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The marketing orientation of small and medium enterprises: An Australian study

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Dedicated to my beloved

SAI RAM

my

Maker

Master

Mentor

and

Mechanic who mends my heart, mind and soul

USE OF THESIS

The Use of Thesis statement is not included in this version of the thesis.

The marketing orientation of Small and Medium Enterprises: An Australian Study

by

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ABSTRACT

The market orientation construct has emerged as a key marketing theme in the 1990's. While the concept of being focussed on the market (customers and competitors) has been known since the early 1950's (e.g. Drucker, 1954), putting the concept into practice through a set of specific actions has eluded many organisations and academics. As a result, market orientation (also termed market focus, customer focus and competitor focus) had remained a business philosophy (Bennett & Cooper, 1979; Felton, 1959; Konopa & Calabro, 1971) more than a strategic approach.

While there have been sporadic attempts at defining or operationalising a marketing or customer orientation in the past (Gronroos, 1989; Kotler, 1977; Masiello, 1988; Webster, 1988), the first serious effort was in the early 1990's when Kohli and Jaworski (1990) and Narver and Slater (1990) defined market orientation as a set of organisational activities or behaviours. Narver and Slater also found a positive link between having such an orientation and business performance. The emphasis in both models was on obtaining and understanding customers and competitors and responding to customers' needs better than competitors through a coordinated effort across the organisation. Subsequently a number of studies have supported the positive relationship between market orientation and business performance. However, results have not been consistent and several variables have been shown to moderate the market orientation-performance relationship.

All of the major market orientation studies have been undertaken within large organisations and very little is known about the market orientation of small and medium enterprises (SMEs), or of its relationship to their performance. It is recognised that

SMEs are different from large businesses and some of their marketing practices are unique to SMEs. Given this uniqueness, the present research examined the applicability of existing market orientation constructs and models to SMEs.

For this purpose, Kohli and Jaworski's and Narver and Slater's constructs were modified and some unique SME items were added. Following a staged research approach, as recommended by Churchill (1979), a randomly chosen sample of Australian SMEs was surveyed. In all, more than 700 responses were received, of which 542, were used in the present study.

The results obtained suggested that, while a form of market orientation existed in SMEs, its operationalisation was different. Of Kohli and Jaworski's (1990) three dimensions (intelligence generation, dissemination and organisational response), organisational response could not be supported. The study also provided support for Narver and Slater's (1990) customer and competitor orientation constructs. The third construct 'inter-functional coordination' was not included as early qualitative interviews made it clear that it had no meaning in an SME context. Customer and competitor orientations emerged as distinct constructs but the interrelationship between the two suggested the presence of a higher order 'market orientation' construct.

Compared to the organisations analysed in earlier studies, the SMEs in the current study were small in size and very few had multiple functional areas. In most of the businesses, marketing did not exist as a separate function. Consequently, there was no support for constructs such as organisational response and inter-functional coordination.

The informal nature of SMEs marketing activities was also evident in the market orientation constructs. It appeared that SMEs collect their intelligence through informal means. Their marketing activities were also based more on intuition than logic. Apart from customer and competitor orientations, a customer service orientation emerged as an important element. Having a customer service orientation led to customer satisfaction and, hence, to repeat business, which was considered to be extremely important by the small businesses surveyed. Having a customer service orientation also had a positive impact on the organisational commitment of employees, repeat business and business performance.

The overall impact of customer orientation and competitor orientation on business performance was positive, but small. This was not surprising as respondents took a casual or intuitive approach to marketing. It seems that small business performance is constrained by factors other than marketing, such as the availability of resources. Further, even among large businesses, the market orientation-performance relationship has not been consistently positive or significant. The present results suggest that market orientation, as practised in large businesses, or as articulated by academics, may not be applicable to SMEs and that customer service elements needed to be included in the model. As regards performance, the results obtained suggest that factors other than marketing are also critical and further research is needed to tease out the nature of these additional factors.

I certify that this thesis does not, to the best of my knowledge and belief:

i. incorporate without acknowledgment any material previously submitted for a degree or diploma in any institution of higher education.

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Date 25/02/08

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CHAPTER 1

Introduction

1.1 Background

In the last few years, the market orientation concept has emerged as a key theme for improving business performance. Factors such as market power, economies of scale and the broadness of product line have ceased to provide the competitive advantage that they did in the 1970's and 1980's. The current emphasis is on providing consistently superior value to customers (Bitner, 1990; Day & Wensley, 1988; Parasuraman, Zeithaml & Berry, 1985).

While the term 'Market Orientation' and its operationalisation are relatively new (Kohli & Jaworski, 1990; Narver & Slater, 1990), the underlying principles have been known for several decades. In contrast to the earlier focus on customers (Michaels & Day, 1985) or competitors (Flax, 1984; Fuld, 1985; Oxenfeldt & Moore, 1978), the market orientation models suggested by Kohli and Jaworski (1990) and Narver and Slater (1990) take a broader, more integrated perspective and include organisational activities and responses to stimuli from the market in their ambit. These two models have been widely tested and will be used as the base models in this study. A comprehensive discussion of market orientation is provided in Chapter 2.

People's interest in market orientation has been rekindled because of an accelerating pace of change in the market. Globalisation, international competition, the removal or lowering of tariff barriers and highly demanding consumers are some of the factors that are forcing businesses to be more responsive to market needs (Webster, 1988). Rapid changes in customer tastes and the technology explosion have substantially reduced the time businesses have to respond to market forces. Thus, any competitive advantage a business may have from a new product or service is becoming increasingly short lived. As a result, businesses are under increasing pressure to constantly monitor and quickly respond to the market.

The same argument applies to small and medium enterprises (SMEs). With internet commerce opening immense opportunities, as well as substantial competition, even small firms must look beyond their conventional spheres of operation and their market orientation may be a key to the success or failure of these businesses. In addition, in the small business arena, franchises, 24 hours trading and the movement of large players into conventional small business markets are other forces that may have a substantial impact on SMEs.

Much of the early marketing literature has been dominated by theories and studies related to large businesses, such as 'Fortune 500' companies or multinationals. However, there is an increasing recognition among academics and practitioners as to the unique nature of SMEs and the application of marketing to such entities (Birley & Norburn, 1985; Carson & Cromie, 1990; Gumpert, 1984), suggesting that research needs to look specifically at the SME sector, as large business research may not be directly transferable. Further, as will be discussed in detail in Chapter 3, the criteria for defining an 'SME' has not been consistent in the literature and, hence, this needs to be clearly defined. For the purpose of the present research, the definition adopted by Australian bureau of Statistics (ABS) will be used.

1.2 Research focus

The present research, therefore, focuses on the market orientation of small and medium sized businesses. Market orientation models have been largely based on large enterprises and this research attempts to evaluate the applicability of these models to SMEs and to identify market orientation constructs that are unique to SMEs. The study also looks at the impact of market orientation on SME business performance. The ultimate aim of this research was to develop a model of the market orientation of SMEs.

1.3 Stimulus for this research and its significance

Empirical research into the market orientation of SMEs has been limited. Two landmark studies on the topic of market orientation (Kohli & Jaworski, 1990; Narver & Slater, 1990) and subsequent validation studies (Greenley, 1995b; Ruekert, 1992) have examined large corporations in highly developed economies and in transition economies (Kwaku, 1997). However, the applicability of these models to SMEs is not clear. Further, 'SME' is a broad term that encompasses a wide range of organisations, ranging from micro businesses to leading edge technology firms. The market orientation of these organisations is likely to be different because of the nature of these businesses, the markets in which they operate and the nature of their competition.

In addition, as some researchers have pointed out, having a market orientation may not be the solution for all business situations and situational factors may have substantial impact on the appropriate business approach. The existing models also appear to be tailored to large consumer product businesses and the applicability of these models in other industry sectors needs further investigation.

Australia has a large SME base (ABS, 1999) and studying the market orientation of this sector will offer significant insights into what constitutes a market orientation and how SMEs can be market oriented. Since Australia is small and faces increasing international competition, being market oriented may give Australian businesses a significant competitive advantage. Australia has a small manufacturing sector (ABS, 1997) and, compared to other technologically advanced nations, such as the United States (Dunkelberg & Waldinan, 1996), the United Kingdom (Anonymous, 1996; Ganguly, 1985), Japan, some European nations and Singapore, Australia's hi-tech manufacturing base is small. The majority of Australian businesses are in the service sector (ABS, 1997) and the small business retail sector depends on imported products.

Given the different nature of Australian businesses, it may not be appropriate to take models from large American firms and apply them directly. Understanding market orientation as perceived by Australian businesses and comparing their practices to other countries would fill a knowledge gap and provide considerable insight into Australia's SME sector. The present research will also provide a foundation for further work in comparing the market orientation of organisations in different countries and identifying global factors that may have an impact on market orientation.

1.4 Research Objectives

Briefly, the objectives of the present research project are:

- To test the applicability of existing market orientation constructs to defined SMEs and, where necessary, to modify these constructs to suit the SME sector;

be equally valid. For example, formal market intelligence gathering activities are not often adopted in SMEs. Instead, 'word of mouth' plays a large role in such businesses, both as a promotional tool and for intelligence gathering (Arndt, 1967). An SME model should account for such differences. The limited sphere of operation of these businesses and their heavy reliance on repeat business means that they depend a lot more on customer service to gain repeat customers. In the absence of other sources of competitive advantage such as market / buying power, low cost or new product, customer service has an added meaning. The importance of this dimension suggests that this should be incorporated in the SME market orientation model.

1.5 Methodology

The market orientation instruments developed by Narver and Slater (Narver & Slater, 1990) and Kohli and Jaworski (Kohli & Jaworski 1990) were used as the basis of the present study. These two models have been extensively studied during the 1990s and are the base models from which variants have been developed. The two sets of items were combined and modified to include several small business dimensions on the basis of an extensive review of the literature and an initial set of qualitative interviews with SME owners. After the qualitative phase, a final questionnaire was developed and a mail survey, targeting randomly chosen small businesses, was undertaken. Based on prior knowledge of the low response rates for such surveys, the number of surveys distributed was increased so that a sufficient number of responses could be obtained. Most of the items describing the market orientation constructs were measured using a five point, Likert type scale with which respondents indicated their degree of agreement or disagreement. Several business related questions and respondent demographics were also included. The resulting data were subject to a variety of analytical procedures.

Structural equation modelling techniques were used to build and evaluate the market orientation constructs and to examine the impact of market orientation on business performance.

1.6 Thesis Outline

The thesis is presented in a conventional style and is organised into literature review, research methodology, results and interpretation, validation of the current model, development and testing of alternative models and conclusion sections. Chapters 2 and 3 provide a review of the literature on market orientation, SMEs in Australia and marketing issues relating to SMEs. Organised in two parts, the first part of chapter 2 provides an in depth review of the literature on the market orientation concept and construct. It traces chronologically the evolution of market orientation from the earlier marketing concept. This is followed by a discussion of current market orientation models. A critical evaluation of the market orientation concept forms a part of this chapter.

Given the well accepted argument that 'a small business is not a little big business', an understanding of the small business literature is needed so that the market orientation concept can be applied or evaluated in this context. The second part of the literature review, presented in chapter 3, covers small and medium businesses in Australia and their marketing practices. As the research examines Australian SMEs, a part of the literature review examines the profile of Australian business in general and SMEs in particular.

Chapter 4 describes the research approach and discusses its various stages, beginning with the identification of SMEs, sampling, survey methodology, data analysis and finishing with model development and model evaluation.

Chapter 5 examines the data, presents summary statistics, profiles the sample population and their marketing practices and tests the reliability of current market orientation constructs. Building on chapter 5, chapter 6 presents the measurement models of constructs, develops and tests the structural relationships and examines the relationship between market orientation and business performance in SMEs.

Chapter 7 summarises the findings, discusses the results and comments on the limitations of the current research, while pointing to some new research in this area.

CHAPTER 2

Market orientation - A Literature Review

2.1 Introduction

During the past decade, there has been a revival of interest in the market orientation concept. A steady stream of publications has focussed on the relationship between market orientation and performance (Diamantopoulos & Hart, 1993; Greenley, 1995b; Jaworski & Kohli, 1993; Narver & Slater, 1990; Pitt, Caruana, & Berthon, 1996; Ruekert, 1992). This was a priority research area for the Marketing Science Institute from 1992 to 1996 (MSI, 1999), emphasising its importance to both the business and academic communities.

For over four decades, the marketing concept was recognised as a successful business philosophy or strategy. While market orientation, or the implementation of the marketing concept, is not a new topic, the extent to which businesses adopted a marketing orientation has been revisited periodically. Interest in the marketing concept and market orientation has fluctuated, with businesses and academics initially portraying it as a solution for many business problems and, later, criticising it. A reason for this could be that, as Kotler (1994) and Webster (1988) have pointed out, even after 40 years, few companies have truly adopted the marketing concept.

Government departments and non-profit institutions that, because of their non-profit focus, have not traditionally been market oriented are also adopting the concept of being focussed on the market. For example, the United States Department of Agriculture has recently taken a market oriented approach and has emphasised that funding mechanisms should reflect market needs (Young & Westcott, 1996). Referring to the United States farm act of 1996, and indicating a clear move towards a global market orientation, Keith Collins (1996), Chief Economist of the Department of Agriculture commented:

> *"Farmers will be responding completely to market signals, and that's the best way to promote efficiency and therefore competitiveness in world markets."*

Market oriented approaches are also being suggested in other non-traditional areas. In a brief report Eastin (1998) argued that the deforestation problem could be addressed partly by the timber industry moving away from traditional approaches of relying on a few timber species, looking at lesser known species and matching them to the market demands. Pointing out that, in the past, marketing decisions have been made based on forest inventories, he suggested that the industry should be more market oriented and should base their future actions on better market information.

Many non-profit educational and research institutions also consider a market orientation sufficiently important to include it in their guiding principles (Paul Scherrer Institut, 1995). For example, TNO Building Construction and Research of Netherlands described 1995 as the year of market orientation for their organisation. The Annual report of the institution read:

> *"TNO will continue to be expected to implement government policy intentions. Foremost among these is more pronounced market orientation."*
>
> (Gowens, 1995)

In a study of public institutions in the USA, Qureshi (1993) found that the adoption of a market orientation has gained momentum in public institutions over the five year period investigated and the impact of market orientation was perceptible in the attraction and management of resources.

These comments suggest that market orientation is a current management and marketing theme in many organisations and sectors. However, there is also a wide range of interpretations of the concept (Sharp, 1991). For some businesses, it means that the company's strategies are based on customer needs while, for others, it means creating a marketing department. Many organisations use the term 'market orientation' loosely to reflect their general view that they should be more market focussed but tend not to go beyond this point to understand or implement a market oriented strategy. In contrast to the rigorous treatment of the market orientation concept by academics, managers discuss it in general terms. In addition, many organisations appear to pay only lip service to the concept and may be under the impression that they are customer focused when their real emphasis is elsewhere.

For example, in a study of U.S multinational companies, Hult (1998) found that 74% of respondents indicated that they were customer, rather than competitor, oriented. However, when measured with a more sophisticated scale, 76% were found to be competitor oriented. Many businesses that think they are market oriented may not be. This could partly explain the findings of the 1990 Wall Street Journal poll in which 44% of those surveyed said that the level of service provided by American businesses was fair or poor (Bennett, 1990). A similar reasoning could have attracted a critical remark from Tom Peters, (co-author of *In Search of Excellence)*, who has noted that, "*in general, service in America stinks*" (Keopp, 1987). A study of British chief executives concluded that financiers have dominated boards of directors and that most lack a professional approach to strategy and market innovation (Doyle, 1987).

Given the variation in understanding and interpretation of the market orientation construct, this chapter provides a review of the market orientation literature, its applicability to SMEs and issues in the operationalisation and measurement of the market orientation construct and business performance.

2.2 What is a Market orientation?

In the past decade, several articles have been published in which authors described the characteristics of a market oriented company (eg. Canning (1988); Lamb and Crompton (1986); McNeal and Lamb (1980); Day (1998)). However, there is no common view on what it entails. Likewise, the results of research into market orientation and its antecedents and consequences are ambiguous and sometimes contradictory.

While there is no consensus as to its measurement, there is a good understanding as to what market orientation generally means. However, the business world still appears confused about market orientation. This could be likened to earlier confusion between sales and marketing. Even in the late 1970's, Kotler (1977) remarked that 'people often confuse marketing effectiveness with sales effectiveness' and suggested that subtle differences between a sales approach and a marketing approach could spell the difference between short-term gain and long term performance. Market orientation appears to be at a similar stage of evolution in the 1990s.

While for a purist, the terms 'market orientation', 'market focussed' and 'market driven' may have different meanings, in practice, these terms are used interchangeably and few writers have explicitly discussed differences between them. Expressing a similar view, Shapiro (1988) commented:

> *"While fine distinctions between phrases such as 'market orientation' and 'market driven' may exist, the terms are so close that few important distinctions between the terms exist"*

Consequently, these terms have been used interchangeably in this thesis.

However, the term 'market driven' may carry different meanings to different people. For example, quoting the different views of the CEOs of two large multinational companies Asea Brown Boveri (ABB) and Nestle, Day (1998) suggested that differences in opinions could reflect the origins and cultures of their firms. The CEO of ABB took 'customer focus' as a top agenda item for his company, whereas the CEO of Nestle saw it as an inherent and necessary requirement of a business. ABB is a decentralised, engineering driven company making large industrial equipment whereas Nestle is a global food giant with a reputation for being close to customers. For Nestle to be market driven is more natural than ABB, where technical and other requirements often dictate what can be achieved.

Raising the question, 'what the hell is market oriented?' Shapiro (1988) argued that:

> *"The term 'market oriented' represents a set of processes touching on all aspects of the company. It is a lot more than the cliché 'getting close to the*

customer'. Since most companies sell to a variety of customers with varying and often conflicting desires and needs, the goal of getting close to the customer is meaningless. I have also found no meaningful difference between 'market driven' and 'customer oriented', so I use the terms interchangeably."

In Shapiro's view, three characteristics make a company market driven.

- Information on important buying influences (includes customer, competition and any other influencing factor) permeates every corporate function.
- Strategic and tactical decisions are made inter-functionally and inter-divisionally.
- Divisions and functions make well-coordinated decisions and execute them with a sense of commitment.

The three elements of a market driven business are communication, coordination and commitment (the 3C's) (Shapiro, 1988).

Recently, Wensley (1995) provided a critical review of market orientation research and suggested that there are a number of key unresolved issues. Commenting on this review, Greenley (1995) noted that many of the United Kingdom studies cited by Wensley did not address market orientation as operationalised by Kohli and Jaworski (1990) or Narver and Slater (1990). Different variables were operationalised across these studies so different constructs were measured. As a result, he concluded that the British studies could not be directly compared to American market orientation studies. This is another example of how scholars have disagreements about market orientation and how it should be operationalised.

Recently, the term 'marketing orientation' has been broadened to 'market orientation' or 'market driven' (Ames & Hlavacek, 1989; Day, 1990; Kohli & Jaworski, 1990; Shapiro, 1988; Webster, 1988). According to Kohli and Jaworski (1990), the reasons for this expansion are threefold:

1. Market orientation is not simply a concern of the marketing department, but should be organisationwide;
2. Using 'market orientation' can avoid an overemphasis on the marketing department and can facilitate the coordination and responsibility sharing between the marketing department and other departments; and
3. The term 'market orientation' focuses attention on the market rather than on specific customers.

Since Kohli and Jaworski's and Narver and Slater's work, other researchers have looked at the market orientation construct and come up with more themes (Day, 1998; Deshpande & Farley, 1998). As a result definitions continue to expand.

2.3 The marketing concept - An historical perspective

Since Peter Drucker (1954) articulated the concept by specifying that a market focus should pervade the organisation, there have been many definitions of the marketing concept. A broad range of issues relating to market orientation has also been explored. Hong Liu (1996) divided the major market orientation issues into three periods (the late

1950s to early 1960s; the 1960s to early 1980s and the 1980s to early 1990s) and summarised the progress of the marketing concept during these periods.

2.3.1 Between the late 1950s and the early 1960s

During this period, the marketing concept was examined at a philosophical level; the themes being that embracing the concept can be beneficial to the organisation and that it should pervade the organisation (Felton, 1959; Keith, 1960; King, 1965; Lear, 1963; Levitt, 1960; Levitt, 1962).

