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MARKET ORIENTATION AND BUSINESS PERFORMANCE: THROUGH THE PRISM OF MACEDONIAN SMEs

Ph.D Tamara Jovanov Marjanova¹

Abstract

This paper analyses the importance of market orientation degree for the competitiveness, i.e. business performance of small and medium sized enterprises (SMEs). The degree of market orientation is considered to be especially important for company's competitiveness in markets where most of the competitor companies are still using outdated practices that are 60 years behind market trends, as in Macedonia. The main objective of the study is to address three main research aspects that explore the significance of market orientation for companies' performance and market competitiveness: 1. "Key elements of market orientation"; 2. "Market orientation of SMEs in transition economies market - the case of Macedonia"; 3. "Market orientation's link with performance, i.e. market share". The methodology includes quantitative and qualitative methods that explored the degree to which 38% of the registered companies in the confectionery industry in Macedonia practice market orientation. 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 Statistical Package for Social Sciences (SPSS) 19. The results of the study suggest that some of the particular areas of market orientation like reaction on consumer's demands (reaction to dissatisfaction and complaint management), analysis of competition (their strengths and weaknesses) and inter-functional information exchange (distribution of information between sectors) are preferred by companies, while on the other side, analysis of consumers (market research) is less practiced. Most of the small companies have informed of very low degree of market orientation, while medium – sized companies have reported higher degree of market orientation. The tests also indicated that on average, the degree of market orientation in small companies is lower than the degree of market orientation in medium – sized companies. Furthermore, significant correlation and linear dependence between the level of market orientation (independent variable) and the size of the market share (dependent variable) was found, which leads to the conclusion that higher degree of market orientation in the company, leads to larger market share for the company. The limitations of the research arise from sample's size and the chosen industry, but the findings can be useful to entrepreneurs and managers of SMEs, since they provide a more accurate perspective of the different areas of market orientation and the way that it affects business performance.

Keywords: *Market orientation, Market share, Competitiveness, SMEs*

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Introduction

SMEs are often considered to be the forefront of positive change. This is so, even in times of recession and pessimism. Nowadays, they are in the main focus of scientific research and analysis, including the study of their competitiveness and the key elements that create it. SMEs have specific characteristics which separate and differentiate them from the rest, such as (Kenneth and Van Voorhis, 1980): personal commitment to the consumer, short communication channels, specialization in products and services, low total cost, initiative for achieving profit, realizing the interest of the community. On the other hand, SMEs, in terms of their competitiveness, mainly face problems arising from their general characteristics - limited customer base; limited finances; lack of qualified staff; limited marketing activities, knowledge and influence; excessive dependence on the knowledge and skills of the owner/manager, etc. The importance of the factors which may influence the work of the enterprise, always inevitably indicate personal characteristics, technical abilities and management skills, mostly in terms of knowledge and skills in the field of marketing (Stokes and Wilson, 2006). Studies reveal additional reasons for failure, including a high percentage (75.13%) of ignorance in the field of marketing, for example (Cromie, 1991): Satisfactory level of sales - 31%; pricing policy - 22%; distribution - 0.06%; competition - 12% ; promotion - 10%; other - 0.07%. Development factors relating to small-business strategy are additionally mentioned, where typical marketing activities are brought up as key requirements for the development of an enterprise, such as (Storey, 1994): market positioning, market adjustment, introducing new products, competition, etc. In fact, a growing number of research studies highlight the shortcomings in terms of marketing activities, i.e. say that the success of SMEs depends not only on the presence of their products/services on the market, but also on the effective marketing of these products within their markets (Smith, 1990).

In the context of seeing marketing as necessity for business success, the marketing concept itself can be explained as a way the organization thinks about its products and customers in terms of a business philosophy, while marketing orientation is about taking the actions necessary for marketing concept implementation (Wren, 1997). On the other hand, market orientation is defined as "business culture which: 1. Attaches the highest priority to the profitable creation and maintenance of superior value for customers, taking into account the interests of other stakeholders and 2. Provides norms of behaviour in terms of generating extensive market intelligence for current and future needs of customers, allocation of intelligence through departments, and a comprehensive response to these by the organization, which provides a competitive advantage and superior organizational performance in the long run" (Kohli and Jaworski, 1990). Additionally, 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" (Ruekert, 1992).

In the main, the definitions of market orientation agree in the following: market orientation results in the actions of individuals to the market they serve, guided by information obtained about that market (customers and competitors), and they take place in all sectors/departments of an organization. Accordingly, it can be said that 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. Accordingly to the aforementioned, this paper analyses the importance of market orientation degree for the competitiveness, i.e. business performance of small and medium sized enterprises.

