BUSINESS ENVIRONMENT FACTORS AND BUSINESS PERFORMANCE: THE CASE OF MACEDONIA – A DEVELOPING ECONOMY

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ABSTRACT

One of the key elements of economic development is the private business sector i.e. entrepreneurs with strong and durable competitive advantage. Entrepreneurs are being recognized as the driving force of higher employment rates, improved standard of living, production of value-added products and services, increased innovation, and in general, as the creator of strong economies. The main goal of this analysis is to prove that some specific factors of the internal (customer orientation degree through consumer analysis and response to consumer demands, as a part of the companies' market orientation and strategy), micro (bargaining power of suppliers and consumers, possibility of new entrants, intensity of competition) and macro (changes in technology, market turbulence, demand growth) environment directly affect the market share and profitability of the companies in a developing economy and thus, enable the companies to focus on the ones of importance, which will allow more efficient allocation of scarce business resources.

The study is based on the hypothesis of linear dependence of business performance of the specific environment factors. The analysis is conducted on the base of parametric statistics and the tests of Pearson correlation and linear regression. The methodology included both quantitative and qualitative research methods, comprising of the techniques of structured survey and semi-structured interviews with managers of domestic companies.

The descriptive statistics shows that: the domestic companies have on average low to medium levels of consumer orientation; the factors of the micro environment make the market a highly competitive one; the macro environment on the domestic market is defined through high market turbulence, frequent changes in technology and medium demand growth. The deductive statistics shows that the strongest influence on the business performance comes from internal environment factors i.e. customer orientation. Additionally, significant inter-correlation has been found between factors of the macro environment i.e. changes in technology and demand growth, which also affect business performance i.e. market share. The conclusion states that in a developing economy, where the intensity of competition and market turbulence is high, companies can evolve to the stage of growth, development, better business performance and stronger market position through changes in internal factors regarding strategy and market orientation, i.e. consumer / customer orientation.

KEYWORDS: business environment, key factors, business performance, entrepreneurship

INTRODUCTION

In the 19th and late 20th century, through the increased interchange of ideas, products and, other aspects of culture, the process of international integration, i.e. globalization has been increasingly developing and thus, started affecting work organization, businesses, economics and socio – cultural resources and, nature environment. In fact, the competitiveness of the national economy is now more than ever influenced from the day – to – day activities of the companies in the private sector. Entrepreneurial companies are considered to be the pillars of development and the base for long – term improvement of standards of living in an economy, with no regards to the level of development of the economy itself. This paper analyses the key factors that affect the national economic development through key entrepreneurial activities (market orientation of the companies and monitoring of business environment) that influence and enable the existence of the private business sector.

Market orientation is defined as "the degree to which a business unit: 1. Possesses and uses information about consumers, 2. Develops a strategy that meets the demands of consumers, 3. Implements that strategy by responding to consumer needs and desires" [1]. Market orientation is a part of the marketing concept as a philosophy of business, and it facilitates the execution of the marketing orientation expressed through business activities, at the same time uniting both these terms.

The structure of the industry, defined as a market for identical or similar products and services offered to consumers, is considered to affect the different levels of profitability in various industries. This paper analyses three of the five forces/factors[47] of influence, as factors of the micro environment of a company: 1. The possibility of entry of new competitors; 2.Bargaining power of suppliers; 3.Bargaining power of customers, divided into two levels, one of them are at the level of horizontal competition, and other two on the level of vertical competition, respectively [2].

Market turbulence can be defined as fast and unpredictable changes in the intern or extern factors in an organization, which influence the outcome and effect of the business [3]. The interdependency of this global world creates the "butterfly effect" - every human, every entity, are connected on a level which enables the effect of the changes in one area to be distributed and felt in another [4]. Some of the characteristics of turbulent economies and markets are [4]: unpredictable economic cycles with discontinuity in the periods of recessions and bums', high impact of the business problem on the end output, careful and focused investments, avoidance of market risks, insecure customers and clients who require security. With high market turbulence, often come changes in technology. The disruptive technology is one of the driver factors behind the globalization process, which has influenced many aspects of everyday life [4]: changes in the transactions between companies and consumers, product life cycle and promotion, connections between the employer and employees, distribution of information, diffusion of innovations, etc. Furthermore, the demand, defined as a buyer's willingness and ability to pay a price for a specific quantity of a good or service, directly affects business performance, based on the basic economic logic that increase in the demand leads to increase in supply and, increase in prices.