Felton (1959 p.55) described the marketing concept as:

> *"A corporate state of mind that insists on the integration and coordination of all the marketing functions which, in turn, are melded with all other corporate functions, for the basic purpose of producing maximum long-range corporate profits."*

Keith (1960, p37) stressed the importance being marketing oriented and putting the customer at the centre of the business, noting that:

> *"if we were to restate our philosophy during the past decade as simply as possible, it would read: We make and sell products for consumers."*

Using a similar logic, King (1965 p85) defined the marketing concept as

> *"A managerial philosophy concerned with mobilisation, utilisation, and control of total corporate effort for the purpose of helping consumers solve*

selected problems in ways compatible with planned enhancement of the profit position of the firm."

Other authors of this period echoed a similar view. This period (1950 - 1960) was one in which marketing grew, with an increasing emphasis on mass marketing.

2.3.2 From the late 1960s to the early 1980s

During this period, the marketing concept moved from a philosophical to a more practical plane. Businesses and academics started thinking about the adoption of the concept in day-to-day business, problems relating to such adoptions and ways of overcoming these problems (Ames, 1970; Kaldor, 1971; Kotler, 1965; Saunders, 1965; Stampfl, 1978).

Konopa and Calabro's (1971) definition reflected the thinking of that time and looked at the marketing concept in terms of specific activities, rather than from a philosophical level.

> *"The external consumer orientation...as contrasted to internal preoccupation and orientation around the production function; profit goals as an alternative to sales volume goals and...complete integration of organisational and operational effort."*

Looking at the marketing concept from a broader perspective, McNamara (1972, p 51) defined it as

> *"A philosophy of business management, based on a 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 to all major corporate departments".

At this time, in addition to its direct application in everyday business, the marketing concept began to spread to other areas, such as retailing (Fram, 1965), engineering (Reynolds, 1966), health (Zaltman & Vertinsky, 1971) and a host of others (Kotler & Levy, 1969; Kotler & Zaltman, 1971; Mindak & Bybee, 1971).

While some of the articles during this period were theoretical or conceptual in nature (Stampfl, 1978), others examined the extent to which organisations had adopted the marketing concept (Barksdale & Darden, 1971; Hise, 1965; Lusch, Udell, & Laczniak, 1976; McNamara, 1972). However, the antecedents to and consequences of adopting such a concept were not explored.

The 1960s were an era of mass marketing, during which marketing's role grew rapidly. Consequently, it is not surprising that the marketing concept was embraced during this period in every branch of business, as well as by academics.

Partly as a result of the growth of marketing in the early 1960s, the late 1960s and the early 1970s witnessed an emergence of consumer protection groups. Several authors responded to issues relating to consumerism and the marketing concept (Bell & Emory, 1971; Burskirk & Rothe, 1970; Kotler, 1972; Rothe & Benson, 1974). While Bell and Emory (1971) criticised the marketing concept, Kotler (1972) considered consumerism as inevitable and beneficial and proposed a 'societal marketing concept' to respond to the new consumerism. The marketing concept was seen as outmoded, and alternatives were proposed (Dawson, 1969; Lavidge, 1970; Rothe & Benson, 1974). With customers becoming a major source for new product ideas, there was a proliferation of imitative products at the expense of technological breakthroughs. This, in turn, attracted criticism from several authors (Bennett & Cooper, 1979; Hayes & Abernathy, 1980; Riesz, 1980). During this period, several authors also argued that implementing the market orientation was not easy (Lear, 1963).

These historical developments were a part of introductory and growth phases which was followed by a more critical evaluation.

2.3.3 The 1980's – the early 1990's

The influence of corporate culture on the organisation as a whole and its attitude towards marketing and customers was a major theme of the 1980's. An early mention of 'corporate culture' as an important element in business appeared in Business Week (1980) and it was suggested that corporate values and attitudes could spell the difference between success and failure. Other authors echoed this view (Bennett, 1990; Lorsch, 1986). Dunn et al. (1985) observed a positive correlation between corporate culture, customer orientation and marketing effectiveness. Challenging the traditional marketing belief that organisations had moved from production to sales and to marketing, Fullerton (1988) proposed an alternative model of marketing's evolution. Pointing out the limitations of the marketing concept, Houston (1986 p.81) concluded:

> *"the marketing concept has been established as the optimal management philosophy when it is not necessarily so in all instances, and there are many*

examples of poor marketing practices which have been adopted in the name of the marketing concept."

Responding to such criticisms, several authors defended its validity (Gaski, 1984; Lawton & Parasuraman, 1980; McGee & Spiro, 1988; Parasuraman, 1981; Webster, 1988; Webster, 1981).

By late 1980's, marketing orientation was being used synonymously with the marketing concept (Shapiro, 1988; Webster, 1988). Market information, collection and use were identified as key aspects of a market orientation. Shapiro (1988, p 120) noted that an organisation has a market orientation only if "information on all buying influences permeates every corporate function."

In 1990, Kohli and Jaworski (1990) conceptualised a market orientation as the implementation of the marketing concept and, later, developed some market orientation constructs. A subsequent study identified a number of influences on the implementation of market orientation (Kohli, Jaworski, & Kumar, 1993). Conceptualising a market orientation from a behavioural perspective, Narver and Slater (1990) found a positive relationship between market orientation and business profitability. Following Kohli and Jaworski (1990) and Narver and Slater (1990), several authors demonstrated the beneficial effects of a market orientation on business performance (Diamantopoulos & Hart, 1993; Greenley, 1995b; Pitt et al., 1996; Ruekert, 1992). In contrast, Day (1994) argued that organisations can become more market oriented by identifying and building the special capabilities that set market-driven organisations apart.

Recently, Cespedes (1995) introduced the idea of 'concurrent marketing.' Based on the marketing concept, concurrent marketing is similar to market orientation and attempts to integrate the various parts of marketing, such as product, sales and service, emphasising the importance of inter-functional coordination to the implementation of a successful market orientation.

Deshpande and Farley (1996) suggested altering the definition of market orientation on the basis of a factor analysis of three market orientation measures. Their definition emphasised a customer orientation and cross-functional processes and activities directed at creating and satisfying customers. Researchers continue to test the validity of the market orientation constructs in different economies, different settings (eg. industrial products and consumer products, products and services). Several authors (Kwaku, 1997; Pelham, 1997a; Pelham & Wilson, 1996) have also started looking at market orientation in SMEs.

2.3.4 Market orientation from a management perspective

Since the 1980s, the marketing concept or market orientation has also been examined from a corporate or management perspective. This is in tune with an increased realisation that marketing is a management function. A review of the management literature shows that, in the early periods (1960s and 1970's), the marketing concept had little impact on management (Hong, 1996). In an exhaustive review of variables affecting organisational effectiveness (Campbell, 1977), customer satisfaction was not mentioned as important. Likewise, in discussions on competing principles of management that lead to effectiveness, market orientation was not mentioned (Lewin & Minton, 1996).

The minimal impact of market orientation on the management discipline could be attributed to several factors; an important one being that the marketing concept was an article of faith or philosophy, rather than a practical basis for managing a business. While the purpose of a business was defined as the creation and retention of satisfied customers, evidence on the performance consequences of a market driven behaviour was largely anecdotal. In addition, managers were given little guidance as to how to improve or redirect their organisation's focus toward their markets. Cautioning that achieving a market orientation may not be straightforward, Ames (1970) warned about merely introducing the 'trappings' of marketing into a company, rather than achieving attitude changes to ensure the market place is given paramount importance.

In the early 1980's, despite a lack of empirical evidence linking market orientation and business performance, market orientation was mentioned in the strategic management literature. Several authors advocated the incorporation of a market orientation into corporate culture and mission statements, putting markets, customers and competitors at the heart of the organisation (Jauch & Glueck, 1988; Pearce & David, 1987; Webster, 1988).

Since the late 1980s, there has been a change in this situation with several studies describing the nature of market oriented organisations (Dickson, 1992; Webster, 1988). Deshpande and Webster (1989) described market orientation as a set of attitudes and corporate culture aimed at creating and enhancing value to customers. Webster (1992) suggested that, whereas culture is the way 'things' are done, orientation is about implementation, the implication being that the market orientation aspect of the corporate culture should be pervasive starting with the mission. Gronroos (1989) expressed a similar view and argued that market-oriented management should be found throughout a company. According to the emerging literature, having a market orientation leads to superior skills in understanding and satisfying customers (Day, 1990). Its principal features are:

1. A set of beliefs that puts the customers' interest first. (Deshpande, Farley, & Webster, 1993).
2. The ability of the organisation to generate, disseminate and use superior information about customers and competitors (Kohli & Jaworski, 1990) and
3. The coordinated application of inter-functional resources to the creation of superior customer value (Narver & Slater, 1990; Shapiro, 1988).

The ultimate orientation is one in which all employees consider marketing as a central part of their job (Canning, 1988). Masiello (1988) pointed out that a market orientation is often not achieved because necessary attitudes are not established and necessary actions are not taken. Lichtenthal and Wilson (1992) suggested that a market orientation should be:

> *'A visible hand that guides the behaviour of individuals each day in performing their jobs.'*

2.4 Key elements of market orientation

As mentioned in the introductory part of this chapter, the marketing concept has had several definitions and meanings. Since these definitions emerged from different conceptualisations of the marketing concept, variations in these definitions can be attributed, in large part, to the diverse manner in which the marketing concept has been defined over time.

As early as 1960, Keith (1960, p 35) mentioned the need for companies to be marketing oriented, arguing that the *"customer and not the company, is at the centre and companies revolve around the customer, not the other way around"*. From early definitions of the marketing concept, Barksdale and Darden (1971) and McNamara (1972) identified three crucial elements:

1. Customers are a focus for business activities,
2. There is an integration of activities across functions, and
3. There is a profit orientation.

However, questioning this conceptualisation, Bell and Emory (1971) argued that profit is a consequence of having customer orientation and, therefore, a customer orientation should take precedence over profit.

In tune with authors such as Shapiro and Webster, Kohli and Jaworski (1990) found three key themes to describe market orientation:

Customer focus,

Integrated marketing effort throughout the organisation and

Long-term profit goals (rather than sales volume) (Kotler, 1988; Stampfl,1978).

Kohli and Jaworski used intelligence generation, dissemination and responsiveness of the organisation as three aspects of a market orientation. Looking at market orientation from a behavioural perspective, Narver and Slater (1990) argued that a customer orientation, a competitor orientation and inter-functional coordination are the three elements of a market orientation. Kohli and Jaworski and Narver and Slater's constructs are discussed in detail later in this chapter.

However, a close examination of the literature suggests that market orientation has other important elements, such as innovation. The positive relationship between marketing and innovation has been recognised by many academics and practitioners (Drucker, 1954; Levitt, 1962). As early as 1963, King (cited in Hong Liu (1996)) incorporated innovation into the marketing concept framework by referring to the concept as including "an active company-wide managerial concern with innovation of products and services designed to solve selected consumer problems."

Innovation is also linked to market orientation. Having a market orientation involves being better than, or different from, competitors in providing customers with products and services that match their evolving needs and wants. Such a result can only be achieved through innovation. Innovation is, thus, a necessary condition of a market orientation (Doyle, 1987). Recently, Hurley and Hult (1998) proposed a conceptual framework for incorporating innovation constructs in market orientation.

Over a period of time, several authors have also stressed the importance of competition in shaping the marketing concept or market orientation. For example, Day and Wensley (1983) contended that all previous conceptualisations failed to address competitors. Ohmae (1983) placed the customer, the competitor and the company at three corners of a strategic triangle of business. In Ohmae's model, the customer was the target to be created and retained and competition served as a frame of reference. A business differentiated itself from its competitors and used its strengths to deliver customer satisfaction. Recently, Narver and Slater (1990) assigned competitor orientation the same level of importance as customer orientation in the overall framework of market orientation. The role of competition in shaping market orientation is discussed in detail later in this chapter.

2.5 The Adoption of the marketing concept by businesses

The adoption of the marketing concept has not been uniform. In a survey of manufacturing firms, Hise (1965) found many large and medium manufacturing firms had adopted the concept but large firms had adopted the marketing concept more than medium firms. The greatest degree of acceptance was found in the customer orientation of marketing programs and in the organisational structure of the marketing department, particularly in the status provided to the chief marketing executive.

In examining marketers' attitude toward the marketing concept, Barksdale and Darden (1971) found that the concept was both a success and a failure. While companies recognised its importance, many executives expressed reservations about its implementation. Barksdale and Darden (1971) and McNamara (1972) also noted that consumer goods companies tended to adopt and implement the marketing concept more than did industrial goods companies. McNamara (1972) attributed this difference to the nature of the product, the customers and the decision making process. Larger companies adopted and implemented the marketing concept to a greater degree than did small and medium sized companies. Recently, Greenley (1995b) and Hong Liu (1995a) studied the adoption of a market orientation by British firms and came to similar conclusions.

Market orientation has also been studied in several industries. For example, Greenley and Matcham (1990) found that British companies involved in marketing 'incoming tourism' were not as marketing oriented as might have been expected, and their market intelligence activities were superficial and subjective. While there was some evidence to support them having a marketing orientation, there was also evidence of services being modified to suit business, rather than consumer, needs. Almost all of the companies used a cost-plus pricing approach, with very little market response based pricing. A large majority of those surveyed (82%) did not undertake marketing planning and half indicated that marketing was not important to them.

Bhuian (1997) and Raju et al. (1995) studied the application of market orientation and its impact in the hospital industry. Gathering information, improving customer satisfaction and responding to customer needs and competitor's actions were found to be critical in assessing a hospital's market orientation. However, the importance of these four components varied according to the type of performance that was being emphasised.

The degree to which a market orientation is embraced in professional services, such as hospitals, may be affected by the negative connotations traditionalists attach to marketing. Bhuian (1997) found considerable variation in the market orientation of different institutions and of different executives in the same institution. The traditionalists were of the view that marketing wasted money that should be devoted to caring for sick people. Bhuian identified five different hospital types, ranging from those who considered that marketing was not relevant to hospitals, to those who embraced a market orientation wholeheartedly.

Surveying businesses in Australia, New Zealand and Singapore, Ghosh et al. (1994) found that, in the three countries, better performers claimed a much stronger marketing focus. The market orientation approach was strongest in Singapore, followed by New Zealand and Australia. A stronger commitment to marketing by the organisation and the CEO was also noticed in these countries.

2.6 Some misconceptions related to market orientation

The early success and consequent popularity of the marketing concept has been partly its undoing. The marketing concept became a panacea for managers and academics, with very little critical evaluation. Criticising the universal and uniform application of the marketing concept, Houston (1986) examined the exchange process critically and argued that, under certain circumstances, the production or sales concept would be a more appropriate management philosophy than the marketing concept, a view supported by Kohli and Jaworski (1990).

A customer focus, an important element of the marketing concept, is another theme that is often misunderstood. Marketing often emphasises the customer focus and conveys a sense that customer needs should be satisfied at all costs and that products should meet customer needs. This is a mistaken interpretation (Sharp, 1991). The marketing concept requires an understanding of the market and does not suggest that products be designed to satisfy every demand of every market at all cost (Houston, 1986). Satisfying market's demand is important to the extent that doing so yields success. A commercial organisation deciding to offer a single, undifferentiated product or service instead of multiple products to satisfy every market segment, may have arrived at this decision with a thorough understanding of the market's response and the accompanying costs. Such an organisation can be an exemplary user of the marketing concept. In the popular literature such organisations are considered to be not market focussed, but the opposite may be true.

Yet another dimension is the market orientation of the buyers. The literature deals with the market orientation of the sellers but the same logic applies to buyers. Buyers can be passive and accept or reject the product offered or, alternatively, pursue companies to get the best bargain. In such cases, the market orientation of the buyer and the seller decide the performance of the firm (Sachs & Benson, 1978).

2.7 Market orientation constructs

It has been recognised that a major challenge is the development of operational definitions for the marketing concept (Barksdale & Darden, 1971). While several authors (Day, 1998; Deshpande & Farley, 1998; Hart & Diamantopoulos, 1993; Shapiro, 1988; Webster, 1988) have proposed different conceptualisations and models, the constructs suggested by Kohli and Jaworski (1990) and Narver and Slater (1990) continue to provide the basis for many studies. These constructs form the basis of the present study. Consequently, they are discussed in detail in this section.

2.7.1 Kohli and Jaworski's market orientation construct

In operationalising the concept and developing market orientation constructs, Kohli and Jaworski (1990) used the term 'market orientation' to mean the implementation of the marketing concept and considered a market oriented organisation as one whose actions are consistent with the marketing concept. They also preferred the term 'market orientation' to 'marketing orientation' because it took the emphasis away from the marketing department and placed it on the organisation as a whole.

Based on extensive literature review and field interviews, three core themes (customer focus, coordinated marketing and profitability) were identified. However, Kohli and Jaworski (1990, p 3) noticed the following differences:

> "The customer focus element went beyond obtaining information from customers and included the organisation's response also. Further, the comments suggested that being customer oriented involved taking actions based on market intelligence, including exogenous market factors such as competition and regulation as well as including the needs of current as well as future customers.
>
> Statements such as 'market orientation is not solely the responsibility of a marketing department' implied coordinated marketing, though the term itself was not specified.
>
> Profitability was not considered to be a part of market orientation but a consequence of market orientation."

Kohli and Jaworski (1990) proposed the following dimensions to operationalise the market orientation construct.

Intelligence generation:

While mainly focussed on customer needs and preferences, it included an analysis of how they may be affected by exogenous factors such as government regulation, technology, competitors and other environmental forces. Environmental scanning activities were covered under market intelligence generation involving both formal and informal methods.

Intelligence dissemination:

Related to the effective flow of information across the organisation through formal and informal processes.

Responsiveness:

The third element of market orientation dealt with the response of the organisation to the intelligence gathered.

Kohli and Jaworski (1990) formally defined a market orientation as

> *"The organisation wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments and organisation wide responsiveness to it."*

As can be seen from Figure 2.7.1.1, market orientation is seen as a set of activities that are influenced by factors such as top management attitudes, skills and behaviour and by organisational structures, organisational culture and norms.

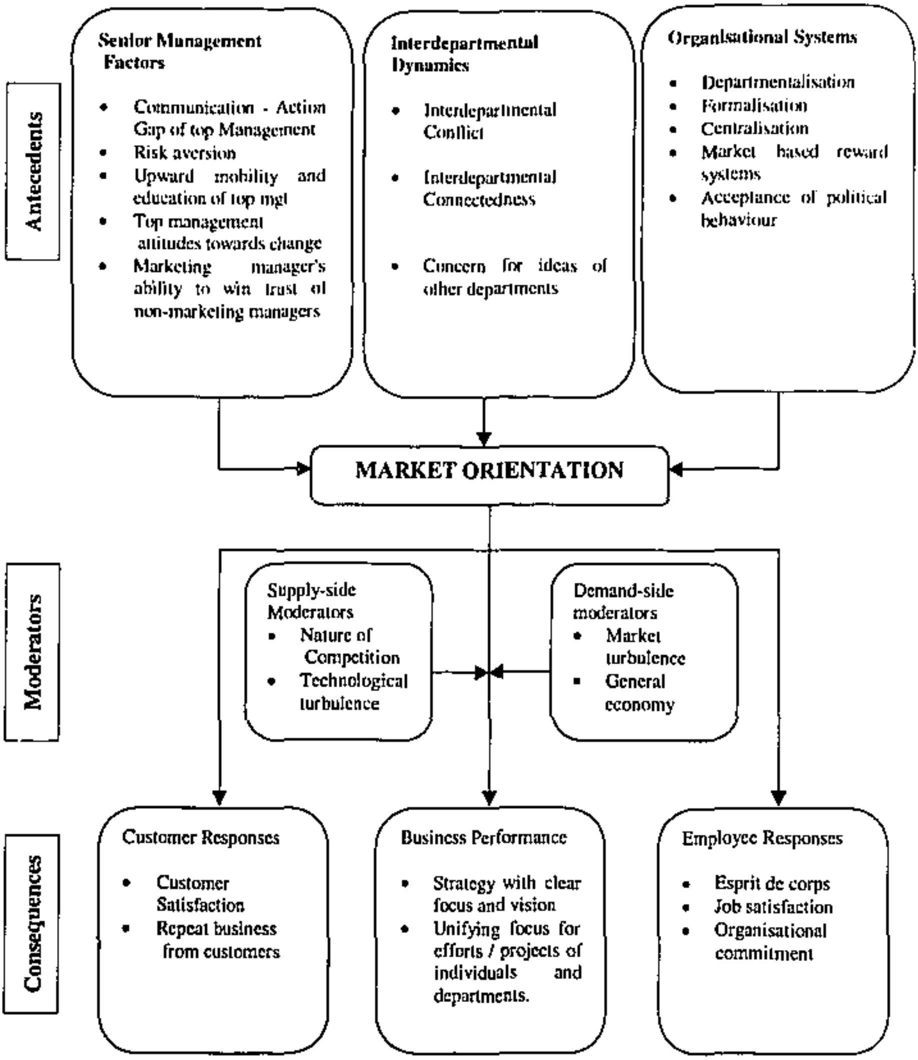


Figure 2.7.1.1: Kohli and Jaworski's antecedents and consequences of market orientation

(Jaworski & Kohli, 1993; Kohli & Jaworski, 1990)

Early empirical studies suggested that top management communication, reward systems, interdepartmental conflict and interdepartmental connectedness impact on market orientation. Top management risk aversion and degree of formalisation and centralisation also had an influence, but to a lesser extent. Kohli and Jaworski's (1990) results also suggested that a market orientation may or may not be desirable for a business, depending on the nature of supply and demand side factors. Their research outlined the factors that fostered or impeded a market orientation and these are discussed in more detail later in this chapter.