Research methodology

This paper aims to prove the significance of market orientation for the competitiveness of SMEs, linking it to business performance (market share), on a 5-point Likert scale (1- insignificant/very small, 5- significant/very large). The methodology included quantitative and qualitative methods. Primary data derived from structured questionnaires about attitudes on market orientation statements, measured on a 5-point Likert scale (1- strongly disagree, 5- strongly agree), and a follow-up, semi-structured interview with the managers of 38% (19) of the registered companies in the confectionery 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 focus of the analysis is the confectionery industry for several reasons (Economic Chamber of Macedonia, 2013): it employs a significant part of the workforce in the state; the highest share among registered companies in terms of size are SMEs; as a part of the consumer goods market the activities of enterprises should be characterized by a proactive approach to marketing. Regardless of these facts, the current market situation shows that the domestic enterprises are faced with a number of weaknesses (Jovanov, 2009): they identify the competitors from industrial rather than a market point of view, they have a false idea of the current market conditions, (they believe in the general opinion that customers prefer companies with full product lines, the sales force is the only marketing tool, the price is the most important factor when buying, etc.).

Consequently, it is important to prove the significance of market orientation for company's performance and identify the key steps for its implementation in business plans, by providing sufficient knowledge on three key aspects: 1. "Elements of market orientation"; 2. "Market orientation of SMEs in transition economies market - the case of Macedonia"; 3. "Market orientation's link with performance".

Elements of market orientation

Most of the enterprises do implement market orientation to some degree (aware or not). The only question is whether they do it in planned manner or instinctively. Elements that constitute a market orientation can be extracted from the very definition of market orientation. Namely, Narver and Slater (1990) suggest that market orientation consists of three behavioural components:

- Orientation towards the consumer (Understanding the targeted consumers now and over time, in order to create superior value for customers and understanding of the economic and political constraints of the channels);
- Orientation towards competitors (Gathering information on existing and potential competitors, and an understanding of the short-term strengths and weaknesses and long-term capabilities of current and potential competitors);
- Inter-functional coordination (Coordinated use of company resources in creating superior value for target customers)".

A set of characteristics by which the extent of the use of market orientation can be recognized are additionally established (Wrenn, 1997):

- Focus, i.e. consumer analysis (Demonstrating understanding and commitment resulting in an offer of greater value to the consumer);
- Market Intelligence System (Systematic and integrated approach to data collection, their analysis and conversion into market information and storage and appropriate response);

- Orientation towards competitors (Expansion of views in terms of competition from the aspect of competition within the industry towards the so-called generic competition that satisfies the need that has occurred);
- Inter-functional orientation (Everyone’s full commitment to build and introduce marketing philosophy and integration of marketing activities in the enterprise that will create value for consumers);
- Focus on long terms (It provides a basis for the development of effective strategic plans and ensures progress in creating loyal customers through identifying and overcoming difficulties and identifying and implementing new products and services).

Some of the elements can be classified as common: customer focus, orientation on competitors, inter-functional orientation. Implementation of these features in business allows identification of the application of the market orientation process. Their adoption also means wide acceptance of a new kind of organizational culture based on shared values and similar or same understanding of the market and its needs, as well as distribution of inter-organizational decision-making power.

Market orientation of SMEs in transition economy – the case of Macedonia

In firms in transition, regardless of their size, we can generally notice changes that have occurred under the influence of the change of the economic system and the business environment in which they operate (Kotler, 1999). For example, certain companies in the world that have undergone transition have different experiences in relation to the past (Table 1).

Table 1. Comparative analysis of changes in enterprises in transition (past vs. present)

Past	Present
Everything takes place within the company.	Outside assistance is increasingly used (outsourcing).
The enterprise undertakes improvements in its operation on the basis of their experiences.	Improvements are made by monitoring the experiences/practices of others (benchmarking).
It acts independently.	It cooperates with other enterprises (networking).
The organization is divided into functional departments.	The business is organized through multidisciplinary teams.
The focus is on the domestic market.	The focus is on the global and on the local market.
The starting point is the product.	The starting points are the consumer and the market.
Production of a standardized product.	Production of and adjusted product.
The focus is on the product.	The focus is on the value chain.
Mass marketing is used.	Targeted marketing is used.
Finding sustainable competitive advantage.	Constantly seeking new advantages.
The development of new products is slow and careful.	The development of new products is accelerated.
A lot of suppliers are used.	A few suppliers are used.
The managing hierarchy is vertical – from top to bottom.	The managing goes in all directions- from top to bottom, from bottom to top, and horizontally.

