INTER-FUNCTIONAL COORDINATION AND ENTREPRENEURIAL FIRMS' FINANCIAL PERFORMANCE: A DEVELOPING ECONOMY

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Abstract

*The main purpose of this paper is to verify the significance of the internal part of market orientation, i.e. inter-functional coordination (IFC) for the financial performance of the entrepreneurial firms in a developing economy. The objectives are: 1. To measure the level of each of the variables of the scale (IFC 1: Current and future needs of consumers are discussed in all of the concerned departments; IFC 2: When a department discovers something important about the consumers or the competition, it quickly informs the other concerned departments; IFC 3: There is extensive communication between different departments in terms of consumer experience and market changes); 2. To determine the average level of IFC and, 3. To confirm the effect IFC has on profitability. The methodology included both quantitative and qualitative methods and, the research was done in entrepreneurial firms from the food production industry. This research is a part of an ongoing project entitled: "Strengthening the business capacity of women entrepreneurs in Republic of Macedonia, as a developing country". Primary data was derived from questionnaires and semi-*structured follow-up *interviews. Secondary data was collected from books, journals and academic articles. Data was analyzed with IBM SPSS19. The conclusions are given on the basis of descriptive and deductive statistics. The results show that firms of different sizes demonstrate diverse level of implementation of IFC i.e. medium – sized and large firms have higher average levels of IFC than small firms. The results also corroborate the significant relationship as well as the direct influence of the level of IFC on business profitability. The main limitation of this study is that it analyses a single industry in a given period of time and, the (small) size of the sample. However, the paper has some practical implications: to achieve higher financial performance and thus, higher success, firms must adopt and implement inter – functional coordination, as a part of the market orientation process. Also, the measurability of this internal part of market orientation on the basis of the MARKOR and MKTOR scales makes available a valuable tool for control of its implementation. The value of the paper derives from the verification of the significance of the relationship between IFC and profitability, in a different business sector and with a different research subject from those analysed hitherto by the literature. It also demonstrates the relationship among the dimensions that form inter – functional coordination in the firm.*

Keywords*: Inter – functional coordination, market orientation, financial performance, entrepreneurship, developing economy*

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Introduction

The turbulent business environment and constantly increasing competition is causing researchers and firms to continuously search for and analyse the key elements in the working of the organization. In the past few decades some of the widely analysed marketing and management factors of influence were, and still are the competitors and the consumers (Smith, 1990; Cromie, 1991; Stokes and Wilson, 2006; Marjanova J. and Conevska, 2011; Marjanova J., 2014). Nonetheles, one other factor with great significance is the workforce, which is considered as an element of strategic importance and, with the greatest influence on business results (Post, Preston, and Sachs, 2002). In most of the industries, the employees are involved in every stage of the business process, form procurement of materials and goods to distribution and post – sales communication. Moreover, the participation of the personnel in the process of production, commercialisation or the final provision of the service creates a base for significant differentiation among firms (Gummesson, 1987; Lings and Brooks, 1998; Lings, 2004). Due to the proven connection with business performance, the personnel (employees' orientation, their treatment as internal customers) has become a subject of study of internal marketing (Collins and Payne, 1991; Rafiq and Ahmed, 1993). Furthermore, the process of market orientation of a company undeniably takes into account the actions of the workers through the analysis of the internal information sharing, known also as inter-functional coordination (IFC) (Narver and Slater, 1990; Kohli et al, 1993; Farell and Oczkowski, 1997).

However, most of the research regarding internal marketing and also, inter-functional coordination (IFC) has been done in developed economies. On the other side, firms in developing economies are facing challenges that rise from the changes in the process of transition, which additionally puts pressure on normal course of work. Macedonia belongs in transition/developing economies and, has witnessed significant structural changes in its domestic market (Davcev and Hourvouliades, 2013). The escalation of rivalry among competitors, rise in the amount of product substitutes, increased prospects for product quality, functionality etc., make the everyday tasks challenges in a medium and long run. Ferguson (1992) argues that lack of developed institutions, absence of skills and knowledge on the side of the working force as well as the managers, are some of the difficulties in marketing management processes faced by firms in developing economies. Zurawicki and Becker (1994) have identified several key challenges in firms in developing economies: low confidence in the reliability and efficiency of managers by broader public; lack of databases and representative research; gaps in the knowledge of management and marketing; failure to develop long-term strategies; little entrepreneurial activities; trivial starting capital and limited financial resources; focus on short-term financial results; affinity for small investments.