2.7.2 Narver and Slater's model of market orientation

Narver & Slater (1990) discussed an exploratory study in which they developed and validated market orientation measures and analysed their effect on profitability. Using a sample of 140 business units within a large American corporation, they found a substantial positive effect of market orientation on profitability. Narver and Slater's work was based on the premise that creating a sustainable competitive advantage (SCA) was important if an organisation was to achieve consistently high market performance (Aaker, 1988; Porter, 1985). When adopted as a culture throughout the organisation, a market orientation was thought to generate customer oriented behaviours that created superior value which, in turn resulted in better performance (Aaker, 1988; Kohli & Jaworski, 1990; Kotler, 1984; Peters & Austin, 1985; Peters & Waterman Jr., 1982; Shapiro, 1988; Webster, 1988).

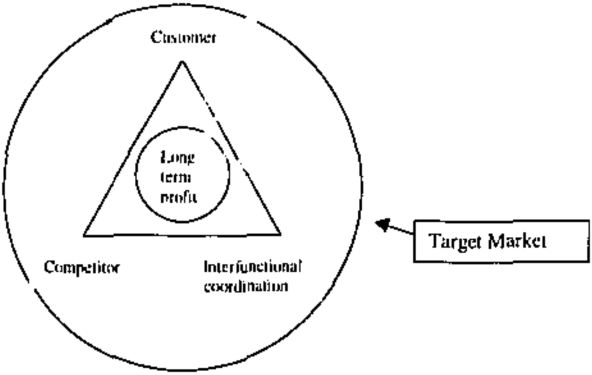


Figure 2.7.2.1: Narver and Slater's (1990) concept of market orientation

Narver and Slater's (1990) concept of market orientation included culture, behaviour, decision criteria and knowledge of the market (customers, competitors and the environment). However, their operationalisation of market orientation was based only on the three behavioural components (customer orientation, competitor orientation and inter-functional coordination) and two decision criteria (long term focus and profitability).

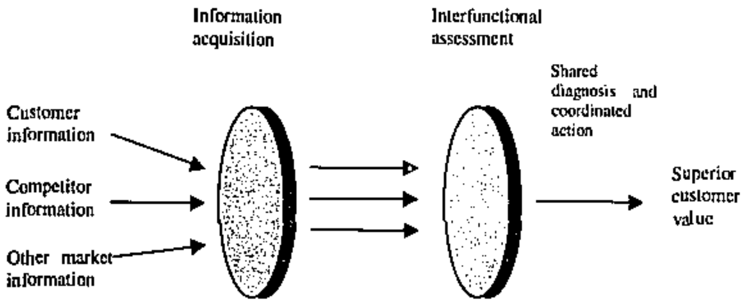


Figure 2.7.2.2: Narver and Slater's operationalisation of market orientation

The ultimate aim of having a market orientation was long term profit (Figure 2.7.2.1) and the three components were equally important. Further, information from the three sources (customer, competitor and environment) was acquired (Figure 2.7.2.2), assessed from an inter-functional perspective and superior value was delivered to the customer, through a shared view and coordinated actions. While Kohli and Jaworski's and Narver and Slater's models looked at the same problem using different perspectives, they are similar in several aspects.

In contrast to early studies, which perceived profits as a part of market orientation, Kohli and Jaworski's (1990) showed profits as a consequence of market orientation. Narver and Slater (1990) took a compromise position, suggesting profitability, though conceptually related to market orientation, was an objective. Thus they separated profitability and long-term focus from market orientation.

Narver and Slater's scales were reliable and items to total correlations for customer orientation, competitor orientation and inter-functional coordination scales all exceeded 0.70, which is the threshold recommended by Nunnally (1978, p 245) for exploratory research. However, the long-term orientation and profit objective measures did not meet this criterion. Because of their low reliability, no conclusion was drawn about the empirical relationship between the two decision criteria and the three behavioural market orientation components (Narver & Slater, 1990 p 24).

Narver and Slater assigned equal importance to the three components and treated a market orientation score as a simple average of the scores of the three components.

Their performance variable was 'Return on Assets' (ROA) in its principal market relative to the ROAs of its competitors. Their study showed strong correlations (greater than 0.67) between the three components of market orientation, suggesting convergence to a common construct, providing some evidence of construct validity. Convergent validity was also suggested by the high alpha (0.88) attained when the scores on the three scales were combined into a single scale and by the one factor solution found in an exploratory factor analysis. The relationship between market orientation and business performance has since been verified in several studies. These results are discussed later in this chapter as the discussion in this section is confined to the constructs themselves.

Harris (1996a) commented that, while Kohli and Jaworski's model provided a base that businesses could use to understand the factors that helped or obstructed the development of a market orientation, it might not be a definitive and complete model. Jaworski and Kohli (1993) identified three major antecedents, raising a question as to whether there were more and if they were linked. Several authors have also raised conceptual questions about the validity of these models and suggested alternatives. For example, Dreher (1993) reviewed approaches to defining and operationalising a marketing orientation, discussed alternatives to existing conceptualisations and suggested a new way of looking at the phenomenon. Subsequent to developing marketing orientation constructs, Kohli et al. (1993) suggested a scale to measure market orientation (MARKOR) and assessed its psychometric properties.

Several authors have also added dimensions to Kohli and Jaworski's and Narver and Slater's models or looked at it from organisational culture perspective (Day, 1998)

(Deshpande & Farley, 1998). However, such models are not relevant to the theme of this thesis and are not discussed further.

2.7.3 Market orientation and innovation

Continuous or periodic innovation and reorientation is a norm in most industries. Slater and Narver (1995) suggested that having a market orientation enhanced performance only when combined with a learning orientation. Market driven businesses anticipated the developing needs of the customers and responded to them through the addition of innovative products and services. Thus, innovation is an essential element of a market orientation. While research on market orientation and organisational learning (Slater & Narver, 1995) has examined how organisations adapt to their environments, innovate, and develop competitive advantage, current market orientation models do not incorporate innovation constructs.

As briefly mentioned in section 2.4, Hurley and Hult (1998) presented a conceptual framework that incorporated such constructs and tested some of the critical relationships. Their results suggested that higher levels of innovativeness were associated with a greater capacity for adaptation and innovation (number of innovations successfully implemented). In addition, higher levels of innovativeness were associated with cultures that emphasised learning, development and participative decision-making. Hurley and Hult (1998) therefore argued that market orientation models should focus on innovation rather than learning as the primary mechanism for responding to markets.

2.7.4 Antecedents and Consequences of market orientation

In their study of the antecedents and consequences of market orientation, Jaworski and Kohli (1993) examined why some organisations are more market oriented than others, the effect of market orientation on employees and business performance and the impact of environmental factors on market orientation.

An earlier study by Narver and Slater (1990) found empirical support for the often-quoted positive relationship between a market orientation and performance. However, other studies had suggested that a market orientation may have a strong or a weak effect on business performance, depending on environmental conditions such as market turbulence and competitive intensity (Greenley, 1995b).

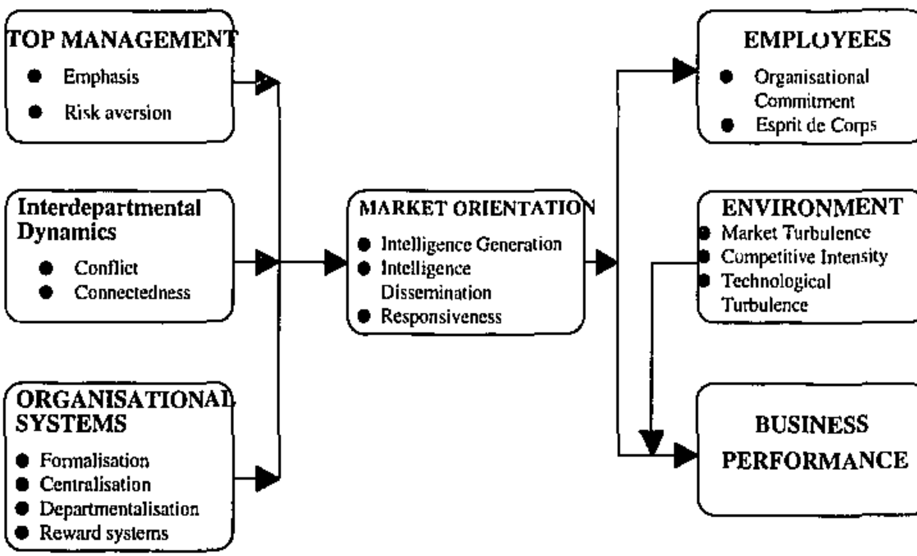


Figure 2.7.4.1: Antecedents and consequences of market orientation

(Jaworski & Kohli, 1993; Kohli & Jaworski, 1990)

Jaworski and Kohli's findings suggested that a market orientation was related to top (senior) management's emphasis, the risk aversion of top / senior managers, interdepartmental conflict and connectedness, centralisation and reward system orientation. The market orientation of an organisation also appeared to have an impact on business performance, employees' commitment, and their esprit de corps. This relationship seemed to be unaffected by environmental factors such as market turbulence, competitive intensity or technolog·cal turbulence.

It is well established that top management play a critical role in shaping an organisation's values and orientation and signals from the top set a clear direction for an organisation to be market oriented (Felton, 1959; Webster, 1988). Regarding top management's risk posture, Kohli and Jaworski (1990) argued that, being responsive to changing market needs is risky. Top management's demonstrated willingness to accept risk is likely to encourage staff to be more market responsive.

Conflict between departments inhibits market orientation and this topic is dealt with in detail under 'barriers to market orientation.' Such conflicts inhibit communication across departments (Ruekert & Walker Jr., 1987), reducing intelligence dissemination. In contrast, it seems that connectedness facilitates the flow, as well as the use, of information (Cronbach, 1980; Deshpande & Zaltman, 1982).

Formalisation represents the degree to which rules define roles and authority relations, whereas centralisation relates to the delegation of authority and the extent of participation by employees in decision-making. Departmentalisation refers to the number of departments into which the activities of the organisation are segregated and compartmentalised. Formalisation and centralisation are inversely related to information utilisation and responsiveness (Deshpande & Zaltman, 1982; Stampfl, 1978).

2.8 Market orientation and stakeholder orientation

In the marketing literature, the focus is usually on consumers and competitors. However, Kohli et al. (1993) and Narver and Slater (Narver & Slater, 1990) suggest that this can be expanded to include other key stakeholders. It is well recognised in strategic management that addressing the interests of stakeholder groups is central to planning, and that a failure to address such interests may be costly (Clarkson, 1995).

Few studies have addressed multiple stakeholder orientations. However, studies relating performance to the orientation of specific stakeholders are not uncommon. For example, Gordon and DiTomaso (1992) found a positive association between corporate culture and performance, while Webster (1993) noticed a similar association between marketing culture and performance. Likewise, Wong and Saunders (1993) reported that companies that achieved a balance between a marketing and production orientation performed better.

Greenley and Foxall (Greenley & Foxall, 1997; Greenley & Foxall, 1998) examined the association between different stakeholder orientations and company performance and found that stakeholder orientation as a whole was not associated with performance. Their study suggested that competitive hostility might be less of a problem in high market growth situations, as firms may perform well while paying limited attention to stakeholders, compared to periods when growth is low and market rivalry is high. Consumer orientation had an association with sales growth, whereas competitor orientation was associated with ROI and sales growth. Further, while consumer orientation effects were moderated by market turbulence, competitor orientation effects were not moderated by external variables. When there was very little change in consumer needs, competitor orientation was a key to sustaining market share.

In the same study, Greenley and Foxall (1996) examined the consumer and non-consumer stakeholder orientation of British companies. They found that most attention was given to consumers, followed by competitors, shareholders, employees and unions. Research was important only for understanding consumers, although, in some companies, it also seemed important for understanding competitors. Overall, management judgement appeared to be more important than formal research for all stakeholder groups. Consumers were the subject of most planning, with similar attention being given to competitors and shareholders. It seemed competitors, consumers and shareholders had similar levels of importance and that one stakeholder group did not dominate. However, employees received much less attention.

Most CEOs assigned top priority to satisfying consumers, such a result supporting the overall marketing premise that customers come first. In addition, there was support for the theory that companies prioritised the various groups when examining stakeholders' interests (Mintzberg, 1983).

2.9 Moderating influences on market orientation

2.9.1 Market orientation and competition

As discussed in earlier sections of this chapter, many organisations wish to become market oriented. However, this can require significant changes to shift the organisation's focus. There can be a debate as to whether companies should adopt a competitive or a customer focus (Day & Wensley, 1988; Weitz, 1985) and whether a firm can be both customer and competitor oriented. In other words, 'can the marketing concept, which requires that the customer be put first in all the decisions, coexist with the aggressive competitive posture adopted by some businesses?'

Day and Wensley (1988) and Smith et al. (1992) argued that, having a healthy concern for competitors need not stop a business from implementing a market orientation and that the two orientations can coexist. The critical issue is the approach to competitive analysis (ie. being able to view the competition through the eyes of current and potential customers). If managers constantly respond to competitor's actions, they run the risk of developing a 'me-too' orientation, so competitive analysis should combine customer and competitor perspectives. Day and Wensley (1988) stressed that strategies for gaining competitive superiority should be grounded in valid and insightful monitoring of the current market position and through identifying the skills and resources that afford the most leverage on future cost and differentiation advantages.

Day (1998) also took the view that, instead of the myopic 'beat the competitor at all costs' approach, firms should focus their energies on providing better value at lower cost. Market driven firms closely watch their competitors, compare their performance against the best in the market and integrate a customer orientation with a competitor orientation.

The positive relationship between market orientation and performance is well established and has been articulated in other sections of this chapter. However, it has been suggested that the competitive environment can moderate this relationship. Despite this suggestion, Jaworski and Kohli (1993) found that the competitive environment had very little effect on the strength or nature of the market orientation and performance relationship, a result confirmed by Slater and Narver (1994a).

Theorists advocate constantly adapting an organisation's market orientation to the environment. However, from a managerial perspective, developing and maintaining a market orientation is complex and costly. Slater and Narver (1994a) argued that firms should ask whether the influential environmental conditions are sufficiently long lasting for it to be cost effective for a business to try to adjust to them.

Kohli and Jaworski's (1990) research also suggested that having a market orientation might not be critical in certain conditions, such as when there is limited competition, stable market preferences, technologically turbulent industries and booming economies. Consequently, having a market orientation, which requires the commitment of resources, will be useful only if the benefits exceeded the cost and managers should pay attention to the cost-benefit ratio of developing a market orientation. Commenting further on the environmental variables impacting on market orientation, Day (1990, p 13) argued that a market oriented business, with its external focus and commitment to innovation, should be prepared to achieve and sustain a competitive edge in any environmental situation.

Dickson (1992) looked at the customer orientation–competitor orientation debate from a different perspective. He viewed a competitive focus, not as an alternative to a customer focus, but as a driving force that determined the degree of customer orientation. The greater the competition, the more a firm needs to focus on serving the customer. Arguing that this explicit connection has not been recognised, Dickson (1992, p 76) suggested a theory of competitive rationality, in which a firm earned profits (entrepreneurial rents) from the insights (eg. private information) produced by a consumer focus. He also noted that, modern marketing scholars and teachers might disagree with this different rationale because, "the marketing concept, being the holy grail of marketing, frequently takes on the characteristics of a moral maxim that serves to dignify and legitimise the marketing profession and discipline. Theoretically, the marketing concept is much more than that; morally, it is much less" Dickson (1992 p.78).

2.9.2 Other factors influencing market orientation

Information dissemination and responsiveness have been recognised as two essential elements of a market orientation. In general, organisations say that they want to understand their customers and deliver products and services that meet their needs. However, Masiello (1988) observed that most of the people working for organisations, especially those with no direct contact with customers, had no idea who their customers were and did not see how their jobs affected customers. Quoting several examples, he stressed the need for developing market responsiveness throughout the organisation and for everyone to talk about customer needs. According to Masiello (1988), the key reasons for the poor implementation of the marketing concept are:

- The inability of functional areas to understand what it really means to be market driven;
- Employees not being able to translate their functional responsibilities into customer responsive actions;
- Firms not being able to recognise opportunities in the market;

- Employees not understanding the role played by others in the organisation;
- Employees not having a meaningful input into the firm's direction.

Masiello (1988) argued that many solutions to these problems were incomplete because they dealt with strategic issues at senior management levels and did not look at an operational level. As a result, solutions were often fragmented, targeting only one functional aspect (eg. customer relations or sales) or were 'off the shelf' or generic and ignored people's valuable ideas.

While the impact of market orientation on business performance is well accepted, this is by no means a singular result. The size of a business and the type of product being marketed can be moderating factors in the market orientation-performance relationship. Typically, marketing departments in large businesses are more structured and have greater access to funds and, hence, can introduce a more market oriented behaviour. Indeed, a recent study by Hong Liu (1995a) found that large and extra large firms were more market oriented than their medium sized counterparts.

Mohan-Neill (1992)examined the relationship between firm characteristics (eg. age, size and growth rate) and the firm's focus on the marketing concept orientation (MCO). On average, younger firms reported that a marketing concept or customer orientation best described their business focus or strategy. Smaller firms were also more likely to cite a marketing concept orientation (MCO) or customer orientation as their business focus. This is in contrast to Hong Liu's (1995) (1995a) findings. However, the results were U - shaped. The study found that smaller firms were more likely to cite, 'unique product / service' as their distinctive competence, while larger firms cited 'excellent product mix' as their distinctive competence.

Narver and Slater's (1990) results, also suggested that large SBUs with a low market orientation, but cost advantages, outperformed smaller SBUs with a medium market orientation in the same firm, but not smaller SBUs with a high market orientation. Consequently, there seem to be other influences affecting overall performance. While an organisation should be market oriented, it may not be possible to maintain a high level of market orientation continuously. Consequently, as demonstrated in Narver and Slater's study, firms with other advantages may be able to outperform a market oriented business.

2.10 Market orientation and business performance

As mentioned elsewhere in this chapter, since the early 1950's, a number of authors have recognised the link between having a market focus and performance (Hong, 1995b; Keith, 1960; Kotler, 1988; Levitt, 1960; Peters & Waterman Jr., 1982) (Kotler, 1977; Kotler, 1984; Rodgers & Shook, 1986; Webster, 1988). However, there was very little empirical evidence linking market orientation with business performance until recently.

An early empirical study by Lawton and Parasuraman (1980) showed that the adoption of the marketing concept had no significant effect on the sources of new product ideas or how innovative these new ideas were. In contrast, Verhage and Waarts (1988) found a positive relationship between marketing planning and business performance. However, it should be noted that these studies were limited in scope because operational measures for market orientation had not been developed at the time the studies were undertaken.

In the 1990's several studies substantiated the benefits of adopting a market orientation (Jaworski & Kohli, 1993; Narver & Slater, 1990; Pitt et al., 1996; Ruekert, 1992; Selnes, Jaworski, & Kohli, 1996). Subsequently, several American (Pelham & Wilson, 1996; Siguaw, Brown, & Widing II, 1994; Sussan & Johnson, 1997), British (Diamantopoulos & Hart, 1993; Greenley, 1995b) and other country studies (Kwaku, 1997; Tse, 1998) have verified the beneficial effects that having a market orientation has on business performance.

The market orientation's relationships with organisational factors have also been examined. Deshpande, Farley and Webster (1993) examined how a market orientation is related to a firm's culture. They found that a customer orientation and innovativeness were the keys to business performance. Yarbrough and Stassen (1994) found that high levels of adaptability and inter-functional communication were positively related to the presence of a market orientation, while a mechanistic bureaucratic style was negatively related to the presence of a market orientation. Diamantopoulos and Hart (1993) concluded that the market orientation-business performance relationship is situation specific and subject to various moderating influences.