The comparative analysis of the activities of companies that have completed the transition process and the operation of enterprises in Macedonia shows numerous gaps, i.e. delays in following these changes. Concerning these same points, Macedonian companies demonstrate the following activities:

- They strive to complete most activities within the company - they believe that they themselves will best do the job.
- Most follow the steps of their direct competition and imitate the market leader, but not in the capacity of improving certain practices, but above all, it is a matter of simple copying – of a logo, brand colors, packaging, etc.
- They still appear mostly alone on the market, while clusters on the level of an industry are being judged as ineffective.

- Divisions on different and separate from each other departments prevail, with a slow flow of information from one department to another.
- The focus is mostly on domestic and regional market.
- The starting point is still the product, with slightly increased attention to the consumer.
- Adaptation of products for different markets is rarely performed, i.e. the same products are launched on all markets (domestic and foreign).
- The focus is on the product and the price, or cost of production and sales.
- The use of traditional mass marketing still largely dominates, even with small enterprises.
- The development of new varieties of products within the same product line is rapid, but the expansion of the assortment is slow.
- Several suppliers are used, with whom close ties are maintained.
- Vertical hierarchy dominates from top to bottom mostly in small enterprises, while in medium and large enterprises the employees are empowered.

From the analysis it can be seen that Macedonian companies are still in a state of profound transition, with more similarities with past experiences of firms in the world, than with their competitive situation today, after the transition. All elements listed in the table as features for an enterprises in transitional period, are actually features of market-oriented firms, which compared to the condition of Macedonian companies indicates that they are far from market orientation.

In this paper market orientation is also evaluated quantitatively, through the technique of a structured questionnaire, represented by a model of four components related to market orientation (MO):

- Consumer analysis (CA);
- Reaction to consumer requirements (RCR);
- Orientation towards competition (CO);
- Internal market information sharing/inter-functional orientation (ISI).

The model is created with the help of popular measurement scales used in the measurement of market orientation, i.e. MKTOR (Narver and Slater, 1990) and the revised MARKOR scale of 20 variables (Kohli et al, 1993) and (Farrell and Oczkowski, 1997). Also, a few new points emerged from previous research, which found that (Marjanova and Conevska, 2011): macedonian companies, most often small enterprises, conduct market research minimally, irregularly, often inappropriately, and as a result they have raw data and do not know how to turn into information; they have minimal insight into the actual requirements and needs of consumers and show rigidity in the process of changing existing practices.

The rationality of this model for market orientation testing is based on the following set requirements: Monitoring of the overall behaviour of consumers, and the extent to which companies understand consumers through analysis of information, not only through collection and distribution of data (a common practice in Macedonian enterprises); Measurement of the implementation of the changes caused by the factors of influence that change consumer requirements; Measurement of the extent of analysis and response to competitive actions; Measurement of the degree of transfer of information that are essential for appropriate and timely business decisions.

Scale reliability was tested with coefficient Cronbach alpha (α), separately for each part of the scale, as well as for all variables of the scale together. It is obtained that all the individual parts of the scale (CA - $\alpha = 0,935$; RCR - $\alpha = 0,862$; CO - $\alpha = 0,837$; ISI - $\alpha = 0,854$) have internal consistency over the acceptable level, and the scale in its entirety has an excellent level of internal consistency, i.e. $\alpha = 0,967$ (Gliem and Gliem, 2003). This means that the test can simply be repeated in future research.

Descriptive statistics shows that the share of the enterprises by size (small, medium and large) in the purposive statistical sample of 19 enterprises (38% of the registered companies in the confectionery industry) are nearly equal (Table 2). The analysis is focused primarily on SME's, and large companies are included in the sample as a benchmark, i.e. examples of success in achieving growth and development on the market.

Table 2. 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 degree of market orientation 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. The results of the degree of market orientation by company size are as shown in table 3.

Table 3. Level of market orientation by companies' size

Size of the enterprise	Average level of market orientation activities
Small	CA – 2.7 RCR – 3 CO – 3.04 ISI – 3.39
Medium-sized	CA – 4.07 RCR – 4.25 CO – 4.28 ISI – 4.24

It is shown that small enterprises have the lowest level of implementation of all of the activities that describe market orientation. Medium-sized enterprises, on the other hand, showed better results with higher average values on all of market orientation activities. Overall, the most and least practiced activities of market orientation by Macedonian SMEs are shown in table 4.

