progressive appraisal measurement system gives employees the incentive to engage in behaviours that are supportive of improving product and service quality. Any desired change in the attitudes and behaviours of employees must be managed by altering the performance management system to reflect the desired changes (Biemans, 1995:49). The

performance management system would include rewarding behaviours that are oriented towards generating market intelligence (Jaworski & Kohli, 1996:123). This would involve detailing a reward programme that will entice employees to allocate a certain percentage of their time and effort to generating market intelligence. All workers have a limited amount of time and energy that must be divided among the various aspects of their jobs. Motivating employees to allocate a portion of their resources to generating market intelligence through the reward system is a necessary component in the performance management system (Harris & Ogbonna, 2001:749).

#### **5.5.4 Operational Processes Design**

Mapping the business processes in an organisation provides insight into how activities are ideally performed and how they contribute to the abilities of employees to behave in a more market-oriented way (Day, 1994:39). A systematic approach to improving organisational performance through the development of a market-oriented culture can be considered a management intervention (Kohli & Jaworski, 1990:8). Management interventions can be viewed as planned changes in a work setting that are designed to change the behaviour of individual members and, ultimately, lead to improved organisational outcomes (Porras & Silvers, 1991:51). The process approach is considered the most effective and efficient approach for improving the degree of market orientation of an organisation when compared with structural and cultural approaches.

The performance of the organisation depends on how the operational processes of the business are designed and managed. The key is to continuously transform and align business processes with changing strategic and tactical and technological needs (Day, 1994:39). Organisations must leverage their in-depth understanding of business processes and technologies to provide outstanding integrated solutions as part of their market orientation. Understanding these factors influencing businesses, their markets and diverse needs will ensure not only reduced costs, but also improved productivity, quality, cash flow, and timely delivery of value (Porras & Silvers, 1991:59).

### **5.5.5 Skills Development Policy**

The skills development policy is an organisational policy aimed at the development of the knowledge, skills and attitudes of relevant individuals and groups of people in the meaningful daily operations of an organisation (Masser, 2006:13). Recruiting and training processes determine what skills are developed in an organisation, and these should include the ability to behave in a market-oriented way (Biemans, 1995:51). Simply having market information available within the organisation accomplishes little. Skilled employees must respond to the information in a way that provides a competitively superior value to customers in a timely manner (Beverland, 2005:581). This can be achieved only by recruiting and empowering skilled personnel, reinforcing their performance behaviours and establishing commitment at all levels of the organisation.

### **5.5.6 Availability and Allocation of Resources**

There are various ways to achieve a systematic, rational, and defensible allocation of resources that will provide a competitive advantage to a market-oriented organisation (Lichtenthal & Wilson, 1992:205). Resource decisions must be made holistically, that is, with their consequences to the entire enterprise and all its parts in mind. Because a central tenet of the market orientation concept is customer focus (Slater & Narver, 1995:73), the key for resource allocation towards initiating the development of market orientation is to refocus the individualism and productivity aspects of an organisational culture on customer satisfaction and organisational performance.

The allocation of resources to intelligence activities ultimately determines what opportunities for market-oriented behaviour exist within an organisation (Jaworski & Kohli, 1996:121). Pelham and Wilson (1996:28) studied smaller firms and found that the influence of the organisation's strategy and structure had less impact on performance than did a market-oriented culture. Thus, while larger organisations have a fairly wide and substantial base of resources from which to draw (e.g. financial, human and technological), smaller organisations must frequently rely upon

limited resources to be competitive, suggesting that a market-oriented culture can be an exceptionally important resource for the small organisations.

### **5.5.7 Customer-centric Employee Behaviour**

Lichtenthal and Wilson (1992:205) acknowledge that customer focus is important, and that changing employee behaviour to support customer focus and the generation of market information is important for contemporary business organisations. Improving knowledge and attitudes of employees is insufficient to change their performance (Biemans, 1995:48). A performance-management system can play a pivotal role in influencing customer-centric organisational behaviour because a performance-management system is a network of related components whose ultimate purpose is to improve organisational effectiveness (Beer *et al.*, 1978:513). Customer centrism requires full cooperation from all levels within the organisation. The strategic and operational goals of the firm should be developed, with a market-oriented culture being a key component (Biemans, 1995:53). Top management sets up a process of on-going evaluation of worker productivity along with continuous feedback, with the ultimate goal of continual development of employee skills and activities that enhance the effectiveness of the firm. A customer-focused management system can be designed to improve an organisation's effectiveness and efficiency through changing the service behaviour of employees (Kim & Mauborgne, 2009:73).

Simply having market information available within the organisation accomplishes little (Biemans, 1995:48). The organisation must respond to the information in a way that provides a competitively superior value to customers in a timely manner. A company can be responsive in several ways, from re-designing products to offering new products, changing the distribution and promotion of products to changing servicing of products or of customers (Lichtenthal & Wilson, 1992:201). By developing a performance-management system that reinforces these behaviours the organisation will establish commitment at all levels of the organisation.

### **5.5.8 Type of Organisational Structure**

An organisational structure consists of activities, such as task allocation, coordination and supervision, which are directed towards the achievement of organisational aims (Biemans, 1995:48). An organisational structure affects organisational action in two broad ways. First, it provides the foundation on which standard operating procedures and routines rest. Second, it determines which individuals participate in which decision-making processes, and thus to what extent their views shape the organisation's market-oriented actions (Kohli & Jaworski, 1990:13). It can also be considered as the viewing glass or perspective through which individuals see their organisation and its environment. An effective organisational structure allows the expressed allocation of responsibilities for different functions and processes, and for different entities such as the branch, department, workgroup and individual (Kumar, 2009:115). Decentralised decision-making creates opportunities for front-line personnel to behave in a more customer-focused manner and lower departmentalisation provides opportunities for dissemination of market intelligence (Jaworski & Kohli, 1993:13).

### **5.5.9 Inter-departmental Connectedness**

The level of connectedness between departments and the level of inter-departmental conflict influence the degree to which opportunities for intelligence dissemination exist within an organisation (Kohli & Jaworski, 1990:11). An organisation should institute changes so that the entirety of its employees moves towards a market orientation that is embedded and irreversible (Lichtenthal & Wilson, 1992:196). Once market intelligence is generated there is the need to disseminate the information to relevant parties within the organisation (Kohli & Jaworski, 1990:13). There can be no response to the information without its first being communicated throughout the organisation. The main focus is to motivate those individuals who have accumulated market information to take the time and effort to disseminate their information across all relevant departments within the organisation (Homburg & Pflesser, 2000:115). Because people tend to perform those activities for which they are rewarded, the

organisation must set up a system for rewarding the dissemination of market intelligence to enable market orientation.

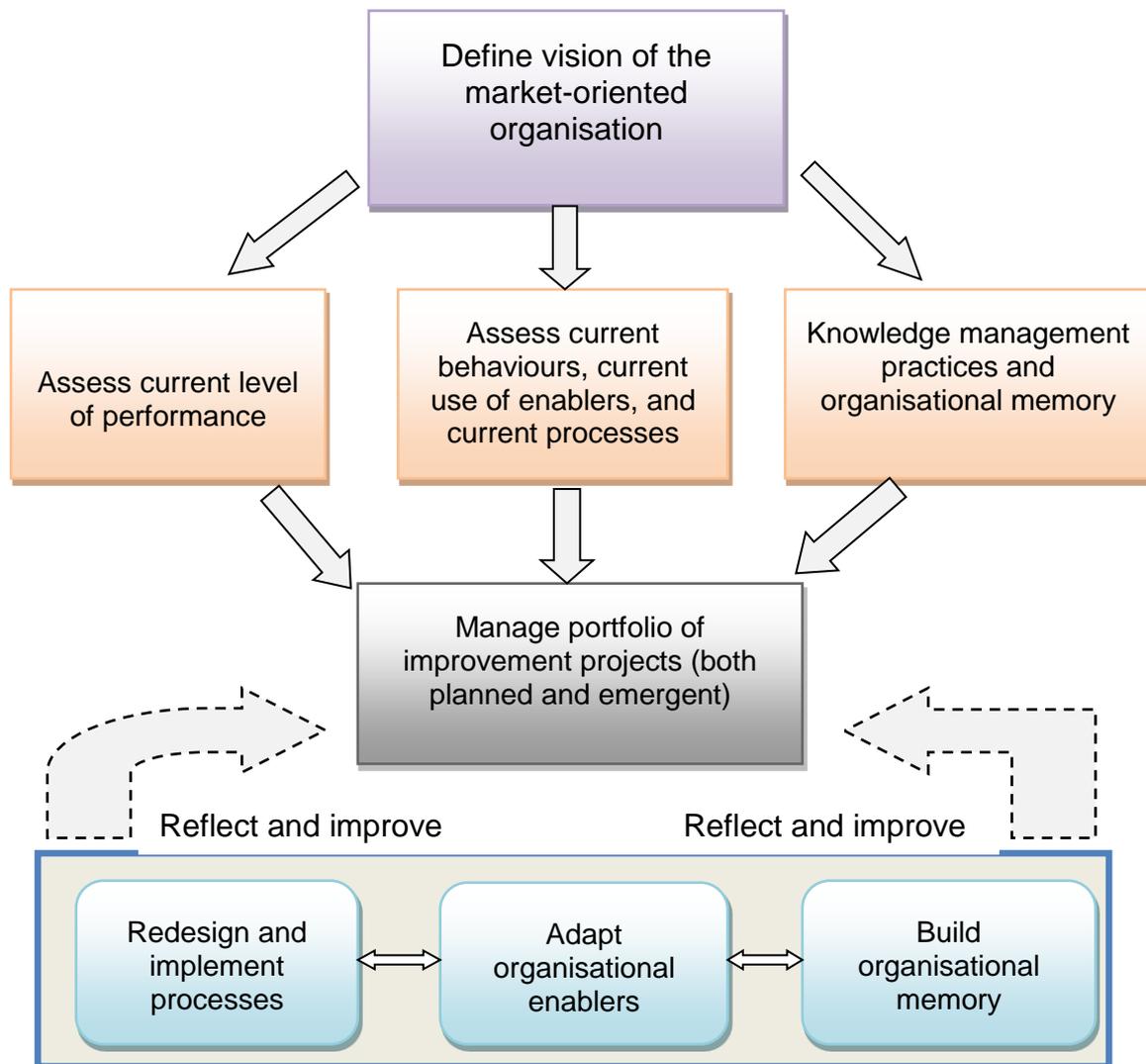
#### **5.5.10 Educating Employees on Dissemination of Market Intelligence**

Employees at varying levels of the organisation must possess a clear understanding of what should happen to the market information (Reichheld & Sasser, 1990:106). Management must decide on the most efficient means for educating employees and on what part they play in the information dissemination process (Day, 1994:39). While many options exist to accomplish this task, the goal is for employees to share their knowledge of internal and external markets with others in the organisation. Relying on managerial knowledge, focus would be placed on the most appropriate linkages for disseminating the information (Kohli & Jaworski, 1990:8). Following the strength-of-ties perspective (Marsden & Campbell, 1984:483), the dyadic linkages would help to identify with whom the information should be shared as well as what information should be shared (Zebal, 2003:196).

### **5.6 FRAMEWORK FOR APPLYING MARKET ORIENTATION**

The framework (Figure 5.6) illustrates the application of market orientation determinants/enablers, showing the actual change process that brings about market orientation within the business (Raaij & Stoelhorst, 2008:1267). The market orientation behaviour begins when an organisation develops a “vision” of the market oriented organisation (Zebal, 2000:159). The vision delineates on an abstract level what the value proposition of the organisation should be and how the operations exhibit market-oriented organisational behaviour (Day, 1994:37).

**Figure 5.6 Framework for adapting market orientation enablers**



Source: Raaij & Stoelhorst (2008:1267)

The illustrated framework helps to express what the market-oriented organisation should accomplish and what its activities should be. Top management should be involved in defining the vision which describes the overall strategic direction; that must be the objective function in strategy development (Lovas & Ghoshal, 2000:876). A study on the success of implementation of market orientation found that a strategy's fit with the overall vision is one of the most important factors accounting for middle managers' commitment to the strategy (Noble & Mokwa, 1999:13). When management knows very well what the desired state should be, it can also start by describing this ideal state in detail to staff. The second step is an assessment of the current situation (Marsden & Campbell, 1984:483). An assessment of current

performance (using the performance indicators) helps management build a case for the need to improve. Performance data need to be “alarming” to some degree in order for organisational members to see the need to “unfreeze” and to change (Kotler & Armstrong, 2011:43). Unsatisfactory performance should then be linked to the change programme to show that the proposed changes are important in improving performance. “Importance” was also one of the three significant factors for establishing strategy commitment at the middle-management level.

Strategy implementation in general is dependent on the contextual nature of the marketing, environmental, strategic and organisational variables explicit at the time the marketing programmes are implemented (Reichheld & Sasser, 1990:107). In order to become more effective in the implementation of firm marketing programmes it seems reasonable to argue that managers who understand the importance of building market orientation and using the right kind of implementation tactics will be in a better position to effectively execute the firm’s marketing programmes (Biemans, 1995:53). In this case, management values the organisational memory dedicated to market knowledge; knowledge about customers, competitors, and market developments. The most obvious knowledge repositories are databases and archives, but knowledge is also stored in the workforce, procedures, routines, strategies, and stories (Moorman & Rust, 1999:183).

## **5.7 CONCLUSION**

The chapter provided discussions of the barriers to market orientation, the determinants and enablers of the concept of market orientation and some suggested market orientation activities. The discussions provide the theoretical foundation of what challenges are faced by organisations and what opportunities are available to them for the operationalisation of market orientation. Operationalisation of market orientation typifies the organisation’s desire to succeed through delivering excellent value and satisfying the customer needs and wants. The important elements and activities of the adoption and implementation of market orientation are clarified, pointing out which elements are barriers and which ones are determinants/enablers. The examined literature enumerated various barriers to

market orientation that include external environment factors (e.g. general economic conditions), internal environment factors (e.g. organisational characteristics) and operational environment factors (inter-departmental conflict).

Market conditions are often short-lived and, in the long run, all companies confront market situations that require a high degree of marketing orientation (Reichheld & Sasser, 1990:106). In other words, there must be a degree of urgency with which organisations such as SMEs should respond to changes in customer needs, changes in competition, and changes in the economy and market dynamics in general (Balle, 2012:1). Cravens *et al.* (1998) posit that being market-oriented creates an environment for listening, understanding and responding to the market and the competition. Thus, it is better to invest in becoming market-oriented while the environment is somewhat magnanimous than to wait until it has grown hostile. If operating in a market in which a non-market orientation can still be effective, planning to become market oriented is possible. Businesses wishing to re-orientate themselves and develop a market orientation are obliged to direct their efforts towards changing both their management and employee attitudes and behaviours in such a manner that they operate in a synergistic and harmonious way, producing profitable exchanges through increased levels of satisfaction for the customers.

The chapter also provided a body of literature that was dedicated to understanding the important determinants and enablers of market orientation in the business environment and the key activities characterising market orientation – activities that are essential for the success of organisations such as SMEs. A review of some of these determinants and enablers provides a rich source of discussion on the elements influencing the implementation of market orientation that managers (as the strategic leaders of organisations) must take cognisance of in developing marketing plans. The concluding sections of the chapter discuss the activities for implementation of market orientation, providing a theoretical framework for the determinants and enablers of market orientation.

The following chapter (Chapter 6) provides details and discussions of the appropriate research design selected for this study. The practical aspects of the research

process are extensively discussed. These include the sampling procedures, the research approach, data collection procedures and questionnaire administration, ethical considerations and methods of data analysis employed in the empirical examination of the study.

## CHAPTER 6

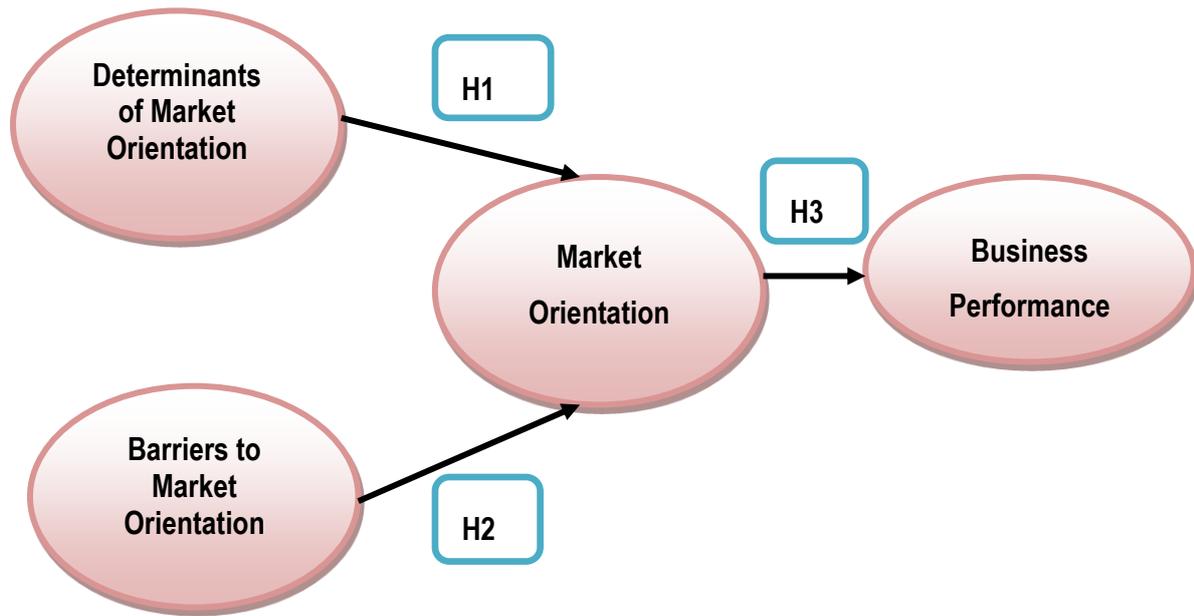
### RESEARCH METHODOLOGY

#### 6.1 INTRODUCTION

This chapter provides a description of the steps that were followed to address the objectives and the hypotheses of the study, explaining and justifying the chosen research design and methods. A scientific research approach was adopted, following a step-by step logical, organised and rigorous sequence of identifying problems, gathering data, analysing the data and drawing valid conclusions. The research purpose, research approach and research strategy are clearly explained. The chapter also describes the chosen sampling procedure, the way data were collected, the research instrument, administration of the instrument and also the techniques used to analyse data. In addition the issues of reliability and validity of data presented in this study are appropriately discussed.

The degree of market orientation of a business organisation depends on the presence or absence of some internal and external factors, and in turn the degree of market orientation directly influences the performance of the business. It is the focus of the study, therefore, to identify the factors that significantly determine the level of market orientation and its components, and the market orientation components that significantly determine the level of business performance of SMEs, as well as the effect of overall market orientation of SMEs. Consequently, this study proposes the model as illustrated in Figure 6.1.

**Figure 6.1: Proposed market orientation business performance model**



This study differs from previous studies as it focuses on SMEs and is based on the setting of a developing country where no significant market orientation studies have been done before. The cultural and economic differences with developed countries are notable.

## **6.2 RESEARCH DESIGN AND APPROACH**

Research design refers to a plan followed to execute the research project (Maholtra, 2010:73). Overall, this study followed a deductive approach, whereby theoretical propositions were outlined first through a literature review (Neuman, 2006:59) and then empirically tested. During the course of the fieldwork, the theoretical section was periodically updated with recent statistics in order to ensure the relevance of the study. The empirical research study took place under normal field conditions where phenomenal variables existed (Schaefer & Dillman, 1998:103). Both quantitative and qualitative research approaches work in a complementary way. There are some researchers who take the first approach and argue that there is a similarity between social and natural phenomena, and that similar methods can be used to study both phenomena (Creswell, 2003:131). Creswell (2003:119) advises that researchers should not be restricted to either quantitative or qualitative paradigms; rather, they

should be flexible. The characteristics of each approach and the differences between them are discussed in Figure 6.2 below.

**Figure 6.2: Qualitative and quantitative research methods**

<b>Factors/ Characteristics</b>		<b>Qualitative Methods</b>		<b>Quantitative Methods</b>
Research Objectives	→	Discovery and identification of new ideas, thoughts, feelings; preliminary insights on and understanding of ideas and objects		Validation of facts, estimates, relationships, predictions
Type of Research	→	Normally exploratory designs		Descriptive and causal designs
Type of Questions	→	Open-ended, semi-structured, unstructured, deep-probing		Mostly structured
Type of Execution	→	Relatively short time frames		Usually significantly longer time frames
Representativeness	→	Small samples, limited to the sampled respondents		Large samples, normally good representation of target populations
Type of Analyses	→	Debriefing, subjective, content, interpretive, semiotic analyses		Statistical, descriptive, causal predictions and relationships
Researcher Skills	→	Interpersonal communications, observations, interpretive skills		Scientific, statistical procedure translation skills; subjective interpretive skills

<b>Factors/ Characteristics</b>		<b>Qualitative Methods</b>		<b>Quantitative Methods</b>
Generalisability of results	→	Very limited; only preliminary insights and understanding		Usually very good; inferences about facts, estimates of relationships

Source: *Hair, Bush & Ortinau (2000:215)*

In line with Khan (2007:35), this study chose the quantitative approach. As shown in Figure 6.3, quantitative research was chosen because it deals with numbers, employs statistical methods to analyse data and is associated with the positivist research perspective (Sedmak & Longhurst, 2010:81). The quantitative research approach is also characterised by operational definitions, objectivity, hypothesis testing, causality and reproducibility (Bryman, 1988:27). One central reason for using this research approach was to enable the researcher to interpret the data and generalise the results from the sample to the population of interest (Dlodlo & Dhurup, 2010:173).

Quantitative research was used to make it possible to quantify the data and to be able to subject the data to the various forms of statistical analyses undertaken in this study (Malhotra, 2004:137). It allows the use of questionnaires to collect data and controls bias by using randomised sampling methods. In addition, the key features of quantitative methods include an inquiry from outside to explain and predict the effect of one factor on another, using relatively large samples, focusing on facts, and emphasising the precision and independence of the researcher (Wright, 2006:79). The sample contained a large number of representative cases, the data collection was structured, data analysis was statistical and the outcome was a recommended final course of action.

### **6.3 SAMPLING DESIGN PROCEDURE**

The sampling procedure used in this study followed the steps as suggested by Tustin *et al.* (2005:339). The procedure included key steps, namely the target population,

the sampling frame, sampling method, and the sample size. The steps are discussed in the following sections.

### **6.3.1 Target Population**

The population is the entire group of people about whom information is needed, also called universe or population of interest (McDaniel & Gates, 2002:396). According to Hair *et al.* (2000:328), a population is an identified group of elements of interest to the researcher about which inferences can be made. For the purpose of this study, therefore, the researcher had to be precise in specifying exactly what elements were of interest and what elements were to be excluded (Nel, Radel & Loubser, 1988:292). The population comprised all small and medium business organisations classified as SMEs and operating within the Vaal Triangle region.

### **6.3.2 The Sampling Frame**

After defining the target population, the researcher assembled a list of eligible sampling units, referred to as the sampling frame (Martins *et al.*, 1996:253). This was a subset of the population that was considered for actual inclusion in the study. A sample frame constitutes a list of all eligible sampling units or a database for obtaining a representation of the elements of the target population (Maholtra 2004:316). Some common sources of sample frames are lists of registered ratepayers, customer lists or voters' lists.

For this study, SMEs operating within the Vaal Triangle region were surveyed. These were obtained from the databases of the Gauteng Enterprise Propeller (GEP) and the Small Enterprise Development Agency (SEDA). The researcher made random telephone calls to the identified companies, pre-informing them and requesting their participation in the survey. This procedure was followed because pre-notices improve response rate (Creswell, 2003:131).

### **6.3.3 Method of sampling**

The sampling method refers to the method by which the sample units were selected. The type of the study necessitated the use of non-probability purposive convenience sampling (Parasuraman *et al.*, 1991:456; Naumann & Giel, 1995:201; Meidan, 1996:53; Expinoza, 1999:453; Churchill, 2001:454). The convenience sampling procedure was chosen mainly to allow the researcher to identify respondents who were accessible and also because it is commonly used in the development of construct and scale measurement, allowing a large number of respondents to be interviewed in a relatively short period of time (Burns & Bush, 2006:121).

Although the convenience sampling method was adopted for this study, population items to be included in the sample were randomly selected (Creswell, 2003:131). Care was taken to randomise the data collection with respect to industry classification, the place where organisations were situated, time of data collection and other variables (Abedniya & Mahmoudi, 2010:143). Attempts were made to collect the data from as diverse industry sectors as possible. A completely random sample was difficult to obtain as some control had to be exercised because of the requirement that the key informants be either the business owners or those who occupied management positions related to marketing.

### **6.3.4 Sample size**

Sample size provides a basis for the estimation of sampling error. The researcher took cognisance of the direct impact that sample size has on the appropriateness of data and the power of statistical computations (Lighthelm & Cant, 2003:43). The determination of the final sample size involved judgement as well as calculation. The determination of a sample size was a subjective, intuitive judgement made by the researcher based on past studies (Zikmund, 2000:519). Table 6.1 provides examples of previous studies which were the basis for the selection of the sample size.

**Table 6.1: Determining the sample size**

Year	Authors	Scope of study	Sample size used
1990	Narver & Slater	Survey of Western corporations (commodity and non-commodity)	140
1993	Jaworski & Kohli	Interviews with various American companies (USA)	222
1998	Van Egeren & O'Connor	Survey of managers from American service companies (USA)	289
1998	Advani & Borins	Survey of airports worldwide	201
1998	Han, Kim & Srivastava	Survey of American banks (financial services)	134
1998	Morgan & Strong	Survey of various UK companies	149
2001	Harris	Survey of UK retail companies	107
2004	Kaynak & Kara	Survey of Chinese companies (various companies)	179
2005	Lai & Cheng	Survey of companies in Hong Kong (various industries)	342
2009	Song & Parry	Survey of US firms (diverse industries)	308

Source: *Author compilation, 2012*

Although previous studies were used as the basis for sample size, researcher considered four key factors outlined by Kumar *et al.* (2002:318) to determine the sample size: the number of groups within the sample, the value of the information and the accuracy required of the results, the cost of sampling and the variability of the population. The other major considerations in determining the ultimate sample size were the cost of data collection and the constraint of time. The final sample size of 273 used in the survey was consistent with those used by a number of researchers in the area of the market orientation–business performance relationship.