Aysar and Johnson (1997) examined whether quality and market orientations improved performance and found that quality was a key issue and often the deciding factor customers use when making buying decisions, suggesting the model shown in Figure 2.10.1.1.

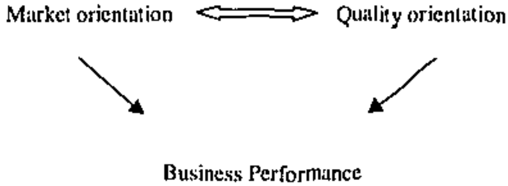


Figure 2.10.1.1: Relationship between market orientation, quality orientation and business performance

(Sussan & Johnson, 1997)

In a study of the hotel industry in Hong Kong and New Zealand, Au (1995) found only a weak correlation between market orientation and hotel performance. However, he cautioned that the low correlation between market orientation and performance could be due to measurement issues as the only performance measure was the room occupancy rate.

In an exploratory study, Kwaku (1995) examined the market orientation-new product performance relationship in a sample of 275 Australian firms. He found a strong positive relationship between market orientation and new product performance. Although market orientation was generally found to be an important factor in the success of new products, its influence varied depending on the type of new product (radical or incremental). Market orientation appeared to have greater influence on new product performance when the product was an incremental change to customers and the firm. Table 2.10.1 shows a summary of major market orientation-performance studies. Despite this evidence, the adoption of market-oriented behaviours has not been wide spread. For example, Greenley (1995a) found that only 36% of a sample of British corporations had embraced a comprehensive market orientation.

Table 2.10.1: A summary of Market Orientation - Performance studies

Study	Country	Sample	Market orientation / performance Association	Environment / performance association	Moderator variables
Narver & Slater (1990)	USA	113 SBUs in one large corporation	Positive	Relative cost, Technological change, market growth	Not investigated
Jaworski & Kohli (1992)	USA	Sample 1: 220 companies	Positive	Product quality, competitive intensity, supplier power	None identified
		Sample 2: 230 companies	Positive	Competitive intensity	None identified
Ruekert (1992)	USA	5 SBUs in one company.	Positive	Not investigated	Not investigated
Slater & Narver (1994)	USA	81 SBUs in one company and 36 in another company	Positive	Relative cost, size, ease of market entry, competitive hostility.	Market turbulence with ROI, technological change with new product success, market growth with sales growth
Hart and Diamantopoulos (1993)	UK	87 companies	Weak association	Not investigated	Competitive hostility with sales growth.

Greenley (1995)	UK	240 companies	No direct effect on ROI, new product success rate and sale growth	Relative size and relative cost	Market turbulence and technological change
Pelham (1996, 1997)	USA	68 firms	Positive	Market dynamism, competitive intensity, and organisational structure.	Product and customer differentiation
Ghosh et.al. (1994)	Singapore, Australia and New Zealand	1029 companies	Positive	None	None

Note: The table above has listed several studies relating market orientation with performance. While there are several more studies on this topic, they are not included here because they are small in size and target specific industries. However, appropriate reference is made to these studies in the thesis.

2.10.1 Moderators of market orientation-performance association

There have been several studies into the moderating effects of environmental variables. For example, McArthur and Nystrom (1991) investigated moderators of the strategy-performance relationship, while Haleblian and Finklestein (1993) investigated the moderators of the association between CEO dominance and performance.

The relationship between market orientation and performance can be situation specific. Orelowitz (1993) found that the positive market orientation-performance relationship did not hold in South Africa. Further, he also found Narver and Slater's (Narver & Slater, 1990) instrument was not reliable and that the factors were different. However, South Africa was isolated for a long time from the rest of the world. The resulting conditions may have imposed limitations on the market orientation of South African firms. In several aspects, South Africa could be a seller's market and the effectiveness of a market orientation in a seller's market (where demand is greater than supply) has not been well tested.

Tse (1998) found there was no significant difference between the performance of large property companies in Hong Kong that were market oriented and those that were not. In discussing the limitations of the study, he suggested that these results could be due to the special nature of the Hong Kong market, where land is at a premium, again making it a seller's market. Further, the study examined only the top 13 firms.

There are many views on the relationship between market orientation and performance. While several studies have supported a positive relationship, there is evidence to show that having a market orientation is only one of the factors that affects performance.

Greenley (1995b; 1990) found that a market orientation's effect on performance was moderated by environmental variables and its direct effect on performance was minimal. The relative size of the firm and its relative costs were found to be better predictors of performance, while market turbulence was also a significant factor.

An Australian study (Farrell & Oczkowski, 1997) also found problems in applying the MARKOR scale of market orientation proposed by Kohli et al. (Kohli et al., 1993) to Australian business situation.

2.10.2 Market orientation and employees

Carlzon (1987) argued that every 'customer - front line employee' interaction shapes customer's perception about the business and hence is 'a moment of truth' for the business. Consequently, much of the burden for customer perceptions of service quality lies with front-line personnel. Thus, for a firm to be market oriented, there must be a strong correspondence between the orientation of the firm and its staff. Webster (1991, p 341) argued that, "employees from top level executives to the operational level workers, should have basically the same or consistent attitudes toward . . . the market orientation of the firm".

It appears that market orientation-employee relationship works in both directions. While a market-oriented approach may lead to better employee satisfaction, employees make such an orientation possible. A satisfied employee may be a precondition to successfully implementing a market orientation, especially in service organisations.

Hoffman and Ingram (1992) studied the relationship between job satisfaction of the service provider (employee) and customer oriented performance and found that job satisfaction, as well as satisfaction with work, co-workers, supervision and promotion were positively related to an employee's customer orientation. Satisfaction with pay was not significantly related to this orientation.

Mohr-Jackson (1991) assessed the characteristics of the marketing concept and the employee activities that fostered its implementation. In contrast to much of the literature, which failed to recognise employees as internal customers, her interviews showed that employees are vital. A focus on the employee is important because employee activities translate the marketing concept into practice. Mohr-Jackson suggested that a market orientation enhanced performance by improving employee satisfaction, which is in line with Kohli and Jaworski's (1990) suggestion that a market orientation provided psychological and social benefits to employees.

2.11 Interaction of marketing with other functions

Kohli and Jaworski (1990) and Narver and Slater (1990) identified effective communication or inter-functional coordination as a key element of a market orientation. Ideally, every employee in a market oriented organisation will be market focussed, removing the need for a separate marketing department. However, as marketing is a separate function in many organisations, interactions between marketing and other functional areas have been the subject of several studies (Gupta, Raj, & Wilemon, 1985; Kotler, 1977; Lucas & Bush, 1988; Shapiro, 1977; Souder, 1981). Such studies, in general, have articulated the underlying conflicts between different functional areas and resulting loss of communication. Wind (1981) highlighted the interdependent nature of marketing and other functions. Ruekert and Walker (1987) developed a framework and a set of propositions for examining how and why marketing personnel interact with people in other functional areas and tested their framework. Shapiro (1988) and Masiello (1988) suggested effective communication and coordination as ways of overcoming barriers to market orientation. The negative impact of interdepartmental conflicts and the positive role of connectedness have been the subject of several studies (Foreman, 1997; Mahajan, Vakharia, Pallab, & Chase, 1994; Menon, Bharadwaj, & Howell, 1996; Menon, Jaworski, & Kohli, 1997).

2.12 Patterns / forms of market orientation

Most researchers have examined the adoption of market orientation and its impact on performance. Greenley (1995a) and Hong Liu (1996), however, examined the forms or patterns of market orientation. Hong Liu found that about 83% of the companies he surveyed claimed that their corporate policies had a market orientation. However, when their business orientation was measured, only 36% could be considered market oriented. The high percentage of those claiming to be market oriented (83%) and the low percentage of those practicing it (36%) suggests that the lack of market orientation was not due to a lack of awareness. The second highest group were those with a production orientation (33%), which is consistent with claims that many companies have recently been obsessed with short-term cost cutting (Doyle, 1987).

2.13 Changing marketing paradigm and market orientation

A paradigm is a consensus about the fundamental nature of a discipline. The scope of the paradigm dictates the important questions in a field and guides research and theory development. By this definition, the marketing concept, the four Ps and the exchange process model are long standing marketing paradigms. Several researchers have, however, suggested that current marketing theories and practice:

- Cannot explain or accommodate a one way model of an exchange transaction that does not fit contemporary exchange models.
- Have a dominant orientation towards customers that has deflected attention away from competition and the overall goal of sustainable competitive advantage.
- Have not enabled marketing to be an innovating and adaptive force. The 4P's can be misleading as they imply a static situation.
- Rely on neoclassical economic premises whereas they should be grounded in more relevant constituency-based theory of the firm.

Gronroos (1989, p 57) suggested a revised definition of marketing, which is more market oriented, arguing that:

> *Marketing is to establish, develop and commercialise long-term customer relationships so that the objectives of the parties involved are met. This is done by a mutual exchange and keeping of promises.*

The emphasis in his definition is on relationships and not individual transactions. The underlying reasons for this suggested definition are that:

- Standard marketing models are not always geared to customer relationships because they are based on empirical research from consumer packaged goods and durables.

- In today's competition, marketing is more a management issue than a specialist function and the marketing function is spread all over the firm, far outside the realms of the marketing department. As a result, there are a large number of 'part-time marketers', whose main duties are related to production and other functions. In spite of these main duties, they also have marketing responsibilities.
- Marketing's role is not only to plan and implement a given set of means of completion in a marketing mix, but also to establish, develop and commercialise customer relations, so that individual and organisational objectives are met. The customer relation concept is at the core of modern marketing thought. Promises of various kinds are mutually exchanged and kept in the relationship between the buyer and seller, so that the customer relation may be established, strengthened and developed and commercialised.

The pressure to improve marketing's effectiveness is increasing. However, this push should be seen in a historical context. The 1960's saw marketing's greatest influence and promise when the marketing concept was accepted as an essential element for profitable progress in growing markets. The marketing plan also became an influential instrument for strategic change, guiding product and market choices and competitive strategies.

During the 1970's, marketing's influence waned and strategic planning came to the fore. Many firms took a financially driven approach and the strategic business unit became the focal point for analysis and planning. Strong competition and resource restrictions forced businesses to consolidate their competitive positions and conserve resources. The marketing plan was often relegated to a tactical support role at a brand level and lost its strategic focus.

During this period, the marketing concept was often viewed with scepticism. Putting the marketing concept into practice became a frustrating experience for many organisations (Webster, 1981). Others questioned the value of satisfied customers if it required unnecessary product proliferation, inflated costs, unfocussed diversification and a weak commitment to R&D (Bennett & Cooper, 1981; Hayes & Abernathy, 1980).

The 1980's and the 1990's brought further changes in marketing. Global marketing, slower growth economies, technological advances, deregulation, an increased emphasis on quality, an ageing population and other factors presented new challenges and new competition. Organisations have responded to these challenges through strategic alliances, binding agreements and other mechanisms to suppress or control competition or to domesticate markets.

Arndt (1979; 1980) observed that many markets that once were competitive were restructured as a result of voluntary, long-term cooperative agreements among participating organisations. These networks increase stability (reducing competition in the market) but cannot be accommodated in current marketing theories, in which marketing acts as a boundary function managing a continuing series of impersonal, discrete exchanges.

2.14 Barriers to market orientation

Since the early 1960's, a variety of market orientation barriers have been identified. Webster (1988. p 29) suggested that four such barriers are:

- 'Incomplete understanding of the marketing concept itself,
- Inherent conflict between short-term and long term sales and profit goals,
- Overemphasis on short-term measures of management performance, and
- Top management's own values and priorities concerning the relative importance of customers versus firm's other constituencies.'

A number of studies have argued that organisational culture is the principal obstacle to the development of a market orientation (Messikomer (1987); Business Week (1980); Wall Street Journal (1990); Deshpande et al. (1993); Deshpande and Webster (1989)). According to Messikomer (1987. p 53)

> *"The difficulty often is not so much in getting the management to accept this vision, but rather in overcoming the inertia bred of individual corporate cultures, because creating a marketing community involves changing the fundamental way in which a company and its employees see themselves, their business environment and the future"*

Harris (1996b) contended that, since a market orientation is a form of culture, an organisational culture framework can be used to look at the barriers to developing a market orientation. Consequently, the obstacles to market orientation can be classified as assumptions, values, artefacts or symbols. In a further study, Harris (1997a) argued that the development of an organisation-wide market oriented culture is dependent on the dominance of the market orientation over other organisational subcultures, such as professional ideologies. Further, the likelihood of market oriented cultural dominance is dependent on organisational contingencies (such as an organisational crisis or a change in leadership).

While Messikomer (1987) and Harris (1996b; 1997b) looked at barriers to market orientation from a 'culture' perspective, Wong et al. (1989, p 43) found that the most common barrier mentioned by functional managers was "the sheer difficulty in attempting to change traditional thinking and practices or the self interests of staff within their units". This resulted in a "lack of cooperation and coordination" between functional units". Other barriers were financial resource constraints, departmental preoccupations with functional problems, a lack of appropriate skills and unclear marketing objectives.

Research into market orientation barriers has concentrated on management level barriers, with little attention being paid to shopfloor or staff level impediments. Harris (1997a), however, found that "shopfloor" barriers were very different from those perceived by the senior management. Interviews with front line employees suggested seven impediments at the shop floor level (apathy, instrumentality, limited power, short-term focus, compartmentalisation, ignorance and weak management support).

Jaworski and Kohli (1993) suggested that *esprit de corps* and commitment are consequences of market orientation. However, Harris' (Harris, 1997b) study contradicted this suggesting that low levels of motivation, satisfaction and commitment directly affected the development of market orientation. The implementation of any action plan or attempt to refocus an organisation requires commitment from employees.

Several comments from shop floor workers highlighted reasons for resistance at the shop floor:

- While management assumed employees were committed, satisfied and motivated, employees behaved and held attitudes that were apathetic towards many company strategies and plans.
- Employees gave automatic positive responses to a management plan without actually meaning it. As a result, managers appeared to be misled by employees who frequently feigned agreement.
- Managers and executives were frequently rewarded for market oriented behaviour but shop floor employees could see little personal reward for organisational market orientation.
- While many employees were aware of potential changes or issues that can potentially improve levels of market orientation, they were unwilling or reluctant to offer suggestions to the management.

It seems that shopfloor workers' limited power to implement comparatively small changes impeded not only physical changes to the organisation but also limited the organisational culture to one of obedience, rather than market responsiveness. Most employees adopted a short-term, rather than a long-term focus.

While managers and executives are usually well versed in marketing theory and practice, shop floor workers are often ignorant of the nature and consequences of a market orientation. As a result, such employees are often confused. In addition, poor management and limited communication impede the development of a front line market orientation. Harris (Harris, 1997a) demonstrated that, while employee participation and satisfaction are key elements in developing a market orientation, this group is often ignored. Mohr-Jackson (1991) also supports this view. Consequently, while the management may intend to be market oriented, this may not translate into reality if front line employees are not properly involved.

2.15 Criticisms on market orientation

While many researchers have discussed the positive impact of a market orientation on performance, the concept has not been without its critics. Criticisms have been made at various levels. At a conceptual level there have been questions about the validity of the marketing concept in the modern business environment while, at a practical or operational level, some have argued that having a market orientation may not be effective or may even be counter productive. Added to these are the philosophical questions - 'should a business be market oriented and give the customers what they want when this will harm the society in the long run?' and 'when should the long term overall good of the society take precedence over the long term profitability of a business because of its market oriented behaviour?'

Kaldor (1971) argued that the concept is inadequate as it ignores a person's creative abilities. Further, customers do not always know what is needed, a typical example being interactions between doctors and patients. In a similar vein, Kerby (1972) and Bennett and Cooper (1979) suggested that customers may not be good sources of information about their needs and that very few significant product innovations have come about because their inventor sensed a customer need.

"It is quite certain that few if any of the really significant product innovations which have been placed on the market to date were developed because the inventor sensed that a latent pool of needs was yearning to be satisfied."

(Kerby, 1972, p 31)

Customers' ability to verbalise their needs is limited by their knowledge and their suggestions are limited by the technology they know. Consequently, a market oriented firm may be preoccupied with product extensions, rather than with revolutionary new products. Likewise, quantum leaps in science and technology can have a substantial impact on performance. The literature abounds in success stories based on technological and scientific breakthroughs (eg. fax machines and many new drugs) some of which were not based on articulated market requirements. In this context, Tauber (1974, p 25) commented that:

"The measurement of consumer needs as well as of purchase interest may be valid for screening continuous innovations, but consumers may not recognise or admit they need products that are unusual."

These comments suggest that the routine measurement of customer needs may lead to continuous product improvements but may not be helpful in developing radically new concepts or products. Robert Lutz, a Vice-Chairman of Chrysler, criticising the heavy reliance on consumer inputs into the auto design process, recently commented:

"Let's face it, the customer, in this business, and I suspect in many others, is usually, at best, just a rear view mirror. He can tell you what he likes about the choices that are already out there. But when it comes to the future, why,

I ask, should we expect the customer to be expert in clairvoyance or creativity? After all, isn't that what he expects us to be."

(Flint, 1997, p 82)

In the early 1970's Konopa and Calabro (1971), examined the extent to which the marketing concept had been adopted by large American industries. Using the presence of a marketing manager as an indicator of the degree to which the marketing concept has been adopted, they found that two thirds of their sample was still in a production, rather than a marketing oriented mode, with the production manager in control of the business. There was also a view that sales and marketing managements were synonymous and many respondents viewed marketing in sales terms, treating marketing as secondary to other duties. Such criticisms continue even today, with many studies finding that businesses pay lip service marketing but have not adopted a market orientation.

Market orientation can also present ethical issues. For example, what values should a university adopt in being market oriented (both customer and competitor oriented). On what basis should its performance to be measured? If purely in financial terms, should the university concentrate on the revenue and not worry about the long-term impact on the quality of education and future generations (Molnar, 1998; Yee-Man Siu, 1999). Such concerns also apply to other areas, such as the environment, which impact on society's well being. A typical case is the fast food industry, which has come under considerable criticism, because of the food they supply (Anonymous, 1998) (Maynard, 1997) and the amount of waste they generate (Allen, 1991; Anonymous, 1991). Yet another example, which doesn't need elaboration, is the sale of guns and weapons and the debate on gun control (Editorial, 2000). The question in such cases is 'market orientation towards what?'

Houston (1986, p 81) put a different emphasis on the problem and, citing Jolson (1978) referred to a general perception that:

> *'The marketing concept is so ubiquitous in the marketing class room that the native student of marketing is led to believe that firms who fail to employ this philosophy are business criminals."*

He argued that very few products are custom designed and that a marketer is typically given a product to sell and cannot make product modifications. Further, a manufacturer often has established production facilities and inventories and finds that it is not possible to develop radically different products based on customer needs. Under these conditions the marketing concept may be constrained.

Another criticism of the marketing concept is directed at the assumption that it can be universally applied in all situations. Sachs and Benson (1978 p.74) raised the question as to whether it was 'time to discard the marketing concept.' They argued that 'since its inception, the marketing concept has been so heralded by the marketing academics, that its acceptance as an optimal management tool is almost universal with very little critical examination.' As a result, the marketing concept was seen a solution for all management's problems and one that can be applied in situations where other approaches may be warranted.

Expanding on Sachs and Benson's views on the over use of the marketing concept, Bennett and Cooper (1979) suggested that a business should analyse the elements required for success before deciding which orientation is suitable. While a market orientation may be appropriate, such a decision should be based on the situation.

In addition to the practical issues raised, Gummesson (1987) looked at the marketing concept from a broader theoretical perspective and concluded that the marketing concept is unrealistic and needs to be replaced, potentially because of its inability to absorb new developments and its rigid attachment to consumer goods marketing. While agreeing that consumer goods marketing has developed some powerful tools, he argued that, when applied to other areas, the theories are only partially valid and may be destructive as they fail to recognise the unique features of services or industrial marketing. Gummesson (1987) based his criticisms on the following points:

- The marketing concept is product oriented and favours an approach where the mass market is manipulated through the 4Ps of the marketing mix. These may not be applicable in the services sector, which is emerging as a key sector of most economies.
- Marketing theories developed for consumer goods do not take account of long-term relationship between buyers and sellers and, consequently, cannot be directly applied in situations where relationship marketing is the key to success.