Macedonian entrepreneurial firms face problems common for developing economies, such as (Agency for Promotion of Entrepreneurship of the Republic of Macedonia, 2005) and (Ministry of Economy of the Republic of Macedonia, 2009): the economic development is based mainly on traditional markets through export of metals, food and beverages; price is main element of competitiveness; low quality of products; lack of certification for international quality standards and standardization of production processes; little information about market possibilities. Many of these factors are typical marketing management activities, such as: market research, positioning, diffusion of innovations, analysis of competition, etc.

The food production industry in Macedonia as the focus of the paper plays a significant role in the national economic development (Economic Chamber of Macedonia, 2013): it has a positive impact on the external trading balance of the country; it employs a significant part of the workforce and, it is a major consumer of other domestic industries (the packaging industry, transportation services etc.). However, this industry is continuously faced with many difficulties: 1. It is a part of a fragmented market for consumer goods, which is characterized with high competitive rivalry, possibility of new entrants, many substitute products, high bargaining power of suppliers and consumers; 2. Foreign firms with strong brands, higher prices of products and / or intensive promotion are the market leaders, while the domestic firms implement mostly strategy of a follower or imitator with low – priced, low quality products. Continuous implementation of such strategies, on a market where the possibility to achieve better success, higher profit and larger market share are directly influenced by the sustainable competitive advantage, better competitive positioning and a proactive approach to strategic planning and marketing – management activities (Marjanova J., 2012), can be damaging to the firms in a way that produces a long - term inability to achieve higher market competitiveness.

This reality highlights the importance of additional research in the area of marketing and management in developing economies, such as Macedonia, because through sufficient evidence of the significance of marketing and management activities for business performance, new generations of managers can make a difference in the business operations.

In light of the above-mentioned, this paper presents the empirical results of one of the components of market orientation, specifically, inter-functional coordination level and implementation, in entrepreneurial firms in a developing economy.

Literature review

Some of the first contributions that included the internal aspects of the firm and personnel analysis as integral part of firms marketing activities are the studies by Kotler (1972) and Booms and Bitner (1981). Grönroos (1984) suggested that company’s orientation toward personnel is related to external marketing or customer focus. Other have concluded that the employees are one of the groups of stakeholders with the strongest influence on the company (Donaldson and Preston, 1995; Post, Preston, and Sachs, 2002). According to Grönroos (1985) and Richardson and Robinson (1986), employees can be motivated to develop a higher market orientation, to search for and identify the needs and demands of company’s customers, and to develop a sales mentality. Gummesson (1987) and Lings (2004) suggest that an entrepreneurial company should seek to grow the level of customer orientation among all the workers, and not only to the ones that interact directly with customers, because all the employees included in the production and commercialisation of the goods and services affect the end results of the business. The focus and analysis of the employees in a company can lead to integration of the functions within (George, 1990; Gilmore and Carson, 1995) and, serve as a strong base for strategic implementation and change (Winter, 1985).

The level to which every employee is fully commited to build and introduce marketing philosophy and integration of marketing activities in the company that will create value for consumers can be considered as inter – functional coordination (Wrenn, 1997). Inter – functional coordination is also defined as “the coordinated use of company resources in creating superior value for target customers” Narver and Slater (1990). IFC is considered as an integral part of market orientation, which consists of (Kohli and Jaworski, 1990): consumer orientations, reaction on consumer demands, competitor orientation, inter – functional coordination or internal information sharing. Therefore, higher level of IFC can lead to higher level of market orientation, which additionaly results in numerous benefits for the company (Marjanova J., 2014): better response to - and satisfaction of customers’ needs; detailed analysis of competitors and better preparation for defensive or offensive strategies; increased internal information sharing and improved decision making; orientation on long term strategic planning instead of short term activities; etc.