### **6.3.5 Criteria used to select respondents**

According to Campbell (1955:339), the criteria for choosing key respondents are that they are knowledgeable about the issues covered in the survey and are able and willing to communicate with the researcher. In this study, the SME owners and managers were often responsible for business operations so were deemed to have knowledge about the overall marketing activities and business performance (Lighthelm & Cant, 2003:41). In addition, the owner/managers were an important link between the business and its market. Choosing the owner/managers as the respondents for relatively small firms was considered appropriate. In medium-sized firms, senior representatives or management usually serve as liaison with the market as they usually interact directly with all stakeholders (Ganesan, 1994:13). As suggested by Phillips (1981:395), the qualifications of the respondents and their participation in company decisions were taken into consideration (Hague, 2002:26).

Given these considerations, the owners/managers and senior managers chosen had a better perception of the market than alternative informants (Brown *et al.*, 2007:3). The respondents had to be operating in the Vaal Triangle, and actively operating the SMEs. In pretests and interviews, those in the sample confirmed that they were well informed and confident in their ability to respond to the questions in the questionnaire.

## **6.4 DATA COLLECTION**

A cross-industry field survey of SMEs was carried out in the Vaal Triangle by interviewing respondents using a predesigned data collection instrument (Maholtra, 2010:173). A survey is a method of collecting primary data based on communication with a representative sample (Dillman, 2007:29). A survey was used because it is ideal in providing a quick, inexpensive, efficient and accurate means of assessing information about a population (Tustin *et al.*, 2005:139). The choice of a suitable survey technique was dictated by the aims of the study and the data required for achieving the objectives (Peterson, 1982:143). Nachimias and Nachimias (1981:29)

as well as Tull and Hawkins (1990:157) also advised that researchers must use suitable survey methods as guided by the situation and nature of data required.

#### **6.4.1 The Survey Method**

For this study, the personal face-to-face interviews were selected on the basis of the study objectives and type of data required. The researcher was clear that face-to-face interviews would generate large amounts of information. The use of the questionnaire during the interviews elicited essential information useful for improving response rate and interrogating measurement instruments (Dillman, 2007:29). This study required interviews because many variables needed to be investigated and clarified (Zebal, 2003:139). In this respect, the personal interviews were intended to accommodate a fairly long questionnaire.

Face-to-face interviews are deemed to have high response rates (Nachimias & Nachimias, 1981:23; Peterson, 1982:59; Tull & Hawkins, 1990:121; Zikmund, 2000:139; Lighthelm & Cant, 2003:41). The interviewers could observe the surroundings, used non-verbal communication and could use visual aids (Neuman, 2006:253). Most respondents for this study were busy managers and business owners.

As busy officials were targeted for data collection, other methods such as telephone interviews were absolutely impossible because of the use of a lengthy questionnaire. In addition, anecdotal observations indicated that mail surveys would have been impossible in the South African setting where there is a tendency to discard such mail (Hussain & Islam, 2000:19). Further, most surveys carried out in South Africa to date have adopted the use of face-to-face interviews (Khan, 2007:35).

Cox (1979:23) indicated that personal face-to-face interviews have the potential of yielding a high quantity and quality of data compared with the other survey methods. The method also tends to be flexible although it is expensive. This study adopted this method considering the potential increase in quantity and quality of information that could be obtained (Zebal, 2003:119). In addition, the flexibility of the personal

interviews justified the increased cost of using it (Cooper & Schindler, 2006:202). A structured data collection instrument (questionnaire) was used to collect data. The questionnaire and its components are discussed in the following section.

#### **6.4.2 The Fieldwork**

Ten research fieldworkers were recruited from a list of registered fourth-year university students pursuing marketing degrees. The ten fieldworkers were briefly trained by the researcher in subject knowledge, interviewing skills, interpersonal skills and professionalism (Kanuk & Berenson, 1975:443).

Data collection activities took place in the Vaal Triangle region between 19 September and 31 October 2012, with many unanticipated challenges. The challenge started with travelling costs when each of the ten fieldworkers had to commute from one company to another; agro-based SMEs could be reached only by using the researcher's vehicle as there were no taxis to the farms. There was also a problem in conducting interviews owing to other factors such as a general public strike called by the employees and load-shedding (the manual close down of electricity by the supplier). In these cases, the respondents were unwilling to accommodate the fieldworkers.

In order to motivate the respondents to participate, they were informed that the findings would be useful for pro-SME government policies and small-business initiatives. They were also given the option to name the place of their choice for the interviews; most respondents preferred to be interviewed at their business premises.

Interviewers were discouraged from deviating from the format in the questionnaire (Kanuk & Berenson, 1975:442). According to Neuman (2006:309), bias occurs when the interviewer leads the interviewee to answer in a certain way, makes incorrect entries, pre-empts answers in the process of explaining certain questions, or fills in an unanswered question.

## 6.5 THE RESPONSE RATE

Response rate is the number of returned usable questionnaires compared with the total number of eligible respondents who were contacted to participate in the survey (Zikmund, 2000:152). Pre-interview contact contributed to an amicable atmosphere that enhanced the responses. A total number of 695 respondents (SME representatives) were identified as potential participants in the survey. However, for a variety of reasons, many of them refused to participate when visited, citing a busy schedule and meetings. A total number of 273 usable questionnaires (39.3%) was available for the data analysis. In addition, the respondents in this study were busy owner/managers who generally did not cooperate. Some respondents requested interviewers to leave the questionnaires and did not return the questionnaires in time, complaining about its length. This method involved considerably higher administrative costs related to organising appointments, travel expenses and the fact that each survey was administered separately (Churchill, 1999:35).

The study's response rate compares well with those of some previous studies. Appiah-Adu (1998:31), in a study of market orientation and performance, achieved an effective response rate of 22%; Caruana, Ramaseshan and Ewing (1998:56), in a study of performance of Universities, achieved a response rate of 46.2%; Matsuno and Mentzer (2000:9), researching market orientation–performance relationship achieved a 38.76% response rate; Pulendran *et al.* (2000:119), in a study of antecedents and consequences of market orientation in Australia achieved a response rate of 31%; Liu and Davies (1997:171), in a market orientation study in the UK, achieved a response rate of 38%; Horng and Chen (1998:79) had a response rate of 45.2%; and Liu (1996:57) had a response rate of 52%. Thus, considering the response rates in the market orientation literature, the response rate in this study was generally acceptable.

## 6.6 THE QUESTIONNAIRE DESIGN

For data collection, the study used a structured questionnaire consisting of a series of questions that respondents answered (Cox, 1979:24). The questionnaire enabled the researcher to achieve six functions, as suggested by Burns and Bush (2006:300):

- It helped translate the research objectives into specific questions.
- It enabled standardised questions and response categories so that every participant responded to identical stimuli.
- By its wording, question flow and appearance, it fostered cooperation and kept respondents motivated throughout the interviews.
- Questionnaires served as permanent records of the research.
- The questionnaires helped speed up the process of data analysis.
- The questionnaires contained the information on which reliability assessments were made, and they could be used in follow-up validation of respondents' participation in the survey.

### 6.6.1 Questionnaire Layout

The questionnaire contained six sections in line with the questionnaire construction discussed in section 6.6.2. The questionnaire layout sections are as follows:

- Section A : Questions based on the market orientation scale
- Section Bb : Questions based on the barriers to market orientation
- Section Bd : Questions on the determinants/enablers of market orientation
- Section C : Questions based on the market orientation–performance scale
- Section D : Questions on the demographic details
- Section E : Questions on the business profile of SMEs

### 6.6.2 Question Format and Construction

The study employed a 5-point Likert scale, ranging from strongly disagree = 1 to strongly agree = 5, as it is easy to prepare and interpret, and also simple for respondents to answer (Zikmund, 2000:113). The Likert scale was used in sections

A, B and C to measure attitudes by restricting the answers on specific questions; requiring the respondents to indicate a degree of agreement or disagreement with each of a series of statements related to the market orientation items (Likert, 1932:83; Malhotra, 2010:258). In an interval scale, numerical equal distances on the scale represent equal values of the characteristic being measured. An interval scale allows the researcher to compare the differences between objects. For this study, the categorical scale is used in sections D and E of the questionnaire.

This study addressed various variables. Questions for the study were generated from previous studies and from the researcher and the promoter's experience (see Appendix B for a copy of the survey questionnaire). The promoter was instrumental in guiding this process. Consultations with two academics at reputable South African universities and two researchers from Statistics South Africa (Stats SA) were also held prior to, and during, the operationalisation of these scales. In this study, existing scales that were available in the literature were used for most of the variables on account of their wide recognition and acceptability in market orientation literature.

Based on the market orientation antecedents constructs used by Zebal (2003:311), the scales that were not well constructed in the literature needed to be developed for the measurement of some variables. Such variables as characteristics of management, training and formal marketing education, organisational characteristics of political behaviour, external factors of general economy, non-economic performance of customer satisfaction and repeat customers were listed (Wrenn, 1997:31). In this connection, these items were viewed as constructs and were operationally defined in order to develop scales.

In order to measure market orientation of SMEs in South Africa, the study utilised the 24-item MARKOR scale developed by Narver and Slater (1990:17) and Kohli *et al.* (1993:53). These entail four components: customer emphasis, information generation, inter-functional coordination and intelligence responsiveness. The MARKOR scale was used for this study because it is a "prudent" measure of market orientation that is well accepted in the market orientation literature (Bhuan, 1998:13–25; Cervera *et al.*, 2001:1261; Zebal, 2003:101). In addition, the scale developers

(Jaworski & Kohli, 1993:56) reported the results of two single-informant samples and a reliability alpha coefficient (Cronbach, 1951:297) ranging from 0.8947 to 0.9613, and provided for the convergent and discriminant validity.

Barriers to and determinants and enablers of market orientation were measured on item scales that were developed by Bhuian (1998:13-25); Pulendran *et al.* (2000:123) and Zebal (2003:96). A total of 57 items was adopted, using measures taken from previous studies (Ruekert & Walker, 1987:3; Zebal, 2000:157-170). Competition was measured by a scale that better fits the competitive situation in South Africa, adapted from the competition orientation scale developed by Gray *et al.* (1998:885); three of the items were adapted from the work of Jaworski and Kohli (1993:51).

In order to measure business performance, 26 widely recognised scale items were derived from the work of a variety of authors, as these items have been successfully used in other developing countries for measuring business performance (Appiah-Adu, 1998:25–45; Akimova, 2000:1128–1148). These economic performance items include return on investment (Ruekert & Walker, 1987:8), profit (McCarthy & Perreault, 1993:56), sales growth (Aaker, 1995:36), market share (Collins, 1990:104), sales volume (Borucki & Burke, 1999:943), and revenues, product quality, and financial position (Bhuian, 1998:13). For non-economic performance items, this study followed the work of Aaker, Kumar and Day (2004:329). The constructs of organisational commitment and esprit de corps were measured by scales developed by Jaworski and Kohli (1993:21). These scales were used because of their wide acceptance in the market orientation literature. Management characteristics, organisational characteristics of political behaviour, external factors of the general economy, and customer response constructs of customer satisfaction and repeat customers were measured by scales items utilised by Zebal (2000:163).

## **6.7 PRE-TESTING THE QUESTIONNAIRE**

Pre-testing is a useful technique for detecting and eliminating potential errors before the main survey (Martins *et al.*, 1996:90). The study conducted a pre-test of the questionnaire to identify and correct deficiencies and to ensure that the questionnaire

met the researcher's expectations in terms of the information that was obtained (Aaker *et al.*, 2004:329). The items were tested for clarity and appropriateness in a pre-test with 73 managers and owner-managers of SMEs. Respondents were requested to complete the questionnaire and indicate any ambiguity or difficulty that they experienced in responding to the questions. Some items were eliminated and/or modified on the basis of their feedback (Diamantopoulos & Souchon, 1999:11).

At the pre-testing stage the primary purpose was to establish the appropriateness of the Likert scale format and the reliability of the scales. Chapter 7 presents the results and discussions of the pre-testing under Section 7.2. Since this questionnaire was being used in a South African context, it was necessary to examine the reproducibility of the different scales. Therefore, the researcher conducted the Cronbach alpha coefficient test in order to determine the reproducibility of the scale items (Chang & Chen, 1998:246).

## **6.8 PILOT STUDY (Scale purification)**

Before the main study, the researcher initially made use of pilot test questionnaires, following the example of Andrew and Halcomb (2006:149). The primary purpose was to establish the appropriateness of the Likert scale format and the reliability of the scales under investigation. In this regard, the pilot stage results were factor analysed in order to determine the dimensionality of scales (particularly the market orientation scale, the barriers to market orientation scale, the market orientation determinants/enablers scale and the business performance scale). Items with factor loadings less than 0.30 were eliminated in the pilot stages. The objective at this stage was to determine whether all the scale dimensions did "factor out" as intended (Dhurup, 2004:249). Factors were extracted by using the MINEIGEN criterion, which extracts factors with eigenvalues greater than one (Deluga & Perry, 2011:239). In addition to factor analysis, coefficient alpha was computed separately for the dimensions to ascertain the extent to which items that made up the dimensions were common (Andrew & Halcomb, 2006:147).

Further examination of the alpha values revealed that some of the factors did not exceed the reliability recommended benchmark value of 0.70. The results of the preliminary alpha coefficients are discussed in Chapter 7 under sections 7.2.1 and 7.2.2. There was a need, therefore, to examine factor structure and the loading. Deluga and Perry (2011:239) are of the view that successive removal of scale items with weakest loadings from the data leads to a tentative definition of the best set of items for particular dimensions. Hence a scale modification process was undertaken as reported in Table 7.2, with the item deletion and reasons for deletion also illustrated in Table 7.3. The resultant Cronbach alpha for each of the scales after scale purification ranged from 0.917 to 0.934, thus demonstrating good internal consistency and reliability (See Table 7.1).

## **6.9 DATA PREPARATION**

This process involved checking the data for accuracy before entering the data into the computer to transform it. The two major phases of data preparation which the researcher employed in this study were coding and data editing. These were employed to ensure that the collected data were complete and ready for analysing (Appiah-Adu, 1998:29). These methods are discussed in the sections that follow.

### **6.9.1 Editing of Questionnaires**

Editing is process of checking the completeness, consistency, and legibility of data and making the data ready for coding and transfer to storage (Churchill & Iacobucci, 2005:407). The researcher reviewed the questionnaires after the completion of the fieldwork, checking for the completeness and accuracy of the received questionnaires and preparing them for data analysis. In the process, some unsatisfactory questionnaires were discarded (Malhotra, 2004:469). Completed questionnaires were checked once more prior to computer entry to find out if there were any problems of errors or omissions on the questionnaires. For example, questions were left unanswered by respondents (item non-response). When the researcher discovered a problem like that, the data were adjusted to make it

completely consistent, or readable (Zikmund, 2000:556). In such cases, where data were inserted, the researcher had some options, such as using a neutral value.

Very little field editing was done for this study. This was a preliminary form of data editing which was undertaken by the researcher on the days of the interviews with a view to finding glaring omissions, checking the legibility of handwriting, and clarifying responses that were logically or conceptually inconsistent (Churchill & Iacobucci, 2005:406). For example, if there were missing questionnaire pages, or the interviewer erroneously omitted a page during the interviews, questionnaires were referred back to the respondent.

To ensure consistency of treatment, it was best for the researcher to handle the editing of all completed questionnaires after the whole data collection process (Trachtman, 1997:473).

### **6.9.2 Coding of Data**

Coding is the process of identifying and classifying each answer with a numerical score or other character symbol (Malhotra, 2004:85). Assigning numerical symbols permits the transfer of data from the questionnaire to the computer. Codes generally are considered to be numbered symbols; however, they are more broadly defined as rules for interpreting, classifying, and recording the data (Zikmund, 2000:560). Codes allow data to be processed in the computer.

For this purpose, firstly, all the variables were assigned names and coded for computer entry. Secondly, all the responses were coded to facilitate computer data input. Thirdly, once the data entry was completed, the negatively worded scale items were recoded and assigned new values. Fourthly, in order to obtain composite scores for items on a scale, target variables were computed. Fifthly, data files were carefully screened in order to minimise the data entry errors. In this connection, frequencies for each variable were checked in order to detect the out-of-range values, and values entered that were greater than 5 were rectified after reconciling with the questionnaires.

## 6.10 DATA ANALYSIS

All data were entered into an excel spreadsheet and then copied to the Statistical Package for Social Sciences (Version 20.0 for Windows) program, a statistical package used to code data and to run the statistical analysis. It is important to mention that the selection of data analysis techniques in this study was guided by the data analysis techniques used in previous market orientation studies.

- Descriptive analysis
- Exploratory factor analysis (EFA)
- Confirmatory factor analysis (CFA)
- Inferential statistics
- Reliability and validity analysis
- Correlation analysis
- Structural equation modelling

There is an ongoing debate in quantitative research regarding the use of either parametric or nonparametric statistical techniques (Trachtman, 1997:471). A researcher can use parametric techniques only if the data were normally distributed, data were collected using a measurement scale, variance-covariance matrices were sampled from the same population variance–covariance matrix, and the sample size was determined considering the parametric techniques (Boomsma, 2000:461). It is argued that one should use parametric techniques if these assumptions hold true; otherwise nonparametric techniques should be used (Mendenhall & Reinmuth, 1982:73). One should use nonparametric techniques only if there is doubt about the assumptions underlying parametric techniques (Siegel & Castellan, 1988:93). Coakes and Steed (2001:43) argues that if the researcher reports violations of the distribution assumptions of parametric techniques then he or she should use nonparametric techniques.

### **6.10.1 Descriptive Statistics**

Descriptive statistics help provide the characteristics or appearance of sample data (Zikmund, 2000:296). Descriptive statistical analysis transforms raw data into a form that will make them easy to understand and interpret. This study makes use of descriptive statistics to analyse the composition and normality of the data. Descriptive analysis determines the central tendency in the distribution of a variable, the spread of a distribution and the association among variables (Martins *et al.*, 1996:253). It provides information about the central tendency, dispersion, skewness and kurtosis of data. This method will be used in the exploratory data analysis stage (Davis, 2008:315).

Cooper and Schindler (1998:427) refer to descriptive statistics as a measure of location (mean, median and mode) and dispersion of variability (variance, standard deviation, range and quartile deviation). Some of these measures were used to gain an overall understanding of the raw data and to enable the data to be presented using tables and figures.

#### **6.10.1.1 Frequency Distribution**

Various illustrations of data were presented in the form of frequency distribution tables. This entails the construction of a table that shows in absolute and relative terms how often the different values of the variable are encountered in the sample. The frequency distribution indicated how popular the different values of the variables were among the units of analysis (Tustin *et al.*, 2005:523). These were useful in characterising the sample and understanding the data composition as presented in section 7.3.

#### **6.10.1.2 Use of cross-tabulations**

The study employed cross-tabulations mainly where two or more of the variables were compared and reported simultaneously (Aaker *et al.*, 1995:605), enabling the researcher to examine relationships within the data. Tabulation of the data is the

processing of the data in such a way as to make the data “talk” and arrive at meaningful answers in a summarised manner (Churchill & Iacobucci, 2005:410). Cross tabulations are simply data tables that present the results of the entire group of respondents as well as results from sub-groups of survey respondents.

The survey results in Chapter 7 are presented mainly in the form of aggregate data reported in various ways, including tables based on the entire group of survey respondents. For example, tables were used to report the respondent characteristics under section 7.4.2 and the characteristics of the surveyed SMEs in Section 7.4.4. Cross-tabulations were extensively used throughout this study for illustrating the frequencies and for reporting such statistics as the t-tests, the ANOVA, factor analysis, reliability and model fit. The tabulation sometimes took the form of a simple tabulation or a cross-tabulation.

#### **6.10.1.3 Use of graphs and charts**

Various types of graphs such as line charts, pie charts, histograms and bar charts were employed to display research findings. For example, the data analysis results were presented mostly in form of graphs in Chapter 7. Graphs were also used to depict absolute and relative magnitudes, differences, proportions and trends (Hair *et al.*, 2000:524). These methods used the pie charts, the bars charts as well as the line graphs to examine different elements of given variables in this study. For example, section 7.4.1 provides the respondents’ gender composition in form of a pie chart, Figure 7.3 illustrates the respondents’ industry sector in form of a horizontal bar chart and the scree plots under section 7.6 are presented in form of line graphs.

#### **6.10.2 T-tests Statistics**

The t-test was used to test the significant differences in the degree of adherence to market orientation dimensions for males and females, and manifestations of market-oriented behaviours. This enabled the researcher to carry out preliminary analysis determining where values were concentrated within the sample (Davis, 2008:315) and from that to make inferences about the population.

These analyses deal with drawing conclusions and, in some cases, making predictions about the properties of a population based on information obtained from a sample. They facilitate the making of broader statements about the relationships between the data (Mouton, 1996:166). The independent t-tests are reported in Chapter 7 under section 7.10.1. The tests were done to compare the market orientation dimensions of males and females and to show whether there are any statistically significant differences between the two.

### **6.10.3 Analysis of Variance (ANOVA)**

The analysis of variance is a statistical technique that allows the researcher to test for statistically significant differences between treatment means and to estimate the differences between the means (Abedniya & Mahmouei, 2010:143). Generally, this technique is used in a situation where there are several dependent variables affected by one independent variable (Tabachnick & Fidell, 1996:103). Analysis of variance (ANOVA) provides a simultaneous significance test of mean differences between groups, made of two or more dependent variables (Zikmund, 2000:233). According to Burns and Bush (2006:507), ANOVA is based on the researcher's desire to determine whether or not a statistically significant difference exists between the means for any two groups in the sample with a given variable, regardless of the number of groups.

For the purpose of this study, the researcher used ANOVA to analyse whether or not significant differences exist among the four dimensions of market orientation for the respondents' age categories (see Chapter 7; section 7.10.2). The age category of respondents and the market orientation were analysed as they are likely to influence organisational performance. In order to test the statistical significance of the means of market orientation dimensions for the level of education in the South African SMEs setting, analysis of variance (ANOVA) was also used.

### **6.10.4 Factor Analysis (FA)**

Factor analysis is a statistical technique used to identify a small number of groups or clusters that represent relationships among a set of interrelated variables. Stangor (2007:348) defines factor analysis as a multivariate statistical technique that is used to summarise the information contained in a large number of variables into a small number of subsets of factors. A factor is a linear combination of variables or a weighted summary score of a set of related variables (Hair *et al.*, 2000:590). Each measure in factor analysis is first weighted according to how much it contributes to the variation of each factor. Then a second set of weights is often selected so that the second factor accounts for most of the residual variance, and this process continues until all the variance is accounted for (Avkiran, 1995:13). Extraction of factors started with analysing the factor loadings and identifying some of the pertinent aspects of factor analyses explained in the following sub-sections.

Data reduction and analysis for this study adopted a two-tier approach, where exploratory factor analysis (EFA) was applied to the dataset first and then confirmatory factor analysis (CFA) was run to test the model fit. The process, results and discussions of EFA are presented in Chapter 7 under section 7.4, while the CFA results are presented and discussed under section 7.11.

#### **6.10.4.1 Factor extraction**

There are several factor analysis extraction methods to choose from, such as unweighted least squares, generalised least squares, maximum likelihood, principal axis factoring, alpha factoring, and image factoring (Costello & Osborne, 2005:2). From the many available methods of factor extraction and for the purpose of this study the researcher applied the principal components analysis, which is considered the most common method (Tredoux *et al.*, 2006:249). Principal components analysis identifies the best combination of variables in the sense of accounting for most of the variance in the data as a whole. This best combination of variables represents the first principal component. The second principal component represents the second best combination of variables after the effect of the first component is removed. This process is repeated until there are as many components as there are variables. After

the extraction of data is complete, the next step is to rotate the factors to achieve a more interpretable structure.

#### **6.10.4.2 Factor rotation**

According to Aaker *et al.* (1995: 603), factor analysis can generate several solutions (loadings and factor scores) for any data set. Each solution is termed a factor rotation and it is generated by a factor rotation scheme. It was difficult to interpret relationships between factors and variables using the unrotated factor matrix and this can be solved by rotation. Rotation helped to provide a simpler and more easily interpretable picture of the relationships between factors and variables (Cooper & Schindler, 2006:634). The goal of rotation was to obtain a clear pattern of loadings clearly marked by high loading onto some variables and low loadings for others.

There are two types of rotation procedures: orthogonal (when the factors are intentionally rotated to result in no correlation between the factors in the final solution), and oblique (when the factors are not manipulated to result in zero correlation but may reveal the degree of correlation that exists naturally). This study used the common rotational and preferred strategy, the varimax for orthogonal rotation. It is considered to be a robust and simple procedure that enhances the interpretability of the factors (Churchill & Iacobucci, 2002:809).

Varimax (for orthogonal rotation) maximises the sum of the squared factor loadings across the columns. This tends to force each variable to load highly on as few factors as possible. Ideally it causes each variable to load on only one factor and thus point out summated scores that could be made. If there is an overall underlying general factor that is working on all of the variables, this rotation will not find it. Varimax rotation is by far the most common choice for most researchers using SPSS (Costello & Osborne, 2005:2). The items then loaded well on the factors measuring the correlation between each factor score and each of the original values (Malhotra, 2004:560).

#### **6.10.4.3 Factor loadings**

Factor loading refers to the correlation between each variable and the newly established factor (Hair *et al.*, 2000:590). Factor loading, like correlations, can vary from +1,0 to -1,0. For this study, a factor was identified by items that have relatively high factor loadings on it, and relatively low loadings on other factors. Those data variables with a high factor loading were considered to be "like" the factor in some sense, and those with zero or near-zero loadings were treated as being "not like" the factor. In Chapter 7, Section 7.2 reports that the factor-loading values that were acceptable for this study were at least 0.45.

#### **6.10.4.4 Naming of factors**

Naming of factors is reported in Chapter 7 under Section 7.6, Section 7.7 and Section 7.8. The naming of factors is a subjective process and one should always examine the variables that load highly on a factor rather than relying on the name provided by someone else (Tull & Hawkins, 1993:697). The researcher named the factors according to which variables load with each factor following the procedure outlined by Churchill and Iacobucci (2005:581).

- The researcher began with the first variable and first factor in the rotated factor-loading matrix and moved horizontally from left to right looking for the highest loading, identifying the high loadings and repeating the identification procedure.
- The second step was to examine each of the identified relatively high loadings and assess their "significance." The significance of any loading was judged using either statistical or practical criteria.
- The researcher highlighted the other significant loadings, using the criteria decided on in step two.
- The researcher further examined the loading matrix and identified all those variables that did not have significant loadings on any factor. Every variable was expected to load on some factor but if there was a variable that did not, it was simply ignored. Some of those variables without any large loading were

critically evaluated, particularly if the variable was of minor importance to the study's objective and it had a low communality index.

- The final step involved focusing on the significant loadings and naming the factors on the basis of the meanings of common variables that loaded on a given factor. Variables that had significant loadings on more than one factor complicated the naming task and were eliminated. This procedure depended on the purpose of the study as well as on whether the mixed pattern of loadings made sense or indicated that there were fundamental problems with the variable or item.