Table 4. Most and least practiced market orientation activities by SMEs (average values)

Most practiced	Least practiced
Consumer analysis: - CA 3 - 4.00 (The company often takes action based on the information about the preferences of consumers)	Consumer analysis: - CA 4 (The company has a structured program for gathering consumer feedback) - 3.32
Reaction to consumer requirements: - RCR 1 - 4.53 (The company responds very quickly to information about consumer dissatisfaction.)	Reaction to consumer requirements: - RCR 3 (The company reacts very quickly to changes in the factors that affect its market.) - 3.63
Competition orientation: - CO 1 - 3.79 (Management regularly analyses the strengths and weaknesses of the competition)	Competition orientation: - CO 3 (In the case when a competitor launches a campaign oriented towards our customers, we will immediately take action) - average 3.58
Internal information sharing: - ISI 2 - 4.16 (When one department finds out something important about consumers or competition it quickly informs other departments)	Internal information sharing: - ISI 1 (Future consumer needs are discussed in all affected departments) with an average 3.53

The analysis indicates that SMEs tend to respond to consumer reactions, with an average of 3.9, but on the other side, few of the enterprises have a structured program for getting hold of consumer feedback, with an average value for CA on a medium level (3.32). Competitor orientation with average of 3.8 is on a higher level, but the response to a competitor’s campaign is not prompt (3.58). The internal communication is also on a higher level (average of 3.9), but with a weakness when it comes to conversing about future consumer needs (3.53).

The total average degree of market orientation (MO) from the analysis of the enterprises showed a level of 3.8, which at first glance looks satisfactory, but when we look at the average of micro and small enterprises responses, we will see that among them the level is from 2.5 to 2.77 or an overall average of 3, while medium-sized enterprises have higher averages ranging from 3.21 to 5 or an overall average of 4.2. Large companies have reported the same average level of MO as medium – sized companies, which demands further research on the causes of this situation.

The independent samples test (-3.143), with *P*-value of approximately 0 (Carver and Gradwohl Nash, 2012), indicated that on average the degree of market orientation in small companies is lower than the degree of market orientation in medium – sized companies (table 5).

Table 5. Comparative analysis of the degree of market orientation (small vs. medium-sized companies)

Group Statistics										
		Size of enterprise	N	Mean	Std. Deviation	Std. Error Mean				
Market orientation		small	6	3.0600	.59127	.24138				
		medium - sized	7	4.2129	.71086	.26868				
Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Market orientation	Equal variances assumed	.698	.421	-3.143	11	.009	-1.15286	.36674	-1.96005	-.34566
	Equal variances not assumed			-3.192	10.997	.009	-1.15286	.36119	-1.94785	-.35787

In this case it can be seen that the degree of implementation of market orientation is proportionate to the size of the enterprises, but only to a certain level, because no significant difference was found between the level of market orientation in medium – sized companies and the level of market orientation in large companies.

Additionally, significant correlation between the size of the company and the average degree of market orientation has been found (table 6).

Table 6. Correlation analysis (MO and size of the company)

Correlations		
		Size of the enterprise
Market orientation (MO)	Pearson Correlation	.521*
	Sig. (2-tailed)	.022
	N	19
*. Correlation is significant at the 0.05 level (2-tailed).		

Market orientation's link with performance

The impact of market orientation as a business philosophy and process, regardless of companies' size, can be felt on many levels: 1. Efficiency/performance of the business (profitability, return rate of investment - ROI, market share, etc.); 2. Consumers, i.e. possibility to increase the level of satisfaction and to retain existing customers (Krepapa et al, 2003); 3. Distribution channels, expressed through trust and closer cooperation with distributors and getting greater bargaining power in the distribution channels (Day, 1994); 4. Public, i.e. market orientation enables a firm to timely notice the changes in the views of the public as one of the company's stakeholders, and to implement these in operation, for example: increasing importance of corporate social responsibility (Narver and Slater, 1990) etc.

Given that consumer satisfaction can greatly depend on the competing offers, it is expected that market orientation has an even greater impact on consumer satisfaction in cases where the degree of market orientation at the industry level is low, or when companies are generally not market-oriented (Krepapa et al, 2003). This paper examines in detail the relationship of market orientation (MO) with the size of the market share (in a given period of time), based on the assumption that with the implementation of market orientation and focus on the consumer, an increase in customer base is expected, and as a result - an increase in the market share of the enterprise. Market share was measured at a 5-degree subjective scale from 1-5, where 1 is - very low (negligible), 5 - very high (significant).