Gummesson also argued that marketing theories emanated almost exclusively from the United States and were based on its unique conditions, including a huge domestic market of 240 million consumers, nationwide coverage by commercial TV and radio and a large number of distribution options (Gummesson, 1987, p 11). While others, adopted American theories partly due to convenience, their applicability in different situations is questionable, as noted by a consultant R. J. de Ferrer (1986, p 273) who expressed his dissatisfaction with European reverence towards American marketing thinking and commented that:

> *"They are teaching us lessons that emanate from a specific market environment ... We are gawking bystanders ...we fail to notice how much is not relevant to us, or how much that is of vital importance to Europeans is not treated at all ... We have been let down, but only by ourselves: we should be developing with greater purpose our own European management craft."*

While Gummesson and de Ferrer were commenting on European academics and businesses, the same comments could be extended to many other countries. For example, marketing is an accepted element in services like banking in America. However, Wai-sum Siu (1993) found that, in Hong Kong, there is a general belief that a marketing orientation is detrimental to banking success.

Sorell (1994) argued that the customer may not always be right and that, while consumers are generally portrayed as 'kings' or 'victims' and marketing is generally pro-consumer, there are situations in which a business should decline the demands of the consumers, even if the proposal is economically advantageous. Adopting a policy that 'the customer is always right' can result in marketplace injustices. He suggested three criteria to check if a customer is wrong:

- Will deference to the customers' wish result in business failure or a significant loss of profitability while preventing minor harm to the customer;
- Does customer satisfaction depend on waiving reasonable standards of commercial association, profession, art or craft; and
- Does consumer satisfaction depend on ignoring customer negligence or injustice?

In response, Borna and Stearns (1998) argued that, in each of the situations posed by Sorell, the customer was right or the depicted situation was such that the question of the customer being right or wrong didn't arise. Their view was that the dilemmas posed by Sorell could be addressed within the boundaries of existing knowledge in marketing and economics. They concluded their arguments with the comments, "Sorell is correct that not all consumer segments should be served. What he is incorrect about is 'why'."

Bell and Emory (1971) also examined the marketing concept from an ethical and social perspective and suggested that a company's first objective should be to accept more responsibility for consumer welfare and that profits should be the reward for doing this. Bell and Emory's thoughts, as well as that of Sorell, lead to the fundamental question raised earlier: 'market orientation towards what'.

In a study of the Dutch Housing Industry, Priemus (1997) discussed the negative aspects of a market oriented housing policy and the social cost of such a policy. The author used the term, market orientation to mean that market mechanisms will dictate the housing market, subsidies will be scarce, rents will cover costs and so on. While this may not be relevant to the market orientation constructs studied in the present project, it shows another dimension as to why a market orientation may not be good if it does not take social costs into account.

Martin (1995) suggested that businesses should sometimes ignore customers and that being a slave to customer research often leads to safe but boring line extensions. Taking a chance on a breakthrough product can lead to higher long-term profits. From 1989 to 1993, 90% of all new products were line extensions and only 10% were breakthrough products. However, this 10% brought 24% of the profits attributed to new products.

Day (1998) took a more balanced view of the market orientation process. While acknowledging that there is a growing belief in academic and business circles that, in some contexts it may better to ignore the customer, he cautioned that such a belief may be misplaced. Responding to Hamel and Prahlad's (1994) assertion that customers are unable to envision breakthrough products and services, he argued that while such an observation may be valid, it is misleading because the need or unmet demand existed, otherwise the products would not have succeeded.

Customers may not be able to envision breakthrough products and services. In this respect, Hammel and Prahlad (1994) are correct. However, the success of a market driven company will depend on it finding the best solution for customers' unmet needs. A solution at hand may not always be the best but may be limited by technology or other factors.

For critics of the marketing concept, three key reasons for not following customers are:

1. Customers respond more positively to what is familiar and comfortable. They are not initially attracted to radically new ideas or designs or products.
2. Research methods are incapable of sorting out customer's contradictory requirements and, often, customers don't mean what they say because they are not making decisions with their own money.
3. Customers often view the first imperfect and costly versions of a new technology or service from the standpoint of the refined versions or established versions. For example, pictures from the initial digital cameras and initial cellular phones got poor customer feedback because of technical limitations.

Day (1998) argued that, while these reasons may be valid, they miss the point. Management insight and conviction that a market exists for a new product or service must be grounded in an intimate understanding of customer behaviour, latent needs, changing requirements and dissatisfactions with current alternatives.

Scepticism about the value of consumer inputs can be misguided. Day quotes Peter Drucker, who, reportedly once observed "one can use market research only on what is already in the market." Drucker supported his view with the example of Xerox, which failed to put fax machines into the market because market research convinced them that there was no market for such a product. Refuting Drucker's arguments, Day (1998, p 5) mentioned that, 'by 1974 Xerox knew that there was a large initial potential of about one million units. Unfortunately, Xerox chose the wrong technology path that turned out to be a much less attractive alternative than the later fax machines.'

While people passionately criticise the marketing concept or argue its virtues, it is evident, that critics only point to its limitations. It should be noted that marketing concept had its origins in the mass marketing of the 1950's. On the contrary, the passionate advocates for developing a market orientation adopt the view that the marketing concept is all encompassing and, by its very definition, should take account of all the environmental factors, such as technological advances and changes in the market. While, in theory, this may be achievable, in practice, it might not be possible for a company to scan every variable.

2.16 Concluding remarks

Though the marketing concept has been discussed and its impact on performance demonstrated, it remains an elusive concept and a point of frustration for many. Further, in spite of its wide use, academics differ in their opinion as to what constitutes a market orientation. In the 1960's and 1970's, the marketing concept was seen as a business philosophy, with very little focus on its measurement. The impact of marketing was anecdotal and without empirical evidence. Kohli and Jaworski (1990) and Narver and Slater (1990) operationalised the market orientation concept into specific constructs and Narver and Slater (1990) provided empirical evidence on the positive relationship between market orientation and performance. This relationship has been verified and situational and business factors affecting the relationship have been identified in several subsequent studies. The results, so far, have been mixed. Thus, market orientation appears to be a theme that is evolving in marketing.

The academic and business literature suggests that the implementation of a market orientation is not an easy process and that there are several barriers to its implementation. This, combined with misunderstanding about the concept, partly explains the variability found in the market orientation-performance relationship.

While there is general support for the positive impact of market orientation on performance, market orientation has also been criticised at conceptual, operational and ethical levels. Given that most of the studies have examined large multinational businesses, the applicability of the concept in other settings, such as small and medium enterprises, has been questioned.

Understanding the market orientation concept in the SME sector in Australia requires an appreciation of its small business environment and knowledge of the marketing practices adopted by these SMEs and the differences between large and small businesses. These points are discussed in the following chapter.

CHAPTER 3

Small Business in Australia

3.1 Small Business - Definitions and Interpretations

The definition of a 'small business' varies between industry sectors and between countries. Cross (1983) and Ganguly (1985) (cited in Atkins and Lowe (1997)) found forty definitions of small firms in the OECD countries. There is no clear consensus as to what constitutes a small business and definitions are often arbitrary. In general, economic and management characteristics are used to identify small businesses. In the United Kingdom, for example, three features are considered to be keys.

> *"Firstly, in economic terms, a small firm is one that has relatively small share of its market.*
>
> *Secondly, an essential characteristic of a small firm is that it is managed by its owners or part owners in a personalised way, and not through the medium of a formalised management structure.*
>
> *Thirdly, it is also independent in the sense that it does not form part of a larger enterprise and that the owner-managers should be free from outside control in taking their principal decisions."*
>
> Bolton Committee report, UK (1972)

An Australian study also stressed the importance of management characteristics by defining a small business as one in which:

> *"One or two persons are required to make all the critical management decisions – finance, accounting, personnel, purchasing, processing or*

servicing, marketing and selling – without the aid of internal specialists, and with specific knowledge in only one or two functional areas."

Wiltshire Committee Report, Australia (1971)

In the United States, a small business is defined as "one that is independently owned and operated and that is not dominant in its field of operation" (SBA, 1998).

While these definitions give a general description of what a small business is, there are no quantifying criteria. Recently, in defining a small business, the Australian House of Representative's standing committee on Industry, Science and Technology (1990) emphasised the independent ownership and management of the business. From a size point of view, the committee considered a small business to be one that employed less than 20 people in non-manufacturing industries and less than 100 people in manufacturing industries. While recognising the size component, the committee emphasised that size is a functional addition and should not overshadow the criteria in the basic definition.

In 1973, a large number of small businesses in New South Wales, Australia were surveyed using the number of employees as the criteria (Johns, Dunlop, & Sheehan, 1978). A manufacturing business was considered to be small if it employed less than 100 persons while, for a non-manufacturing businesses, the size was set at 30.

The choice of employee numbers as the classifying criteria and the size limit is arbitrary; the intention being to include firms in the small business category that are most likely to have the economic and management characteristics found in the original definitions. Other measures of size, such as sales or turnover, return on investment and value of assets, could be used for classification but reliable data is not always available.

There is also a variation of size depending on the type of business activity and between countries. In the manufacturing sector, the employee number is 100 whereas, for the non-manufacturing businesses, the number is 20 or 30. Other definitions have also been used. For example, the British Bolton Committee (1972) used an employment limit of 200 in manufacturing while, for retailing, wholesaling and service industries, a definition based on sales / turnover was used.

In the United States, the Small Business Administration (SBA) uses size standards (SBA, 1998) to classify a business and defines a small firm in terms of employment and sales. These standards define whether a business entity is small and, thus, eligible for government assistance and preferences reserved for 'small business' concerns. Size standards have been established for types of economic activity, or industry, generally under the standard industry classification system. The levels of these factors vary between industries and depending on the purpose of the definition (SBA, 1998).

While establishing size standards, the SBA also considered economic characteristics, including the structure of an industry, the degree of competition, average firm size, start-up costs and entry barriers and distribution of firms by size. It also included technological changes, competition from other industries, growth trends and historical activity within an industry. The SBA also takes market share and other appropriate factors into account to ensure that a business that met a specific size standard is not dominant in its field.

As can be inferred from the above description, the SBA uses a complex set of criteria to define whether a business entity is small. In addition, the SBA has different sets of criteria for different purposes. For example, to qualify for SBA loan assistance, a company must be operated for profit and fall within size standards, cannot be involved in the creation or distribution of ideas or opinions (eg. newspapers, magazines, or schools) and cannot be engaged in speculation or investment in rental real estate.

In Belgium, small firms are defined in terms of employment but eligibility for assistance varies according to the location of the business and the industry in which it operates.

The standard definition of a small business used by Industry Canada and Statistics Canada is 'any manufacturing firm with fewer than one hundred employees, or, in any other sector, a firm with fewer than fifty employees' (Munroe, 1998). However, according to Canadian Bankers Association (1998), "every financial institution has its own definition of small business based on number of employees and individual owners, amount of financing required for business start-up or expansion etc. In general, banks generally view small business as operations employing fewer than 50 people and / or generating gross annual sales of up to Can $5,000, 000". As a further variation of this definition, Canada's Export Development Corporation defined a Canadian SME exporter as having total annual sales less than Canadian $25 million and a small exporter as one with annual sales less than Canadian $5 million.

In summary, there are many variations in the definitions of small or medium businesses across countries. In addition, even within a country, different agencies use different criteria to classify SMEs depending on the purpose of classification. Such a wide variation in the criteria used to characterise SMEs creates problems for SME researchers. Researchers in different countries use the definitions of their national bodies. As a consequence, comparisons between countries can be difficult.

The US Small Business Administration, in one of its annual reports, adopted a definition of a small business as one with less than 500 employees. This emphasises the importance of the relative size and number of firms, since this can be compared with the British figure of 200 and the Australian figure of 50. The American definition of a small firm would embrace many of Australia's large businesses (McKenna, Lowe, & Tibbits, 1991).

In addition, as will be shown later in this chapter, a large number of Australian businesses in the small business sector employ less than 10 employees and have a turnover of between $50,000 and $1 million. In contrast, in America, $1 million is often the minimum turnover.

It is also clear that while the several characteristics have been used in defining small businesses, relative size is used most frequently. Indeed, it is often the only variable used. Some researchers have commented that classifying small and medium enterprises based on employee numbers is not a scientific way of classifying businesses and have suggested alternative schemes of classification. Recognising the limitation of the size variable, Carson and Cromie (1990) asked, 'just how important is this issue of relative size? Is it in fact, the characteristic of a small business that has the most significance for the practice of marketing in these organisations?'

After reviewing the small business literature, Atkins and Lowe (1997) reported on the criteria used to identify small firms. They observed that the number of employees was most widely used and accounted for two-thirds of the criteria used in recent research. In addition, turnover and assets criteria have been used, but less frequently. Because of the correlation between employment and turnover, they argued that a criterion based on both is not appropriate. They demonstrated that a managerial process criterion, based on whether firms undertook at least one of the budgeting, forecasting or performance comparison functions could be used. With such a classification, firms in different sectors can be compared. However, because of simplicity, classifying a business based on the number of employees continues to be the preferred method of classification.

It is widely accepted that significant differences that separate small businesses from the large ones relate to the business objectives, management style and marketing practices (Leppard & McDonald, 1987). Five qualitative characteristics that differentiate small and large businesses are the scale and scope of operations, the independence and the nature of their ownership arrangements and their management style (Schollhammer & Kuriloff, 1979).

Several authors have emphasised the importance of management style in contributing to the success of small businesses. For example, there have been comments on the limited formal education of owner managers and suggestions that small business problems and failures occur because of a lack of managerial skill and depth and a personal lack or misuse of time (Broom, Longenecker, & Moore, 1983).

3.2 Small business in Australia and its importance

Economic well being depends on many factors and small businesses cannot be portrayed as the solution to overcome the economic ills of a country. However, there is evidence to suggest that an increasing rate of new business formation and the growth of existing small businesses contribute significantly to the employment base and economic efficiency of many countries.

Quoting European experience, Flynn (1998) commented, 'throughout the continent, small companies are where the action is.' He observed that, while Europe's industrial giants continue to shed workers, smaller dynamic companies are emerging with a potential for the employment of a large number of people. Likewise, the role of small business in the national economy has been praised in several other countries (ABS, 1998; Anonymous, 1996; Chetcuti, 1998; Dunkelberg & Waldinan, 1996; Timmons, 1990). Indeed, a British labour market report (Johnson, 1991) found that manufacturing businesses with fewer than 100 employees accounted for 24% of all manufacturing employment in 1986, compared to 12% in 1973.

The National Parliament has noted the importance of SMEs in Australia. In their 1990 report, the House of Representatives Standing Committee on Industry stressed the importance of the SME sector to Australian economy. This committee agreed that, while the precise contribution of the 750,000 small businesses to Australia might be difficult to quantify, it was substantial. The report further mentioned that 'the existence of the small business sector contributes greatly to the flexibility of the economy and its ability to evolve to meet changing demands' (House of Representatives Standing Committee on Industry, 1990, page xi).

In Australia, the Australian Bureau of Statistics' (ABS) (1997) definition of a small business is widely accepted. For statistical purposes, small businesses are defined as non-manufacturing businesses employing less than 20 people and manufacturing businesses employing less than 100 people. A firm is considered to be medium sized when the number of employees is more than the small business limit but less than 500.

This employment based size definition is not used in the agricultural sector. Agricultural businesses can be large-scale operations with relatively few permanent employees. Consequently, for agricultural purposes, the deciding criteria are the area of the crops, the number of livestock, and crops produced and livestock turn-off during the year. Agricultural businesses with an estimated value of agricultural operations (EVAO) of between $22,500 and $400,000 are considered small. Businesses with an EVAO of less than $22,500 are excluded from the definition because they are not generally operated as a business venture and their contribution to commodity aggregates is insignificant.

The importance of the small business sector for several national economies was mentioned earlier in this section. In Australia, most of the statistical data on small business is compiled by the ABS. According to 1995 October figures, published in the Australian Small Business Bulletin (ABS, 1998), there were 757,000 small businesses in Australia, which constituted 95% of all businesses in the country. Small businesses employed around 3.5 million Australians, which constituted over 50% of all the people employed in the private sector. Approximately 1 in 9 small manufacturing firms were exporters. Tables 3.2.1 and 3.2.2 show the distribution of businesses in different industries and the level of employment in these industries.

Table 3.2.1: Australia in Brief - Number Of Businesses, 1994 – 95

Industry	Unit	Small businesses	Other businesses	Total
Agriculture	'000	101.5	8.9	110.4
Mining	'000	2.5	0.3	2.8
Manufacturing	'000	67.9	1.5	69.4
Electricity, gas and water supply	'000	0.1	0.0	0.1
Construction	'000	149.7	1.8	151.5
Service Industries				
Wholesale trade	'000	50.0	3.9	53.9
Retail trade	'000	134.7	4.0	138.7
Accommodation, cafes and Restaurants	'000	25.4	3.1	28.5
Transport and storage	'000	44.1	1.4	45.5
Communication services	'000	8.0	0.0	8.0
Finance and insurance	'000	20.7	1.1	21.8
Property and business Services	'000	131.4	3.9	135.3
Education	'000	15.6	1.1	16.7
Health and community Services	'000	53.5	2.8	56.3
Cultural and recreational Services	'000	27.2	1.0	28.2
Personal and other services	'000	55.0	0.9	55.9
Total service industries	'000	565.6	23.0	588.6
Total all industries	'000	887.3	35.5	922.8
Businesses in service industries as a percentage of all businesses	%	63.7	64.8	63.8

Source: Small Business in Australia, 1995 (1321.0); Australian Bureau of Statistics

Table 3.2.2: Employment in Industries (a)

Industry	June 1993 '000	June 1994 '000	June 1995 '000
Agriculture, forestry and fishing	348	349	348
Mining	81	77	81
Manufacturing	991	950	960
Electricity, gas and water	91	81	73
Construction	261	275	289
Wholesale trade	396	422	413
Retail trade	848	873	908
Accommodation, cafes and Restaurants	344	379	380
Transport and storage	294	292	311
Communication services	114	116	124
Finance and insurance	297	296	284
Property and business services	556	552	618
Private community services (b)	512	517	534
Cultural and recreational services	120	123	158
Personal and other services	137	143	152
All industries	5,389	5,444	5,632

(a) Includes private employing and public trading businesses but excludes non-employing businesses and entities in the general government sector. (b) Includes private education, health services and community services businesses, but excludes those in the public sector.

Source: Business Operations and Industry Performance (8140.0), ABS

(**Note:** The statistics contained here are the most recent available at the time of its preparation 27/2/98. More detailed and, in many cases, more recent statistics are available in the publications of the ABS and other organisations. The ABS Catalogue of Publications and Products (1101.0) lists all current publications of the ABS.

3.3 Characteristics of Small Business in Australia

In 1997, the ABS (1997) conducted a survey of non-agricultural small businesses, to analyse their characteristics and compared the results with a 1995 survey. A small business was defined as one with less than 20 employees. The results presented in the following tables show the current status[1] of small business in Australia as compared to 1995.

3.3.1 General characteristics

Table 3.3.1.1: Characteristics of businesses in Australia

Criteria	1997	Comparison with 1995
Number of business operators	1311900	Increase 4.8%
Number of small businesses	846000	Increase 6.5%
Male / Female ratio of operators	65 %/35%	Female up 9.0%
		Male up 2.6%

Table 3.3.1.2: Age profile of business operators

Age (years)	Number of operators
<30	128600 (10%)
30-50	841,800(64%)
>50	341,500 (26%)
Total	1311900(100%)

[1] ABS brought out their updated 1997 – 98 report recently (ABS, 1999). There were no significant changes that could have an impact on this research. Relevant data from this report is included in appendix F.

Compared to 1995, the number of operators below the age of 30 decreased by 16,700, this group constituting 10% of the total. In contrast, the number of operators over 50 increased by 50,700 over the same period and those aged between 30 and 50 increased by 25,800 (3.2%). Table 3.3.1.3 shows that a large percentage (46%) of small businesses is made up of non-employing businesses. Many business proprietors appeared to use these firms as a form of self-employment.

Table 3.3.1.3: Employment in small businesses

No. of employees	No. of businesses	Comparison with 1995
0	392700(46%)	Up 2.2%
1-4	323100(38%)	Up 20%
5-19	130500(15%)	Down 7.5%
Total	846300(100%)	Up 6.5%

Table 3.3.1.4: Length of operation

Length of operation	% of businesses
< 1 year	10%
1 - < 5 years	34%
5 - < 10 years	23%
> 10 years	33%

This age distribution of the small businesses was very similar to that recorded in 1995 although a smaller proportion (10% compared to 13%) have been operating for less than a year. Over 50% of the businesses were "long established", having been in operation for more than 5 years.