### **6.10.5 Correlation Analysis**

By definition, correlation analysis involves measuring the closeness of the relationship or joint variation between two variables at a time (Churchill & Iacobucci, 2005:512). Linear correlation coefficient measures how closely the points in a scatter diagram are spread around the regression line (Coakes & Steed, 2001:33). The level of association depicts the direction of relationships that exist between the independent and the dependent variables of interest (Hair *et al.*, 2000:56). A high degree of correlation does not necessarily indicate a relationship of cause and effect between variables. Two variables can be highly correlated, yet the relationship may have no meaning. Thus, correlation analysis conclusions must be based on logical reasoning and intelligent investigations and not just on mathematical results (Shao, 2002:492).

In a situation where the correlation between two variables was positive and close to 1, it was assumed that the variables had a strong positive linear correlation. If the correlation between two variables was positive but close to zero, then the variables had a weak positive linear correlation. On the other hand, if the correlation between two variables was negative and close to  $-1$ , then the variables were assumed to have a strong negative correlation. Again, if the correlation between variables was negative but close to zero, that showed that a weak negative correlation existed between the variables.

Correlation analysis is used to analyse the degree to which changes in one variable are associated with changes in another (McDaniel & Gates, 2002:560). This study used correlation analysis for two purposes: firstly, to identify the presence of multicollinearity, which is a condition for using parametric techniques in data analysis; and secondly, correlation analysis was needed in order to explore the relationships between variables used in this study (Bresciani *et al.*, 2009:5). It was applied to analyse the inter-dimensional relationships for market orientation (Table 7.23), and the relationship between the four dimensions of market orientation and the three business performance dimensions in this study. In addition, the relationship between the dimensions of the barriers to and the determinants/enablers of market orientation and market orientation were analysed. These are summarised in Appendix A.

#### **6.10.6 Structural Equation Modelling**

In order to simultaneously test the proposed relationships, as reported in section 7.13, structural equation modelling (SEM) was applied. Structural equation modelling (SEM) is a tool for analysing multivariate data that has been long known in marketing to be especially appropriate for theory testing (McDonald & Ho, 2002:67; Bagozzi & Warshaw, 1990:127). The hypothesised model was tested statistically in a simultaneous analysis of the entire system of variable to determine the extent to which it is consistent with the data (Morgan *et al.*, 2012:273). Given the resultant parameters analysed in this model and threshold-levels of model fit as reported in Table 7.25 (RMSEA and Chi-square), the data provided sufficient statistical power to have confidence in the results. Using SEM, the structure of relations was also modelled pictorially (Figure 7.7), enabling a clearer conceptualisation of the theory under study. Table 7.26 also reports statistics of model fit, each of which suggest better than adequate model fit, and very good model fit for the full interaction model. The SEM results are discussed with all the statistical indicators clearly interpreted in the following chapter on data analysis (see section 7.13).

Structural equation models go beyond ordinary regression models to incorporate multiple independent and dependent variables as well as hypothetical latent constructs that clusters of observed variables might represent (McDonald & Ho, 2002:67). They also provide a way to test the specified set of relationships among

observed and latent variables as a whole, and allow theory testing even when experiments are not possible (Chang & Chen, 1998:246). As a result, these methods have become ubiquitous in all the social and behavioural sciences (MacCallum & Austin, 2000:203).

SEM takes a confirmatory approach to the analysis of structural theory bearing on some phenomenon (Byrne, 2001:872). It uses various types of models to predict relationships among observed variables, with the basic goal of providing a quantitative test of a theoretical model hypothesised by the researcher. According to Schumacker and Lomax (2004:3), the goal of SEM analysis is to determine the extent to which the theoretical model is supported by sample data. If the sample data support the theoretical model then more complex theoretical models can be hypothesised. If the sample data do not support the theoretical model then either the original model needs to be modified and re-tested, or other theoretical models need to be developed and tested.

The measurement model in SEM is evaluated through confirmatory factor analysis (CFA). The procedure of first doing a factor analysis, then estimating the factor scores, and finally computing regressions among factor scores, or doing a path analysis with those factor scores, is also sometimes followed to reduce model complexity (Jobson & Korkie, 1981:889). The primary advantage of SEM is that it can be used to study the relationships among latent constructs that are indicated by multiple measures (Abedniya & Mahmoudi, 2010:143). It is also applicable to both experimental and non-experimental data, as well as cross-sectional and longitudinal data. SEM takes a confirmatory (hypothesis testing) approach to the multivariate analysis of a structural theory, one that stipulates causal relations among multiple variables. The consistency is evaluated through model–data fit, which indicates the extent to which the postulated network of relations among variables is plausible (Schumacker & Lomax, 2004:6)

SEM is a technique for large samples, usually over 200 (Kline, 2005:111). The sample size required is somewhat dependent on model complexity, the estimation method used, and the distributional characteristics of observed variables (Boomsma,

2000:461). SEM has a number of synonyms and special cases in the literature, including path analysis, causal modelling and covariance structure analysis. In simple terms, SEM involves the evaluation of two models: a measurement model and a path model.

SEM in this study relates to three types of models. The first, a measurement model of factor analysis (FA), is a model that focuses solely on the link between factors and their measurement variables. According to Byrne (2001:881), there are two basic types of factor analyses: exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). CFA is designed for a situation where links between the observed and latent variables are unknown or uncertain. The analysis proceeds in an exploratory model to determine how and to what extent the observed variables are linked to their underlying factors. Typically, the researcher wishes to identify the minimal number of factors that underlie co-variation among the observed variables. In EFA, the researcher explores how many factors there are, whether the factors are correlated, and which observed variables appear to best measure each factor.

The second type of model is a Path Model or a Path Analysis which involves the estimation of presumed causal relations among observed variables. According to Kline (2005:94) in path analysis the researcher specifies a model that attempts to explain why X and Y are correlated. Part of this explanation may include presumed causal effects (e.g. X causes Y), or presumed non-causal relations, such as a spurious association between X and Y. The overall goal of the path analysis is to assess how well the model accounts for the data that is the observed correlations or co-variances.

The third type of model is the full latent variable model. This type of model allows for the specification of a regression structure among the latent variables. In other words, the researcher can hypothesise the impact of one latent construct on another in modelling of causal direction. The model is termed “full” because it comprises both a measurement model and a structural model (depicting the links among the latent variables) (Byrne, 2001:879). According to Kline (2005:143), there is a strong preference in the SEM literature for unstandardised estimates. The main reason is

that the most widely used estimation methods in SEM assume the analysis of unstandardised variables (Kline, 2005:143). In addition, there are also situations where standardised estimates may be inappropriate. These include (1) the analysis of any SEM across multiple samples that differ in their variabilities and (2) instances where the original metrics of the variables are meaningful rather than arbitrary (e.g. survival in years, salaries in dollars). In all cases, important information may be lost when variables are standardised (Kline, 2005:120). Therefore, results of SEM in the following chapter were analysed in AMOS by unstandardised estimates.

### **6.10.7 Hypotheses Testing**

The study tested the hypotheses following Morgan *et al.* (2012:273), who used (SEM) goodness-of-fit statistics (Section 7.13) and path analysis (Section 7.14), with each hypothesis tested separately for each of the dependent measures. To assess Hypothesis 1 (impact of market orientation determinants/enablers on market orientation) and Hypothesis 2 (impact of barriers to market orientation on market orientation), the researcher estimated an effects model with direct paths from the barriers to market orientation and determinants/enablers of market orientation factors to the market orientation factors. Hypothesis 3 (impact of market orientation on business performance) estimated the main effects model with a direct path from market orientation factors to business performance factors.

Results of the hypothesis testing reported in Table 7.27 showed the supported proposed hypotheses ( $H_1$  to  $H_3$ ). Individual hypothesis path coefficients of the modularised relationship outcomes are also provided. The empirical model is depicted in Figure 7.8 with the relevant interpretations and discussions.

### **6.10.8 Reliability Analysis**

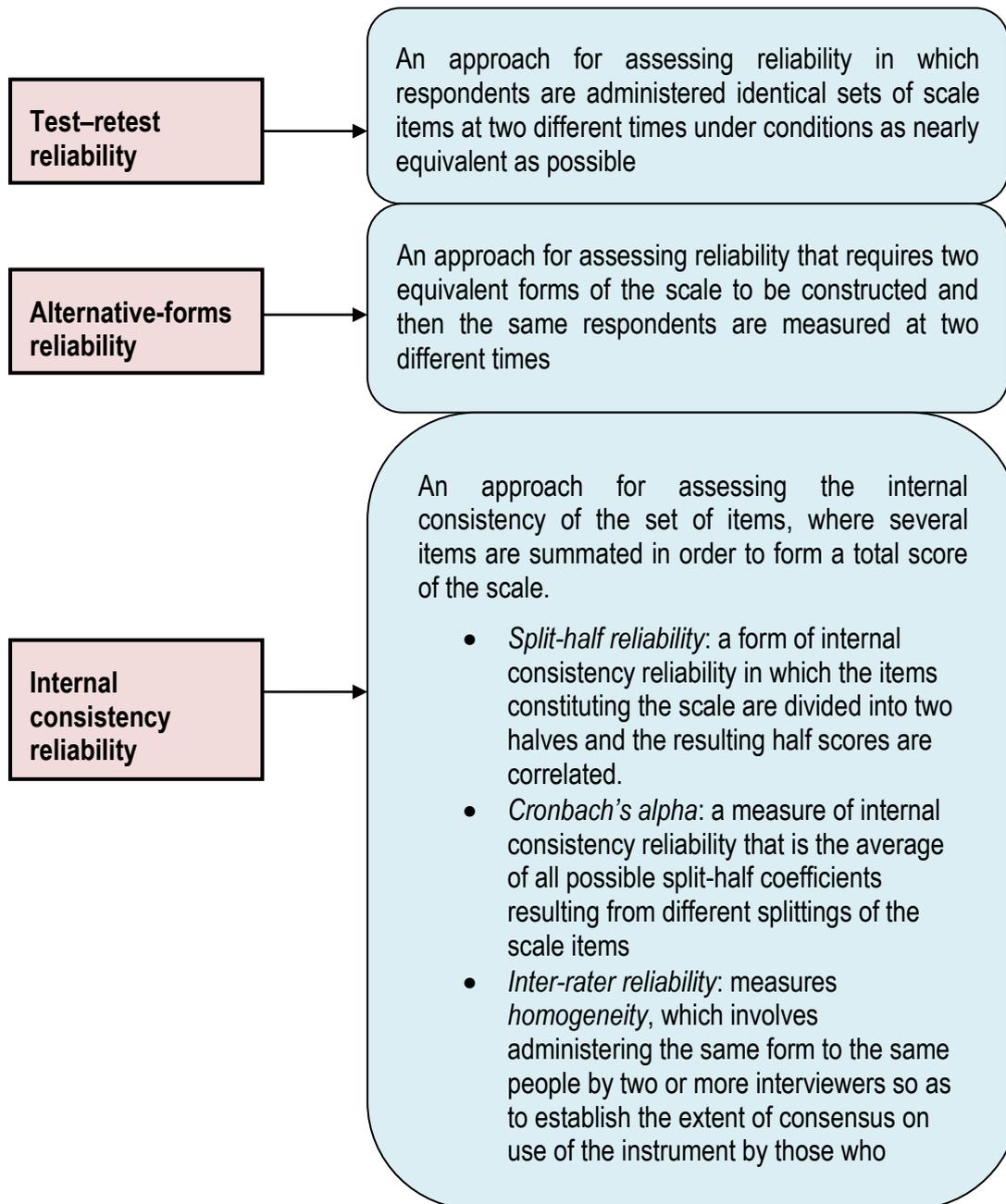
Reliability is the extent to which a scale produces consistent results if repeated measurements are undertaken (Malhotra, 2010:284). If the results of a study can be reproduced using similar methodology, then the research instrument is considered to be reliable (Bresciani *et al.*, 2009:5). Malhotra (2010:284) further states that the

reliability of a measure indicates the extent to which the measure is without bias (error-free) and that it offers consistent measurement across time and across the various items on an instrument.

A reliable instrument minimises errors and bias when analysing findings (Martins *et al.*, 1996:50), offering consistent measurement across time and across the various items on an instrument. Nunnally (1978) recommends calculation of coefficient alpha (also known as Cronbach alpha) in order to assess the reliability of a multiple-item variable. It is important to assess the reliability of instruments in order to design good scales for measurement (Hardy & Bryman, 2004:23).

Reliability analysis was carried out first at the pre-testing stage and then in the main study. Reliability statistics for the pre-testing stage are reported in Section 7.1.1, while the reliability statistics and discussions for the main survey are in Section 7.10. Norusis (1994:13) suggests that coefficient alpha can be applied to scales with as few as two items. Malhotra (2010:285) points out that, if the coefficient alpha is too low, the indication is that either the scale had few items, or the items had very little in common. There are various general classes of reliability estimates and these briefly described in Figure 6.3.

**Figure 6.3: Types of reliability defined**



Source: Garson (2007:765)

The study used the Cronbach alpha coefficient (shown in Figure 6.3), which is the most common estimate of internal consistency (Zumbo *et al.*, 2007:27). An important property of coefficient alpha is that its value tends to increase with an increase in the number of scale items (Malhotra, 2004:268). Research suggests an accepted level for the alpha coefficient. Nunnally (1978) indicated that newly developed measures can be accepted with an alpha value of 0.60; otherwise, 0.70 should be the

threshold. According to Deluga and Perry (2011:239), the coefficient values can range from 0 to 1, and in most cases, values less than 0.70 indicate low internal consistency. Thus an instrument with no reliability will score 0 or close to 0 and an instrument with high reliability will score close to 1. In this study, coefficient alpha was used to assess the reliability of the measurement scales. The easiest way to establish whether the items correlated was to calculate the item-to-total correlations (how each item correlated with the total score). Items with correlations near zero were eliminated. For this study, internal consistency reliability required only one administration and subsequently was the most effective, especially for this field study (Kirca *et al.*, 2005:26).

### **6.10.9 Validity Analysis**

Validity tests were undertaken, as is reported in Chapter 7 (see Section 7.10.2). This section defines what validity analysis is and explains the types of validity analysis that were applied in this study.

Validity is defined as the extent to which differences in observed scale scores reflect true differences among objects on the characteristic being measured, rather than systematic or random errors (Last, 2001:123). Validity assesses whether the instrument being used is measuring what the researchers actually think they are measuring and also whether the concept is being measured accurately (Martins *et al.*, 1996:46). A valid instrument must cover the extent to which it provides adequate coverage of the topic under study (Yin, 1994:85). According to Blanche *et al.* (2008:90), validity reveals the degree to which the research conclusions are sound. Content validity, convergent validity and discriminant validity were all used in this study. These are illustrated in table 6.3 and discussed below.

**Table 6.2: Types of validity**

<b>Content validity</b>	A type of validity, sometimes called face validity, that consists of a subjective but systematic evaluation of the representativeness of the content of a scale for the measuring task at hand
<b>Criterion validity</b>	A type of validity that examines whether the measurement scale performs as expected in relation to other variables selected as meaningful criteria
<b>Construct validity</b>	<p>A type of validity that addresses the question of what construct or characteristic the scale is measuring. An attempt is made to answer theoretical questions of why a scale works and what deductions can be made concerning the theory underlying the scale.</p> <ul style="list-style-type: none"><li>• <b>Convergent validity:</b> a measure of construct validity that measures the extent to which the scale correlates positively with the other measures of the same construct.</li><li>• <b>Discriminant validity:</b> a type of construct validity that assesses the extent to which a measure does not correlate with other constructs from which it is supposed to differ.</li><li>• <b>Nomological validity:</b> a type of validity that assesses the relationship between theoretical constructs. It seeks to confirm significant correlations between the constructs as predicted by theory.</li></ul>

Source: *Malhotra (2004:269)*

### **6.10.9.1 Content Validity**

Content validity refers to the subjective agreement between colleagues that a scale logically reflects what it is supposed to measure (Zikmund, 1999:217). To ensure the content validity of the research instrument, various sources of evidence were

consulted and also past research that tested the instrument was considered. Content validity is assessed using simple, direct and non-technical terms to formulate the questions (Abedniya & Mahmoudi, 2010:143). The questionnaire was kept short so as to avoid respondent boredom, which could result in unanswered questions.

#### **6.10.9.2 Convergent validity**

Convergent validity measures the extent to which the scale correlates positively with other measures of the same construct (Malhotra, 2004:269). Correlations between dimensions were used in this study to establish convergent validity (see Chapter 7: Table 7.23). In addition, the Cronbach alpha values for the overall market orientation scale as well as the factor loadings were used to establish convergent validity.

#### **6.10.9.3 Discriminant validity**

Discriminant validity measures the extent to which a measure does not correlate with other constructs from which it is supposed to differ. It involves demonstrating a lack of correlation among differing constructs (Zikmund, 2000:223). Discriminant validity was assessed through exploratory factor analysis, as discussed in Section 7.6, Section 7.7 and Section 7.8, and also Cronbach alpha values.

### **6.11 ETHICAL ISSUES IN DATA COLLECTION**

The essential purpose of research ethics is to protect the welfare of research participants, and extending further into areas such as scientific misconduct and plagiarism. According to Blanche *et al.* (2008:61), researchers are guided by four key ethical issues in research:

#### **6.11.1 Anonymity and respect for the dignity of persons**

This involves the protection of individual confidentiality and also an important operational expression of this principle. During the data collection process, the identity of participants was protected; in particular, the respondents were in no

circumstance forced to disclose their names. The identity of the respondents was always protected in the whole research process and the data aggregated without reference to any particular respondent.

### **6.11.2 Non-maleficence**

This philosophical principle supplements the autonomy principle and requires the researcher to ensure that no harm befalls research participants as a consequence of the research. The interviewers made sure it was the choice of the respondents to participate. The researcher reminded the respondents that the interviews were completely voluntary and that they had the right to withdraw from the interview at any time if they so wished (Kanuk & Berenson, 1975:443).

### **6.11.3 Beneficence**

This philosophical principle obliges the researcher to attempt to maximise the benefits that the research will afford to the participants in the research study. During the fieldwork, the researcher prioritised the fact that the research was not for the researcher's direct financial benefit. Respondents were advised in each interview that the data would be used only for academic purposes, and that the aggregated report would be available for their access at North-West University's Vaal Campus.

### **6.11.4 Justice**

In research, justice is a complex philosophical principle and in general it requires that the researcher treat participants with fairness and equity during all stages of research. Mutual trust is an ethical issue. The researcher must uphold standards of confidentiality and anonymity as promised to respondents. For this study, all the respondents were treated equally and professionally, observing mutual respect in the interviews and maintaining interview focus. Conversations were intended to build mutual trust. Interviewers were constantly reminded by the researcher to ensure they did not divert into confrontations.

## **6.12 CONCLUSION**

This chapter on the research methodology detailed the various steps that were undertaken in achieving the practical aspects of this study. It provided an in-depth discussion of the research design followed throughout the course of this research study. The specific layout that was trialed to obtain empirical evidence for successfully achieving the research objectives was detailed. Moreover, the research design, sampling strategy, sample frame and sampling procedures were elaborated upon.

The data collection methods/techniques employed for the study were discussed in detail. The format, construction and layout of the data collection instrument (questionnaire) were explained, showing how it was designed, structured and administered in the field. The course that was followed in the data analysis process was reviewed and various statistical procedures were highlighted, together with the reliability and validity assessment procedures used.

The following Chapter 7 presents the statistical analysis of the data and reports on the findings of the empirical research. Different statistical tools will be applied in order to thoroughly breakdown the findings and develop meaningful findings and interpretations. In order to break down the findings and interpretations of data, the analysis of the findings will be conducted in such a way that the data can be reported on and phrased as meaningful information. Data illustrations will take the form of figures and tables, with interpretations given, while trends and comparisons will be displayed in such a way that they answer the research objectives as set out at the beginning of the study

## **CHAPTER 7**

### **ANALYSIS AND INTERPRETATION OF EMPIRICAL FINDINGS**

#### **7.1 INTRODUCTION**

The previous chapter covered the research design and methodology of the study. A detailed description of the sample selection and composition, questionnaire development, as well as data collection and statistical analysis was provided. The purpose of this chapter is to analyse and discuss the empirical findings of the study. It begins by outlining the procedure set out for pilot testing of the questionnaire, followed by the analysis of the main survey. In the main survey, the data is analysed using a combination of statistical methods including descriptive statistics.

A two-stage analysis was undertaken on the data set. In the first stage, exploratory factor analysis (EFA) was performed using SPSS20.0. In the second stage, variance analysis, and confirmatory factor analysis (CFA) of the scales were obtained from the first stage. Structural equation modelling (SEM) using AMOS 7.0 with maximum-likelihood (ML) estimation to assess internal consistency, convergent validity, and discriminant validity was used to determine the overall fit of the measurement model. Multivariate statistical methods are widely used for the type of studies.

#### **7.2 PILOT TESTING OF THE QUESTIONNAIRE**

The pilot questionnaire was scrutinised by the researcher and the promoter who took comments into account during the refinement of the questionnaire. Pilot testing involves a trial run of the instrument with a limited sample size of respondents from the target population in order to iron out main problems with regard to the questionnaire (Maholtra, 2010:153). It is intended to test ambiguity or bias in the questions or to address fundamental problems in the instruction or administrative procedures (Zikmund, 1999:258). The scales adopted in this study were developed from the instruments developed by Narver and Slater (1990:29), Jaworski and Kohli (1993:19) and Zebal (2003:311). Thus, a pre-examination became necessary to justify the reproducibility of these scales within a South African context. In addition, Zikmund (2000:119) posits that a pilot test of the questionnaire is required for uncovering weaknesses or detecting problems in the questionnaire design.

A limited number of respondents (n=73) was used in the pilot study. Respondents from the pilot study were drawn from the same population from which the sample was drawn. However, these respondents were not part of the main study. A questionnaire based on five-point Likert scales, where strongly disagree =1 and strongly agree = 5, was administered at the pilot stage. The neutral point was changed and replaced with “moderately agree” in order to avoid excessive use of neutral mid-point responses (Creswell, 2003:131). The researcher conducted face-to-face interviews with the respondents and requested them to complete the survey questionnaire in the presence of the researcher. They were also asked to make comments (if any) on the ambiguity of the questionnaire or on any other issues that they believed were relevant or should be amended. Most of the respondents suggested clarifying the meaning of “intelligence generation” and “intelligence dissemination”.

### **7.2.1 Reliability statistics for pilot study**

Section A of the questionnaire (market orientation), section B (barriers to and determinants and enablers of market orientation) and section C (business performance), with a total of representative items of 24, 57 and 26 respectively, were subjected to reliability tests during this pilot phase. In assessing the reliability, coefficient alpha was first computed for the annotated key scales of the questionnaires. The results obtained give a satisfactory indication of reliability. The Cronbach alpha reliability for section A was 0.922, 0.932 for section B and 0.917 for section C. The results are reported in Table 7.1. The reliability indicators exceeded the suggested level of 0.600 (Nunnally, 1978:245).

**Table 7.1: Pilot reliability statistics**

Construct	Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No. of Items
Section A (Market orientation)	0.922	0.925	24
Section B (Barriers/determinants)	0.932	0.934	57
Section C (Business performance)	0.917	0.925	26

Source: *Author compilation, 2012*

### 7.2.2 Item deletion and scale modifications

Although the Cronbach alpha values were satisfactory, the scales required some modifications, as illustrated in Table 7.2 which outlines the procedures adopted in the data collection and scale purification processes at the pilot stages. It is also noteworthy that an observed phenomenon in the five-point Likert scale was that a small number of respondents (22%) made overuse of the “moderately agree” point on the scale. The table illustrates the scale items, pilot-sample size and the number of items that were dropped from the questionnaire. The reasons for the item deletion are also provided.

**Table 7.2: Scale purification processes in the pilot phase**

QUESTIONNAIRE (SCALES)	NO. OF ITEMS	SAMPLE SIZE	DELETED ITEMS	REASON ITEMS WERE DROPPED
Section A (Market orientation)	24	73	1	Item-to-total correlation was too low at 0.286 (i.e. less than 0.300) for variable 'A23'. Item deletion resulted in increased Cronbach alpha.
Section B (Barriers/determinants)	57	73	11	Item-to-total correlations were all less than 0.300 for

QUESTIONNAIRE (SCALES)	NO. OF ITEMS	SAMPLE SIZE	DELETED ITEMS	REASON ITEMS WERE DROPPED
				the dropped variables; Cronbach alpha if item deleted values were consistently above 0.900.
Section C (Business performance)	26	73	3	Cronbach alphas if items 'C2', 'C4' and 'C21' were deleted. These variables had less than 0.300 item-to-total correlation values.

Source: *Author compilation, 2012*

As suggested by Aldaigan and Buttle (2002:369), item reduction and modifications were undertaken by examining low item-to-total correlations. A rule-of-thumb guideline is recommended by Clark and Watson (1995:316) that the corrected item-to-total correlation values should be at least 0.400, and that the "Cronbach alpha if item deleted" must still indicate good internal consistency of the items in the scale. "Cronbach alpha if item deleted" represents the scale's alpha reliability coefficient for internal consistency if the individual item is removed from the scale (Cronbach, 1951:297). According to Malhotra (2004:467), sequential deletion of variables with low item-to-total correlations may lead to a tentative definition of the best set of items for the scales. Thus questionnaire modifications and deletions were undertaken as illustrated in Table 7.3.