The subjective scale is taken as a measure for several reasons: 1. Managers' avoidance to provide accurate data that reflect their performance; 2. Some companies do not know the exact number/percentage of their market share and can express it only subjectively and descriptively; 3. Studies show a high level of convergence between subjective and objective scales for measuring business performance, including this particular scale (Dawes, 1999).

The analysis is based on the assumption of a linear dependence of phenomena, according to which it is assumed that the size of the market share of the enterprise is a linear function of the degree of market orientation which the enterprise applies in its operations. Primary zero hypothesis of the existence of nonlinear dependence between the events ($H_0: p=0$) is set in order to refute, i.e. to prove that the correlation is not zero ($H_1: p \neq 0$). Several measurements were performed using correlation and linear single regression analysis, in order to examine the isolated impact of market orientation on the size of the market share.

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 $\alpha = 0,967$); 3. There is no multicollinearity between independent variables ($VIF < 5$).

Correlation analysis shows that there is significant direct correlation between market orientation (MO) and market share (table 7).

Table 7. Correlation analysis (market orientation and market share)

Correlations		
		Market orientation
Market share	Pearson Correlation	.598**
	Sig. (1-tailed)	.003
	N	19
** . Correlation is significant at the 0.01 level (1-tailed).		

Additionally, during a one sided test, a simple linear regression analysis with critical value of the test $t_{df;\alpha} = 2.539$, according to the rule of decision-making: $t > t_{df;\alpha}$ (Newbold, Carlson and Thorne, 2007), confirmed the linear dependence of market share of MO, i.e. that the size

of an enterprise's market share depends proportionately on the degree of market orientation (table 8).

Table 8. Regression analysis

Model Summary										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.598 ^a	.358	.320	1.059	.358	9.459	1	17	.007	
a. Predictors: (Constant), Market orientation										
Coefficients ^a										
Model		Unstandardized Coefficients			Standardized Coefficients		t	Sig.		
		B	Std. Error		Beta					
1	(Constant)	-.529	1.089			-.486	.633			
	Market orientation	.848	.276		.598	3.076	.007			
a. Dependent Variable: Market share										

With the F-test for testing the statistical quality of the regression ($F=9.459$; $df_1=1$ $df_2=17$ and critical value of the test $F_{1, 17}= 8.40$) (Newbold, Carlson and Thorne, 2007) the relation between the market share and the market orientation is statistically significant. The relation of MO and market share expresses the importance of the higher degree of MO for better performance and competitiveness of companies, hence larger market share also implies higher profits and possibility to reinvest for growth and development of the enterprise.

Conclusion

With regard to the aforementioned and the extent of the application of market orientation measured by the four model sectors (CA, RCR, CO, ISI), the analysis leads to some suggestions for SMEs.

In the area of consumer analysis (CA) companies should: 1. Create appropriate measures for regular communication with consumers; 2. Become familiar with clients' attitudes and, coupled with satisfaction analysis, perform market research, study changes in wider surroundings and trends in consumer preferences, research the needs, concentrate on those needs, improve existing products/services and offer new ones.

In the area of responding to consumer demands (RCR) it is recommended to: 1. Maintain a system for dynamic monitoring of consumer complaints and devote special attention to post-sales services; 2. Perform market research and testing, which includes: systematic methods for the organization of current information, a network for collecting and providing information where needed within the organization, systematic approach to the collection of new market information through quantitative and qualitative methods and the process of analyzing information for decision making; 3. Keep ignoring of consumer dissatisfaction and complaints to a minimum by finding ways for their prompt resolution.

In the area of competition orientation (CO) they should: 1. Provide a rapid and appropriate response to the steps taken by competition, by creating schemes for competition forces, for timely exploitation of their weaknesses and responding to their activities; 2. Identify competitors' strategies in each of the target markets and identify current market opportunities, appropriate to their own competing forces; 3. Analyze marketing variables (product, price, promotion, distribution) in a regular and periodic manner, to provide information for determining the steps of the competitors.

In the field of internal sharing of market information (ISI): 1. The entire staff, 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; 2. Internal cooperation should be presented through participation in the creation of company's plans and strategies, creation of a state of balance in the use of resources among departments, distribution of information obtained from/about clients across sectors, as well as knowledge about offering superior value to the customer; 3. After collecting, analysing and organizing information, those that are related to the market (clients, competitors, and environment) must be delivered to different sectors/departments in the company so that they are used for making decisions in each affected sector.

The main conclusion states that market orientation should be implemented in the operations of SMEs as there is an evident impact on the size of the market share, i.e. on better performance and competitiveness of the enterprise on the market.

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