Altogether, the analysis of empoyees and the level of IFC, can be considered as a marketing management process that integrates the many different functions of a company. This means that with the proper management of personnel, the company can achive an improvement of employee-customer interaction, and also success in the market and business performance (Bak et al., 1994; Foreman and Money, 1995; Lings, 1999).

Methodology and hypotheses

This paper aims to prove the significance of inter-functional coordination (IFC) as an integral part of market orientation, for the competiveness of entrepreneurial firms, linking it to business performance (profitability), in a developing economy. The methodology included quantitative and qualitative methods. Primary data derived from structured questionnaires about attitudes on inter-functional coordination statements, measured on a 5-point Likert scale (1- strongly disagree to 5- strongly agree), whereas for profitability a subjective scale was created (0 – extremely poor to 10 – absolutely outstanding). The subjective scales are taken as a measure due to: 1. managers' avoidance to provide accurate data that reflect their business performance, and 2. high level of convergence between subjective and objective scales for measuring business performance as reported by Dawes (1999). In addition, a semi-structured interview was conducted with the managers of 19 firms in the food production industry in Macedonia. Secondary data derived from books, journals and academic articles. Data was analyzed with IBM SPSS19. The conclusions are given on the base of descriptive and deductive statistics.

The model of market orientation and, IFC as its fundamental part is given on the basis of popular scales used in the measurement of market orientation, i.e. MKTOR (Narver and Slater, 1990), the revised MARKOR scale of 20 variables (Kohli et al, 1993) and (Farell and Oczkowski, 1997). Accordingly, the elements of IFC for the needs of this study are as follows:

- IFC 1: Current and future needs of consumers are discussed in all of the concerned departments (adapted from MARKOR, point 8);
- IFC 2: When a department discovers something important about the consumers or the competition, it quickly informs the other concerned departments (adapted from MARKOR, point 11);
- IFC 3: There is extensive communication between different departments in terms of consumer experience and market changes (adapted from MKTOR, point 12 and MARKOR, point 7).

Some of the scales (MKTOR, Narver and Slater, 1990) used in the measurement of market orientation and IFC are being criticized (Kohli et al, 1993) for their narrow focus (primarly on customers and competition). For this reason, our study adopts the scale of measurement based on the aforementioned three different scales, applied to a different business sector and with a different research subject from the ones studied by these authors. One of the main goals of the adaptation was the need and ability to measure the degree of transfer of information in the firms, which are essential for appropriate and timely business decisions.

In the light of the above - mentioned literature, we can conclude that firms from development economies are facing many challenges on the basis on which they demonstrate some weaknesses in their strategic planning, such as: difficulties to plan or implement strategy, insufficient situational analysis, low levels of market orientation and low market competitiveness in general. With sufficient evidence for the impact of the mentioned factors, new generation managers in developing economies may create a base that will implement the changes needed for strategic planning. Therefore, in order to confirm the effect that the components of market orientation, specifically inter-functional coordination, have on business performance, we propose the following hypotheses:

1. Entrepreneurial firms in a developing economy implement medium level of IFC.
2. The implementation of IFC differs among firms of different sizes;
3. Implementation of higher level of IFC in business activities directly and positively affects business profitability.

Findings and discussion

Descriptive statistics shows that the share of the enterprises by size (small, medium and large) in the purposive statistical sample of 19 enterprises are nearly equal (Table 1). The analysis if focused on entrepreneurial firms irrespective of the size, since the authors believe that the level of IFC and, market orientation of the company in general, should not depend of the size, but of the level of competitiveness and attractiveness of the industry and the competitive strength of the company within.