**Table 7.3 Deleted items (Section A, B and C)**

VARIABLE	VARIABLE DESCRIPTOR	ACTION
A22	Even if we come up with a great marketing plan, we probably would not be able to implement it in a timely fashion	Item modified
B8	Even small matters have to be referred to someone higher for a final decision	Item dropped
B9	I have to ask my boss before I do almost anything	Item dropped
B12	The employees in this company are constantly monitored for rules violation	Item dropped
B18	Employees from different departments feel that the goals of their respective departments are in harmony with each other	Item dropped
B33	A large number of new product ideas have been made possible through technological breakthroughs in our company	Item dropped
B34	The customers in our company are likely to be value conscious	Item dropped
B35	Our company is more responsive to customer needs in order to offer good value for money	Item dropped
B36	In our company, top managers receive management training on a regular basis	Item dropped
B37	It is our company requirement to organise management training programmes for the top managers	Item dropped
B42	Formal marketing education is the key requirement of the top managers in our marketing department for career movement	Item dropped
B45	Customer-satisfaction assessments influence senior managers' pay in this company	Item dropped
C2	In general, employees are proud to work for this company	Item dropped

C4	Working for this company is like being a part of a big family	Item dropped
C21	If customers buy from us for the first time, they also buy for the second time, and continue buying thereafter.	Item dropped

Source: *Author compilation, 2012*

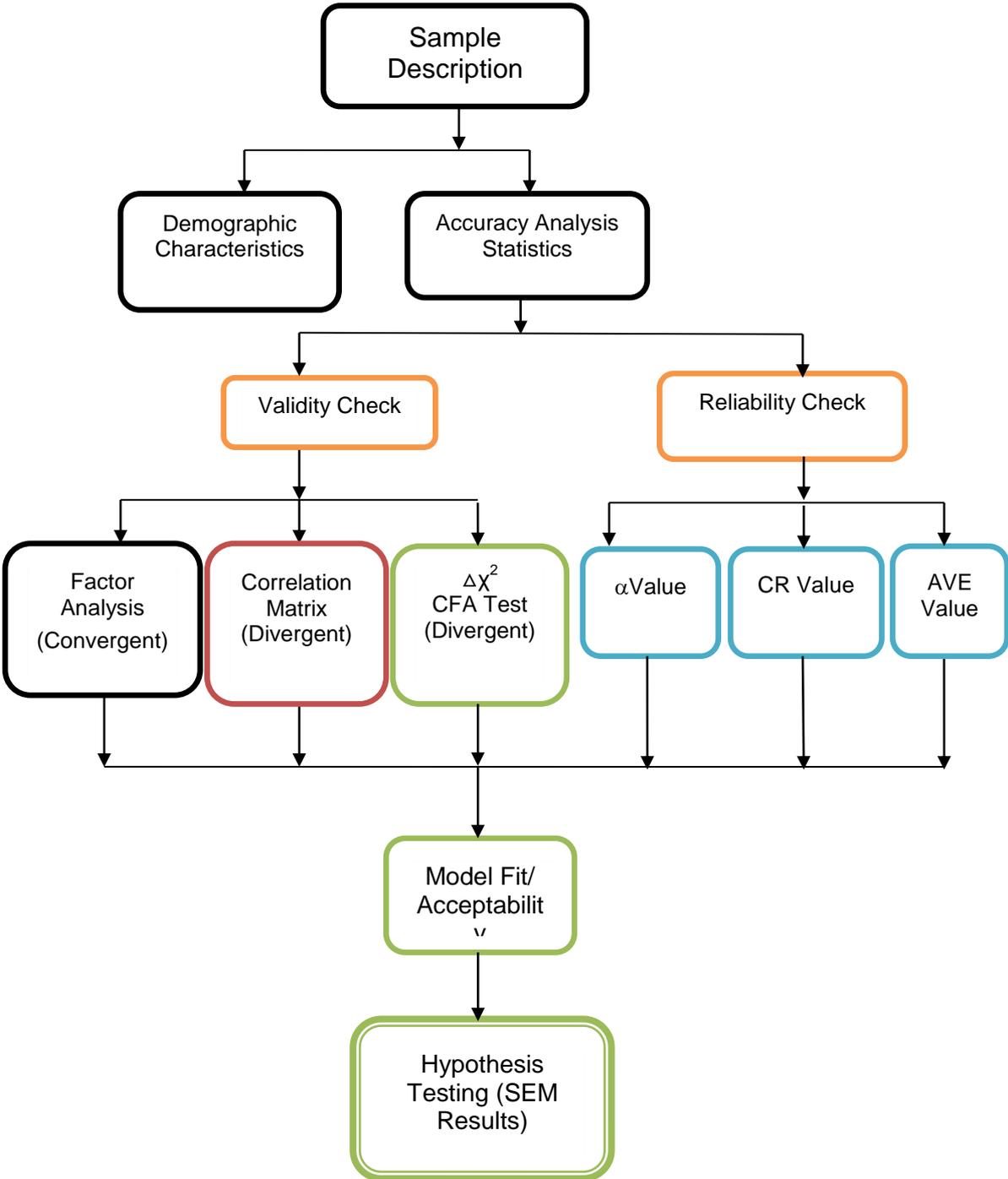
Table 7.3 shows that variable A22 was modified to read coherently, as it was ambiguous. The list of deleted items included B8, B9, B12, B18, B33, B34, B35, B36, B37, B42 and B45 from section B, and C2, C4 and C21 from section C. Item deletion and scale modifications lead to tentative definition of the best set of variables for a particular scale (Comree & Lee, 1992:241). The resultant data indicate the existence of correlated scale items and justify the internal consistency of the scales. The “Cronbach alpha if item deleted” values showed high reliability indicators (see appendices).

### 7.3 STATISTICAL ANALYSIS OF MAIN SURVEY RESULTS

The researcher, the promoter and a statistics practitioner were involved in the planning and execution of the data analysis for the main survey.

An overview of factor analysis procedures, the methods of extraction as well as the interpretation of factors are discussed. Statistical procedures for reliability, as well as validity tests are provided. Details of structural equation modelling (SEM) are discussed. Figure 7.1 demonstrates the procedures of statistical analysis as well as the key tasks undertaken in the remainder of this chapter.

**Figure 7.1 Statistical analysis procedures**



Source: Author compilation, 2012

Pelser (2002:165) advises that the use of complex data analysis techniques usually follows summarised data descriptions that help in understanding the basic composition of the data that have been collected. In this way “researchers can use various statistics to describe the sample or make inferences” (Shao, 2002:416). The

following section provides an overview of the sample characteristics that have been used in the preliminary data analysis.

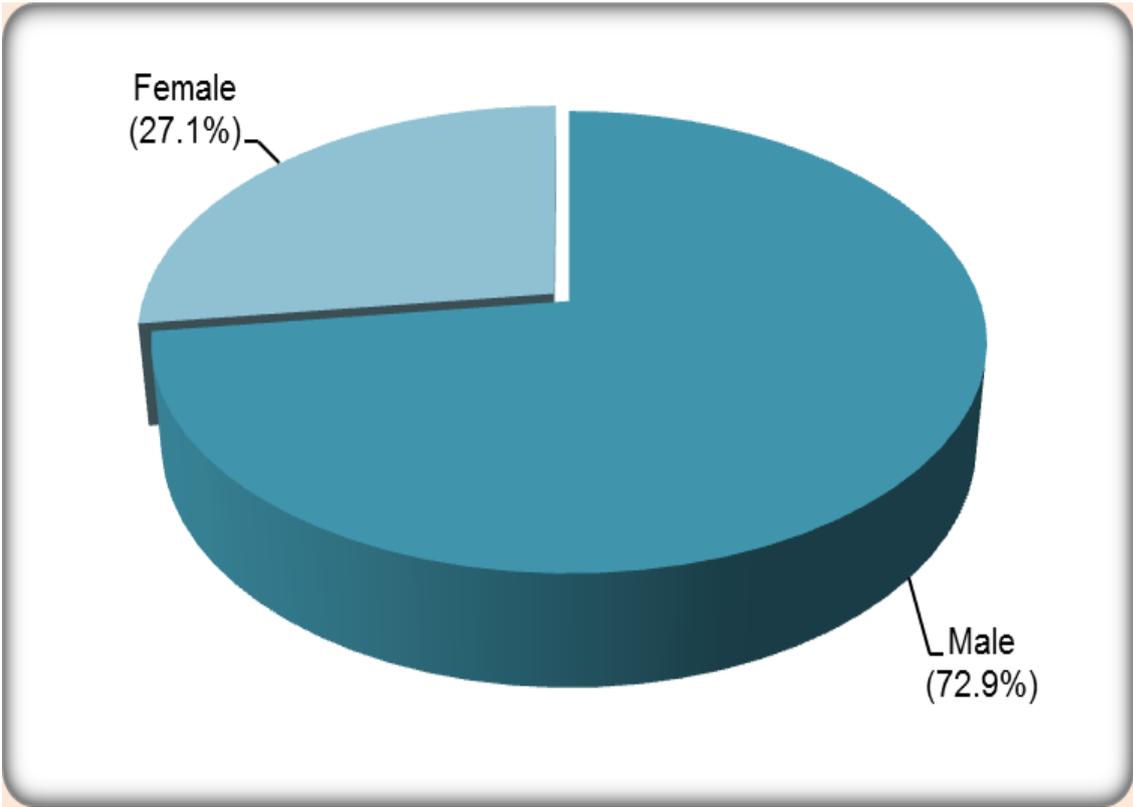
## **7.4 SAMPLE CHARACTERISTICS**

This section provides sample descriptions, as outlined in the subsections.

### **7.4.1 Gender composition of the sample**

Figure 7.2 provides an overview of the sample's gender composition. The profile of sampled respondents in the survey comprised 199 males and 74 females (representing 72.9% and 27.1% respectively). This gender composition tends to suggest that within the Vaal Triangle region men are substantially more likely to be involved in development of Small and Medium Enterprises (SMEs) than women. This is consistent with the literature review on SMEs in South Africa (Chapter 2) where Tambunan (2011:188) states that "South African SMEs is magnified by the lack of female contribution in the sector", and suggesting that policies must be put in place to encourage female participation in the sector.

**Figure 7.2: Respondents' gender**



Source: *Author compilation, 2012*

## 7.4.2 Respondents' age and formal education qualifications

The age structure of the sample, as illustrated by Table 7.4, shows that only 14.7% ( $n=40$ ) of the respondents were under the age of 30 years, 25.6% ( $n=70$ ) were aged between 30 and 39 years, 17.2% ( $n=47$ ) represented the 50–59 year age group, and a meagre 2.9% ( $n=8$ ) of the sample were 60 years of age and above. The majority 39.6% ( $n=108$ ) of the respondents were aged 40–49 years. It seems that the business leaders within the SMEs are concentrated within the age bracket of 30–59 years. This scenario is understandable since running an SME is a challenging endeavour which requires experienced individuals who can make well-grounded marketing decisions (Parasuraman, 1998:309), especially strategic marketing decisions.

**Table 7.4: Respondents' characteristics**

Age of respondent	Freq	%	Level of education (respondent)	Freq	%
Under 30 years	40	14.7	No formal education	4	1.5
30–39 years	70	25.6	Primary school education	10	3.7
40–49 years	108	39.6	High school education (Grade 12)	55	20.1
50–59 years	47	17.2	Trade certificate	91	33.3
60 years and above	8	2.9	Undergraduate or equivalent degree	79	28.9
			Postgraduate	34	12.5
<b>Total</b>	<b>273</b>	<b>100</b>	<b>Total</b>	<b>273</b>	<b>100</b>

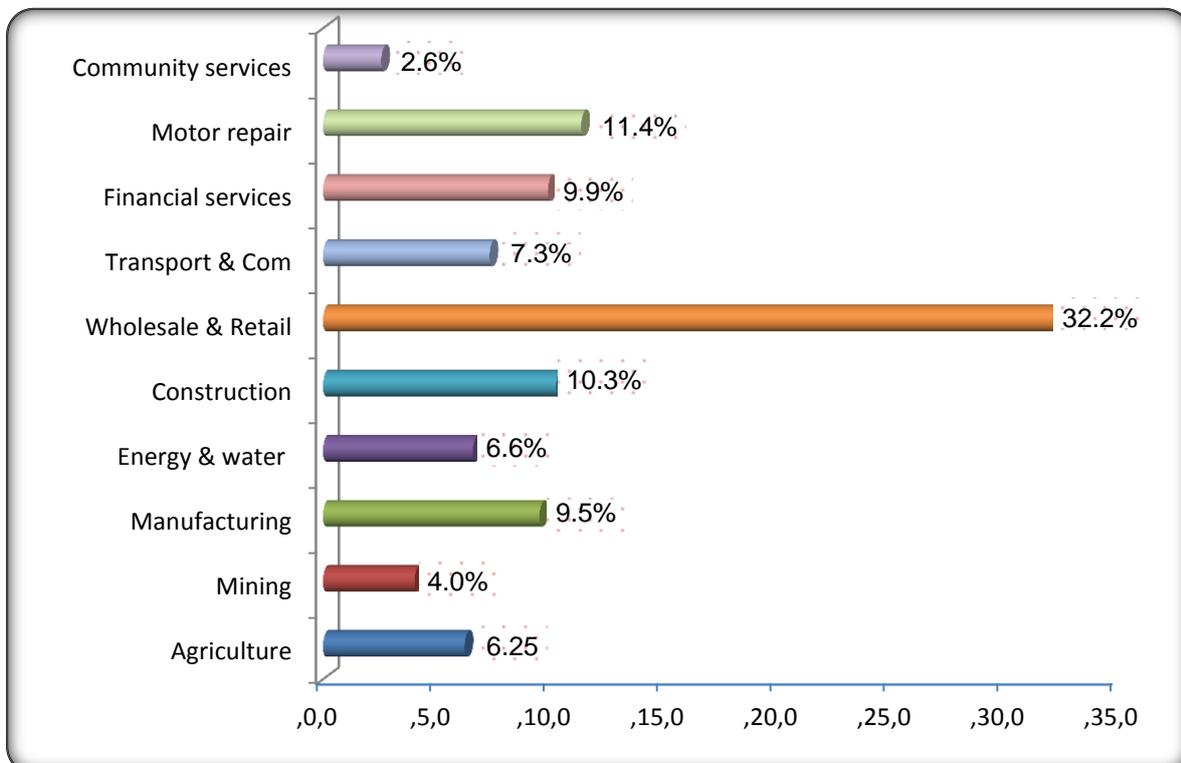
Source: Author compilation, 2012

In terms of formal education levels, Table 7.4 shows three quarters ( $33.3\%+28.9\%+12.5\%=74.7\%$ ) of the respondents had at least a tertiary qualification. This implies that the majority of the individuals who own or manage SME businesses had either a trade certificate (33.3%), an equivalent of a degree (28.9%) or a postgraduate qualification (12.5%). The remaining 25.3% of the sample represented entrepreneurs possessing either basic education ( $3.7\%+20.1\%=23.8\%$ ) or no formal education (1.5%) at all.

### 7.4.3 Industry sector of respondents

The study sought to ensure that companies operating in diverse industry settings were included in the sample. Industries were selected to cover both high- and low-technology environments, and companies were identified using the GEP and the SEDA databases. The industries covered and their representations in the sample are illustrated in Figure 7.2. The figure shows wholesale and retail (32.2%), manufacturing (9.5%), mining (4.0%), agriculture (6.2%), construction (10.3%), financial services (9.9%), transport and communications (7.3%), energy and water (6.6%), motor repairs (11.4%), and community services (2.6%) as represented in the sample. Although the majority of the respondents were involved in wholesale and retail enterprises, the sample generally contained significant proportions of diverse industries. A cursory glance of the results indicates that a large proportion of the SME industries in the Vaal Triangle region are in fact in the manufacturing, construction, wholesale and retail sectors.

**Figure 7.3: Respondents' industry sector**



Source: *Author compilation, 2012*

#### 7.4.4 Characteristics of the surveyed SMEs

Table 7.5 provides the profile of the surveyed SMEs in terms of their legal form (business type), their period in existence (age of business in years), their annual turnover (revenue), and employment levels (number of employees).

In terms of legal business forms, the respondents' feedback indicated that most entities that were surveyed were formally registered business enterprises. The sample consisted mainly of private limited companies (Pty Ltd) (38.8%,  $n=106$ ), partnerships (25.3%,  $n=69$ ), close corporations (CCs) (24.2%,  $n=66$ ), public companies (3.3%,  $n=9$ ), sole traders (6.6%,  $n=18$ ), and co-operatives (1.8%,  $n=5$ ). Of these business operations, 38.1% ( $n=104$ ) of them had been in existence for over 10 years, 20.1% ( $n=55$ ) had been in operation for 7–10 years, 19.8% ( $n=54$ ) had been in operation for 3–6 years, while the remainder, 22% ( $n=60$ ) were emerging enterprises that had operated for less than 3 years.

The employment figures for this specific sample profile (Table 7.5) indicate that the majority of the employers are SME businesses employing fewer than 50 employees per business entity, with 37% of the surveyed employees in the category of 10–50 employees and 36.6% in the category, of 10 employees or fewer. Approximately a quarter ( $13.6\%+10.6\%+2.2\%=26.4\%$ ) of the participating SMEs employed more than 51 employees per business entity. These results are consistent with Moodley (2002:37) who asserts that SMEs are important, because, although recruiting less per entity, their potential for job creation is in numbers. The sample also indicated that 30% of the participants had 6–10 years of work experience, 25% had 3–5 years of work experience, and 22% had 11–20 years of work experience.

The majority of the participating firms (59.7%) generated annual turnover that was less than R4 million (41% generated less than R2 million and 18.7% generated between R2 million and R4 million). The rest of the businesses surveyed (40.3%) generated annual turnover above four million rands per annum (i.e. 10.6%, 8.1%, 7.0% and 14.7%). It is clear that survey results indicate fewer business operations making huge revenues.

**Table 7.5: Characteristics of surveyed SMEs**

<b>Legal form of business</b>	<b>Freq</b>	<b>%</b>	<b>Age of business (years)</b>	<b>Freq</b>	<b>%</b>
Sole trader (one-man business)	18	6.6	Less than 3 years	60	22.0
Partnership	69	25.3	3 to 6 years	54	19.8
Close corporation	66	24.2	7 to 10 years	55	20.1
Co-operative	5	1.8	Over 10 years	104	38.1
Private company (Pty) Ltd	106	38.8			
Public Company (Ltd)	9	3.3			
<b>Total</b>	<b>273</b>	<b>100</b>	<b>Total</b>	<b>273</b>	<b>100</b>
<b>Annual turnover performance (rands)</b>	<b>Freq</b>	<b>%</b>	<b>Number of employees (full-time)</b>	<b>Freq</b>	<b>%</b>
Less than R2 million	112	41.0	Less than 10 employees	100	36.6
Between R2 million and R4 million	51	18.7	10 to 50 employees	101	37.0
Between R4 000 001 and R8 million	29	10.6	51 to 100 employees	37	13.6
Between R8 000 001 and R16 million	22	8.1	101 to 200 employees	29	10.6
R16 000 001 and R32 million	19	7.0	Above 200 employees	6	2.2
Over R32 million	40	14.7			
<b>Total</b>	<b>273</b>	<b>100</b>	<b>Total</b>	<b>273</b>	<b>100</b>

Source: Author compilation, 2012

The following Section 7.5 describes exploratory factor analysis (EFA) and explains both the Kaizer-Meyer-Olkin (KMO) and the Bartlett's test of sphericity (BTS). A discussion of the factor analysis procedures, methods of extraction, factor structures, naming and interpretation of factors are provided under sections 7.6, 7.7, 7.8 and 7.9.

## 7.5 EXPLORATORY FACTOR ANALYSIS (EFA)

Factor analysis is a statistical data reduction technique that is used to identify a small number of groups or clusters that represent relationships among interrelated variables (Merkle *et al.*, 1998:209). Factor analysis attempts to identify underlying factors that explain and summarise the patterns of correlations among variables and reduces a large number of variables to a smaller set of variables (Malhotra, 2004:467). Available options for factor extraction include Kaiser's (1956:93) "eigenvalues greater than one" rule, the scree test, parallel analysis, *a priori* theory, and retaining the number of factors that gives a high proportion of variance accounted for or that gives the most interpretable solution (Kim & Mueller, 1978:58). Exploratory factor analysis was performed whereby variables were analysed using principal component analysis with varimax rotation that helped with data reduction (Jin & Kim, 2003:396). Variable loadings of 0.450 and above were deemed appropriate (Churchill & Iacobucci, 2005:369). Item reduction was undertaken where items with low factor loadings, low communalities and low-item-to-total correlations were investigated and excluded where necessary.

### 7.5.1 Kaizer-Meyer-Olkin test

The Kaizer-Meyer-Olkin (KMO) test of sampling adequacy assesses the degree of relationship between the sets of variables and compares the magnitude of the observed correlations with the magnitude of the partial correlation (Merkle *et al.*, 1998:208). The KMO is used to assess whether the data set is suitable for applying a factor analysis procedure. As a measure of sampling adequacy, the KMO indicator should be 0.5 or greater (Malhotra, 2010:293). In this study, the KMO measures were 0.834, 0.846, 0.809 and 0.906 for the market orientation, the determinants, the barriers and the business performance scales, indicating that the sample was suitable for a factor analysis (Kaiser, 1974:35). The results of KMO and Bartlett's test are reported in Table 7.6.

## 7.5.2 Bartlett's test of sphericity

The Bartlett's test of sphericity (BTS) tests the hypothesis that the variance and covariance matrices are identity matrices (Neuman, 2006:79). It is one of the methods used to establish whether factor analysis is appropriate for the data set. When variables are completely unrelated, then factor analysis is inappropriate (Merkle *et al.*, 1998:210). In this study, the BTS revealed that the approximate chi-square was 4975.705 (with df = 276 for market orientation scale), 1752.146 (with df = 166 for determinants scale), 1652.539 (with df = 166 for barriers scale) and 2315.366 (with df = 171 for business performance scale) at observed significance levels  $p < 0.0000$ , rejecting the hypothesis that there is no correlation between variables, thus affirming that factor analysis is suitable for use on the data set.

**Table 7.6: KMO and Bartlett's Test**

		Market orientation	Determinants	Barriers	Business performance
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.834	0.846	0.809	0.906
Bartlett's Test of Sphericity	Approx. Chi-Square	4975.705	1752.146	1652.539	2315.366
	Df	276	166	153	171
	Sig.	0.000	0.000	0.000	0.000

Source: Author compilation, 2012

## 7.5.3 Factor rotation

Factors were rotated to enhance the interpretability of variables that load onto factors (Bahia & Nantel, 2000:87). The varimax method has proved very successful as an analytic approach in obtaining an orthogonal rotation of factors and is the most frequently used and reported option (Costello & Osborne, 2005:3). Factor rotation allows for factor clarification, showing the relationship of items to factors by

maximising the loadings on one factor and minimising loadings on all the others (Ferketich & Muller, 1990:62). The principal components method of extraction with varimax orthogonal factor rotation procedure was used (Costello & Osborne, 2005:7).

## **7.6 FACTOR ANALYSIS - SECTION A (Market orientation)**

Prior to factor analysis, the factorability of the data for all the scales (Sections A, B<sub>d</sub>, B<sub>b</sub> and C) was established. The correlation matrix testing the linear association among variables was examined. Initial examination of the correlation matrix (refer to Appendix A) revealed that a substantial number (97.83%) of correlations were larger than 0.300, indicating good factorability. Since a majority of the correlations were more than 0.300 in value, it could be inferred that the correlation matrix is not an identity matrix bearing zero correlations (Avkiran, 1995:14).

### **7.6.1 Eigenvalues and percentage of variance**

An eigenvalue is the total variance explained by each factor. The general rule of thumb of extracting factors with eigenvalues greater than 1.0 (Mehta, Lalwani & Han, 2000:8; Malhotra, 2010:367) is considered appropriate. In keeping with the eigenvalue criterion, only factors with eigenvalues greater than 1.0 were retained (Malhotra, 2010:543), as illustrated in Table 7.7. According to Rietveld and Van Hout (1993:372), it is assumed that in factor analysis, the variables do not account for 100% of the variance. Although the loading patterns of the factors extracted do not differ substantially, their respective amounts of explained variance do. Table 7.7 reports on the percentages of variance, and the cumulative percentage of variance explained of 61.6% of the total variance which, according to Malhotra (2004:567), is satisfactory.

Furthermore, Hair *et al.* (2000:593) posits that an important point to consider in deciding how many factors to retain is to examine the percentage of variation in the data set that is explained by each factor. Examining Table 7.7, the four factors would be retained. This was in line with previous studies undertaken, taking into account the conceptualised dimensions expounded in sections 6.1.2 and 6.4.6 of the previous chapter (Chapter 6). In line with the conceptualised dimensions and the literature

study, the four factors were meaningfully interpreted in terms of the conceptualised dimensions in line with the market orientation scale.

**Table 7.7: Eigenvalues and variance explained – market orientation**

Value	Eigenvalues (Market orientation – SMEs)			Cumulative %
	Eigenvalue	% Total Variance	Cumulative Eigenvalue	
1	7.926	33.026	7.926	33.026
2	3.622	15.09	11.546	41.971
3	1.709	7.120	13.255	55.237
4	1.235	5.145	14.492	61.602

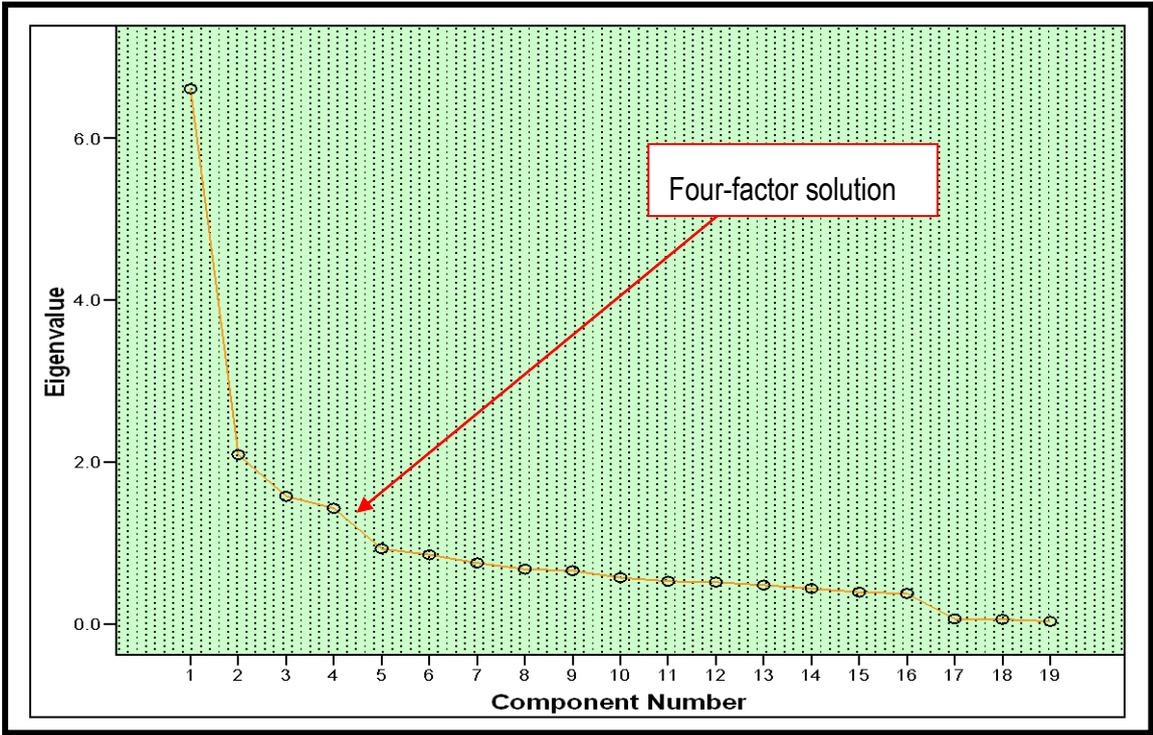
Extraction Method: Principal Component Analysis

Source: Author compilation, 2012

**7.6.2 The Scree plot**

In addition, the scree plot reflected in Figure 7.4 shows a flattening of the scree after four factors, depicting the four factors deemed suitable for the study.