[47] The five forces are: 1.rivalry among existing competitors; 2.threat of substitutes; 3.the possibility of entry of new competitors; 4.bargaining power of suppliers; 5.bargaining power of customers

Based on the aforementioned, this paper aims to prove that the analysis of some specific factors of the internal, micro and macro business environment that are a consequence of the globalization processes and, also influence the process itself, can contribute to enhancement in business performance and, thus, lead to higher competitiveness of an economy. Most attention is paid to the need of evolution of the managing model from product oriented to consumer, i.e. market oriented.

LITERATURE REVIEW

Enterprises in developing economies generally face problems arising from their common characteristics: limited customer base; limited marketing activities, knowledge and influence; too much dependence on the knowledge and skills of the owner / manager; application of reactive instead planned marketing; plans made only for the need to secure loans. However, we can unequivocally say that the success of the companies depends not only on the presence of their products / services on the market, but also on the efficient marketing of those products within their markets [5].

The native, domestic companies are for years now, characterized with high failure rates (30% in the first three years of existence), low levels of investment in innovations, slow movement towards changes in the business models and portfolios [6], frail strategic planning and low levels of market orientation [7]. The managers and owners of the companies believe that most influential reasons of failure are lack of support from the Government, insufficient financing possibilities and turbulent business environment [8]. However, they rarely stop to evaluate their business activities and, do not take into consideration the facts that the analysis of the key elements / factors can be the basis for development of an effective and efficient business strategy.

The impact of the application of market orientation in the operation of enterprises, regardless of their size, can be felt on many levels [9]: 1. Efficiency / business performance expressed by one or more different parameters; 2. Consumers; 3. The distribution channels; 4. The public; etc.

The factors form the Porters' five forces model are directly influenced and continuously change under the forces of globalization [6]: greater consumer awareness, sophistication and sensitivity of prices, lack of time and request for convenience, growing equality of competing products, high expectations in terms of service / product, i.e. added value, changes in the entry and exit barriers, growth of the suppliers companies, etc. This model allows the business to determinate the level of attractiveness of an industry/market and, suggests that unattractive market/industry is the one where the combination of the impact of the forces reduces profitability [10].

In cases of turbulent and fragmented markets, the companies with revolutionary technology are the ones that occupy the leading positions and, "steal" the market share of the existing companies that operate on the basis of older technology. Some of the main reasons for that are [4]: asymmetry in the financial motivators, low levels of inter-functional coordination and, slow and untimely reaction of the managers of the existing companies.

METHODOLOGY

The methodology included both quantitative and qualitative research methods, comprising of the techniques of structured questionnaire and semi-structured interviews with managers of domestic companies. Secondary research entailed data gathering from relevant trade, business, and government sources, including company literature and corporate annual reports. The study is based on the hypothesis of linear dependence of business performance of the specific business environment factors. The analysis is conducted on the base of parametric statistics and the tests of Pearson correlation and linear regression. Data were analyzed with the software IBM SPSS19, and conclusions are given based on descriptive and deductive statistics.

Market orientation is analyzed through its integral part – customer orientation (CO), as an average of the level of integrated consumer analysis (CA) and response to consumers' demands (RCD), measured on a Likert-type scale of 10 MARKOR variables explaining consumer analysis and response to consumer demands in a company [11]. The presented model of customer orientation, as measured by interval Likert scale, allows the level of CO to be determined by the measures of central tendency in this case - the arithmetic mean of the responses of managers for each of the variables that make up the scale.

In the construction of the Porter's 5 forces model, it is necessary to determine the factors that contribute to the end result - whether and to what extent they affect the profitability of the industry. One way to determine the weight of each of the factors is a 5-point scale, where each of the factors are assessed with: 1 – extremely low; 2 – low; 3 – medium; 4 – high; 5 – extremely high significance on increasing rivalry and decrease of the attractiveness, according to the average of the estimates of the responses of all of the managers. [12].