3.3.2 Success of small businesses

Table 3.3.2.1: Success of small business

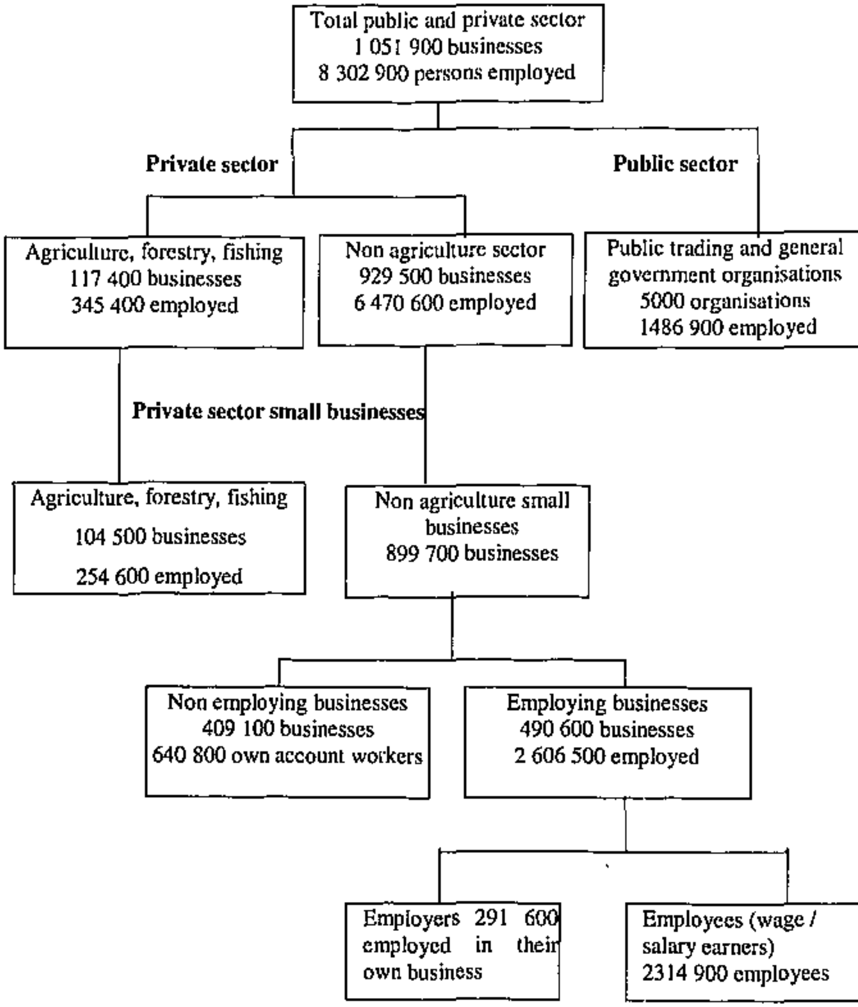
Degree of success	% 1997	% 1995
Highly successful	17%	20%
Moderately successful	73%	69%
Unsuccessful	6%	4%
Unsure / don't know	4%	7%
Total	100%	100%

Respondents were asked to rate the success of their businesses during the previous year and the main factor that led to success. Results are shown in Table 3.3.2.1. A greater portion of businesses with 5 to19 employees considered themselves to be highly successful. Of these businesses, 31% thought they were highly successful compared with 17% for businesses with 1 to 4 employees and 13% for non-employing firms. The major reasons respondents perceived their business to be highly successful, were:

- A quality product or service (52% of the cases)
- Good management (14% of cases)
- Prior experience (10% of cases).

3.3.3 Structure of Australian Businesses

Figure 3.3.3.1 shows the structure of Australian business in terms of the number of businesses, employment, type and size of business. Of the 1,052,000 businesses estimated to be in operation, the ABS classified 5000 (0.5%) as public sector organisations and the remaining 1,047,000 (99.5%) as private sector businesses.



Source: ABS statistics - Small business in Australia 1997 publication No. 1321.0, Australian Bureau of Statistics.

Figure 3.3.3.1: Structure of Australian Business 1996 – 97

These private sector businesses employed an estimated 6.8 million people (82% of the total number of people employed). Of these private sector businesses, 117,400 were in the agriculture, fishing and forestry industries employing about 345,500 people (5%). The remaining 95% (or 6.5 million people) were employed by 929,000 non-agricultural businesses.

3.3.3.1 Small business sector

Of the 117,400 agriculture businesses, over 90% were in the small business sector and this sector represented approximately 10% of all the small businesses in Australia. Employment in this sector was estimated at 223,600 people in 1997.

As can be seen from figure 3.3.3.1, about 900,000 or 97% of all the businesses in the non-agricultural sector were small businesses, and this segment employed almost 3.2 million people. Approximately 71% were employees, while 29% worked in their own business, either as employers or own account workers. Upon subdividing the industry sector into goods[2] and service[3] sectors, it was found that the service sector accounted for 73% (660,500) of small businesses and for 70% of small business employment.

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[2] Goods Producing industries include: Mining, Manufacturing, Electricity, gas and water supply and construction.

[3] Service producing industries include: Wholesale trade, retail trade, accommodation, cafes and restaurants, transport and storage, communication services, finance and insurance, property and business services, education, health, culture and recreation and personal and other services (ABS, 1998).

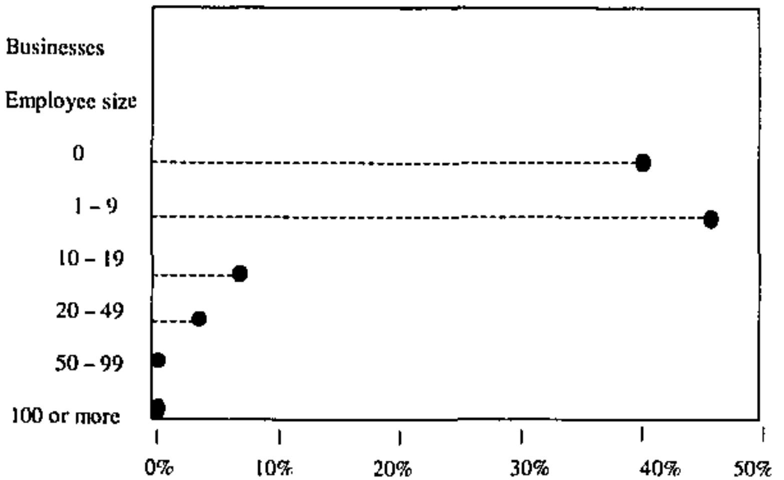
3.3.3.2 Industry Breakdown

While small businesses accounted for 96% of all businesses, the proportion was highest in construction and personal and other services industries, with each having about 99% of their businesses classified as small. The proportion was the lowest in the accommodation, cafes and restaurants industry (89%). Overall small business employment in the non-agricultural sector was 50% of the total private sector employment. However, there was a wide variation across different industry segments. The construction industry had 78% of its work force in small business sector while, in the mining industry, the proportion was only 10%.

3.3.3.3 Employing and non-employing businesses

In 1996–97, there were about 491,000 small employing businesses. This segment employed about 40% of the non-agricultural private sector work force. ABS data also show that small business employees were concentrated in manufacturing (20%), retailing (19%) and property and business services (15%). These three sectors employed 54% of the people working in small businesses.

There were also approximately 409,000 non-employing businesses in Australia, with 641,000 working proprietors (own account workers) involved as sole proprietors or partners. The number of businesses by type and employer size is shown in figure 3.3.3.2.



Source: Unpublished data, Survey of Employment and earnings; Unpublished data, Labour Force Survey – Published in 'Small Business Australia' publication from Australian Bureau of Statistics. (Figure 3.3.4.2 is approximate and not to scale. Values from the labour force survey are not available.)

Figure 3.3.3.2: Employee size versus Number of Businesses

3.3.3.4 Growth in the non-agricultural small business sector since 1983

Between 1984 and 1997:

Number of Businesses:

- The number of small businesses increased by 55.8%, or 3.5% per year.
- Small employing businesses increased by 71.4%, or 4.2% per year.
- Non-employing small businesses increased by 40.5%, or 2.6% per year.

Employment:

- The total small business employment increased by 50.1%, or 3.2% per year.
- The number of employers increased by 6.7%, or 0.5% per year.
- Own account workers increased by 46.5%, or 3.0% per year and
- Small Business employees increased by 59.4%, or 3.9% per year.

Between 1993 and 1997, small business growth was a little slower than from 1984 to 1992. There was a decline in the number of non-employing small businesses during these years.

Between 1993 – 94 and 1996 – 97:

- The overall number of small businesses increased by 10.2%, an average increase of 3.3%;
- The number of small employing businesses increased by 26%, an annual growth rate of 8.0%;
- Non-employing businesses decreased by 4.2 %, or – 1.4 % per year;

Employment:

- Total small business employment increased by 11.0% or 3.6% per year;
- Employers decreased by 2.2% or – 0.8% per year;
- Own account workers decreased by 0.5% or – 0.1% per year
- Small business employees increased by 16.8% or 5.3% per year.

During 1984 - 1997, the number of small businesses increased from 577,500 to 899,700, an annual average growth rate of 3.5%. Over the same period, the number of other businesses (businesses which are not small) grew by 3.0% per year. Small business sector employment showed an overall increase of 3.2% compared to 3.0% in the non-small business sector.

ABS statistics show that, during the 1990s, small business growth has slowed in comparison to large businesses. In the employment sector, small business employment grew at 3.6% compared to an overall private sector growth rate of 5.2% per year and

7.0% for non-small businesses. A significant slowing was observed in the number of non-employing businesses. Compared to annual growth rate of 2.6% over the thirteen years (1984 - 1997), this sector declined by 4.5% annually, from 1994 to 1997, with numbers dropping from 428,500 to 409,100.

In contrast, the number of small employing businesses showed strong growth (26% for the three years from 1993 – 1996) with an annual growth rate of 8.0%. Most of the growth occurred in businesses employing 1 to 9 people, which had an overall growth of 29% in the three years. The data appears to suggest that many non-employing businesses have started employing people.

According to the ABS, the reduction in small business employment since 1993 can be attributed to a decline in the growth of people working in their own business, as well as a much stronger growth rate in the number of people working in non-small business. Within the small business sector, some of the service industries, such as health and community services, education and property and business services had much stronger growth rates compared to other sectors (eg. retailing, manufacturing and wholesale).

3.3.3.5 Micro Businesses

An important sub-segment of small business is called micro business. The term micro business has been used by the Australian Bureau of Statistics (ABS) to identify small businesses that are either non-employing or have less than five employees.

Micro businesses constituted 83% of small businesses in Australia and 81% of all businesses in Australia. The growth in the number of micro businesses from 1995 to

1997 has been minimal. In 1996–97, micro businesses employed an estimated 1.6 million people, which was about 50% of the small business employment and 25% of all the employment in the private sector. Of these, 53% were proprietors or own account workers and 47% were employees. The majority (74%) of these businesses considered themselves to be moderately successful, with only a small percentage (7%) being unsuccessful.

The statistical information presented demonstrates the importance of the small and medium business sector in Australia, in terms of their contribution to the national economy and actual employment.

While there is a great deal of information on industries and highly aggregated groupings of firms, little is known about the dynamics of individual firms, including their adaptation to changing conditions, their growth or decline and innovation. These dynamics have been the object of a longitudinal study undertaken by the Industry Commission and Department of Industry, Science and Tourism, Commonwealth of Australia (1997). Some of their initial findings were:

- The entry rate of firms was inversely proportional to the size of the firm as the smaller the firm, the easier was the entry. Firms employing less than ten people appeared to have twice the entry rate of firms employing 10 to 200 people, and these, in turn, appeared to have entry rates roughly twice that of the next size grouping;

- The smallest firms employed about as many part-time employees as full time non-managerial employees. For larger firms, this ratio fell to around 40%.
- About half the firms were family businesses (ie. businesses where there was more than one proprietor from the same family. Other than the smallest employing firms, family ownership decreased with firm size. Among small businesses, employing 5 to 9 people, 61% were family businesses while around 19% of those employing more than 500 people fell into this category.
- Smaller enterprises tended to operate for significantly fewer hours per day and fewer days per week than larger enterprises[4].
- Less than 10% of firms had introduced a formal business improvement management activity (such a TQM or QA or Just in time inventory (JIT) controls) in the last three years. While about half of the large firms introduced such changes. (mainly TQM and QA) only 4% of the smallest enterprises had introduced such systems.

3.4 Small business and marketing

3.4.1 Reasons for starting a small business

Having established the importance of the SMEs in Australia, the question arises, 'what motivates people to go into small business?' The factors that bring individuals to make

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[4] This survey confirms the general perception that small businesses operate for fewer hours. Added to this is a common complaint from small businesses that they spend more time on their business compared to large businesses.

the founding decision have been well examined. Most studies suggest that the decision is influenced by social class and family background, personal characteristics, educational experience, job history and a variety of economic and social factors (Bowen & Hisrich, 1986; Cooper, 1981; Stanworth, Stanworth, Granger, & Blyth, 1989).

The personal characteristics that predispose people to choose business proprietorship have also been the subject of several studies. These included, a need for achievement and locus of control (Perry, Macarthur, Meredity, & Cunnington, 1986), a desire for independence, wealth and the exploitation of commercial opportunities (Hamilton, 1987) and a need for autonomy, achievement, money, market exploitation, job dissatisfaction, innovation, social mobility and redundancy (Cromie & Johns, 1983).

Frustration or career blockage has been shown to be a powerful stimuli for new business formation (Scase & Goffe, 1993; Scott, 1980), especially for those in managerial jobs. Entrepreneurship has also been a viable employment strategy for job changing managers. Brockhaus (1980) found that job dissatisfaction is yet another element that pushes people towards small business.

Cromie and Hayes (1991) examined the reasons for new business formation and confirmed that job dissatisfaction, a desire for autonomy and control over one's life were the key reasons for people leaving paid employment and starting their own business. Dissatisfaction with promotion policies and a number of issues associated with superior-subordinate relationship were also found to be related to the decision to leave paid employment. They also examined the level of satisfaction derived from business ownership and found that, after 4 years, only 12% of the sample was unable to report any sources of satisfaction. The majority of those surveyed were satisfied with their new role as business proprietors.

Krakoff and Fouss (1993) surveyed more than 1250 owners of American small businesses and found similar results. A similar trend has been noticed in Australia. The ABS reported that a large majority of small businesses felt they were moderately or highly successful, with only a small percentage indicating that they are not successful (ABS, 1998).

Lawrence and Hamilton (1997) examined motivational factors in the 1980's and 1990's in New Zealand. They found that the principal motivations were, 'to make the most of a commercial opportunity, independence, create wealth for the founders and to avoid unemployment.' While the first three reasons (ie. to make use of an opportunity and independence) remained the same over the two decades, avoiding unemployment emerged as an important factor in new business formation in the 1990's.

It seems that, apart from a core set of motivational factors, situation specific factors, such as economic conditions, can motivate, or force, people to start their own business. A similar trend has been noticed in Australia, where people have been forced to start their own business because of the downsizing in both the public and private sector and work being outsourced.

Looking at entrepreneurial inclinations from a different viewpoint, Stanworth et al. (1989) found that business-owning parents and a number of personality traits predisposed individuals to create their own business ventures. Cromie et al. (1992)

examined the entrepreneurial tendencies of managers and their personal and family traits, as well as their work and career experiences, finding similar results. In a survey of 194 managers in a wide range of Irish industries, they found potential entrepreneurs were much more likely to have had business owning fathers or relatives and were likely to have owned their own business at some stage of their careers. Likely entrepreneurs also had a greater need for autonomy, more creative tendencies, and higher propensity for risk taking orientations than managers.

3.4.2 Marketing in small business

How does a small firm get involved in marketing? Logic suggests that every firm needs customers and, therefore, every firm must be involved in some form of marketing. Such marketing may be instinctive and intuitive and without pre-planning or forethought but, only by performing certain marketing functions will a firm continue to exist. For example, only by providing a 'product' or 'service' that meets the needs of customers, by selling this at a price that some customers are willing to pay, and by delivering as and when some customers find acceptable, can a business survive. Despite its fundamental nature, small businesses often do not attach much importance to marketing.

In discussing the evolution of marketing in small firms, Carson (1985) considered the characteristics of small firms from a marketing perspective and examined the marketing undertaken by firms at different stages of development, from start-up through to the relative sophistication of a medium sized firm. Carson identified four stages of marketing evolution (initial marketing, reactive selling, 'do it yourself' marketing and integrated and proactive marketing). Marketing practices in each of these stages were constrained by resource limitations, such as, finance, specialist expertise and limited impact in the market place.

Initial Marketing:

The majority of small businesses go through this phase, with very few starting with well laid out or well executed marketing plans. The main ingredients of initial marketing activity are product quality and function, price and delivery. There is generally little promotional support and minimal selling activity. Whatever marketing happens is uncoordinated. Customers are few and business is generated through personal contacts and word of mouth referrals. Often, transactions are based on negotiations between the customer and the owner. In Australia, government agencies such as the Small Business Development Corporation (SBDC) provide support to SMEs and educational institutions offer training programs in small business management and marketing. However, in general, businesses appear to continue their initial marketing efforts in an uncoordinated fashion.

Reactive Selling:

As the number of customers increases and the customer base widens, the personal attention of the business proprietor towards each customer is reduced. At this stage, it is probable that the small firm will begin to include more marketing components in its operations. Because new inquiries come increasingly from strangers, who may not have mutual acquaintances, it becomes necessary for the small firm to provide more information on its products, prices and delivery dates. In response, the firm may produce a brochure and some standard promotional letters. Such marketing activity is likely to be almost totally reactive to inquiry and demand. The firm does not actively seek customers; customers are secured by reacting to their initial inquiries. At this stage, it is likely that much potential business may be lost through a lack of attention to detail and a lack of appreciation for the potential customer's request for information. Reactive marketing works well when competition is minimal and there is a buoyant demand. As long as enquiries continue and as long as existing customers repeat orders, the small firm will continue to thrive.

"Do it yourself" marketing:

This stage happens when the owner/manager feels the need for increased marketing activity, either to expand the business or because of competition, but cannot afford to hire a marketer. As a result, they try to find out about marketing and become involved in new marketing activity. Such marketing activities are often intuitive and haphazard. The marketing performance of the small firm will depend to a large extent on the owner/manager's aptitude. Quite often, their initial experiences with marketing and the results obtained strongly influence future marketing activities. There is very little coordination. The disjointed marketing efforts may weaken the overall impact of marketing but this is rarely recognised, especially if the activities produce a satisfactory increase in sales, which is likely at this stage. As a result, the 'do it yourself' marketer thinks that his/her marketing is effective.

Proactive marketing:

The final stage is integrated and proactive marketing, in which the firm adopts a professional approach to marketing. However, this stage is rarely seen in small business marketing.

As can be inferred from this discussion, the marketing activities of a small firm tend to evolve. Every business may not conform to this model. Some may introduce marketing from the inception and benefit from this approach. Carson (1985) reported that the small businesses in his sample that introduced marketing from inception generally had an entrepreneur with prior marketing education or training and that this had helped.

3.4.3 Small business and marketing

According to the generally accepted views of marketing management, a core set of marketing functions and activities are applicable to all firms. These include gathering information about customers, competitors and other stakeholders, analysing market opportunities, segmenting the market and choosing the target market and positioning the product, developing functions relating to the "4Ps" (7 P's for services) and instituting a system to analyse, plan, implement and control marketing strategy. But to what extent does this marketing model apply to small businesses?

Fischer et al. (Fisc[illegible] Dyke, Reuber, & Tang, 1990) explored the 'tacit marketing knowledge' of entrepreneurial manufacturers and found that experienced entrepreneurs perceived some marketing activities (eg. product development) as critical to success but regarded other activities (eg. formal market research) as relatively unimportant. In addition, the entrepreneurs did not place much emphasis on the development of systems to analyse, plan, implement or control marketing strategy. In the early stages of venture development, the entrepreneurs expressed a distinct preference for close personal control, rather than the development of systems, and an intuitive, opportunistic approach rather than a systematic approach to their marketing strategy.

Several authors have commented on the paucity of research into the types of marketing activities pursued by entrepreneurs and the impact of these activities on the ultimate success of new ventures (Hisrich, 1989; Stephenson, 1984). In an exploratory study, Ram and Forbes (1990) examined the contribution of marketing activities to the success of a venture, compared to other functional areas, such as finance and production. In a convenience sample of 20 entrepreneurs, most marketing activities were perceived as being quite difficult. Across the sample, three difficult activities were developing distribution outlets, choosing the right product/service mix and creating awareness of the product or service. In the case of product ventures, packaging and prototype development were also important concerns. A similar observation has been made by Carsor (1985), who found that entrepreneurs tended to have negative attitudes toward marketing, perceived marketing as a cost and treated distribution and selling as uncontrollable problems.