**Figure 7.4: Scree plot – market orientation**



A scree test involves examining the graph of the eigenvalues to note the natural bend or break point in the data where the curve flattens out. The number of data points above the “break” is usually the number of factors to retain (Costello & Osborne, 2005:3).

### 7.6.3 Factor structure of the market orientation scale

Varimax orthogonal rotation was adopted to minimise the number of variables that have high loadings on each factor and simplify the interpretation of the factors (Neuman, 2006:59). After rotating the factors, the ones with the “cleanest” factor structures were selected, as illustrated in Table 7.8. To achieve this, the study employed the suggestion of Aldaigan and Buttle (2002:369), where item reduction was undertaken by examining low item correlations, multiple loadings and unstable variables. This resulted in a four-factor solution with 19 variables.

#### 7.8: Rotated component matrix (market orientation)

Variables	Factors			
	1	2	3	4
A21	0.737			
A17	0.694			
A8	0.671			
A18	0.655			
A23	0.642			
A16	0.624			
A10	0.568			
A20	0.560			
A9	0.545			
A4		0.887		
A14		0.878		
A12		0.649		
A2		0.632		
A11			0.879	
A1			0.878	

Variables	Factors			
A13			0.469	
A6				0.784
A5				0.774
A7				0.684
<b>Cronbach's Alpha</b>	<b>0.8489</b>	<b>0.8802</b>	<b>0.8014</b>	<b>0.7083</b>
<b>Scale means</b>	<b>34.3150</b>	<b>15.0659</b>	<b>11.0586</b>	<b>9.7582</b>
<b>Standard deviation</b>	<b>6.3567</b>	<b>3.8639</b>	<b>2.8729</b>	<b>2.9692</b>
*Rotation Method: Varimax with Kaiser Normalisation *Loadings of 0.40 and more were considered significant because of the larger sample size. * Items A3, A15, A19, A22 and A24 reflected low factor loading and were omitted.				

Source: *Author compilation, 2012*

Although factor loadings of 0.45 and more were considered significant, the factor loading matrix shows the loadings above 0.600 except for items A9, A10 and A20. This exceeded the criterion of Hair *et al.* (1992:239) which states that “factor loadings greater than  $\pm 0.300$  are considered to meet the minimum levels, loadings of  $\pm 0.400$  are considered important, and loadings of  $\pm 0.500$  and greater are considered more important”.

#### 7.6.4 Interpretation of the market orientation factors

Factor one, *responsiveness and implementation*, comprised 9 variables and accounted for 33.03% of the variance, with eigenvalue of 7.926. Responsiveness is the speed of the actual implementation of a strategy or tactic in response to the intelligence that is generated and disseminated (Desphandé & Farley, 1999:109). The items that loaded onto the factor relate mainly to the SMEs’ ability to take action, consistent with responsiveness as espoused by Parasuraman *et al.* (1988:15) and the organisation-wide responsiveness to market intelligence (Kohli & Jaworski, 1990:9; Narver & Slater, 1990:23). The dimension incorporates organisational readiness to take action, quick reaction to market changes, immediacy of responses to customer needs, prompt attention to product needs, implementation timeliness to competitive demands and clear efforts to ensure that such an environment is adhered to by all departments (Dabholkar & Overby, 2005:7).

Factor two, labelled *customer focus and emphasis*, comprised 4 variables that accounted for 15,09% of the variance, with eigenvalue of 3.622. The factor incorporates a set of beliefs that place the customer's interests first ahead of those of all stakeholders, with strong commitment to customers, customer satisfaction and creating customer value. To achieve customer focus, a firm must cultivate a set of shared values and beliefs that put the customer at the centre of its operations (Perreault *et al.*, 2011:76). Aspects relating to willingness to help, assisting customers and providing prompt product changes and service dynamism, as well as employee customer awareness and service, loaded onto this factor.

Factor three, *intelligence dissemination*, is comprised of 3 variables accounting for 7.12% of the variance, with eigenvalue of 1.709. This factor places emphasis on the scheduling of inter-departmental meetings, regular customer discussions, informal inter-functional hall-talk and the encouragement of customer complaints. It is identified by Porter (1985:103) as an aspect emphasising the involvement of various departments in the creation of value for the target market and the responsiveness to consumer demands. Intelligence dissemination, also referred to as inter-functional co-ordination, enables the transmission of experience and promotes organisational learning (Harris, 1999:113). This coordination is also a channel for communicating market expectations to the appropriate departments that can effectively develop service delivery in a timely manner (Lenz, 1981:131). In this regard, Kohli and Jaworski (1990:23) suggested that, "for an organisation to adapt to market needs, market intelligence must be communicated, disseminated, and perhaps even sold to relevant departments and individuals in the organisation".

Factor four, involving the gathering of market information, was labelled, *information/intelligence generation*, was comprised of 3 variables accounting for 5.15% of the variance with eigenvalue of 1.235. This factor involves the collection and assessment of information on customers' current and future needs, and the impact of government regulations, competition, technology and other environmental forces on business operations. According to Kohli and Jaworski (1990:13), the availability of information on customer needs and wants at a company-wide level is essential in the development of market-oriented SMEs. Gounaris and Avlonitis (2001:1003)

suggested that, having made this information available, a company-wide mobilisation to satisfy customers' needs and wants should follow.

## 7.7 FACTOR ANALYSIS – SECTION B<sub>d</sub> (DETERMINANTS/ENABLERS OF MARKET ORIENTATION)

### 7.7.1 Eigenvalues and percentage of variance (Section B<sub>d</sub>)

The criterion for the factor extraction for Section B<sub>d</sub> was determined utilising both the percentage of variance and the eigenvalues, as illustrated in Table 7.9. The general rule is to retain all factors with eigenvalues greater than 1.0 whose total variance contribution is considered significant (Zikmund, 2000:65).

**Table 7.9: Eigenvalues and variance explained**

Value	Eigenvalues (determinants/enablers of market orientation)			
	Eigenvalue	% Total Variance	Cumulative Eigenvalue	Cumulative %
1	3.480	29.003	3.480	29.003
2	1.634	13.613	5.114	42.615
3	1.269	10.576	6.383	53.191
4	1.074	8.951	7.457	62.142
Extraction Method: Principal Component Analysis				

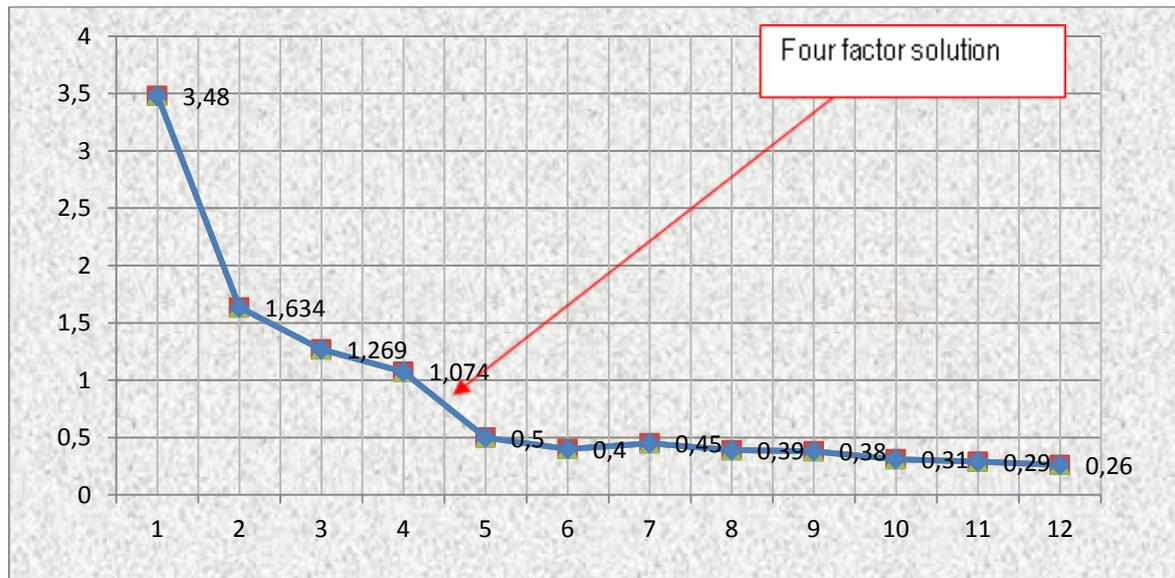
Source: *Author compilation, 2012*

The results illustrated in Table 7.9 show the factors and their eigenvalues, the percentages of variance and the cumulative percentage explained of 62.142%. Both the percentage of variance explained and the eigenvalues indicate that four factors were appropriate to capture the essential dimensions of the determinants/enablers of market orientation construct.

#### *The scree plot*

A scree plot extracted from the data set also indicated a four-factor solution, as shown in Figure 7.5, for which the factor structure is given in section 7.7.2.

**Figure 7.5: Scree plot for determinants/enablers of market orientation**



Source: Author compilation, 2012

### 7.7.2 Factor structure of the determinants/enablers of market orientation

Section B<sub>d</sub> was subjected to item reduction in order to achieve a clearer and simple factor structure (Aldalaigan & Buttle, 2002:369). Item reduction was undertaken by examining low item correlations, multiple loadings and unstable variables; 11 items were dropped. The final 12-item factor structure of the determinants/enablers of market orientation is reported in Table 7.10.

**Table 7.10: Rotated component matrix (determinants/enablers)**

Variables	Number of factors			
	1	2	3	4
B44	0.784	0.026	-0.023	0.107
B43	0.722	0.019	0.200	0.087
B41	0.662	0.250	-0.092	0.027
B45	0.605	0.295	-0.029	0.228
B2	0.085	0.832	0.038	0.142
B3	0.242	0.755	0.114	0.121
B1	0.099	0.728	0.123	0.138
B6	-0.005	0.056	0.874	0.094
B5	0.032	0.172	0.861	0.013

B21	-0.069	0.177	0.020	0.734
B19	0.272	0.014	0.252	0.684
B18	0.256	0.212	-0.082	0.670
<b>Cronbach's Alpha</b>	<b>0.803</b>	<b>0.743</b>	<b>0.772</b>	<b>0.763</b>
<b>Scale means</b>	<b>13.9048</b>	<b>11.1465</b>	<b>7.0366</b>	<b>11.1648</b>
<b>Standard deviation</b>	<b>3.4158</b>	<b>2.7494</b>	<b>2.0931</b>	<b>2.4053</b>
Extraction Method: Principal Component Analysis.				
Rotation Method: Varimax with Kaiser Normalisation.				
Rotation converged in 5 iterations.				

Source: *Author compilation, 2012*

Items were considered markers of a component if their loading values were at least 0.45. A 12-item market orientation determinants/enablers scale with four factors was finally extracted. In line with the theoretical dimensions espoused in the literature study, the four factors were meaningfully interpreted in terms of the conceptualised dimensions.

### 7.7.3 Interpretation of the factor structure (section B<sub>d</sub>)

Factor one, named *market-based reward systems* (Variance=29.003%; eigenvalue=3.480; mean=3.776) refers to organisational systems instrumental in shaping the behaviour of employees (Sigauwet *al.*, 1994:106). The types of measurement and reward systems adopted by the organisation will determine the extent to which market orientation is adopted. Bulent and Seigyoung (2006:13) claim that “a basic requirement for the development of a market-oriented firm is to create market-based measures of performance”. In other words, reliance on market-based factors for evaluating and rewarding managers may trigger overall market orientation of the organisation. Organisations that evaluate and administer rewards based on customer satisfaction and service levels are more likely to encourage the active generation and dissemination of market intelligence and responsiveness to market needs.

Factor two, *top management emphasis* (Variance=13.613%; eigenvalue= 1.634; mean= 3.716), relates leadership approach to development of market orientation. A clear signal from top management regarding the importance of being responsive to

customer needs is important for market-oriented organisations (Verhees & Meulenbergh, 2004:134). In addition to management's involvement, the necessity of communicating a commitment to market orientation is vital. Bulent and Seigyoung (2006:23) suggest that continuous reinforcement by senior management is required if individuals within the organisation are to be encouraged to generate, disseminate and respond to market intelligence. In line with Harris (2000:609), this possibly means that continuous management emphasis of market orientation may result in greater overall market orientation.

Factor three was named *inter-functional connectedness* (Variance=10.576%, eigenvalue= 1.269, mean= 3.597). It relates to a situation where the organisation has interdependent departments and functions, with existing conflict resolution mechanisms (Harris, 1999:123). Inter-functional connectedness facilitates the open flow of resources, work and assistance across all organisational departments (Ruekert & Walker, 1987:9). Connectedness between departments also enables interaction and the exchange of information (Ruekert & Walker, 1987:3). Deshpandé (1982:164) states that "connectedness enables adequate amounts of intelligence to be generated and also allows for its appropriate utilisation", and that increased inter-departmental connectedness may result in increased overall market orientation.

Factor four, *management risk posture* (variance= 8.951%; eigenvalue= 1.074; mean= 3.722) relates to top management's risk seeking or risk averse tendencies. Jaworski and Kohli (1993:53) advise that senior management's willingness to take risks will encourage and facilitate organisation-wide commitment to innovation and responsiveness. On the other hand, a risk-aversion policy adopted by senior management will tend to inhibit innovativeness and the creative processes of employees. Accordingly, Zebal (2000:169) views organisations whose management are high risk takers as more likely to be market oriented than those organisations whose management are risk averse.

## 7.8 FACTOR ANALYSIS – SECTION B<sub>b</sub> (BARRIERS TO MARKET ORIENTATION)

The criterion for the factor extraction for Section B<sub>b</sub> was also determined by utilising the eigenvalues, percentage of variance explained and the scree plot.

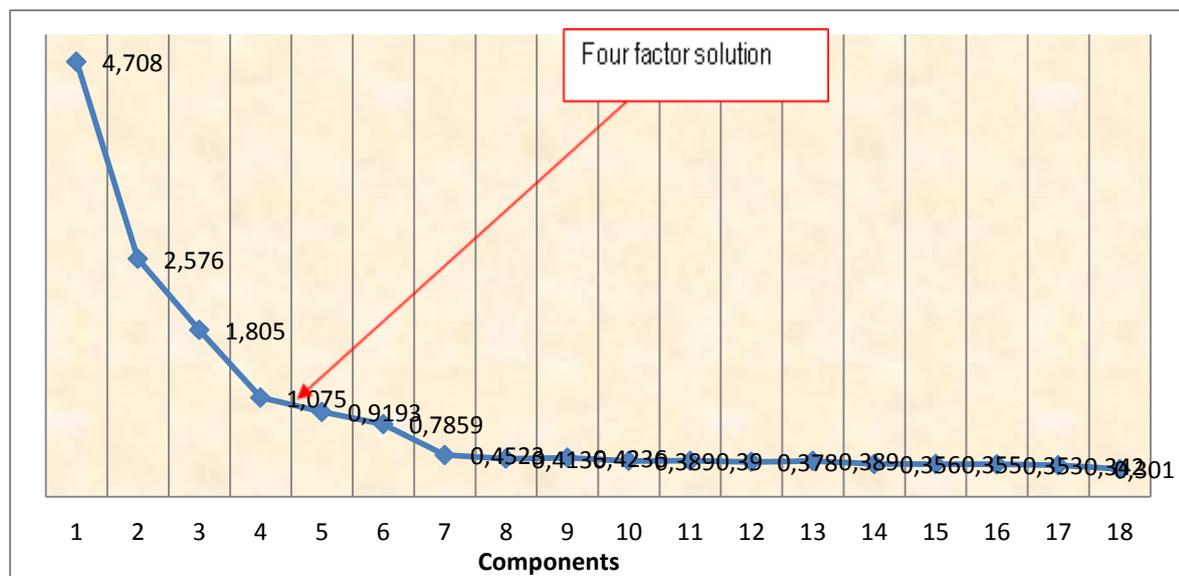
**Table 7.11: Eigenvalues and variance explained**

Value	Eigenvalues (barriers to market orientation)			
	Eigenvalue	% Total Variance	Cumulative Eigenvalue	Cumulative %
1	4.708	26.156	4.708	26.156
2	2.576	14.308	7.284	40.464
3	1.805	10.028	9.089	50.493
4	1.175	6.526	10.264	57.019
Extraction Method: Principal Component Analysis				

Source: *Author compilation, 2012*

Figure 7.11 shows four factors that were extracted accounting for 57.02% of total variance explained. The scree plot (Figure 7.6) also illustrates the four-factor solution.

**Figure 7.6 Scree plot (barriers)**



The factor structure and factor interpretations are provided in the following sections 7.8.1 and 7.8.2.

### 7.8.1 Factor structure of the barriers scale (Section B<sub>b</sub>)

Section B<sub>d</sub> was subjected to item reduction in order to achieve a clearer and simple factor structure (Aldalaigan & Buttle, 2002:369). Item reduction was undertaken by examining low item correlations, multiple loadings and unstable variables. Items were considered markers of a component if their loading values were at least 0.45 as stated in section 7.5. An 18-item scale of barriers to market orientation with four factors was finally extracted, as reported in Table 7.10.

**Table 7.12: Rotated component matrix (barriers to market orientation)**

Variables	Number of factors			
	1	2	3	4
B31	0.797	-0.045	0.133	-0.087
B36	0.787	0.240	0.101	0.105
B35	0.732	0.262	0.076	0.159
B32	0.708	0.006	0.231	-0.157
B30	0.691	-0.071	0.220	-0.008
B39	0.684	0.226	0.053	0.108
B20	0.042	0.766	-0.015	-0.041
B22	0.054	0.766	0.015	-0.110
B23	0.106	0.736	0.104	-0.200
B46	0.106	0.603	0.152	0.079
B10	0.117	0.473	0.248	-0.125
B26	0.016	0.081	0.814	0.028
B27	0.250	0.122	0.706	0.040
B24	0.121	0.323	0.632	-0.087
B25	0.246	0.149	0.530	0.239
B28	0.168	-0.111	0.518	0.263
B16	-0.049	-0.064	0.145	0.868
B17	0.086	-0.258	0.097	0.819

<b>Cronbach's Alpha</b>	<b>0.849</b>	<b>0.746</b>	<b>0.719</b>	<b>0.763</b>
<b>Scale means</b>	<b>21.6044</b>	<b>18.6886</b>	<b>17.3040</b>	<b>4.6447</b>
<b>Standard deviation</b>	<b>5.5158</b>	<b>3.9846</b>	<b>3.9925</b>	<b>2.5048</b>
Extraction Method: Principal Component Analysis.				
Rotation Method: Varimax with Kaiser Normalization.				
Rotation converged in 6 iterations.				

Source: *Author compilation, 2012*

### 7.8.2 Interpretation of the barriers to market orientation

Factor one, named *technological turbulence*, comprised 6 variables accounting for 26.156% of the variance with item mean of 3.601 and eigenvalue of 4.708. The factor entails valuing technology and allocating greater resources to technology in order to manage the uncertainty created by introducing technological changes. Technology is understood as everything new driving change, and correct the use of technologies can provide an organisation with considerable operational and competitive benefits (Keskin, 2006:397). The factor addresses competitive and other issues that result from technological turbulence and innovation.

Factor two, labelled *centralisation and formalisation*, comprised 5 variables that accounted for 14.308% of the total variance, with eigenvalue of 2.576 and item mean of 3.738. Centralisation represents a situation in which all the power for decision-making rests at a single point within the organisation (Kotler, 2001:13). The bureaucracy that often results from the above dimensions contributes to heightened levels of uncertainty, inter-departmental conflicts and competition, a breakdown in communication flows and delays in decision-making. Verhees and Meulenberg (2004:134) refer to centralisation as being the inverse of the amount of delegation of decision-making authority throughout an organisation and the extent of participation by organisational members in decision-making. Jaworski and Kohli (1993:21) suggested that centralisation may hinder the generation and dissemination of information and the design of organisational response to adapt to an environment.

Factor three is named *competitive intensity* accounting for variance of 10.028%, eigenvalue of 1.805 and mean of 3.461. The success of an organisation depends on

how well an organisation understands its competitors and extent to which it monitors strategies and tactics of its rivals (Simkin & Cheng, 1997:39). Zineldin and Philipson (2007:229) are of the view that organisations should design offers that satisfy targeted customer needs better than competitors do in order to gain a competitive advantage. Therefore, the greater the competitive intensity among organisations, the greater the need for an organisation to be market oriented.

Factor four, *inter-departmental conflict*, with variance 6.526%, eigenvalue value of 1.175 and item mean 2.322, relates to how conflict can impact overall market orientation of the organisation. Bulent and Seigyoung (2006:19) are of the view that inter-departmental conflict is detrimental to the implementation of market orientation. Inter-departmental conflict has the potential to contribute to breakdowns in communication, secrecy and inbred negative competitive tendencies. Frustrations arise when individuals believe that the other party is not behaving in a fair manner (Ruekert & Walker 1987:6). Han and Kim (1998:30) argue that that conflict results in reduced inter-functional performance.

**7.9 FACTOR ANALYSIS – SECTION C (BUSINESS PERFORMANCE)**

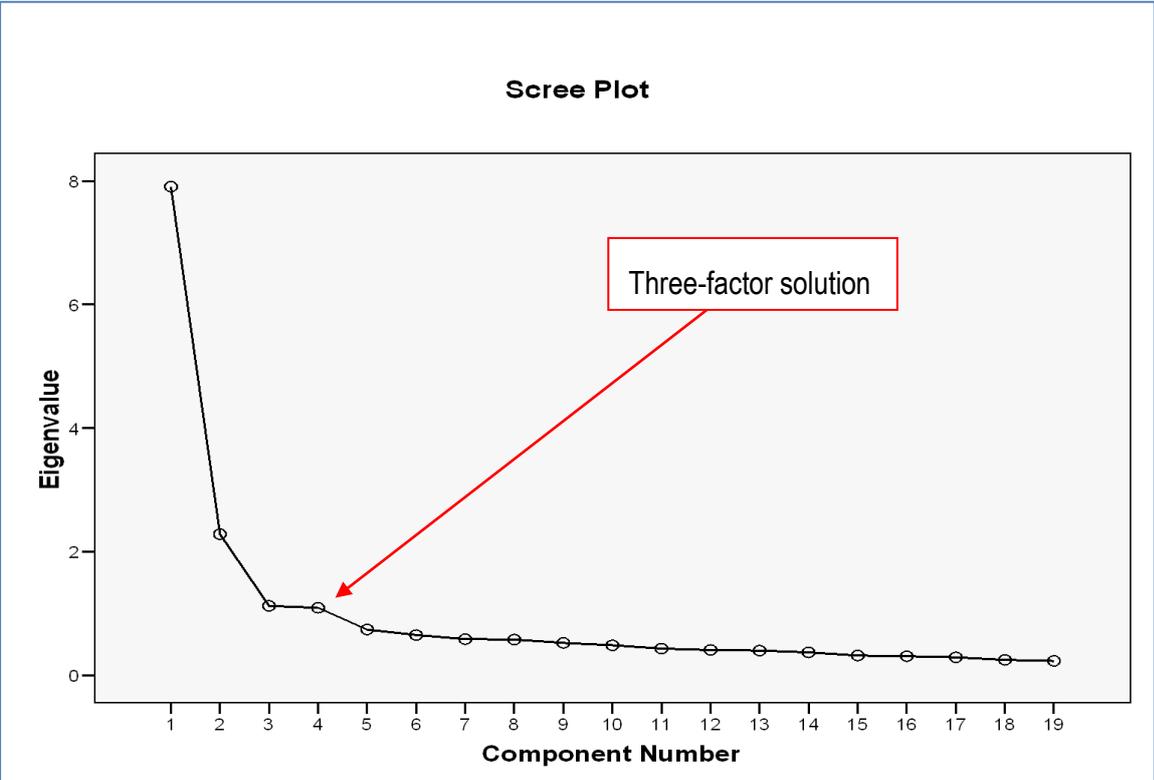
The factor analysis process was run with nineteen latent variables. The eigenvalue extraction and percentage of variance (Table 7.13), and the scree plot (Figure 7.7), illustrated that three factors were appropriate to capture the dimensions of business performance.

**Table 7.13: Eigenvalues and variance explained**

Factors	Eigenvalues (Business performance)			Cumulative %
	Eigenvalue	% Total variance	Cumulative Eigenvalue	
1	4.995	26.290	4.995	26.290
2	2.995	15.762	7.990	42.052
3	2.475	13.026	10.465	55.079
Extraction Method: Principal Component Analysis				

Figure 7.7 represents the scree plot, reflecting a flattening of the scree after the 3<sup>rd</sup> component, depicting the three-factor solution deemed suitable for the business performance scale in this study.

**Figure 7.7: Scree plot (business performance)**



**7.9.1 Factor structure for business performance**

The final factor structure of the business performance scale is reported in Table 7.14. Section 7.9.2 provides the naming and interpretation of the three factors extracted on the basis of the data set.

**Table 7.14: Rotated component matrix (business performance)**

Variables	Factors		
	1	2	3
C9	0.826	0.174	0.106
C12	0.801	0.225	0.056
C10	0.764	0.137	0.054
C14	0.728	0.196	0.094
C11	0.727	0.206	0.024
C8	0.714	0.111	0.254
C7	0.610	0.204	0.199
C19	0.520	0.318	0.390
C13	0.494	0.294	0.200
C16	-0.065	0.725	-0.187
C22	0.377	0.648	0.178
C21	0.310	0.612	0.344
C17	0.335	0.588	0.062
C20	0.246	0.537	0.358
C15	0.244	0.481	0.331
C5	-0.010	0.182	0.738
C4	0.207	0.274	0.663
C3	0.003	-0.138	0.661
C2	0.338	0.167	0.551
Cronbach's Alpha	<b>0.9023</b>	<b>0.7643</b>	<b>0.6631</b>
Scale means	<b>34.3150</b>	<b>15.0659</b>	<b>11.0586</b>
Standard deviation	<b>6.3567</b>	<b>3.8639</b>	<b>2.8729</b>
*Rotation Method: Varimax with Kaiser Normalization			
*Loadings of 0.450 and more were considered significant because of the larger sample size.			
* Items C1, C6, C18 and C23 were unstable, reflected low factor loadings and were omitted.			