Table 1. Descriptive statistics of the sample: Enterprises by size

		Frequency	Percent	Cumulative Percent
Valid	Small	6	31.6	31.6
	Medium	7	36.8	68.4
	Large	6	31.6	100.0
	Total	19	100.0	

The analyzed firms have reported on average moderately bad profitability (average of 5.3; min.3; max.9), with notable differences among firms of different sizes, i.e. most of the small firms (50%) have profitability that is bad (close to 0), most of the medium – sized firms (57%) have moderately good profitability, while large firms have stated that their profitability is very good (33%) and extremely good (33%) (Table 2).

Table 2. Crosstabulation: firms' profitability and size

			Size of the company			
			Small	Medium – sized	Large	Total
Profitability	Bad	Count	3	0	0	3
		% within company's size	50.0%	.0%	.0%	15.8%
	Moderately bad	Count	2	2	1	5
		% within company's size	33.3%	28.6%	16.7%	26.3%
	Moderately good	Count	1	4	1	6
		% within company's size	16.7%	57.1%	16.7%	31.6%
	Very good	Count	0	1	2	3
		% within company's size	.0%	14.3%	33.3%	15.8%
	Extremely good	Count	0	0	2	2
		% within company's size	.0%	.0%	33.3%	10.5%
Total		Count	6	7	6	19
		% within company's size	100.0%	100.0%	100.0%	100.0%

Scale reliability was tested with coefficient Cronbach alpha (α). It is obtained that IFC has internal consistency over the acceptable level $\alpha = 0{,}854$ (Gliem and Gliem, 2003). This means that the test can simply be repeated in future research.

The degree of IFC as a whole and of the variables in the model separately, are defined through measures of central tendency (Aaker, Kumar and Day, 2007), in this case - arithmetic mean of the responses of managers for each of the variables that make up the scale. Overall, the average degree of IFC from the analysis of the firms showed a level of 3.9 (Table 3). This result confirms the first hypothesis. Aditionaly, from table 3 we can see that the employees in these firms have better results in dissemination of important information among different departments (IFC 2), while on the other side, the discussion about the needs (current and future) of consumers are on a lower level (IFC 1).

Table 3. Average values of IFC variables

IFC		IFC 1	IFC 2	IFC 3
N	Valid	19	19	19
	Missing	0	0	0
Mean		3.53	4.16	4.05
Min.		2	3	2
Max.		5	5	5

* Average value of IFC is 3.9, i.e. (3.53+4.16+4.05)/3=3.91

The analysis (Table 4) shows that small firms have the lowest average level of implementation of IFC (2.89), medium-sized, on the other hand, showed better results with higher average values (4.14), as well as large firms (4.17). The almost same levels of implementation of IFC showed by medium – sized and large firms' demands further research on the causes of this situation.

Table 4. Crosstabulation: Level of IFC and firms' by size

			Size of the company			
			Small	Medium - sized	Large	Total
IFC (min - max)	2.33	Count	1	0	1	2
		% within company's size	16.7%	.0%	16.7%	10.5%
	3.00	Count	3	1	0	4
		% within company's size	50.0%	14.3%	.0%	21.1%
	3.33	Count	0	1	1	2
		% within company's size	.0%	14.3%	16.7%	10.5%
	3.67	Count	0	1	0	1
		% within company's size	.0%	14.3%	.0%	5.3%
	4.00	Count	1	0	0	1
		% within company's size	16.7%	.0%	.0%	5.3%
	4.33	Count	0	1	1	2
		% within company's size	.0%	14.3%	16.7%	10.5%
	4.67	Count	0	1	0	1
		% within company's size	.0%	14.3%	.0%	5.3%
	5.00	Count	1	2	3	6
		% within company's size	16.7%	28.6%	50.0%	31.6%
Total		Count	6	7	6	19
		% within company's size	100.0%	100.0%	100.0%	100.0%

* Average value of IFC in small firms: [2.33 + (2*3) + 4 + 5] / 6 = 2.89
* Average value of IFC in medium - sized firms: [3 + 3.33 + 3.67 + 4.33 + 4.67 + (2*5)] / 7 = 4.14
* Average value of IFC in large firms: [2.33 + 3.33 + 4.33 + (3*15)] / 6 = 4.17