Carson and Cromie (1990) undertook extensive studies into the marketing practices of small enterprises and observed that business proprietors had a different approach to marketing than that taken by professional marketing managers in large concerns. In particular, the predominating influence of the owner/manager and the managerial and structural features of small enterprises resulted in a marketing planning approach that was unique to each business and suited to their needs and capacities but was not based on a theoretical framework. About two thirds of the owners adopted a 'non-marketing' approach to marketing planning, almost a third were implicit marketers but very few were sophisticated marketers. This confirmed that marketing in small businesses was inherently different from that practiced in large ventures and that classical marketing planning principles need to be adapted before use by small organisations.

Small firms also demonstrated a distinctive marketing style, with little or no adherence to formal structures and frameworks. Because of resource limitations, the marketing activities of small firms were restricted in scope and activity, resulting in a marketing style that was simplistic, haphazard, often responsive and reactive to competitor activity (Carson, 1985). In the early stages of their development, most small firms were found to be inherently product oriented. Their marketing was oriented around price. Because business proprietors are normally the decision makers, the marketing style relied heavily on the intuitive ideas and decisions and, most importantly, on their common sense.

Broom et al (1983) observed a general weakness in the marketing undertaken by small firms and suggested that this could occur because small businesses have difficulty in attracting and affording qualified personnel. The owners of a small firm need to be, or become, an 'expert' in many areas because, unlike managers in large businesses, they are not usually in a position to employ experts. Significant differences between managing small and large firms arise because, in the former, the focus is on the pragmatic use of techniques as aids to problem solving, whereas, in the latter, it is on achieving 'coordination and control of specialists.' Resource limitations, lack of marketing knowledge and time were other constraints noticed in various studies. While a small business may be willing and eager to embrace marketing, they normally cannot make it work because of these limitations.

The personal goals of the owner or manager of a small business may also influence their marketing. Carson and Cromie (1990) noted that small business owners might consider their marketing to be adequate, until they decide that they want to expand their business. While some may want to achieve high growth or expand their business rapidly, others may be content to operate on a small scale and may combine business intentions with life style. Correspondingly, their marketing approaches are likely to be different, in terms of scale and approach.

Dunn and Bradstreet examined the business practices of American small businesses and concluded that traditional ways of defining and marketing may be outmoded (Krakoff & Fouss, 1993). Only 10% of the firms in their sample used external consultants or government agencies for marketing. The principal source of outside assistance was industry associations or trade groups. There was a significant increase in the number of business owners who perceived the need for help as they grew. This percentage increased from 44% to 71% among companies with 25 or more employees. Most small businesses did not plan for the future. Very few of the small business owners had developed marketing plans, financial models or detailed annual operating budgets.

3.4.4 Low cost marketing strategies

As mentioned earlier, budget and other constraints often force small businesses to resort to low cost marketing. Weinrauch et al (1990) examined how small business owners successfully marketed on a limited budget. 'Low cost' is a relative concept as what might be affordable for one business may be astronomical for another. A low cost strategy was one that cost little in actual dollars, was a very small percentage of the firm's total budget, and was cost effective in increasing sales revenue. The most popular marketing techniques were:

- Point of purchase displays (used by 76% of the sample)

- Yellow pages (71.5%)
- Sales and price offs (68%)
- Window displays (65%) and
- Co-operative advertising (53%).

Leasing marketing employees and toll-free numbers were less popular. Small businesses also frequently networked and shared information. Industry and trade associations, as well as other business owners, were the best sources of information. In addition to exchanging ideas at meetings, small business managers depended on word-of-mouth referrals to obtain and identify new business prospects. Most small business operators considered networking to be the best way to market their products and services (Krakoff & Fouss).

Related studies by Weinrauch et al. (1991a; 1991b) found that, in general, small business owners have positive attitudes about their marketing efforts. There was an awareness of marketing issues, including the true cost of marketing, the benefits derived from marketing, the role marketing plays in their businesses, low cost marketing strategies that work, sources for obtaining market information, and a recognition that competing against big businesses requires a real competitive advantage. Counter to these positive attitudes, was a feeling that small businesses are handicapped by constraints that hinder their marketing ability, financial constraints being the most important. Davies et al (1982) suggested that a lack of time and financial resources could explain why small business owners make little use of market research.

Kemp and O'Keefe (1990) observed differences in small business marketing practices between product and service firms. Location was found to be an important factor in marketing planning in service industries. Service industries also had a clearer conception of the target markets they served. Product based businesses reported more frequent changes of their products, whereas service based firms appeared to provide service appropriate to the market and were not subject to frequent changes. Product ventures placed greater emphasis on designing the right product, while service ventures relied on right personnel to interact with the customers (Ram & Forbes, 1990).

3.5 The marketing concept in small business

Marketing specialists often describe the small business marketing function on the basis of normative models. Brown (1986) suggested that the three main activities involved in the introduction of a market orientation into a small firm were diagnosis, planning and action. Diagnosis included knowledge of the market that was needed to identify and interpret customers' needs and knowledge of the firm's strengths and weaknesses, as well as its resources. The second activity (planning) involved defining objectives, strategies and developing an operating plan. Such a plan provided the basis for action, which was the third activity.

Other authors have suggested that, even though normative models should be considered, researchers should avoid falling into a "too normative approach." For example, Carson and Cromie (1990) cautioned that marketing theorists should be careful not to criticise small firm's marketing for not being properly structured and not adhering to classic marketing approaches. Just as a company must conform to the market place if it is to be successful, marketing should conform to the capabilities of the practitioner if it is to be effective.

An important element of the marketing concept is customer satisfaction. While large organisations have been studied quite extensively, very little is known about whether the objectives adopted by small businesses are in line with the marketing concept and whether employees in such businesses are aware of the objectives being pursued. In an exploratory study, Ogunmokun and Fitzroy (1995) looked at Australian small business objectives and the role of marketing concept. A sample of 48 small manufacturing/non-manufacturing businesses employing fewer than 20 employees revealed that, about 42% of the owners/managers did not have 'satisfied customers' as one of their business objectives; the inference being that many small businesses did not pay attention to the marketing concept. However, most were pursuing an objective of providing the best quality products.

3.5.1 Market Intelligence in small firms

It is well documented that large businesses use a range of established and formal market research techniques to gather intelligence about their customers and competitors (Flax, 1984; Fuld, 1985). However, less is known about market intelligence in small businesses.

Folsom (1991) studied a sample of small retail businesses to determine:

- What market intelligence practices small businesses used,
- What market intelligence practices they thought their competitors used and
- How important market intelligence was to small businesses.

He found that the most frequently cited practices were to monitor competitor's advertisements (50%), to ask customers about competitors (33%), and to talk with competitors and their employees (33%). Johnson and Kuehn (1987) also found that customers, suppliers and peers were the most common sources of external verbal information for small businesses. Other less favoured methods were sending people into competitor's stores, asking sales representatives about competitors, observing competitor's businesses, reviewing public information sources, asking suppliers or delivery people about competitors and buying competitors products and services.

Folsom (1991) also found that small businesses did not aggressively seek market intelligence, a finding supported by Fann and Smeltzer (1989). Owners did not seem to be keen on expanding their market intelligence activities, nor did they appear concerned about information leaking from their business. The advent of computers and the internet, has made information gathering easier. However, there is no evidence in the literature to suggest that SMEs use this mode extensively to gather market intelligence.

3.6 The Market orientation in SMEs

3.6.1 Market orientation and SME performance

It is now well recognised that small businesses are not downsized versions of big businesses and have their own unique characteristics (Carson, 1985; Krakoff & Fouss, 1993). Consequently, the relationships in small businesses might be different from those in large businesses, necessitating a study of the impact of market orientation, as well as other variables, on small-firm performance. Further, as discussed elsewhere in this chapter, being 'market oriented' may be different in a small firm.

Following initial papers by Kohli and Jaworski (1990) and Narver and Slater (1990), the impact of having a market orientation on business performance is a topic of considerable research interest. Recently, market orientation studies have started to examine this issue in SMEs.

Kwaku (1997) examined whether the market orientation-performance links, found in large firms, were also present in small businesses and tested the effect of market growth, competitive intensity and market/technological turbulence on these links. Kwaku (1997) examined 110 consumer and industrial products and services SMEs and found a significant positive link between performance and the market orientation of a firm. A similar positive impact was seen on profitability and the sales growth of the business.

In a further cross-sectional study of 600 Australian firms, Kwaku (1996) also found a positive relationship between market orientation and innovative product development. However, it had little effect on the market success of the product, as measured by the sales and profit performance.

Pelham (1996) argued that, while Narver and Slater (1990), Slater and Narver (1994a) and Jaworski and Kohli (1993) established the relationships between market orientation and business performance, they did not include important business position variables, strategy variables, or firm-structure variables. Such variables could modify the impact of market orientation on performance. Using a longitudinal study, Pelham (1996) examined the relative impact of market orientation on small business performance compared to market structure, firm structure and strategy. He found that market orientation had a strong influence on the performance of small firms. Relative product quality and new product success were not significant influences on profitability; although growth/share had a significant short-term influence on profitability, high growth in the previous years was found to have a negative influence on current profitability.

While acknowledging the benefits, businesses perceive cost to be a major barrier to developing a market orientation. Harris (1996) argued that this is an illusory barrier and, in many important aspects, a market orientation is free. The effective implementation of market orientation depended not on doing different things or 'throwing money' at the customer problem, but doing differently and more effectively, activities that have to be carried out in any case. However, this does not mean that it is easy to achieve. McAuley and Rosa (1993) explored the relationship between marketing activities and international success and found general support for the importance of good marketing in enhancing performance.

3.6.2 Factors moderating market orientation in SMEs

Small firms tend to have a cohesive culture and a simple organisation structure, thus diminishing the coordinating benefits of a strong market orientation culture. Small businesses also have fewer product lines and customers, reducing the need for formal activities to gather and process market information. On the other hand, these characteristics may enhance the firm's ability to exploit a market oriented culture (Pelham, 1997b; Pelham & Wilson, 1996). As a result, the impact of a market orientation on the performance of small firms can be examined from two viewpoints.

Pelham (1996) argued that other internal and external variables have such a significant effect on small business performance that the impact of market orientation could be negligible. For example, undercapitalisation and a lack of planning have commonly been cited as the most significant influences on success or failure of small businesses (Robinson & Pearce, 1984). Further, internal small firm structure aspects, such as formalisation, coordination and control systems, may also be such important determinants of small-firm success as to render insignificant the impact of a market orientation. On the contrary, because small firms have been characterised as lacking systematic decision making, strategic thinking (Robinson, 1982; Sexton & Van Auken, 1982) and long term orientations (Gilmore, 1971), having a market orientation could be a highly significant determinant of performance. Small firms are known for their ad hoc and short term decision making. A market orientation culture could provide small firms with a, much needed, business-wide focus for objectives, decisions and actions. Further, small businesses generally lack the financial resources to adopt some sources of business success, such as becoming a low cost producer or developing an R&D competitive edge. Under these circumstances, a marketing orientation can provide an important source of competitive advantage.

Pelham's (1996) study showed that, among the variables considered, market orientation was the only variable to significantly influence the perceived level of relative product quality. Market orientation was also found to significantly and positively influence new product success. Market orientation did not directly influence growth/share. The impact of market orientation on growth share was indirect through new product success. Having a market orientation also significantly and positively influenced profitability.

Kwaku's study (1997), mentioned in an earlier section of this chapter, also showed that market conditions such as low market turbulence, highly competitive environments and high growth, can influence the market orientation-performance relationship. For example, having a market orientation had a greater influence on profitability in low market turbulence situations, on sales growth in high growth markets and on new product success in highly competitive environments.

A lack of a market orientation in high technology firms has been studied and dealt with elsewhere in this chapter. Johne and Rowntree (1991) conducted a study into the organisation and management of British small high technology firms and found that most lacked a formal marketing function. Product development resulted from individual customers' requests or from meeting the emerging needs of a small group of customers, with whom the firm had established close contact. Almost every firm surveyed exhibited this phenomenon. This is not surprising because hi-tech firms have few clients and a strong technology and weak marketing focus may be well suited to such a situation.

3.6.3 Measurement of performance in a small firm - Measurement issues

Apart from conceptual problems, the measurement of business performance in a small firm poses additional difficulties, two major ones being subjectivity in performance measurement and the use of a single measure to evaluate performance. Business performance is usually measured in financial terms (eg. market share, sales growth, ROI and net profit) though several other measures could be used. While the most objective way of measuring business performance may be to examine financial statements, it is rarely done. Respondents are usually asked to rate their performance on some type of rating scale.

These "subjective" measures are of added significance in the case of SMEs as objective measures of performance are often not available. Small businesses are often reluctant to divulge confidential financial information. However, even when available, these data may not be reliable. Fortunately, Dess and Robinson (1984) found a strong correlation between subjective assessments of performance and their objective counterparts, while Venkatraman & Ramanujam (1987) found that informant data had less method variance than archival data.

Researchers are increasingly recognising the multidimensional nature of business performance and the importance of having multiple measures of those dimensions (Venkatraman & Ramanujam, 1987). However, many researchers continue to use a single measure of performance in their research. Jaworski and Kohli (1993) relied on a single measure of 'overall performance' while Slater and Narver (1990) relied on another single measure (relative return on assets). This could be a major issue as several small business studies have shown that the various measures of performance may not be highly correlated (McAuley & Rosa, 1993).

Taking a refined approach, Pelham (1996) (1997b) operationalised 'performance' as the average of a number of different measures. For example, profitability was operationalised as the average of five measures (operating profit, profit to sales ratio, cash flow, ROI and ROA).

However, while Pelham's use of multiple measures is an improvement, the practicality of such an approach in much SME research is questionable. It is important to note that many small businesses do not have the skills to develop these profitability measures or to understand or apply them in their business. Even when the skills are available, time and resource constraints do not allow them to use such measures in their day to day business. Most of the accounting measures are recognised by accountants and financial planners but are rarely used by owners. In the present research it was felt that general measures, such as sales growth, evoke a more spontaneous and accurate response than involved measures, such as operating profit and profit to sales ratios. Given the survey approach used, the preference was to use simple measures, such as overall performance.

3.6.4 Summary

This chapter discussed the key issue as to what constitutes an SME, the definitions used in various countries and the Australian standard definition. It projected a profile of Australian small businesses through a series of statistics and reviewed the business and marketing practices adopted by SMEs. Briefly, it examined the market orientation and performance measurement issues in SMEs.

Having reviewed in depth, the literature relating to market orientation and small business, we now turn our attention to examining the market orientation of SMEs in Australia. The next chapter of this thesis describes the research methodology used for this purpose.

CHAPTER 4

The Research Approach

It is clear that current market orientation models are more applicable to large businesses. The applicability of such models to SMEs is therefore questionable. A study of SMEs would, therefore, provide useful additional information to the market orientation debate and improve our understanding of the market orientation construct and its relationship with organisational performance. Such an understanding is particularly relevant in Australia, given the structure of its SME sector, which was outlined in Chapter 3. The present chapter outlines the research approach taken, including the development of the questionnaire, sample selection and the data analysis methods used.

4.1 The Research Design

There is an increasing requirement in the academic circles that research studies are linked to ontological, epistemological and methodological flows of logic. The present study comprised an exploratory / qualitative component followed by a large scale quantitative phase. Ideally, a survey instrument validated in several studies should have been used. However, the evolving nature of market orientation research meant that a single instrument validated across different situations was not available. As a result, the research was carried out in two stages. Firstly, existing survey instruments were analysed, potential scale items were examined and an initial instrument developed. A qualitative study of a small sample of SMEs was then undertaken, in which SME business and marketing practices were analysed. Information gleaned from this qualitative phase was used to modify the survey instrument. In the second stage, a large scale mail survey was used to measure and validate the constructs of interest. In general, the research process followed procedures recommended by Churchill (1979).

4.1.1 The Initial stage

An initial examination of Kohli and Jaworski's (1990) and Narver and Slater's (1990) questionnaires found several similar statements (scale items) in wording or in inherent meaning. Consequently, the two questionnaires were combined and the statements were randomised. The draft questionnaire was then submitted to three marketing and small business academics, who were asked to identify similarly worded statements and those with similar meanings, as well as to categorise them under Kohli and Jaworski's and Narver and Slater's headings. Statements thus grouped were again examined and similarly worded statements with the same meaning were used only once. Multiple items were used to characterise each construct. Several statements were categorised by the academics under more than one heading, suggesting that some of the underlying dimensions may be related.

4.1.2 Qualitative research with small and medium businesses

This qualitative research phase was exploratory and was used to better understand marketing dimensions that are specific to SMEs. Personal interviews with a number of SME operators were undertaken to examine their operations and determine how market focussed they were, as well as their preferred mode, if any, of intelligence gathering, advertising and so on. While previous research suggests that small businesses do very little of marketing, the preliminary survey was used to obtain first hand knowledge as to how it happens in Australian SMEs. The results from this stage were used to modify the previously developed questionnaire.

The modified questionnaire was pilot tested with a small number of SMEs to be sure that people in SMEs understood the questions. In addition, respondents were asked to indicate questions that were not immediately clear. Based on feedback from this pilot study, some statements and questions were reworded. A detailed discussion on the qualitative research process is provided in Appendix A.

4.1.3 Field survey

The second stage of the project was a large-scale field study that targeted SMEs across Australia. The study was cross sectional and data were collected using a mail survey. The data collected were analysed at an individual and at a group level. Given the resource and other constraints, mail survey was considered to be the best option.

4.1.4 Sampling

The sample was drawn from SMEs from throughout Australia and random sampling was used to identify SMEs in all of Australia's capital cities and metropolitan areas. The study did not target country areas because most of Australia's population and businesses are concentrated in its major cities and metropolitan areas. In addition, country areas are sparsely populated.

About 10000 business addresses were randomly chosen from the electronic (CD-ROM based version) yellow pages of Australia. All addresses in the areas of interest were downloaded and 10,000 businesses were randomly selected using an automated sampling process. Given that Australia has over a million small businesses, this method was convenient, and cost effective.

All types of businesses, including large corporations, government agencies, franchises and businesses with multiple branches, formed part of the initial list. The 10,000 addresses were manually scanned and large businesses that could be identified were removed. However, this was not a perfect solution, as the names of some large businesses were not recognisable. A total of 5550 addresses were randomly chosen from the reduced list. During the post data collection phase, responses obtained from the survey were checked and those meeting the ABS criteria for SMEs were chosen for the final analysis.

4.2 Data Collection

4.2.1 The preliminary phase

As already mentioned, a preliminary phase was used to identify what constituted 'marketing in a SME.' Using a general script (shown in Appendix A), 25 SME owners or key executives were interviewed. Interviews were informal, in-depth and undertaken at their business premises or over the telephone. Information from these sessions was used to modify the questionnaire.

4.2.2 Pilot testing the questionnaire

Pilot test sample respondents were personally approached and those who agreed to participate were asked to answer the survey, as well as to identify those questions that were not clear. While collecting the completed questionnaire, a short discussion with the respondent gave a better idea about what they did not understand and what needed changing.

4.2.3 The Questionnaire

A copy of the final questionnaire is shown in Appendix B. The questionnaire had three sections. The first part included 104 Likert type statements that included Kohli and

Jaworski's (1990) and Narver and Slater's (1990) market orientation constructs, as well as a number of small business marketing issues derived from the small business literature and the previously undertaken qualitative research. Respondents were asked to indicate their agreement or disagreement with the statements on a five-point scale, ranging from total agreement (1) to total disagreement (5). Respondents were asked to base their rating on their current business practices and not on theory or what they planned to do in the future. As recommended by Nunnally (1978) and Churchill (1979), multiple items were used to measure each construct.

The market orientation constructs included in the questionnaire were:

1. Intelligence generation, dissemination and organisational response from Kohli and Jaworski.
2. Customer orientation and competitor orientation of Narver and Slater
3. Customer satisfaction and others specific to SMEs.

The customer orientation questions asked about several customer-focussed activities, such as intelligence generation through formal and informal methods and training staff in customer relations. The competitor orientation questions asked about whether respondents generated intelligence about competitors through formal and informal methods, made employees aware of competitor's actions or responded to competitor's moves. Several statements that measured customer satisfaction and repeat purchase behaviour were also included. As most SMEs have very few employees, inter-functional coordination was not included. However, some employee related dimensions (esprit de corps and organisational commitment) were retained.

Overall performance was measured by asking respondents about their performance relative to other businesses in their field and relative to performance in the previous year. Information about performance in terms of market share, return on investment (ROI), sales growth, net profit and cash flow was obtained.