Source: Author compilation, 2012

### 7.9.2 Interpretation of the business performance factors

Factor one, labelled *financial performance*, comprised nine latent variables and accounted for 26.290% of the variance. The eigenvalue was 4.995. The items that loaded onto this factor relate mainly to financial indicators such as the sales volume, market share, profitability, return on investment (ROI), return on assets (ROA), revenues, and overall financial position. Putting financial performance measurement systems in place can be an important way of keeping track of the progress of business operations. Consequently, financial performance measures such as profitability, market share, assets, and growth rates are essential for monitoring overall business performance for SMEs. Pulendran, *et al.* (2000:123) is of the view that financial performance measures should provide concrete answers to both operational and strategic questions that often arise in business.

Factor two, labelled *customer satisfaction and loyalty*, comprised six variables and accounted for 13.026% of the variance. The eigenvalue was 2.995. The items that loaded to this factor relate mainly to customer satisfaction and customer loyalty. According to Kotler and Armstrong (2011:43), customer satisfaction and customer loyalty or “customer retention” are some of the most appropriate measures of performance. Keskin (2006:403) states that “customers who are satisfied with the value being provided in the product will repurchase it”, resulting in economic performance of the business (market share and profitability). An organisation should always guarantee the satisfaction of its customers’ current and future needs by showing commitment, creating value for the product, encouraging comments and complaints and collecting information. Kohli and Jaworski (1990:19) suggest that market orientation leads to satisfied customers who spread the good word regarding the product to others and keep purchasing the product on a continuous basis. This means that market orientation leads to greater customer satisfaction as well as to repeat business (Kotler, 2001:13).

Factor three, labelled *employees’ organisational commitment*, comprised four latent variables and accounted for 13.03% of the variance. The eigenvalue was 2.475. The items that loaded to this factor relate mainly to employees’ attitude towards and behaviour within the organisation they work for. This dimension captures aspects of

employee attachment, team spirit, employees' organisational pride, the spirit of family, and employees' concern for each other. Employee commitment is an internal feeling, belief, or set of intentions that enhance an employee's desire to remain with an organisation (Zabal, 2003:183). Kohli and Jaworski (1990:15) argue that market orientation provides psychological and social benefits to employees. It leads to a sense of pride in belonging to an organisation in which all departments and individuals work towards the common goal of satisfying customers.

After extracting the factors, the next step was to run the independent sample t-tests and analysis of variances (ANOVA) to test for significant differences within the data set for some given dimensions and variables.

## 7.10 T-TESTS STATISTICS

An independent sample t-test is intended to show whether there are any statistically significant differences in the mean scores for two groups with a given continuous variable, in this case gender.

### 7.10.1 Independent sample t-test

For this study a t-test to compare market orientation dimensions of males and females (D1-in questionnaire) was conducted. The results are shown in Tables 7.15a and 7.15b.

**Table 7.15a: Group t-test statistics (mean and standard deviation)**

	Gender	N	Mean	Std. Deviation	Std. Error Mean
<b>MoR</b>	Male	199	3.8353	0.69027	0.04893
	Female	74	3.7523	0.74921	0.08709
<b>MoC</b>	Male	199	3.7374	1.01900	0.07223
	Female	74	3.8446	0.80740	0.09386
<b>MoD</b>	Male	199	3.7035	0.95451	0.06766
	Female	74	3.6396	0.97105	0.11288

	Gender	N	Mean	Std. Deviation	Std. Error Mean
<b>MoG</b>	Male	199	3.1977	0.98474	0.06981
	Female	74	3.4009	0.99463	0.11562

MoR=responsiveness; MoC=customer emphasis; MoD=intelligence dissemination; MoG=information generation

The means and standard deviations reported in Table 7.15a indicate that very small differences exist among the four factors (customer emphasis (MoC), information generation (MoG), intelligence dissemination (MoD) and information responsiveness (MoR) and male and female respondents. The differences between the means in terms of gender would likely be due to chance and not likely due to manipulation. This is consistent with Craven (2000:7) in that a market-oriented firm overlooks all subjective internal differences and considers clients' requirements, focusing mainly on organising resources to satisfy customers.

**Table 7.15b Independent samples test**

		Levene's Test for Equality of Variances		t-test for Equality of Means			95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Lower	Upper
<b>MoR</b>	Equal variances assumed	2.364	.125	.863	271	.389	-.10638	.27245
	Equal variances not assumed			.831	121.881	.407	-.11473	.28080
<b>MoC</b>	Equal variances assumed	4.474	.035	-.814	271	.416	-.36625	.15194

	Equal variances not assumed			-.905	163.890	.367	-.34102	.12670
<b>MoD</b>	Equal variances assumed	.432	.511	.489	271	.625	-.19319	.32095
	Equal variances not assumed			.485	128.753	.628	-.19652	.32427
<b>MoG</b>	Equal variances assumed	.000	.993	-1.512	271	.132	-.46793	.06144
	Equal variances not assumed			-1.505	129.570	.135	-.47046	.06397

Note \*=statistically significant at 95% level of confidence; MoR=responsiveness; MoC=customer emphasis; MoD=intelligence dissemination; MoG=information generation

From Table 7.15b the p-values for the Levene's test for equality of variance,  $p=0.125$  (for responsiveness),  $p=0.511$  (intelligence dissemination) and  $p=0.993$  (information generation) were all greater than alpha 0.05. No statistical significance was found between male and female respondents in relation to the three market orientation dimensions noted. The results are contrary to Deng and Dart (1994:726), whose views are that the level of market orientation of a firm is affected by gender differences in the implementation of the marketing concept. Customer emphasis however, with  $p=0.035$  ( $p$ -value less than  $\alpha=0.05$ ), implied that the variances could not be assumed to be equal. Therefore, equal variances were not assumed.

### 7.10.2 Analysis of Variance (ANOVA)

The analysis of variance is a technique for analysing the way in which the mean of variables is affected by different types and combinations of factors (Bewick, Cheek & Ball, 2004:133). Burns and Bush (2006:507) state that ANOVA is based on a researcher's desire to determine whether or not a statistically significant difference

exists between the means for two or more groups in the sample with a given variable. For this study, the mean for each factor was computed and compared in order to examine the discriminatory power of alternative choices on the measurement scales. Three independent analyses of variances were conducted.

### 7.10.2.1 ANOVA – market orientation and age

ANOVA was conducted between the market orientation dimensions, namely: customer emphasis (MoC), information generation (MoG), intelligence dissemination (MoD) and information responsiveness (MoR) and (D2 in the questionnaire) age groups of the respondents (under 30 years, 30–39 years, 40–49 years, 50–59 years, over 60 years). The results are presented in Table 7.16, indicating no statistically significance differences between and within age groups as the p-values,  $p = 0.482$ ,  $0.937$ ,  $0.780$  and  $0.966$  respectively, are greater than  $0.05$ . The results are in line with Gatignon and Xuereb (1997:87) who project different age groups of managers for market-oriented organisations as requiring the same approach, and that culture and background are among some variables that define the organisation’s identity. On the contrary, Siguaw, *et al.* (1994:106) found that maturity had a significant influence on implementation strategies for market orientation.

Since there were no significant differences between means (age groups and market orientation) no *post-hoc* analysis was undertaken. This is in line with Burns and Bush (2006:149).

**Table 7.16: ANOVA – Market orientation and age groups**

		Sum of Squares	df	Mean Square	F	Sig.
MoR	Between Groups	1.739	4	0.435	0.870	0.482
	Within Groups	133.951	268	0.500		
	Total	135.690	272			
MoC	Between Groups	.764	4	0.191	0.202	0.937

		Sum of Squares	df	Mean Square	F	Sig.
	Within Groups	253.036	268	0.944		
	Total	253.801	272			
MoD	Between Groups	1.628	4	0.407	0.440	0.780
	Within Groups	247.824	268	0.925		
	Total	249.451	272			
MoG	Between Groups	.571	4	0.143	0.144	0.966
	Within Groups	265.878	268	0.992		
	Total	266.449	272			

Note \*=statistically significant at 95% level of confidence; MoR=responsiveness; MoC= customer emphasis; MoD=intelligence dissemination; MoG=information generation

#### 7.10.2.2 ANOVA – Market orientation and level of education

The second ANOVA test was conducted between the market orientation dimensions and (D3- in questionnaire) levels of education of the respondents, namely no formal education, primary school education, high school education (grade 12), trade certificate, undergraduate degree and postgraduate degree. The ANOVA test revealed statistically significant ( $F= 4.237, p < .001$ ;  $F= 2.922, p<0.014$ ;  $F= 2.273, p<0.048$ ) indicators. Therefore, inferential support exists to suggest that means for customer emphasis, intelligence dissemination and information generation are not equal across levels of education.

**Table 7.17: ANOVA – Market orientation and level of education**

		Sum of Squares	df	Mean Square	F	Sig.
MoR	Between Groups	4.671	5	0.934	1.904	0.094
	Within Groups	131.019	267	0.491		
	Total	135.690	272			
MoC	Between Groups	18.658	5	3.732	4.237	*0.001
	Within Groups	235.143	267	0.881		
	Total	253.801	272			
MoD	Between Groups	12.943	5	2.589	2.922	*0.014
	Within Groups	236.508	267	0.886		
	Total	249.451	272			
MoG	Between Groups	10.881	5	2.176	2.273	*0.048
	Within Groups	255.569	267	0.957		
	Total	266.449	272			

Note \*=statistically significant at 95% level of confidence, MoR=responsiveness; MoC=customer emphasis; MoD=intelligence dissemination; MoG=information generation

Since there were some significant differences between means, then, according to Burns and Bush (2006:153), *post-hoc* analysis was necessary. To specify information on which groups were significantly different in their adoption of market orientation, *post-hoc* multiple comparison tests were conducted between the market orientation factors in terms of level of education. Table 7.18 is an excerpt of the *post-hoc* statistics extracted from Appendix D.

**Table 7.18: Post-hoc analysis – Market orientation and education level**

Dependent Variable	(I) Level of education	(J) Level of education	Sig.	95% Confidence Interval	
				Lower Bound	Upper Bound
Customer emphasis	Post-graduate degree	No formal education (mean=3.2500)	0.251	-0.3431	2.5048

Dependent Variable	(I) Level of education	(J) Level of education	Sig.	95% Confidence Interval	
				Lower Bound	Upper Bound
<b>(MoC)</b>	(mean=4.1309)	Primary school (mean=3.6000)	0.258	-0.2382	1.7000
		High school (grade 12) (mean=3.9682)	0.486	-0.2250	0.9504
		Trade certificate (mean=3.5879)	*0.001	0.2015	1.2844
		Undergraduate degree (mean=3.6361)	*0.005	0.1423	1.2473

Note: \*\*Mean difference is significant at 0.01; \*The mean difference is significant at 0.05 level; 5=strong agree to 1=strongly disagree

Table 7.18 shows that differences were found between holders of a postgraduate degree ( $mean=4.1309$ ), a trade certificate ( $mean=3.5879$ ) and an undergraduate degree ( $mean=3.6361$ ) with regard to customer emphasis. This indicates that educated and skilled individuals place more value on customer emphasis compared with uneducated individuals. According to Pelham (2000:46), education and skills development are imperative for customer-focused market orientation.

### 7.10.2.3 ANOVA – Market orientation and industry sectors

ANOVA was also conducted between market orientation and E1- in the questionnaire (industry sectors, namely agriculture, hunting, forestry and fishing, mining and quarrying; manufacturing, energy and water supply, construction, wholesale and retail trade, transport, storage and communication, financial intermediaries, social and personal services, representatives of foreign governments). The results presented in Table 7.19 show significant differences ( $F= 4.988, p< 0.000$ ;  $F= 2.371, p=0.014$ ) between two of the four market orientation factors. Differences were found for information responsiveness (MoR,  $p=0.000$ ) and information generation (MoG,  $p=0.014$ ), as both dimensions were significant at ( $p< 0.05$ ) across the industry sectors.

**Table 7.19: ANOVA – Market orientation and industry sector**

		Sum of Squares	df	Mean Square	F	Sig.
MoR	Between Groups	19.785	9	2.198	4.988	*0.000
	Within Groups	115.905	263	0.441		
	Total	135.690	272			
MoC	Between Groups	13.072	9	1.452	1.587	0.119
	Within Groups	240.729	263	0.915		
	Total	253.801	272			
MoD	Between Groups	11.322	9	1.258	1.389	0.193
	Within Groups	238.129	263	0.905		
	Total	249.451	272			
MoG	Between Groups	19.993	9	2.221	2.371	*0.014
	Within Groups	246.456	263	0.937		
	Total	266.449	272			

Note \*=statistically significant at 95% level of confidence; MoR=responsiveness; MoC=customer emphasis; MoD=intelligence dissemination; MoG=information generation

In order to establish which industry sectors have significant differences in their adoption of market orientation, *post-hoc* multiple comparison tests were conducted between the market orientation factors in terms of industry sectors. The results of the *post-hoc* Tukey HSD multiple comparisons test are shown in Table 7.20 (an excerpt of results extracted from Appendix D).

**Table 7.20: Post-hoc analysis – Market orientation and industry sector**

Dependent Variable	(I) Industry sector	(J) Industry sector	Sig.	95% Confidence Interval	
				Lower Bound	Upper Bound
Information responsiveness	Agriculture, hunting, forestry, fishing	Mining (mean=3.9192)	0.989	-0.5494	1.0901
		Manufacturing (Mean=3.8077)	0.706	-0.2789	1.0426

Dependent Variable	(I) Industry sector	(J) Industry sector	Sig.	95% Confidence Interval	
				Lower Bound	Upper Bound
<b>(MoR)</b>	(mean=3.3389)	Energy & water supply (Mean=3.4815)	0.056	-0.0084	1.4245
		Construction (Mean=3.7937)	0.642	-0.2555	1.0473
		Wholesale & Retail (Mean=3.9987)	0.986	-0.3704	0.7520
		Transport & communication (Mean=4.1896)	**0.005	0.1518*	1.5495*
		Financial services (Mean=3.5197)	*0.029	-0.5116	0.8002
		Community services (Mean=4.0453)	0.999	0.0305*	1.3092*
		Private /diplomatic activities (Mean=3.0952)	*0.011	0.1429*	2.0457*

Note \*\*Mean difference is significant at 0.01; \*The mean difference is significant at 0.05 level; 5=strong disagree to 1=strongly disagree

Differences were found between the agriculture, hunting, forestry, fishing and the transport and communication, and financial services as well as the private/diplomatic services with regard to information responsiveness. On one hand, it seems that the SMEs in the agriculture, hunting, forestry and fishing sector were less responsive (Mean=3.3389) to market information compared with the transport and communication sector (Mean=4.1896), and the financial services sector (Mean=3.5197). On the other hand, the SMEs in the agriculture, hunting, forestry and fishing sector seem to be more responsive to market information than the private/diplomatic services (Mean=3.0952).

The exploratory factor analysis in the preceding sections was used to establish the dimensionality of the measurement constructs, together with the t-tests and ANOVA. Having determined the dimensions, it is necessary to establish the goodness of fit of the proposed measurement model (Figure 6.2). Structural equation modelling (SEM) plays a confirmatory role, where the researcher has complete control over the specification of indicators for each construct, allowing for statistical tests for goodness of fit (Creswell, 2003:139). According to Dhurup (2004:288) “the measurement model constitutes the entire structural equations modelling effect (hence referred to as CFA)”. The following sections provide details of the CFA and SEM, concluding with the testing of hypotheses.

## **7.11 STATISTICAL MEASURES OF ACCURACY TESTS**

This section discusses the reliability and validity of the measuring scales assessed to validate data analyses. This is particularly important for this study since the scales have been modified to adapt to the particular SMEs context.

### **7.11.1 Reliability Analysis**

Three methods i.e. Cronbach’s alpha test (Cronbach $\alpha$ ), composite reliability test (CR) and average value extracted test (AVE) were used to check the reliability of the research measures (Cronbach, 1951:297). Table 7.21 and Table 7.22 show the results of all these three tests used to check the research measure reliability. Churchill and Iacobucci (2005:363) and Nunnally (1978:246) recommended that, for scale items used for the first time in a new environment, the cut-off value for the alpha coefficient should be 0.700.

The **Cronbach alpha** values for each of the scales making up latent variables (market orientation, determinants/enablers, barriers and business performance) were computed. Table 7.21 provides evidence that each of the scales exhibit satisfactory reliability, with values ranging from 0.7083 to 0.9023. Assessment of reliability indicators for the individual dimensions using Cronbach alpha, indicates that the values of alpha in this study range from 0.7031 to 0.9023. Although coefficient alpha

for organisational commitment, Alpha=0.6631, was below the value of 0.700, it can be said that the data collected in this study were reliable.

**Table 7.21: Summary of Cronbach's alpha reliability results**

Scale	No. of Items	Cronbach's Alpha	Dimensions/factors	No. of items	Cronbach's Alpha
Market orientation	19	0.891	Responsiveness & implementation	9	0.8489
			Customer focus & emphasis	4	0.8802
			Intelligence dissemination	3	0.8014
			Information generation	3	0.7083
Determinants/enablers of MO	12	0.767	Market-based reward system	4	0.8031
			Inter-departmental connectedness	3	0.7733
			Top management emphasis	3	0.7433
			Management risk posture	2	0.7631
Barriers to MO	18	0.804	Technology turbulence	6	0.8493
			Centralisation	5	0.7461
			Competitive intensity	5	0.7192
			Inter-departmental conflict	2	0.7632
Business performance	19	0.904	Financial performance	9	0.9023
			Customer satisfaction & loyalty	6	0.7643
			Organisational commitment	4	0.6631

Source: Author compilation, 2012

The coefficient alpha values for the dimensions under investigation are satisfactory. The coefficient alpha values for market orientation ( $\alpha=0.891$ ), barriers to market orientation ( $\alpha=0.804$ ), determinants/enablers of market orientation ( $\alpha=0.767$ ), as well

as business performance ( $\alpha=0.904$ ) indicate that the adopted scales are reliable for measuring market orientation and business performance in a South African setting. The second measure of internal consistency is the composite reliability (CR) coefficient. The CR coefficient does not assume that all indicators are equally weighted (Chin, 1998:320). Interpreted like a Cronbach's alpha, the CR measure of 0.70 is a threshold for "modest" composite reliability (Hulland, 1999:195). CR is calculated as the square of the summation of the factor loadings divided by the sum of the square of the summation of the factor loadings and the summation of error variances (Bewick, Cheek & Ball, 2004:131). The formula is illustrated in the following manner.

$$CR\eta = \frac{(\sum\lambda yi)^2}{[(\sum\lambda yi)^2 + (\sum\epsilon i)]} \dots\dots\dots 1$$

Where;

- CR $\eta$  = composite reliability
- $\sum\lambda yi$ = summation of factor loadings
- $\sum\epsilon i$ = summation of error variances

**Table 7.22: Accuracy analysis statistics**

Research Constructs	Descriptive Statistics*		Cronbach's Test		C.R.	AVE	Factor Loading	Highest S.V.	
	Mean	SD	Item-total	$\alpha$ Value					
Business Performance (BP)	I <sub>BP-1</sub>	3.830	0.690	0.587	0.915	0.947	0.437	0.782	0.262
	I <sub>BP-2</sub>			0.651				0.764	
	I <sub>BP-3</sub>			0.721				0.687	
	I <sub>BP-4</sub>			0.623				0.695	
	I <sub>BP-5</sub>			0.612				0.675	
	I <sub>BP-6</sub>			0.707				0.680	
	I <sub>BP-7</sub>			0.649				0.698	
	I <sub>BP-8</sub>			0.646				0.624	
	I <sub>BP-9</sub>			0.506				0.719	

Research Constructs	Descriptive Statistics*		Cronbach's Test		C.R.	AVE	Factor Loading	Highest S.V.	
	Mean	SD	Item-total	$\alpha$ Value					
Barriers to MO (BMO)	I <sub>BP-10</sub>	3.716	0.916	0.525	0.814	0.838	0.400	0.644	0.372
	I <sub>BP-11</sub>			0.709				0.623	
	I <sub>BP-12</sub>			0.542				0.539	
	I <sub>BP-13</sub>			0.633				0.543	
	I <sub>BP-14</sub>			0.631				0.503	
	I <sub>BP-15</sub>			0.593				0.500	
	I <sub>BP-16</sub>			0.588				0.500	
Barriers to MO (BMO)	I <sub>BMO-1</sub>	3.716	0.916	0.570	0.814	0.838	0.400	0.520	0.372
	I <sub>BMO-2</sub>			0.578				0.761	
	I <sub>BMO-3</sub>			0.633				0.803	
	I <sub>BMO-4</sub>			0.611				0.579	
	I <sub>BMO-5</sub>			0.532				0.651	
	I <sub>BMO-6</sub>			0.705				0.671	
	I <sub>BMO-7</sub>			0.642				0.500	

Research Constructs	Descriptive Statistics*		Cronbach's Test		C.R.	AVE	Factor Loading	Highest S.V.	
	Mean	SD	Item-total	$\alpha$ Value					
	I <sub>BMO-8</sub>			0.590			0.500		
Determinants of MO (DMO)	I <sub>DMO-1</sub>	3.973	0.803	0.543	0.743	0.728	0.497	0.996	0.405
	I <sub>DMO-2</sub>			0.594				0.500	
	I <sub>DMO-3</sub>			0.571				0.500	
Market Orientation (MO)	I <sub>MO-1</sub>	3.777	0.984	0.833	0.834	0.755	0.734	0.579	0.315
	I <sub>MO-2</sub>			0.807				0.997	
	I <sub>MO-3</sub>			0.580				0.935	

Note: BP = Business Performance; BMO = Barriers to Market Orientation; DMO = Determinants of Market Orientation; MO = Market Orientation; AVE: Average Variance Reliability; \* Scores: 1 – Strongly Disagree; 5 – Strongly Agree C.R.: Composite Reliability; <sup>a</sup> significance level  $p < 0.05$ ; <sup>b</sup> significance level  $p < 0.01$ ; <sup>c</sup> significance level  $p < 0.001$  Measurement CFA model fits:  $\chi^2/(df) = 2.85$ ; GFI=0.931; AGFI=0.86; CFI=0.919; NNFI=0.921; RMSEA=0.058

The CR results shown in Table 7.22 are used to test the internal consistency of the measurement model (see Figure 6.2). The higher level of CR coefficient demonstrated higher reliability of the scale. Moreover, higher inter-item correlations revealed statistical agreement among the measured items. As can be seen, item-to-total values ranged from 0.506 to 0.833 and, therefore, were above the cut-off point of 0.3 (often  $\leq 0.3$ ) recommended by Dunn, Seaker and Waller (1994:145) in order to improve the internal consistency of the construct. The Composite Reliability (CR) values ranged from 0.728 to 0.947. The indicators for both the Cronbach's test ( $\alpha$  Value) and the CR indices were all high (see Table 7.22). The results indicate all the CR values exceeding the threshold of 0.7 recommended in the literature (Chin, 1998:320; Nunnally, 1978:247) and, therefore, confirm that the measures used in this study are reliable. These values also exceeded the estimate criteria used in previous

studies such as Rietveld and Van Hout (1993:47), Neuman (2006:59) and Costello and Osborne (2005:7).

The third reliability test was the average variance extracted (AVE) with the results also in Table 7.22. It is calculated as the summation of the squared factor loadings divided by the sum of the summation of the squared factor loadings and summation of error variances (Bewick, Cheek & Ball, 2004:131) illustrated as follows:

$$V\eta = \frac{\sum \lambda y_i^2}{[(\sum \lambda y_i)^2 + (\sum \epsilon_i)]} \dots\dots\dots 2$$

Where;

$V\eta$ = composite reliability

$\sum \lambda y_i$ = summation of factor loadings

$\sum \epsilon_i$ = summation of error variances

The average variance extracted (AVE) estimates (see Table 7.22) reflected that the overall amount of variance in the indicators were accounted for by the latent construct (Neuman, 2006:59). Higher values for the AVE (greater than 0.40) reveal that the indicators represented the latent construct well. Overall, all average variance explained (AVE) values were above 0.4, thus acceptable according to the literature (Fraering & Minor, 2006:249). These results provided evidence for acceptable levels of research scale reliability.

Altogether, the construct reliabilities (Cronbach alpha and composite reliability) and the average variance extracted (AVE) estimates suggest the scales are internally consistent.

## 7.11.2 Validity Tests

### 7.11.2.1 Root mean square error of approximation (RMSEA)

The RMSEA takes into account the error of approximation in the population (Neuman, 2006:59). This value will answer the question on how well the model would, with unknown but optimally chosen parameter values, fit the population

covariance matrix if it were available (Browne & Cudeck, 1993:137). This discrepancy, as measured by RMSEA, is expressed in degrees of freedom (df), thus making the index sensitive to the number of estimated parameters in the model (Kim & Mueller, 1978:58). By convention, there is a good model fit if RMSEA is less than or equal to 0.5 and an adequate fit if RMSEA is less than or equal to 0.8 (Browne & Cudeck, 1993:141). The RMSEA is a robust measure which takes into account the error of approximation in the population. It asks the question “How well would the model, with unknown but optimally chosen parameter values, fit the population covariance matrix if it were available?” (Browne & Cudeck, 1993:137). The model fit criteria, the acceptable fit levels and their interpretations are listed in Table 7.23 together with other model fit indices. The model fit assessment indices and results are discussed under Section 7.12.

**Table 7.23: Model fit criteria and acceptable fit level**

Model Fit Criteria	Acceptable Level	Interpretation
Chi-square ( $\chi^2$ )	Tabled Chi-square values	Compares obtained Chi-square value with tabled value for given df
Goodness-of-fit (GFI)	Value equal to or greater than 0.90	0 (no fit) to 1 (perfect fit)
Augmented Goodness-of-fit (AGFI)	Value equal to or greater than 0.90	0 (no fit) to 1 (perfect fit)
Norm fit index (NFI)	Close to 0 is good	Researcher defines level
Comparative fit index (CFI)	Value equal to or greater than 0.90	0 (no fit) to 1 (perfect fit)
Incremental fit index (IFI)	Value equal to or greater than 0.900 (no fit) to 1 (perfect fit)	0 (no fit) to 1 (perfect fit)
Root mean square error of approximation (RMSEA)	<0.05	Values less than 0.05 indicates a good model fit

### 7.11.2.2 Convergent validity

Convergent validity was assessed by checking whether individual item loadings for each corresponding research construct were above the recommended value of 0.5 (Aldalaigan & Buttle, 2002:369). As seen in the previous sections (Table 7.22), the factor loadings ranged from 0.500 to 0.997. Therefore, all the items finally used had loadings of more than the recommended 0.500, indicating acceptable individual item convergent validity as more than 50% of each item's variance was shared with its respective construct (Dunn *et al.*, 1994:145). This evidence supported the convergent validity of all scale items.