The profitability of enterprises, as a measure of business performance is measured on a subjective, descriptive scale of 11 degrees (0 to 10, from extremely low to extremely high profits), due to the tendency of managers to avoid giving precise data on their performance and, the fact that the subjective and objective scales are highly convergent.

The research is based on several hypotheses:

1. Domestic companies do not have high level of consumer orientation;
2. Consumer orientation/CO (CA and RCD), as an integral part of market orientation has a direct connection and impact on business profitability;
3. The influence of the factors of the micro environment and thus, market rivalry, is high, which lowers the attractiveness of the market;
4. The factors of the micro and macro environment are inter – connected.

RESULTS AND DISCUSSION (STATE OF ART)

The descriptive statistics shows that the domestic companies have on average medium levels of consumer orientation, expressed through the levels of consumer analysis (CA) and reaction to consumer demands (RCD) (table 1 and 2).

Tabel 1. Average levels of CA of the domestic companies

	CA	Periodical review of the effects of changes in the business environment on consumers	Continuous and systematic measurement of consumer satisfaction	Actions based on information from consumers about the quality of products	Internal structured program for consumer feedback	Continuous analysis of trends and patterns in the behavior of different segments of consumers	Development of strategies based on thorough and effective analysis of target customers
N	Valid	19	19	19	19	19	19
	Missing	0	0	0	0	0	0
Average		3.63	3.53	4.00	3.32	3.79	3.58
Min		1	2	2	1	2	2
Max		5	5	5	5	5	5
	Total	69	67	76	63	72	68

* The average value of CA is 3.6: (3.63+3.53+4.00+3.32+3.79+3.58)/6=3.59

Table 2. Average levels of RCD of the domestic companies

RCD	The company responds quickly to information on consumer dissatisfaction	The company responds quickly to changes in consumer needs	The company responds rapidly to changes in the factors affecting its market	The company often implements changes based on consumer needs to increase consumer satisfaction
N	19	19	19	19
	0	0	0	0
Average	4.53	3.74	3.63	3.79
Min	3	2	2	2
Max	5	5	5	5
Total	86	71	69	72

***** The average value of RCD is 3.9: (4.53+3.74+3.63+3.79)/4=3.92

In addition, the research shows that there is a significant correlation between CA and RCD, i.e. CO and company profitability, which makes these factors even more important (table 3).

Table 3. Correlation between CA, RCD and profitability

Correlation		Profitability
CA average	Pearson Correlation	.593**
	Sig. (2-tailed)	.007
	N	19
RCD average	Pearson Correlation	.583**
	Sig. (2-tailed)	.009
	N	19
CO (CA_RCD average)	Pearson Correlation	.606*
	Sig. (2-tailed)	.006
	N	19

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

The simple linear regression analysis with significance level p (Sig.) = α = 0.01; coefficient of determination $R^2 = 0.331$; Statistical t test = 3.145; critical value of the test $t_{df;\ \alpha} = 2.567$, by the rule-making: $t > t_{df;\ \alpha}$, confirmed the linear relationship between profitability and customer orientation (table 4).

Table 4. Impact of customer orientation (CO) on profitability

(Regression estimates)	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	.407	1.705		.239	.814	-3.190	4.003
Customer orientation (CO)	1.385	.440	.606	3.145	.006	.456	2.314

Notes: R Square: 0.368, Adjusted R Square: 0.331, F=9.889, Sig. F=0.006, N = 19, *significant at 5%, * dependent variable: profitability

In addition, the descriptive statistics based on the answers given by the managers of the companies, about the micro and macro business environment factors, has revealed the average level of significance for business development and performance of each of the analyzed factors for:

- Bargaining power of suppliers - high (3,89);
- Bargaining power of consumers - high (3,84);
- The possibility of new entrants - medium (2,74);
- The intensity of market competition - high (4,26);
- The changes in technology - high (3,53);
- Market turbulence - high (3,84);
- Demand growth - medium (3,16).