The deductive analysis is based on the assumption of a linear dependence of phenomena, according to which it is assumed that the level of profitability in a company is a linear function of the level of IFC which the enterprise applies in its operations. Several measurements were performed using correlation and linear single regression analysis, in order to test the isolated impact of IFC on the business profitability. Prior regression analysis, it was important that some of the underling conditions for linear regression are met: 1. Linear relationship between the dependent variable and the independent one (confirmed by significant correlation association of phenomena and F-test); 2. High reliability of the test (Gilem and Gilem, 2003) for measuring of the independent variables (determined by the values of Cronbach's alpha); 3. There is no multicollinearity between independent variables (VIF < 5).

Correlation analysis shows that there is significant direct correlation between IFC 1, IFC (total average) and business profitability (Table 5).

Table 5. Correlation: IFC and profitability

		IFC 1	IFC 2	IFC 3	IFC
Profitability	Pearson Correlation	.464*	.402	.396	.478*
	Sig. (2-tailed)	.046	.088	.093	.038
	N	19	19	19	19

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

Additionally, during a one sided test, a simple linear regression analysis with critical value of the test $t_{df;\alpha}$ =1.740, according to the rule of decision-making: $t>t_{df;\alpha}$ (Newbold, Carlson and Thorne, 2007), confirmed the linear dependence of profitability on IFC, i.e. that the profitability depends proportionately on the level of implemented IFC (table 6).

Table 6. Regression estimates

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.478[a]	.228	.183	1.838

a. Predictors: (Constant), IFC

Coefficients[a]

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1 (Constant)	1.732	1.789		.968	.347
IFC	.997	.444	.478	2.243	.038

a. Dependent Variable: profitability

With the F-test for testing the statistical quality of the regression (F=5.033; df:1;17; critical value of the test $F_{1;17}$= 4.45) (Newbold, Carlson and Thorne, 2007) the relation between profitability and the the level of IFC in a company, is statistically significant (Table 7).

Table 7. ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.000	1	17.000	5.033	.038[a]
	Residual	57.421	17	3.378		
	Total	74.421	18			

a. Predictors: (Constant), IFC
b. Dependent Variable: profitability

The regression analysis has confirmed the third hypothesis. The relation of IFC and profitability states the importance of the higher level of IFC for better performance and competitiveness of firms.

After mentioning the main contributions of the study, we show its most notable limitations. First of these is the analysis of IFC at a given moment in time, when its study demands a longitudinal treatment in accordance with the dynamic nature of the reality that it aims to describe. However, the main limitation of the present study lies in the small number of firms analyzed, despite the high response rate (all of the targeted respondents). It is therefore necessary to repeat the study in other entrepreneurial firms characterised by turbulent business environment similar to the one analyzed.

Conclusions

The study shows that entrepreneurial firms in a developing economy operate under problematic circumstances, with certain limitations in the strategic planning process and implementation. They tend to implement a medium level of IFC, whereas firms of different sizes demonstrate diverse level of implementation of IFC. That is, medium – sized and large firms have higher average levels of IFC than small firms. The results also corroborate the significant relationship, as well as the direct influence of the level of IFC on business profitability. On the base of the findings, we can conclude that it is of great importance for a company to adopt and maintain a high level of IFC and, market orientation in general. Therefore, the entire personnel, regardless of the size of the enterprise, in various departments of the company must be coordinated in a way that can create value for customers through mutual cooperation and assistance, or the company should organize multifunctional teams rather than separate departments. It is also important that the internal cooperation is presented through participation in the creation of company's plans and strategies, distribution of information obtained from/about clients across sectors, as well as knowledge about offering superior value to the customer.

The paper has some practical implications. Namely, in order to achieve higher financial performance and thus, higher success, firms must adopt and implement inter – functional coordination, as a part of the market orientation process. Also, the measurability of this internal part of market orientation on the basis of the MARKOR and MKTOR scales makes available a valuable tool for control of its implementation. The value of the paper derives from the verification of the significance of the relationship between IFC and profitability, in a different business sector and with a different research subject from those analysed hitherto by the literature.

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