### 7.11.2.3 Discriminant validity

One of the methods used to check on the discriminant validity of the research constructs was the evaluation of whether the correlations among latent constructs were less than 1.0 (Nunnally, 1978:246). As indicated in Table 7.24 below, the inter-correlation values for all paired latent variables are less than 1, indicating the existence of discriminant validity.

**Table 7.24: Correlations between constructs**

Research Construct	Construct Correlation			
	DMO	BMO	MO	BP
Determinants of Market Orientation (DMO)	1.000			
Barriers to Market Orientation (BMO)	0.606	1.000		
Market Orientation (MO)	0.427	0.559	1.000	
Business Performance (BP)	0.712	0.483	0.394	1.000

However, since the correlation values of determinants of market orientation (DMO) and business performance (BP) were close to 1.000 at 0.712 (see Table 7.24), i.e. above the recommended 0.700, Bentler (1990:238), Churchill and Iacobucci (2005:363), and Costello and Osborne (2005:6) recommend that additional tests be conducted to ascertain discriminant validity.

This study further interrogated the average values extracted (AVE) and the shared variance values (SV). Discriminant validity was established by checking and confirming that the AVE values were greater than the highest shared variance values (Nunnally, 1978:246). As is shown in Table 7.22, all the average values extracted (AVE) are above the shared variance values (SV) for all the research constructs, therefore further confirming the existence of discriminant validity.

## **7.12 CONCEPTUAL MODEL FIT ASSESSMENTS**

The assessment of the proposed conceptual model proceeded using the same dataset. According to Anderson and Gerbing (1988:7), prior to testing the hypotheses, confirmatory factor analysis (CFA) is performed to confirm accuracy of the multiple-item constructs measures. In this study AMOS 7 was used. A confirmatory measurement, or confirmatory factor analysis model, specifies the relations of the observed measures to their posited underlying constructs, with the constructs allowed to inter-correlate freely (Chin, 1998:320). Initial specification search led to the deletion of the items that were less than the recommended 0.5. This was done to provide for an acceptable fit and the resultant scale accuracy.

Acceptable model fit was indicated by chi-square value over degree of freedom ( $\chi^2/df$ ) of value between 1 and 3, the values of Goodness-of-Fit Index (GFI), Comparative Fit Index (CFI), Incremental Fit Index (IFI), and Tucker-Lewis Index (TLI) equal to or greater than 0.90; and the Root Mean Square Error of Approximation (RMSEA) value equal to or less than 0.08.

**Table 7.25: CFA model fit results**

CFA indicator	Chi-Square	GFI	CFI	IFI	TLI	RMSEA
Acceptance Level	< 3.00	> 0.900	> 0.900	> 0.900	> 0.900	< 0.06
Default Model Value	2.850	0.931	0.919	0.921	0.900	0.058
Decision	Acceptable level					

One can conclude (refer to Table 7.25) that the overall observed data fit the model reasonably well (CFA model fit results) as it is within the recommended statistics for the final overall-model assessment. All the indicators showed acceptable fit of the measurement model for the dataset. Over and above the acceptable correlation values ( $0.394 < \text{Cor} > 0.800$ ), the measurement model produced a ratio of chi-square value over degree-of-freedom of 2,850 and GFI, CFI, IFI, TLI and RMSEA of 0.931, 0.919, 0.921, 0.900, and 0.058 respectively. Since an acceptable CFA measurement of model fit was obtained, the study proceeds to test the hypotheses.

### 7.13 STRUCTURAL EQUATION MODELLING (SEM)

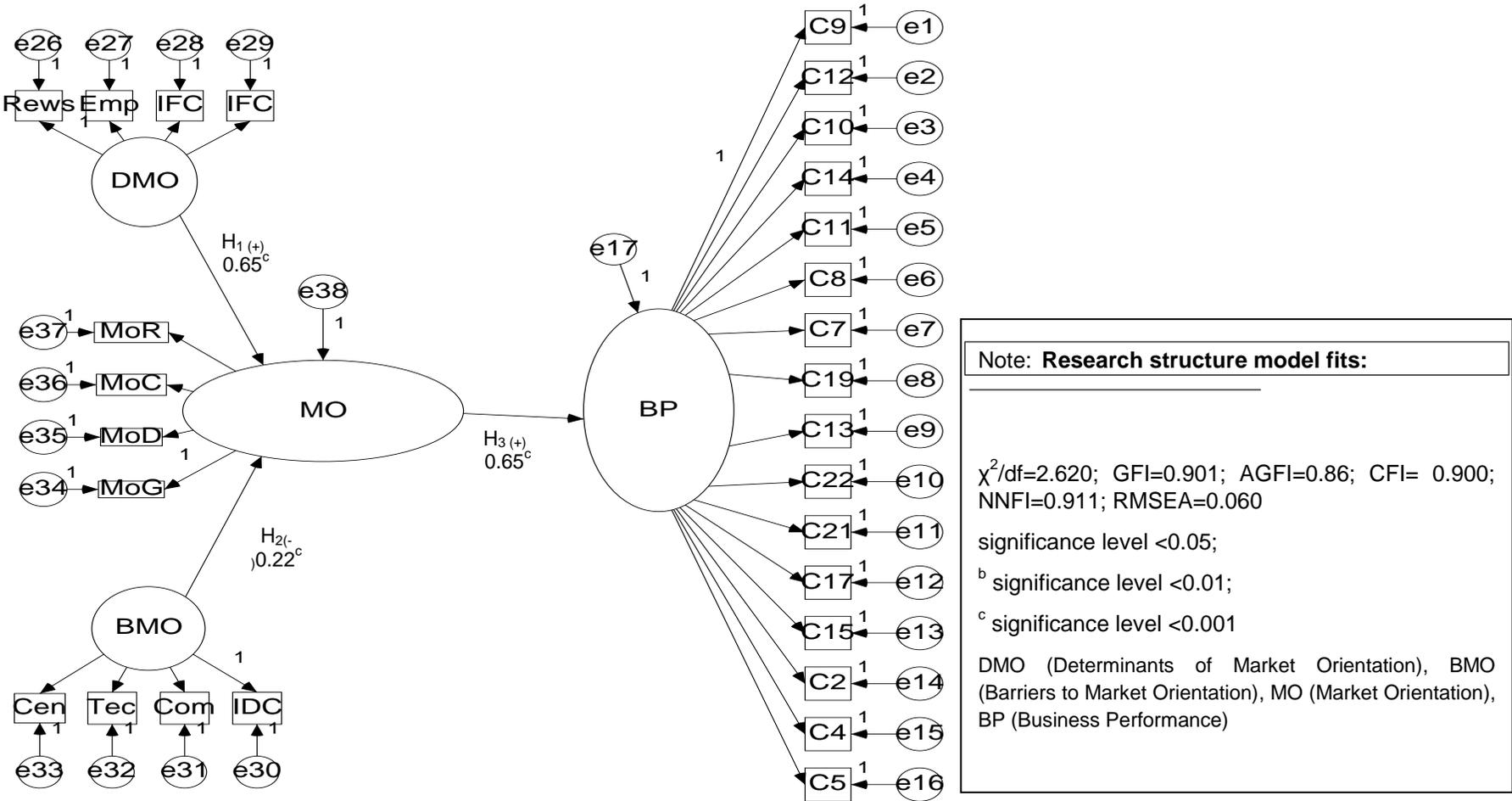
In order to test the direct and indirect effects of barriers to market orientation and the determinants of market orientation, as well as the direct and indirect effects of market orientation on business performance, a structural equation modelling (SEM) was undertaken using AMOS version 7 statistical software programs. Following the building of a two-step model (Anderson & Gerbing, 1988:3; Bentler, 1990:239; Neuman, 2006:79), the measurement model was assessed prior to testing the structural model. Bentler (1990:241) recommends the use of the maximum likelihood estimation (MLE) method, particularly because it has desirable asymptotic properties such as the minimum variance and has no bias (Browne & Cudeck, 1993:137).

The hypothesised model reflected in this section of the analysis will therefore posit four components (barriers to market orientation (BMO), Determinants of market

orientation (DMO), Market orientation (MO) and Business performance (BP)). As seen in Figure 7.8. All the constructs in the path diagram are exogenous; only the measurement model and the associated covariance matrices for exogenous constructs are considered. The path diagram for the CFA is reflected in Figure 7.8 as exogenous constructs, with the estimated parameter values added. The text output results for the structural equation analysis for the model fit are also reported in Table 7.26.

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**Figure 7.8 Path diagram for model structure**



**Note: Research structure model fits:**

$\chi^2/df=2.620$ ; GFI=0.901; AGFI=0.86; CFI= 0.900; NNFI=0.911; RMSEA=0.060

significance level <0.05;

<sup>b</sup> significance level <0.01;

<sup>c</sup> significance level <0.001

DMO (Determinants of Market Orientation), BMO (Barriers to Market Orientation), MO (Market Orientation), BP (Business Performance)

The results of the model fit as reported in Table 7.26 show that the model is acceptable in terms of overall goodness of fit. Acceptable model fit is indicated by CMIN/DF value <3; RMSEA values  $\leq$  .080; and GFI, TLI and CFI values  $\geq$ .90. The study's test results indicate that, CMIN/DF (2.620), GFI (0.901), IFI (0.911), TLI (0.900), CFI (0.900), and RMSEA (0.060). These results are within acceptable levels, suggesting achieved thresholds (Benteler, 1990:243; Browne & Cudeck, 1993:137; Marsh, Hau & Wen, 2004:323). This suggests that the model converged well and could be a plausible representation of underlying empirical data structures collected in a South African setting.

**Table 7.26: SEM model fit results**

CFA indicator	Chi-Square	GFI	CFI	IFI	TLI	RMSEA
Acceptance Level	< 3	> 0.900	> 0.900	> 0.900	> 0.900	< 0.06
Default Model Value	2.620	0.901	0.900	0.911	0.900	0.060
Decision	Acceptable level					

Source: *Author compilation, 2012*

The parameter estimates of the structural model exhibited the direct effects of one construct on the other for the constructs under investigation. Significant coefficients at certain levels of alpha thus revealed significant relationships among latent constructs, as represented by the illustrated indicators in Tables, 7.22 and 7.24. The results in Tables 7.25 and 7.26 provided support for the proposed research hypotheses listed in Section 1.7 (Chapter one).

## 7.14 RESULTS OF HYPOTHESES TESTING

The model fit statistics shown in the previous sections were above recommended thresholds, suggesting that the proposed conceptual model converged well and could be a plausible representation of the underlying empirical data structure. The corresponding path coefficients of the research hypotheses posited observable existence of positive relationships between the determinants of market orientation (DMO) and market orientation (MO), market orientation and business performance (BP), and a negative relationship between the barriers to market orientation (BMO) and market orientation. Table 7.27 below presents these results.

**Table 7.27: Results of structural equation model analysis**

Hypothesis	Hypothesis	Path Coefficient	Hypothesis Decision
Determinants of Market Orientation → Market Orientation	H1	0.810***	Supported
Barriers to Market Orientation → Market Orientation	H2	-0.220*	Supported
Market Orientation → Business Performance	H3	0.650***	Supported

Structural model fits:  $\chi^2/df=2.620$ ; GFI=0.901; AGFI=0.86; CFI= 0.900; NNFI=0.911; RMSEA=0.060

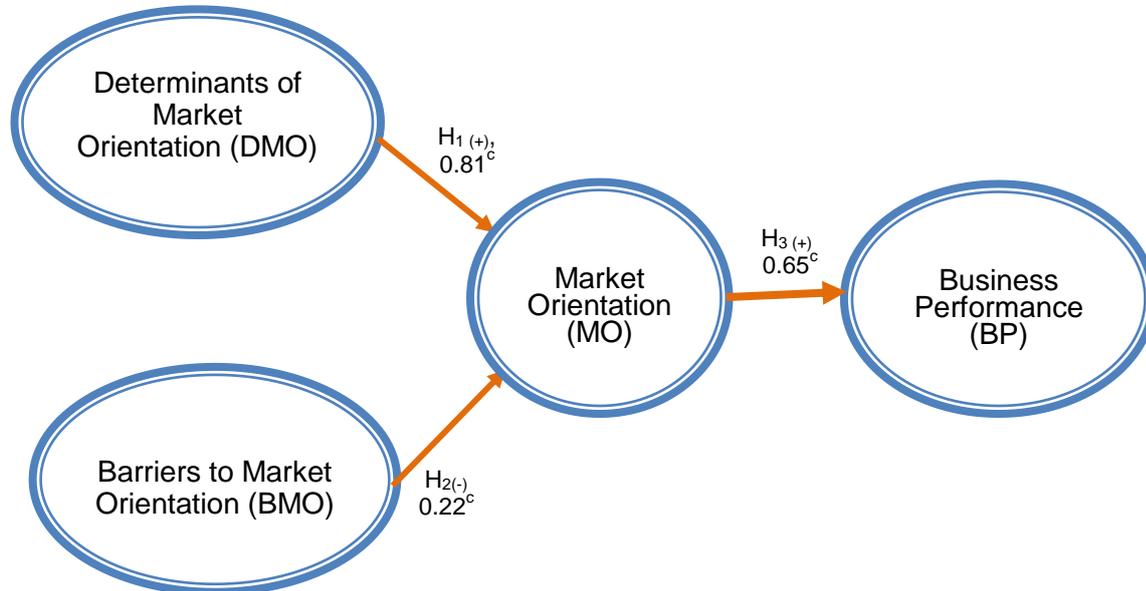
\* significance level <0.05; \*\* significance level <0.01; \*\*\* significance level <0.001

Results in table Table 7.27 show that proposed hypotheses (H<sub>1</sub> to H<sub>3</sub>) were all supported. Individual hypothesis path coefficients of the modularised relationship outcomes were 0.810 ( $p < 0.001$ ), -0.220 ( $p < 0.05$ ), and 0.650 ( $p < 0.001$ ) respectively.

The empirical model is depicted in Figure 7.9, suggesting DMO (determinants of market orientation) have a positive impact (H<sub>1</sub>+) on MO (market orientation), BMO

(barriers to market orientation) have a negative ( $H_{2-}$ ) impact on MO, and that MO has a positive ( $H_{3+}$ ) impact on BP (business performance).

**Figure 7.9: Model of relationship between DMO, BMO, MO and BP**



Note: Research structure model fits:

$\chi^2/df=2.620$ ;  $GFI=0.901$ ;  $AGFI=0.86$ ;  $CFI=0.900$ ;  $NNFI=0.911$ ;  $RMSEA=0.060$

The results of the relationships lend substantial support to the previous findings of Jaworski and Kohli (1993:53–70), Slater and Narver (1994:46–55) and Pelham (2000:48–67). These studies confirmed that market orientation has a significant positive effect on performance. Harris (2000:598-624) and Li *et al.* (2008:113-133) identified the existence of barriers to market orientation and determinants of market orientation. Although Zebal (2003:128) groups them together as antecedents of market orientation, their relationship with market orientation is identified. Deshpandé and Farley (2004:19) state that market orientation provides a unifying focus for the efforts and projects of individuals and departments within an organisation in order to create superior value for customers, leading to superior performance. The effect of the determinants/enablers of market orientation and barriers to market orientation are also reflected in the model. In other words, market-oriented SMEs are more likely to succeed if they understand the underlying factors that impact their market-oriented strategies. The motivation is to enhance the value of the SMEs' market-oriented offerings to customers (determinants/enablers) and to lower the negative impact of the barriers.

## 7.15 CONCLUSION

The purpose of the current research is to examine the determinants and enablers of market orientation, the barriers to market orientation and the impact of market orientation on business performance of SMEs in a South African setting. In this endeavour, the research explored the factors that influence market orientation (MO), the dimensions of the determinants of market orientation (DMO), the dimensions of barriers to market orientation (BMO) and the key aspects of business performance (BP).

The measuring instrument used in the study was explained. The descriptive analysis of the study was undertaken in this chapter. Four dimensions of market orientation, four determinants of market orientation, four barriers to market orientation and three business performance factors were extracted during the exploratory factor analysis procedure. In addition, t-tests and ANOVA were conducted to establish whether or not there were any significant differences between the market orientation dimensions and selected demographic variables and SME characteristics. The overall measurement models for each construct were then assessed for unidimensionality, using CFA. Construct reliability and validity were also assessed. The results of construct reliability, convergent validity, and discriminant validity demonstrated that the measures and constructs employed in the research attained adequate reliability and validity.

A market orientation–business performance structural model for SMEs, incorporating barriers to and determinants of market orientation developed on the basis of theory and extant market orientation literature was tested. It was tested using data that were collected from the SMEs in the Vaal Triangle region of South Africa. Multiple model fit indices achieved satisfactory levels and suggested that the hypothesised model fits the data very well. The results of data analyses lend support to all the proposed hypotheses. The results indicate that the barriers to market orientation significantly negatively influence the level of market orientation for SMEs. In addition, the determinants of market orientation positively influence SMEs' market orientation. The results also show that market orientation positively impacts business

performance for SMEs. By implication, this finding indicates that market-oriented SMEs are more likely to perform better than those SMEs that are not market oriented. In summary, the structural equation modelling and subsequent findings presented in this chapter provide a method for assessing the formulated research hypotheses. Detailed discussions of the managerial implications, recommendations and proposed future studies are presented in the following chapter (Chapter 8).

## **CHAPTER 8**

### **OVERVIEW, RECOMMENDATIONS, LIMITATIONS AND CONCLUSION**

#### **8.1 INTRODUCTION**

The previous chapter provided the analysis, discussions and interpretations of the empirical findings. Different stages for data collection and analysis were described. The data were analysed and summarised using cross-tabulations, figures, t-tests, analysis of variance (ANOVA), correlations, factor analysis and structural equation modelling.

The chapter begins by providing a general overview of the study by placing the theoretical and empirical objectives into context. The purpose of the study was to investigate barriers to market orientation and determinants and enablers of market orientation, and to analyse the impact of these components on market orientation, as well as the impact of market orientation on business performance for small and medium enterprises (SMEs) in South Africa. Arising out of theory and the empirical study, recommendations are made for the market orientation concept and for the business performance of SMEs. The chapter provides a general overview of the study by placing the theoretical and empirical objectives into context. It concludes with the benefits and limitations of the study and implications for future research.

#### **8.2 OVERVIEW OF THE FINDINGS**

This research was intended to replicate the study of market orientation within the South African SMEs sector. It advances our understanding of market orientation by proposing and testing a comprehensive model that integrates determinants/enablers of market orientation, barriers to market orientation, market-oriented behaviour and business performance. This study gives an additional point of view to both market orientation and SME marketing literature. The study was primarily concerned with assessing the impact of barriers to market orientation and determinants of market orientation on overall market orientation as well as the impact of market orientation on business performance for SMEs in the Vaal Triangle. The evidence from the study

demonstrates that market orientation increases SME business performance as measured by financial performance, employee organisational commitment, customer satisfaction and repeat business.

The study identified the specific barriers to market orientation, the determinants of market orientation and market orientation dimensions, and examined the impact of market orientation on business performance of SMEs in the Vaal Triangle, South Africa. The purpose of understanding market orientation, its barriers, determinants/enablers and links with business performance were discussed by providing a theoretical overview of the different perspectives. Desphandé and Farley, 1999:123 stated that market-oriented companies perform better than companies that are less market oriented. The importance of market orientation for SMEs depends on how well they understand the determinants and how effectively they manipulate the barriers that affect market orientation (Ruekert, 1992:229). Understanding market orientation dimensions is a prerequisite for delivering superior business performance, given that the components of market orientation are implicit performance standards (Porter, 1985:103). Market-oriented organisations focus on adapting their products and services to the needs and expectations of their customers (Grönroos, 1991:7). To achieve this customer focus, a firm with a high degree of market orientation cultivates a set of shared values and beliefs about putting the customer first and reaps results in the form of competitive advantage (Desphandé & Farley, 1999:123).

Market orientation has been recognised as a strategic tool for achieving operational efficiency and improved positive organisational performance. Notwithstanding such affirmations, the frameworks developed by Jaworski and Kohli (1993:53) and Narver and Slater (1990:23) provide an interesting avenue for gaining a comprehensive understanding of the market orientation dimensions. The applicability of the market orientation framework in a South African setting confirms the potential of using this framework for other developing economies.

The theoretical and empirical objectives are revisited in the following section in order to illustrate their attainment within the framework of the study.

### **8.2.1 Theoretical objectives**

The theoretical objectives, as set out in the beginning of the study (in Chapter 1), are reviewed and outlined. For managers and researchers to make informed decisions and derive value from this study, all research objectives have to be addressed based on the data generated from the survey in order to ensure that the initial purposes of the study were achieved.

**i) To conduct a literature review on the significance of the small and medium enterprises sector in South Africa.**

An extensive literature review was undertaken to explain the nature of the SME sector. The whole of Chapter 2 was dedicated to this objective. A combination of academic journal articles, textbooks, newspapers, online sources and magazines were used as literature sources. The chapter covers definitions of SMEs, the role and importance of the SME sector to economic growth and provides a discussion on SMEs and employment creation. The characteristics, growth and performance of SMEs is discussed and a description of the small-business economy and its role within the economy is provided.

**ii) To carry out a literature study on the relationship between market orientation and business performance.**

The objective is achieved in various sections of Chapter 3 (sections 3.5, 3.10, 3.11.1, 3.11.2 and 3.11.3) dedicated to the important elements and value of market orientation in business and the key activities encapsulating market orientation. The chapter further outlines the market orientation scales and the business performance scales, providing the criteria for measuring market orientation and SME performance. The review of the literature provided a rich debate on the existence of a strong link between market orientation and business performance, highlighting the importance of “market orientation implementation”.

- iii) To review the literature on market orientation characteristics and understand the existing market orientation constructs and dimensions linking market orientation components and business performance**

This objective is dealt with under sections 3.4, 3.5, 3.6 and 3.7. These sections showed the important elements and value of market orientation in the business environment and the key activities encapsulating market orientation, particularly because a good understanding of market orientation dimensions and existing constructs was essential for the theoretical grounding of this study.

- iv) To conduct a literature review on the SME marketing environment and the marketing function of market-oriented SMEs.**

Chapter 4 (sections 4.2, 4.3.1 and 4.5) dealt with this objective. In this regard, Kotler and Armstrong (2011:123) appropriately suggest the need for SMEs to embrace the principles of marketing and become more market oriented.

- v) To review the literature on the barriers to and determinants and enablers of market orientation in SMEs, applicable within the South African context.**

This objective is achieved in Chapter 5, which provides detailed explanations of the barriers (section 5.2) and determinants/enablers (section 5.3 and 5.4) associated with the adoption and implementation of market orientation in the business environment. The sections noted provide the description and definitions of the barriers to and the determinants and enablers of market orientation. Overcoming these barriers to market orientation and optimally managing the determinant factors and enablers of market orientation is vital for organisational success and competitive business performance.

## 8.2.2 Empirical Objectives

The empirical objectives formulated in the beginning of the study are listed in this section. Thus Chapter 7 presents the empirical results of the data analysis and interpretation.

**vi) To identify the measurement variables used by SMEs to measure business performance.**

This objective was achieved in section 7.8, where exploratory factor analysis was performed. The results demonstrated that three dimensions exist with correlated variables that measure SME business performance. Section 7.8.2 provides a description of the three extracted factors.

**vii) To assess the barriers to and the determinants/enablers of market orientation among SMEs.**

Section 7.6 provides an analysis of the determinants/enablers of market orientation, section 7.6.2 lists the factor structure, while section 7.7 details the factor structure and interpretations of the the barriers to market orientation.

**viii) To assess the overall level of market orientation and the effect of SMEs characteristics on its adoption.**

This objective is achieved in sections 7.3.1 (respondent gender composition), 7.3.2 (respondent level of education and age), 7.3.3 (SME industry sector), 7.3.4 (SME characteristics), 7.9.1 (t-tests) and 7.9.2 (analysis of variance)

**ix) To establish the relationship between barriers to market orientation, determinants/enablers of market orientation, market orientation and business performance.**

The relationship between barriers to market orientation, determinants/enablers of market orientation, market orientation and business performance are illustrated in

Table 7.23. Figure 7.6 shows the directions of influence and the statistical indicators of the impact for the dataset for this study.

**x) To develop a generic taxonomy of market orientation for SMEs and highlight factors that may affect their sustained success**

The conceptual model is developed and assessed for goodness of fit (see section 7.11, 7.12 and 7.13). Section 7.13 also illustrates the conceptual model path diagram and presents the results of the structural equation modelling hypotheses testing.

### **8.3 MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS**

The research findings offered several important managerial implications. Firstly, the present study clearly supports a positive effect of market orientation on business performance. Consequently, SMEs are encouraged to continue their efforts in adopting and implementing more market-oriented strategies. Secondly, by increasing market orientation activities, SMEs can improve their product and services offerings.

The results of this study revealed a significant positive effect of market orientation on the business performance in terms of financial performance and non-financial performance. Thus, SMEs should accept market orientation activities as strategic behaviours that can assist them in achieving their business objectives. The findings can be used as a guideline for organisations that intend to accept the market orientation concept as their organisational philosophy. The model illustrated in this study provides the steps that should be implemented for a company to become an effective market-oriented organisation. It shows the linkage between market orientation and superior business performance and so could be used to motivate the organisations that have not yet accepted market orientation as their philosophies.

The implications of this study are both academic and practical. The implications on the academic front are that, firstly, a contribution is made to the existing literature on relationship of market orientation with business performance, particularly in the context of developing countries. Secondly, a pioneering attempt is made to apply the market orientation theory in order to explain the dynamics of small-business

marketing. In this regard, a relational market orientation–business performance model for the SMEs dyad is developed and insights on how SMEs can be effectively market oriented are presented.

The study identified the conditions that foster or discourage market orientation, and the contribution that market orientation can have on business performance for SMEs. The SMEs in South Africa can achieve market orientation with the aid of the market orientation–business performance (MO-BP) model without much discord, as all the elements in the model have been incorporated on the basis of the findings of this study. SMEs can select the determinants of market orientation and eliminate the barriers that discourage market orientation. Further, the study confirms that superior business performance is influenced by the level of market orientation of an organisation; managers/owners of the SMEs in South Africa will be motivated to commit resources towards being market oriented. In so doing, SMEs will be able to project the cost-benefit ratio by looking at the cost of the resources of becoming market oriented versus the benefits derived from adopting market-oriented behaviour (Morgan & Hunt, 1994:11).

Following on from this implication, managers and business owners of SMEs are therefore encouraged to be strategically and increasingly market oriented in order to increase their effectiveness through customer satisfaction and organisational commitment. The SMEs stand to benefit from this attainment since the desirable business outcomes (financial performance, team spirit (*esprit de corps*), relationship satisfaction and repeat business) are reported in market orientation literature as resulting in eventual long-term success (Powers & Reagan, 2007:1234). To this end, managers in can continuously acquire skills, knowledge, experience and other capabilities that enable them to build up and attain higher levels of market understanding. Moreover, effective dissemination of information and market intelligence effectively increases organisational competitiveness.