This indicates that the factors of the micro environment make the domestic market a highly competitive one and, that the macro environment on the domestic market is defined by high market turbulence, frequent changes in technology and medium demand growth. The deductive statistics (table 5) on the micro business environment factors has shown that there is no significant correlation between profitability and factors from the micro environment (bargaining power of suppliers and consumers, possibility of new entrants, intensity of competition). Given the fact that the managers have specified these factors as highly significant for the business, we must point out that further research is needed in order to prove/disprove the direct impact of these factors on business performance, i.e. profitability. In the case of factors form the macro business environment, significant correlation between demand growth and companies' market share was found, as well as between market share and profitability. Additionally, inter-correlation was found in both cases: between factors of the micro environment – entry barriers and intensity of market competition and, between factors from the macro environment - changes in technology and demand growth.

Table 5. Correlations between factors from micro and macro environment and business performance

		Profitability	Demand growth	Intensity of market competition
Market share	Pearson Correlation	.705**	.487*	-.282
	Sig. (2-tailed)	.001	.034	.242
	N	19	19	19
Entry barriers	Pearson Correlation	-.145	-.064	.483*
	Sig. (2-tailed)	.552	.795	.036
	N	19	19	19
Changes in technology	Pearson Correlation	.383	.604**	.167
	Sig. (2-tailed)	.106	.006	.495
	N	19	19	19
. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed). **Note: Only results with significant correlations are presented				

Based on aforementioned results, the study indicates that the strongest influence on the business performance comes from internal environment factors i.e. customer orientation.

CONCLUSION AND DISCUSSION

The conclusion states that in a developing economy, where the intensity of competition and market turbulence is high, companies can evolve to the stage of growth, development, better business performance, and stronger market position, through changes in internal factors regarding strategy and market orientation, i.e. consumer / customer orientation.

The analysis has proven the first hypothesis: Domestic companies do not have high level of consumer orientation. The domestic companies have shown medium levels of consumer orientation, which calls for further improvement of these elements in the market orientation development. Consumer behavior analysis requires research on how individuals, groups and organizations choose, buy, use and dispose of goods, services, ideas or experiences, in order to satisfy their needs and requirements. In recent decades, most markets are characterized by a high concentration of companies and brands, which creates a situation with lack of customers, rather than products and thus, compels the companies to fight for every consumer.

The results have also proven the second research hypothesis: Consumer orientation/CO (CA and RCD), as an integral part of market orientation has a direct connection and impact on business profitability. This makes the need of development of higher level of market orientation even more important. Therefore, we can offer the following suggestions. In the area of analysis of consumers companies should: create appropriate measures for regular communication with customers; regularly perform market research; analyze the satisfaction; monitor changes in the environment and trends in consumer preferences. In the area of responding to consumer demands, companies should: maintain a system for dynamic monitoring of consumer complaints, pay special attention to after-sales services and, keep the dissatisfaction and complaints to a minimum.

The study has showed that the third and the fourth research hypotheses are also true: The market is a highly competitive one, which lowers its' attractiveness and, there are inter – connections between the factors form the micro and macro environment. This calls for continuous monitoring of the internal, micro and macro business environment, because the these factors can contribute to better business performance, better market positioning, higher market share and, better allocation of scarce resources. Some suggestions about the factors form the micro and macro environment are as follows. To overcome the gap that occurs in rivalry with existing competitors, it is necessary to establish a concrete strategy for market positioning, whilst avoiding the practice of price competition and instead, apply the product differentiation and establishing cooperation with competitors or enter into partnerships with some of the competitors. The possibility of entry of new competitors can be limited primarily by creating a strong domestic brand of product that will generate loyal customers. Great bargaining power of buyers and consumers can also be reduced through differentiation of products, promotion of the best value for the price to increase loyalty to the products, better customer servicing and make products more affordable through intensive distribution or increasing the number of own specialized stores. Power of suppliers should be controlled by grouping orders to receive quantity discounts, reviewing the possibilities for cooperation with producers of raw materials in the state to avoid higher prices of imported goods.

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