Because the results (see section 7.9.2) indicated that the respondents with high levels of education (postgraduates and trade certificates) showed significant customer emphasis, managers and marketers in SME firms are encouraged to develop their skills, experience and other capabilities to optimise the effectiveness of

their market orientation. This can be achieved by, for example, managers in the SME firms organising and conducting workshops where information and knowledge are imparted or shared with the SME. As suggested by Lighthelm and Cant (2003:41), this can be done as a service by government agents or civic society where possible to develop SMEs in South Africa.

Given the frequencies reported in this study (see Table 7.5). it can be said that the biggest employers are those SMEs employing fewer than 50 employees. The current research submits that more specific attention should be accorded to increasing the sustainability of SMEs. This was also suggested by Mahadea and Rawat (2008:276). Subrahmanya *et al.* (2010:7) cited strong SME policies that have nurtured small-business development and sustained industrial sector growth in India and Japan. Industrial policies targeted at SMEs should take cognisance of start-up SMEs, forge collaborations with the SMEs and encourage small-business ventures, taking note of their challenges and needs. These SMEs may be developed and encouraged to be market oriented to enhance their business performance.

The researcher hopes that the market orientation–business performance model that goes beyond an individual market orientation perspective will attract interest and be applied by SMEs in South Africa to assist in identifying fundamental aspects of market orientation for their companies. It will also help companies to improve their market-oriented activities, as they will be able to compare their actual market-oriented behaviour with the behaviour necessary to achieve superior business success (Mukras, 2003:13). It is also anticipated that the SMEs in South Africa that are not market oriented will be encouraged by this model to adopt market-oriented behaviour in order to improve their organisational success in a more rapid and professional fashion. It is also hoped that the verification of this model of market orientation in this study in South Africa will arouse interest among the marketing scholars to test the model further, in both developed and developing countries.

The findings in this study also show that SMEs should have an understanding of and commitment to their markets and customers, to create and provide superior value in their operations as well as focus on customer satisfaction. SMEs must encourage customer comments and complaints. Results and discussions of this study can be

used as a guideline for companies that want to be market oriented, as detailed activities are suggested under each of the market orientation components. This means that firms will know what to do in order to accomplish each of the market-oriented activities. As the current issue has not been dealt with in relation to sub-Saharan Africa in general and South Africa in particular, this study provides pioneering and initial evidence on the subject. Based on these research findings, managerial implications are discussed and future research directions are suggested.

#### **8.4 LIMITATIONS AND IMPLICATIONS FOR FUTURE RESEARCH**

This study is not without limitations and further research is recommended. First, a valuable research direction may be to conduct a longitudinal study of the three hypothesised relational influences, of which market orientation is the centre, to validate the current research findings. Replication of this kind of study in other regions of South Africa and sub-Saharan Africa may also be useful in substantiating the findings observed in this investigation. Moreover, while the research sampling frame is confined to the SME definition employed by South Africa, minor variations in the definition exist across sub-Saharan African countries. See Mlambo (2001:7) for further examples. The variations in definition pose some challenges as they make it difficult to generalise the findings in this area. Future work needs to consider the ramifications of such variations when replicating this study.

Secondly, the research concerns the use of single key informant per unit analysis (i.e. one respondent per SME). In this study the respondents were key informants from each firm. Only perceptions of SME senior officials are considered in the current study. These key informants were used because of their specific knowledge about the required information for this study. The use of information from only a single source to generalise about a whole firm's condition may be misleading. According to Gounaris and Avlonitis (2001:356), "such information is selective and biased, owing to the informant's position and characteristics, or their way of using and weighting the information when making judgements". Future studies might consider investigating the current subject matter from the perspective of the operational personnel so as to discern the influence of shop floor activities and personnel from different levels within the company together with other key stakeholder informants.

Thirdly, the study applied independent t-test analysis, analysis of variance (ANOVA), confirmatory factor analysis (CFA) and structural equation modelling (SEM). The data analysis techniques applied in this study have rarely been used by researchers in previous market orientation studies reported in the literature, and so, in order to confirm the consistency of the findings of this study with previous market orientation studies, it would have been appropriate to use other data analysis techniques in this study. It is suggested that, in order to confirm the findings of this study, additional studies in South Africa should be 'causal' and use different data analysis techniques from this study such as LISREL. For this purpose, it is also suggested that a larger sample size should be considered.

Some additional determinants of market orientation, including professionalism, entrepreneurship, firm size and resources, political unrest and nepotism, culture, legal environment and lack of efficient manpower, were excluded although they may be essential for future research. These aspects of market orientation were not included in the conceptual framework as they had not been thoroughly covered in the previous market orientation literature. For future market orientation studies in South Africa, these additional variables should be included together with the existing antecedents identified by Zebal (2000:162) to examine their relationships with market orientation. As this study was limited to one developing country, it was not possible to carry out a comparative analysis with market orientation of another country. It is therefore suggested that cross-cultural studies should be carried out in the future in different developing countries for comparison purposes.

Future studies in South Africa should include large companies in order to provide comparative analysis between SMEs and large business operations. The conceptual framework of market orientation presented in Figure 6.1, Chapter 6 in this study was developed on the basis of the required conditions, market orientation components, and consequences of the market orientation. Since inclusion of these issues required operationalisation and development of scales, considering the time frame and cost of the research, it was decided not to include some issues in the conceptual framework. Future studies will be required to operationalise and develop scales for these issues. A comparison of perspectives of manufacturer SMEs and service SMEs is also encouraged. Such studies could enrich scholarly comprehension of this subject

matter in addition to the contribution it makes to the existing body of market orientation literature. Because the current endeavour examines the determinants and barriers considered to be useful solely in the context of South Africa, subsequent research should take other dimensions into consideration.

Subjective or perceived data were used in this study for measuring the business performance because of the confidentiality of the actual performance data. For future market orientation studies in South Africa it is suggested that if performance data from companies are not available because of confidentiality, then alternative data from documentary sources such as trade and other publications should be used in addition to subjective/perceived data. The findings in this study are based on cross-sectional data. Future research should analyse the dynamics of change in the variables and relationships analysed by employing longitudinal data.

## **8.5 CONCLUDING REMARKS**

Despite the substantial importance of the market orientation concept and its implementation in the modern business arena, extensive research has not been undertaken in developing countries. Market orientation models have been developed and tested only for developed economies. This necessity for a market orientation model that is applicable to developing countries motivated the researcher to develop a conceptual model of market orientation–business performance (MO-BP) and test it in a developing country setting. A framework of market orientation developed and tested in South Africa makes a significant contribution to the theoretical literature, particularly in the context of marketing for the small-business sector. The framework has the potential to be adapted and validated for other developing markets.

The conceptual framework of market orientation (Figure 6.1, Chapter 6) proposed in this study is the “MO-BP conceptual model” that has been used for extensively identifying the barriers, determinants and market orientation impact on business performance for SMEs in a developing country, South Africa. Market orientation and its four components, customer emphasis, intelligence generation, intelligence dissemination, and intelligence responsiveness/taking action, are at the centre of the model. The developed model of market orientation–business performance for South

Africa shows that four fundamental determinants and four key barriers impact the market orientation, which in turn positively influences the business performance of SMEs.

The applicability of this framework in South Africa confirms that this framework can potentially be used for other developing countries. This framework has potential because customers are the centre of all marketing activities and if this framework can work in South Africa, then it can be deemed to work also in other developing countries. The model (see Figure 7.9) is considered a significant contribution to the body of knowledge as it is a development of some previous market orientation models.

Firstly, this model has been developed on the basis of the general areas (i.e. vital issues) of the market orientation perspectives in developed countries that included all the components that may be lacking in a single perspective. These included Kohli and Jaworski (1990:13), Narver and Slater (1990:21), Ruekert (1992:231), Baker and Sinkula (1999:413) and Deshpandé *et al.* (1993:27). Both exploratory and confirmatory factorials of the components in this study indicated general areas of agreement among the different perspectives, giving this model a comprehensive nature which produced good analytical results on market orientation, indicative of its replicability.

Secondly, this model has incorporated both internal organisational factors and external factors as determinants of market orientation while the earlier market orientation model developed by Jaworski and Kohli (1993:55) for developed countries considered only the internal organisational antecedent conditions as determinants of market orientation.

Thirdly, along with other economic and non-economic performance measures, this model incorporated customer response (i.e. customer satisfaction and repeat customers) as an additional consequence of market orientation, while in the earlier market orientation models for developed countries, customer response (customer satisfaction and repeat customer) was excluded (see Jaworski & Kohli, 1993:55).

Finally, this first model of market orientation for SMEs in South Africa, which confirms the extended form of the critical market orientation issues, is still to be established as a generic model. Therefore, in order to verify its generic application, it is hoped that this model will be used as a starting point, prompting further studies and be tested in other markets, both developed and developing.

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**APPENDIX A**

**Inter-Item Correlation Matrix**

	MoR	MoC	MoD	MoG	Tec	Cen	Com	Rews	Emp	IFC	IDC	RiP	BP1	BP2	BP3
MoR	1.000														
MoC	.423	1.000													
MoD	.492	.504	1.000												
MoG	.371	.366	.358	1.000											
Tec	.383	.489	.527	.299	1.000										
Cen	.600	.368	.343	.174	.268	1.000									
Com	.365	.308	.302	.239	.412	.265	1.000								
Rews	.399	.273	.322	.167	.422	.305	.328	1.000							
Emp	.520	.735	.903	.359	.585	.373	.320	.368	1.000						
IFC	.414	.363	.337	.168	.305	.414	.312	.424	.359	1.000					
IDC	-.124	-.096	-.031	.074	.050	-.226	.209	.110	-.047	.138	1.000				
RiP	.257	.169	.195	.039	.242	.142	.154	.078	.218	.169	.078	1.000			
BP1	.559	.425	.342	.277	.420	.506	.323	.467	.409	.373	-.047	.228	1.000		
BP2	.471	.438	.310	.378	.353	.426	.321	.381	.384	.349	-.031	.184	.624	1.000	
BP3	.314	.173	.148	.056	.119	.426	.157	.216	.194	.166	-.132	.107	.416	.378	1.000

**APPENDIX B**  
**SURVEY INSTRUMENT (QUESTIONNAIRE)**



NORTH-WEST UNIVERSITY  
YUNIBESITI YA BOKONE-BOPHIRIMA  
NOORDWES-UNIVERSITEIT

**SURVEY QUESTIONNAIRE**

*We would like to find out **the barriers, determinants and enablers of market orientation as well as its impact on business performance for small to medium enterprises (SMEs)**. If you have a reservation about a statement, please circle the best approximate answer that clearly considers your feelings and your company situation. Please indicate the extent to which you agree with the statements using the following rating scale. Strongly agree = 5, and Strongly Disagree = 1.*

<b>SECTION A: MARKET ORIENTATION</b>								
<i>This part of the questionnaire is designed to measure the extent of market orientation of the SMEs. Please indicate the extent to which you agree or disagree with the statements. Strongly agree = 5 and strongly disagree = 1.</i>								
<b>A1</b>	We encourage customer comments and complaints because they help us to do a better job.	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A2</b>	We have a strong commitment to our customers.	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A3</b>	We are always looking at ways to create customer value in our products	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A4</b>	We measure customer satisfaction on a regular basis	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A5</b>	In this business, we meet with customers at least once a year to find out their future needs.	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A6</b>	In this business, we do a lot of in-house market research	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A7</b>	We survey our end-users at least once a year to assess how they perceive the quality of our products	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A8</b>	We are quick to detect changes in our customers' product preferences	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>

<b>A9</b>	We are quick to detect fundamental shifts in our industry (e.g. competition, technology, regulation).	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A10</b>	We periodically review the likely effect of changes in our business environment (e.g. regulation) on customers	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A11</b>	In our business, we have inter-departmental meetings at least once a quarter to discuss market trends and developments	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A12</b>	Marketing personnel in our company spend time discussing customers' future needs with other functional departments	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A13</b>	Data on customer satisfaction are disseminated at all levels in this company on a regular basis	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A14</b>	When one department finds out something about competitors, it is quick to alert other departments	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A15</b>	If anything happens to a major customer or market, the whole company knows about it in a short period	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A16</b>	It takes us very little time deciding on how to respond to our competitors' price changes	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A17</b>	We periodically review our product development efforts to ensure that they are in line with what customers want	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A18</b>	For one reason or another we tend to respond to changes in our customers' product or service needs	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A19</b>	When we find that customers would like us to modify a product, the departments involved make concerted efforts to do so	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A20</b>	The activities of the different departments in this company are well coordinated	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A21</b>	Customer complaints are promptly attended to in this company	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A22</b>	Even if we came up with a great marketing plan, we probably would not be able to implement it in a timely fashion	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>

<b>A23</b>	If a major competitor were to launch an intensive campaign targeted at our customers, we would implement a response immediately	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>A24</b>	Several departments get together periodically to plan a response to changes taking place in our business environment	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>SECTION B<sub>d</sub>: DETERMINANTS AND ENABLERS OF MARKET ORIENTATION</b>								
<i>This part of the questionnaire is designed to measure the influence of different factors on market orientation in South Africa. Please indicate the extent to which you agree or disagree with the statements. Strongly agree = 5, and strongly disagree = 1.</i>								
<b>Bd1</b>	In this company, top managers repeatedly tell employees that this company's survival depends on its adapting to market trends	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd2</b>	Top managers often tell employees to be sensitive to the activities of our competitors	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd3</b>	Top managers keep telling people around here that they must gear up now to meet customers' future needs	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd4</b>	According to top managers here, serving customers is the most important thing our company does	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd5</b>	Top managers in this company believe that higher financial risks are worth taking for higher rewards	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd6</b>	Top managers in this company like to take big financial risks	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd7</b>	Top managers here encourage the development of innovative marketing strategies, knowing well that some will fail	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd8</b>	Top managers around here like to implement plans only if they are very certain that they will work	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd9</b>	There can be little action taken here until a supervisor approves a decision	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd10</b>	Even small matters have to be referred to someone higher for a final decision	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd11</b>	I have to ask my boss before I do almost anything	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>

<b>Bd12</b>	Any decision I make has to be my boss's approval	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd13</b>	In our company, employees are motivated to feel that they supervise themselves	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd14</b>	For most of the things in our company it is within the authority of those who are responsible for them to decide how they will be done	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd15</b>	The employees in this company are constantly monitored for rules violation	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd16</b>	In this company, threatening others to perform certain jobs are encouraged	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd17</b>	In our company, individuals' attempts to promote self-interest are accepted	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd18</b>	We discourage political behaviour of employees in our company	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd19</b>	Most departments in this company get along well with each other	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd20</b>	When members of several departments get together, tensions frequently run high	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd21</b>	Customer satisfaction assessments influence senior managers' pay in this company.	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd22</b>	Formal rewards (e.g. pay raise, promotion) are forthcoming to anyone who consistently provides good market intelligence /information.	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bd23</b>	Salespeople's performance in this company is measured by the strength of relationships they build with customers.	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>

**SECTION B<sub>b</sub>: BARRIERS TO MARKET ORIENTATION**

*This part of the questionnaire is designed to measure the influence of different factors on market orientation in South Africa. Please indicate the extent to which you agree or disagree with the statements. Strongly agree = 5, and strongly disagree = 1.*

<b>Bb1</b>	People in one department generally dislike interacting with those from other departments	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb2</b>	Employees from different departments feel that the goals of their respective departments are in harmony with each other	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb3</b>	There is little or no inter-departmental conflict in this company	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>

<b>Bb4</b>	In this company, regardless of their rank or position, it is easy to talk to anyone needed	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb5</b>	There is ample opportunity for informal hall-talk among individuals from different departments in this company	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb6</b>	In this company, employees from different departments feel comfortable calling each other when the need arises	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb7</b>	People in this company are quite accessible to those in other departments	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb8</b>	We regularly monitor our competitors' marketing efforts	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb9</b>	We frequently collect marketing data on our competitors to help direct our marketing plans	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb10</b>	Our salespeople are instructed to monitor and report on competitor activity	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb11</b>	We respond rapidly to competitors' actions	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb12</b>	There are many promotion wars in our company	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb13</b>	Price competition is a hallmark of our company	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb14</b>	Our competitors are relatively weak	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb15</b>	In our kind of business, customers' product preferences change quite a bit over time	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb16</b>	Our customers tend to look for new products all the time	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb17</b>	We are witnessing demand for our products and services from customers who have never bought them before	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb18</b>	Sometimes our customers are price-sensitive, but on other occasions, price is relatively unimportant	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb19</b>	The technology in our company is changing rapidly	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb20</b>	Technological changes provide big opportunities in our company	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>

<b>Bb21</b>	A large number of new product ideas have been made possible through technological breakthroughs in our company	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb22</b>	Technological developments in our company are rather minor	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb23</b>	The customers in our company are likely to be value conscious	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb24</b>	Our company is more responsive to customer needs in order to offer good value for money	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb25</b>	The general economy of this country is weak	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb26</b>	In our company, top managers receive management training on a regular basis.	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb27</b>	It is our company requirement to organise management training programmes for the top managers.	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb28</b>	Our company is reluctant about sending top managers into training programmes.	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb29</b>	We don't have such training programmes in our company.	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb30</b>	It is our company requirement to have formal marketing education for the top managers.	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb31</b>	We can hardly see any of our top managers in the marketing department without having formal marketing education.	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb32</b>	Formal marketing education is the key requirement of the top managers in our marketing department for career movement.	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb33</b>	We emphasise experience rather than formal marketing education to promote our managers in the marketing department.	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>Bb34</b>	Employees from every department in this company get recognised for being sensitive to competitive moves.	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>

### SECTION C: MARKET ORIENTATION - PERFORMANCE SCALE

*This part of the questionnaire is designed to measure the influence of market orientation on SMEs in South Africa. Please indicate the extent to which you agree or disagree with the statements. Strongly agree = 5 and strongly disagree = 1.*

<b>C1</b>	Employees of this company would be happy to make personal sacrifices if it were important for the company's well-being	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C2</b>	The bonds between this company and its employees are weak	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C3</b>	In general employees are proud to work for this company	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C4</b>	Our employees have little or no commitment to this company	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C5</b>	People in this company are genuinely concerned about each other's needs and problems	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C6</b>	Working for this company is like being a part of a big family	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C7</b>	People in this company feel emotionally attached to each other	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C8</b>	People in this company view themselves as independent individuals who have to tolerate others around them	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C9</b>	The return on investment of our company has improved	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C10</b>	The profit of our company has increased	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C11</b>	We have remarkable sales growth in our company	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C12</b>	The market share of this company has gone up	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C13</b>	The sales volume has increased	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C14</b>	The revenues of our company have increased	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C15</b>	The quality of our products has improved	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C16</b>	The financial position of my company has improved	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C17</b>	We have more loyal customers than competitors	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C18</b>	We often receive complimentary phone calls/letters from our customers	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>

<b>C19</b>	Our trade partners always praise our product quality	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C20</b>	We hardly ever receive complaints about our product	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C21</b>	We generate new customers for our company on a regular basis	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C22</b>	Customers of this company are happy with our products and prices	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C23</b>	We have more repeat purchases in our company	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C24</b>	If customers buy from us for the first time, they also buy for the second time, and continue buying thereafter.	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C25</b>	We have more committed customers than anyone else does	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>
<b>C26</b>	It is hard to see repeat customers in our company	<i>Strongly Disagree</i>	1	2	3	4	5	<i>Strongly Agree</i>

#### SECTION D: DEMOGRAPHIC DETAILS

In this section we would like to find out and know a little more about you. Please place a cross (x) in the appropriate block.

<b>D1 Please indicate your gender</b>	Male	1	Female	2
<b>D2 Please indicate your age category</b>	Under 30 years	1		
	30-39 years	2		
	40-49 years	3		
	50-59 years	4		
	60 years and above	5		

<b>D3 What is your highest level of education?</b>	No formal education	1
	Primary school education	2
	High School education (Grade 12)	3
	Trade certificate	4
	Undergraduate or equivalent degree	5
	Postgraduate or equivalent degree	6

#### SECTION E: BUSINESS PROFILE

In this current section we would like to find out and know a little more about your business. Please place a cross (x) in the appropriate block.

<b>E1 In which sector is your business located?</b>	
<i>Agriculture, hunting, forestry and fishing</i>	1
<i>Mining and quarrying</i>	2
<i>Manufacturing</i>	3
<i>Electricity, gas and water supply</i>	4
<i>Construction</i>	5
<i>Wholesale and retail trade (Motor vehicle repairs, motor cycles, household goods, clothing, hotels and restaurants)</i>	6
<i>Transport, storage and communication</i>	7
<i>Financial intermediaries (insurance, real estate and business services)</i>	8
<i>Community, social and personal services</i>	9
<i>Private households, representatives of foreign governments and other activities</i>	10

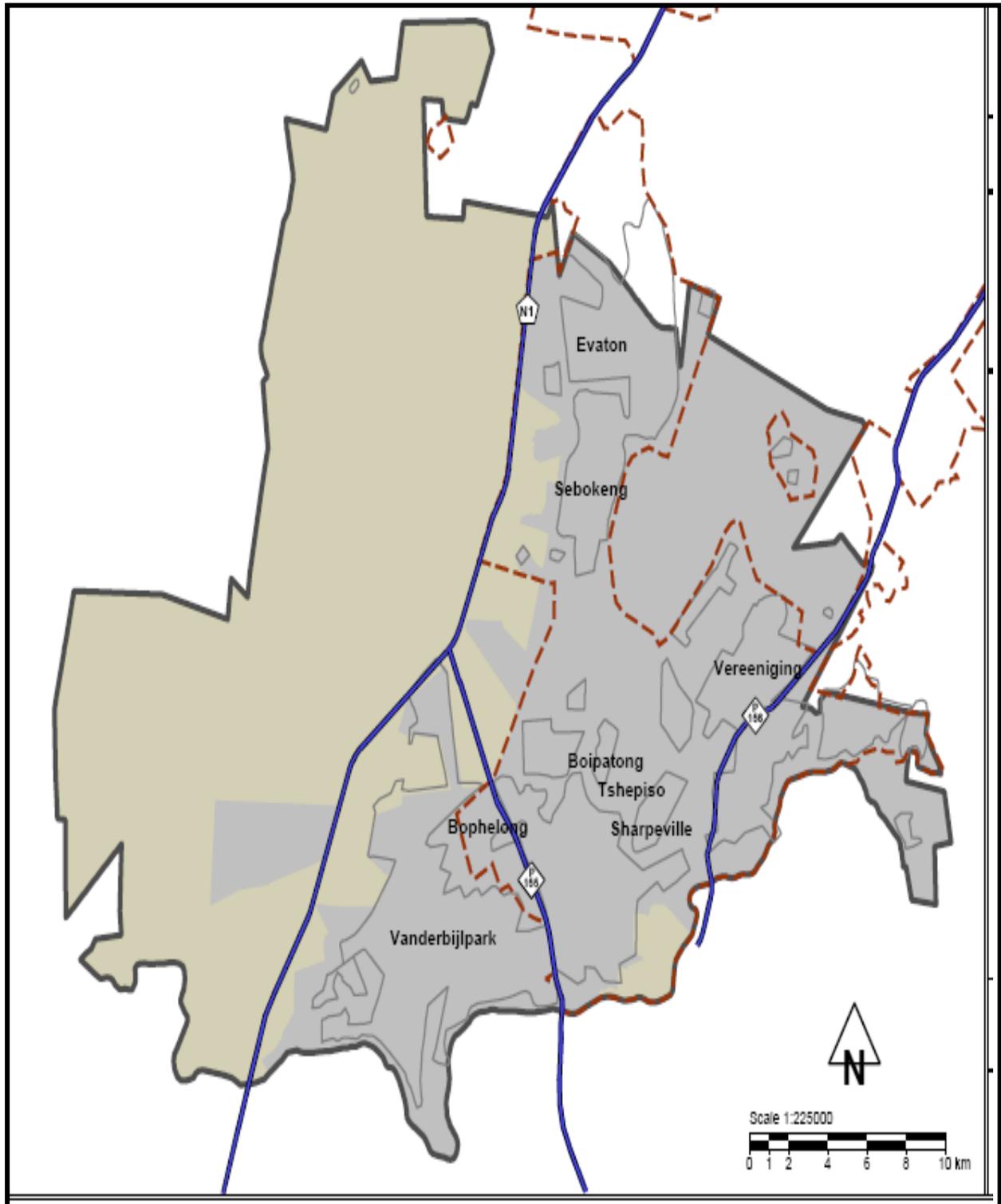
<b>E2 Which of the following constitute/s the market base for your organisation?</b>		
<i>In neighbourhood (local area)</i>	1	
<i>National (South Africa)</i>	2	
<i>International (Export)</i>	3	
<b>E3 Does your organisation have a marketing department?</b>	Yes	No
<b>E4 Is your organisation currently applying any form of marketing principles?</b>	Yes	No
<b>E5 Is your business formally registered?</b>	Yes	No

<b>E6 What is the legal form of your business?</b>	
<i>Sole trader (one-man business)</i>	1
<i>Partnership (between 2 &amp; 20 partners)</i>	2
<i>Close corporation (1-10 business owners)</i>	3
<i>Co-operative (Non-profit, 2 or more owners)</i>	4

<i>Private company (Pty) Ltd</i>	5
<i>Public Company (Ltd)</i>	6
<b>E7 When did you start your business?</b>	
<i>In the last three years</i>	1
<i>Between 3 and 6 years ago</i>	2
<i>Between 6 and 9 years ago</i>	3
<i>More than 9 years ago</i>	4

<b>E8 Please indicate the number of full time employees in your business?</b>	
<i>Less than 10 employees</i>	1
<i>Between 10 and 50 employees</i>	2
<i>Between 50 and 100 employees</i>	3
<i>Between 100 and 200 employees</i>	4
<i>Above 200 employees</i>	5
<b>E9 What is the estimated annual turnover for your business?</b>	
<i>Less than R2 million</i>	1
<i>Between R2 million and R4 million</i>	2
<i>Between R4 million and R8 million</i>	3
<i>Between R8 million and R16 million</i>	4
<i>Between R16 million and R32 million</i>	5
<i>Over R32 million</i>	6
<b>E10 Which of the following would be a major objective for your business in the next three years?</b>	
<i>To reduce in size</i>	1
<i>To stay the same</i>	2
<i>To grow moderately</i>	3
<i>To grow substantially</i>	4

**APPENDIX C**  
**DEMARCATIONS OF THE VAAL TRIANGLE**



Source: Demarcation Board (2008:6)