The second part of the questionnaire included a number of questions about the nature of the business, the background of its operators and the way they marketed their businesses. The 49 questions in this section were a combination of dichotomous, multiple response and Likert type questions. Some financial questions, such as 'approximate annual turnover,' had multiple categories as accurate financial figures are often not available from SMEs or, even if they are, such businesses often do not want to disclose exact figures.

In the final section of the questionnaire, respondents were asked to give a short statement about their objectives when they started their business and the extent to which they felt they had met these objectives. Respondents' achievement of their business objectives was measured on a 1 to 5 scale, ranging from 'did not meet any objective' (1) to 'completely met all the objectives' (5).

4.3 Field Procedures for Data Collection

The survey was a self-administered structured questionnaire, with the exception of the open-ended question in the final section. Each of the targeted businesses was sent the questionnaire and a self addressed reply paid envelope. Given the length and complexity of the questionnaire, an incentive scheme with a prize was used to encourage responses. Such methods to improve response rates have been recommended by Jobber (1986).

The cover letter specified that the questionnaire should be completed by owners, CEOs or senior managers and not by staff. A phone number was given for respondents requiring clarifications. A follow up phone call or letter would have improved the response rate but, because of the high cost involved, this was not attempted. The distribution of questionnaires is shown in Tables 4.3.1a and 4.3.1b.

Table 4.3.1a: Survey of SMEs - Questionnaire distribution in metro areas

Region	No. Sent	Returned to sender
WA (Perth metro)	1492	89
SA (Adelaide Metro)	545	22
Vic (Melbourne metro)	979	72
NSW (Sydney metro)	919	83
Qld (Brisbane metro)	699	70
Total	4634	336
Returned not useful		60
Returned useful		542

Table 4.3.1b: Survey of SMEs - Questionnaire distribution in non-metro areas

Region	No. Sent	Returned to sender
Australian Capital Territory	154	7
Tasmania	166	4
Northern Territory	125	22
Total	830	54
Number of useful responses		87

4.4 Response rate

In the five metropolitan areas, 4634 questionnaires were mailed out and 336 or 7.3% were returned back as 'addressee not available.' A total of 602 responses were received, of which the number of useable questionnaires was 542 or 13%. While 13% is a low response rate, it was not surprising given the length and complexity of the survey, its timing and the lack of follow up. Indeed, based on the experience of SME researchers, a low response rate was anticipated, hence the large mail out. Other small business studies have had varying response rates (Hess, 1987; Kwaku, 1997; McDaniel & Parasuraman, 1986).

The timing of the survey may have had an impact on the response rate. The survey was mailed out in the last week of November when the businesses were entering the Christmas business and holiday period. The survey could not be sent earlier and post Christmas mail out could not be done before the last week of January. Comments on the timing of the survey were conveyed to the researcher in several of the incomplete questionnaires and through some phone calls. Some respondents also asked for extra time because of their business commitments. A few also rang to say that the survey was not applicable because of the nature of their businesses. However, because of the definition of SMEs, which is based on the number of employees, the mail out could not be more focussed. Apart from comments about the timing of the survey, there were some favourable comments from participants.

4.5 Data analysis

4.5.1 Data Cleansing

Using a consistent coding system, data were entered into an Excel spreadsheet and crosschecked manually. During the data entry phase, additional codes and categories were created if responses indicated a need for additional coding or categorisation. Using the SPSS statistical package a frequency analysis was undertaken on each variable to check for outliers or data entry errors. Data entry errors were corrected by crosschecking with actual responses. Missing data were left for later treatment.

4.5.2 Preliminary data analysis

The first step in the analytical process was to "get a feel" for the data and the nature of the sample. Since further treatment of missing data depends upon its nature (random or otherwise and percentage), an understanding of the missing data was essential. A range of descriptive statistics, including frequency distributions, measures of central tendency (mean, median) and measures of dispersion (standard deviation, variance, skewness), were calculated for each variable.

The question on 'business objectives' in the questionnaire was open-ended and required a qualitative response in the form of a short statement, which were entered as a separate qualitative variable on the spreadsheet. The analysis of this question was undertaken separately. The extent to which the respondents achieved their business goals was treated in the same way as the other numerical variables.

4.5.3 Confirmatory factor analysis and reliability testing of constructs

The preliminary analysis was followed by a series of data reduction and reliability procedures. The reliability of the a priori constructs of Kohli and Jaworski and Narver and Slater were tested using Cronbach's (1951) alpha. The item to total correlation for scale items was also measured. Correlations between the market orientation variables were also examined to test for convergent validity.

Given the exploratory nature of the research, an exploratory factor analysis of the market orientation variables was carried out to ensure that the variables did combine to form a factor structure similar to a priori constructs.

4.5.4 Measurement models and structural equation modelling

The reminder of the analytic process concentrated on model building, identifying and validating constructs and testing the effect of market orientation and other variables on business performance. The AMOS structural equation modelling (SEM) software package (Arbuckle & Wothke, 1999) was used for this purpose. AMOS was chosen because of its graphical user interface and its ability to visually develop and test models. SEM simultaneously evaluates multiple and interrelated, relationships (Bollen, 1989) (Loehlin, 1992). SEM also enables the analysis of latent (or unobserved) variables and their relationship with multiple observed variables.

4.5.4.1 Two stage and full estimation structural equation modelling approaches

The structural equation modelling approach taken, also termed the AMOS procedure in this thesis, consisted of two distinct phases, namely:

1. A measurement model, which evaluates the relationships between observed and latent variables, was estimated. Such an analysis is a form of confirmatory factor analysis.
2. A structural model, which estimates the relationships between latent constructs, was then estimated.

SEM was preferred over other conventional multivariate procedures due to:

1. the number of direct and indirect relationships in the model,
2. the use of multiple measures for each latent construct, and
3. the ability of the procedure to account for measurement error.

Since the primary aim was to test already suggested large business market orientation models (eg. Kohli & Jaworski, 1990; Narver & Slater, 1990) in SMEs, the model's constructs were generally known. Consequently:

1. A confirmatory factor analysis was undertaken on each construct (dimension) and sub-construct (sub-dimension).
2. An examination of the validity and reliability of each of the suggested constructs was undertaken before integrating them into a larger structural model.
3. The interrelationships between the latent (unobserved) variables of interest were examined.

This approach, in which the measurement model (which relates a set of observed variables to one or more unobserved variables) is assessed before the structural model (the structural relationships between latent variables) is evaluated, is well documented in the literature (Anderson & Gerbing, 1988; Bagozzi & Yi, 1988; Bagozzi, Yi, & Phillips, 1991). Such an approach also helps to identify the dimensions and sub-dimensions, if any, in the measurement model. In discussing the rationale behind such an approach, Jöreskog and Sorbom (Joreskog & Sorbom, 1993 p.113) noted that "the testing of the structural model, ie. the testing of the initial theory, may be meaningless unless it is first established that the measurement model holds. Therefore, the measurement model should be tested before the structural relationships are tested."

Instead of this two-stage approach, a full model, in which the measurement and structural models are estimated simultaneously, can be estimated. However, this procedure requires a large sample to estimate the asymptotic variance–covariance matrix across all constructs simultaneously. Jöreskog and Sorbom (1988) estimated that asymptotic variances and covariances cannot be computed until the sample size is 1.5n(n+1), where 'n' is total number of items used to represent the all the constructs in the structural equation model. For example, if there were 30 observed variables, the minimum sample size required would be 1395.

The two-stage approach used (Bagozzi, 1980; Burt, 1976) can be undertaken with a smaller sample because each latent construct is estimated separately. The asymptotic covariance matrix (ACM) therefore relates to a smaller number of variables while, when evaluating the structural relationships, a smaller set of composite variables (representing latent constructs) is used. Because of the smaller number of variables involved in each stage, the sample size required is reduced.

When the number of observed items is large and a large number of parameters are to be estimated, a full model estimation procedure can result in a confounding of measurement and structural parameter estimates. Confounding can make the interpretability of the estimated constructs a problem. By estimating the measurement model first and keeping the interpretation of the theoretical variables constant, such problems can be overcome (Anderson & Gerbing, 1988; Bagozzi, 1980; Burt, 1976).

A maximum likelihood estimate procedure is typically used to analyse the covariance matrix. Several popular SEM software packages, such as AMOS, EQS and LISREL, enable such a maximum likelihood estimation. Typically, data is not normal (Peterson & Wilson, 1992) but maximum likelihood estimates provide an unbiased estimate in such situations (Arbuckle, 1997). It has been suggested that severely skewed or kurtosed data (absolute magnitude of skewness or kurtosis greater than 1) can lead to an overestimation of chi-square goodness of fit measures and an underestimation of the standard errors (Browne, 1984; Muthen & Kaplan, 1985). Bollen (1989) recommended the use of weighted least squares when data is non-normal and severely kurtosed. Consequently, the normality of the data was checked as a part of model building procedure.

AMOS examines the normality of the observed variables to help judge the extent of departure from multivariate normality. However, Arbuckle (1997) has argued that such tests do nothing more than quantify the departure from normality and roughly test whether the departure is statistically significant. For such information to be useful, we also need to know how robust an estimation procedure is against such non-normal data as "a departure from normality that is big enough to be statistically significant could still be small enough to be harmless" (Arbuckle, 1997 p 239).

4.5.4.2 Missing data in structural equation modelling

In a data set of the size obtained, some data will be missing. Several standard methods, such as list wise deletion, pair wise deletion and data imputation (Beale & Little, 1975), can deal with such missing data. AMOS computes full information maximum likelihood estimates in the presence of missing data (Anderson, 1957). In such cases series means are often used to replace missing data.

4.5.4.3 Sample size

There is very little in the literature to suggest an ideal sample size for structural equation modelling. According to Bentler and Chou (1987, pp 90-91), "definitive recommendations are not available." A sample size of 200 has been suggested as reasonable to examine differences between observed and modelled cova. .nces (Hoelter, 1983). Theoretically, the ratio of sample size to the number of free parameters may be as low as 5 to 1. However, practically, a ratio of 10 to 1 or higher may be necessary to provide correct model evaluation chi-square probabilities (Bentler & Chou, 1987, pp 90 - 91). Boomsma (1987) suggested that:

> *"The estimation of structural equation models by maximum likelihood methods be used only when sample sizes are at least 200. Studies based on samples smaller than 100 may well lead to false inferences, and the models then have a high probability of encountering problems of convergence and improper solutions."*

While these considerations set the lower limit for sample size, a large sample poses its own problems. With large samples, trivial deviations from the proposed model can lead to a high chi-square statistic and the rejection of the model. Because of this, several alternative fit indices have been developed. The relative merits of these indices are discussed briefly in the following paragraph.

4.5.4.4 Measures of fit

Model evaluation in SEM is a difficult and unsettled issue and several statistics have been proposed to measure the merit of a model (Bollen & Long, 1993; MacCallum, 1990; Mulaik et al., 1989; Steiger, 1990). Models with relatively few parameters and many degrees of freedom are said to be parsimonious or simple, while models with many parameters are considered to be complex. There is general agreement that, other things being equal, simpler models are preferable. At the same time, a model's fit is also an important issue. Many fit measures attempt to balance these two conflicting objectives – simplicity and goodness of fit. Steiger (1990, p 179) noted:

> *"In the final analysis, it may be, in a sense, impossible to define one best way to combine measures of complexity and measures of badness-of-fit in a single numerical index, because the precise nature of the best numerical trade off between complexity and fit is, to some extent, a matter of personal taste. The choice of a model is a classic problem in the two-dimensional analysis of preference."*

One basic method of evaluating model fit is through the chi-square statistic, with low values of chi-square indicating a good fit and large values indicating a bad fit. This method compares the covariance or correlation matrix of the implied model with observed values (Carmines & McIver, 1981). The ratio of the chi-square statistic to the degrees of freedom has also been widely used, with different authors adopting slightly varying criteria for a good fit. Carmines and McIver (1981, p.80) suggested a ratio of 2 to 1 or 3 to 1was an acceptable fit, whereas Marsh and Hocevar (1985) suggested that ratios between 2 and 5 indicated a reasonable fit. In contrast, Byrne (Byrne, 1989, p 55) argued that a χ^2 to df ratio greater than 2 may indicate an inadequate fit. Ratios close to one, however, indicate a good fit.

The chi-square statistic is a function of both sample size and the discrepancy between the model (estimated values) and the data (observed values) and, hence, is sensitive to sample size (Hoelter, 1983). As a result, a small sample may have insufficient power to detect substantial differences, whereas a large sample might result in large chi-square values for small differences between the estimated and actual covariance matrices. Thus, a proposed model is more likely to be accepted with a small sample (Bentler & Bonett, 1980). On the other hand, a sound theoretical model with a covariance matrix that differs trivially from observed data may be rejected when there is a large sample. The sensitivity of chi-square estimates lead to the development of fit measures that are not sensitive to sample size. A model with a significant chi-square can still have an acceptable fit if such a judgement is supported by these other fit measures (Anderson & Gerbing, 1988).

The alternative fit indices compare the estimated model to a base line model. Several fit indices have been suggested, including the normed fit index or NFI (Bentler & Bonett, 1980); the comparative fit index or CFI (Bentler, 1990); the relative fit index or RFI (Bollen, 1986); the goodness of fit index or GFI (Joreskog & Sorbom, 1984) and the adjusted goodness of fit index or AGFI (Joreskog & Sorbom, 1989). An index value of one shows a perfect fit, while models with most fit indices above 0.90 are considered to fit the data. The goodness of fit index (GFI) and the adjusted goodness of fit index (AGFI) measure the improvement in the fit function when a model is fitted compared to when no model is fitted and all parameters are set to zero. Similarly, the normed fit index (NFI) measures the amount of variation and covariation in the observed measures explained by the model compared to a null model. It has been suggested that models with NFI values of less than 0.90 can be substantially improved. Generally, several goodness-of-fit measures are considered together when examining a model (Arbuckle, 1997; Joreskog & Sorbom, 1993).

In addition to these indices, two other measures, RMR (Root mean square residual) and RMSEA (Root mean square error of approximation) are also used in examining a model's fit. Smaller values suggest a better fitting model (Arbuckle, 1997, p.571) and an RMSEA value of 0.08 or less indicate a good fitting model, while RMSEA values greater than 0.10 are considered unacceptable (Browne & Cudeck, 1993).

4.5.4.5 Hierarchical factor modelling and the partial disaggregation approach

The market orientation models suggested by Kohli and Jaworski and Narver and Slater theorised 'market orientation' as a higher order construct with three lower order constructs (intelligence generation, dissemination and organisation wide response (Kohli & Jaworski, 1990) or customer orientation, competitor orientation and inter-functional coordination (Narver & Slater, 1990) respectively. Each of these lower order constructs, in turn, was measured through several observed variables. The current study examined the validity of such a hierarchical structure model for market orientation.

A 'partial disaggregation' approach (Bagozzi & Heatherton, 1994; Hull, Lehn, & Tedlie, 1991; Marsh & Hocevar, 1985) was also compared with a traditional 'total disaggregation' approach. The traditional total disaggregation approach uses each scale item as a separate indicator of the relevant construct. This approach provides a detailed analysis but, "in practice it can be unwieldy because of likely high levels of random error in typical items and the many parameters that must be estimated" (Bagozzi & Heatherton, 1994, pp 42 - 43). A partial disaggregation approach reduces random errors, while retaining the advantages of a SEM approach. The hierarchical and partial disaggregation approaches are discussed further in the chapter on model building and evaluation.

4.6 Summary

The present chapter discussed the specific research approach taken and the questionnaire, sample design and data analytic procedures that were a part of this approach. The initial data analysis was followed by a confirmatory factor analysis and the reliabilities of the factors obtained were tested using Cronbach's alpha. This was followed by a modelling phase in which several measurement and structural models were tested. Given the sensitivity of chi-square estimates to sample size, a number of 'goodness of fit' indices were used to test the estimated models. The next chapter discusses the results of the preliminary examination of the data, summary profile of businesses and the reliability of a priori market orientation constructs.

CHAPTER 5

Preliminary data analysis

The preliminary data analysis is presented and discussed in the present chapter. First, information about the profiles of the businesses in the sample, their marketing practices and perceived performance is presented and discussed. This is followed by an analysis of the market orientation and related constructs. The development and evaluation of the measurement and structural models are discussed in the next chapter.

5.1 Sample profiles

5.1.1 Missing data

An initial examination showed some missing data, which appeared to be random, with no specific pattern. During the data entry phase it was noticed that, in some questionnaires, two whole pages facing each other had been left out. One likely reason for this could be that respondents accidentally turned two pages instead of one. There was no evidence to suggest that the pages have been deliberately skipped. The questionnaire had 12 A4 pages in the form of a book, and the initial pages were similar. This was noticed more in the initial section, which was a series of Likert type market orientation statements. The extent of missing data was checked using a frequency analysis of each variable and the amount of the missing data was found to be not large (averaging about 12 respondents per variable, which is about 2% of the total number of cases). The maximum number of missing data points for a single variable was 60 and the minimum was zero. Frequency analysis was also used to identify outliers. When a suspicious data point was noticed, it was crosschecked with the relevant questionnaire and corrections were made. Since the data had been manually checked after the initial data entry, there were very few data entry errors. Irrespective of the source of error, a decision had to be made on the missing data. A listwise deletion of missing variables was generally used in the various analyses. Where there was a deviation from this practice, the reason for such a deviation is specified. In the case of client profile variables, some variables were re-coded. After re-coding, missing variables were treated in the usual way during the analysis.

5.1.2 Descriptive statistics

In order to gain an initial understanding of the data and the nature of the sample, summary statistics for all of the variables were calculated. This included, characteristics of the businesses surveyed, profiles of the owners/operators of these businesses and their market orientation. The relevant results are presented in a series of tables and additional results are provided in appendix C.

5.1.3 Characteristics of the businesses surveyed

Table 5.1.3.1: Length of period in business

Time in Business	Frequency	Percent
< 1 year	19	3.5
1-2 years	58	10.7
3-5 years	107	19.7
6-8 years	71	13.1
> 8 years	271	50.0
Missing	16	3.0
Total	542	100.0

Sixty nine percent of respondents owned a single business, while 30 percent had two or more businesses. The majority was established businesses, with 50% having been in business for more than 8 years, as can be seen in table 5.1.3.1. The percentage of new businesses (of less than a year) was small (3 to 4%), although approximately 15% of the businesses had been in operation for less than two years. The median duration of business operation was between 6 and 8 years. The bias towards relatively established businesses could be due to the sample being drawn from the Yellow Pages. There is usually a time gap between establishing a small business and its listing. Yellow pages are updated annually and, if a business fails to meet its deadline, there is a delay of another year. Further, the failure rate of new businesses is high during their first two years, which could contribute to the predominance of longer established businesses. These results are consistent with a 1995 survey undertaken by the Industry Commission and the Department of Industry, Science and Tourism (1997) that showed a large percentage of firms were more than 5 years old. The ABS (1997) found that 56% of businesses in Australia have been in operation for at least 5 years.

Table 5.1.3.2: Prior experience of operators

Prior Experience	Business	Frequency	Percent
No experience	1	153	28.2
	2	69	12.7
	3	95	17.5
	4	84	15.5
Lot of experience	5	122	22.6
Missing data		19	3.5
Total		542	100.0
Median		3.0	

Table 5.1.3.2 summarises respondents' previous experience in running a business. A median of 3 suggests that respondents had a reasonable amount of prior experience but there was a wide variation in experience within the sample.

An examination of the respondents' main line of business (table 5.1.3.3) suggested that respondents came from a wide range of businesses, which is not surprising given the range of businesses that advertise in the Yellow Pages. Approximately 10% of the sample was involved in manufacturing, which is similar to national figures (of approximately 9%) (ABS, 1998).

Table 5.1.3.3: Main line of business

Type of business	Frequency	Percent
Deli / other food shop	21	3.9
Retail store selling durables	40	7.4
Manufacturing	64	11.8
Service	133	24.5
Consultancy	24	4.4
Trade based	47	8.7
Professional services	47	8.7
Other	125	23.1
Non-profits	1	0.1
Missing data	40	7.4
Total	542	100.0

Approximately 95% of the businesses operated from one location, with the remaining 5% having multi-site operations, as can be seen in table 5.1.3.4. The response rate from Western Australia appears high (31.7%) but the initial mail out was also high in this region.

Table 5.1.3.4: Geographic distribution of businesses

Location (state)	Frequency	Percent
Western Australia	172	31.7
South Australia	70	13.1
Victoria	106	19.5
New South Wales	81	14.9
Queensland	82	15.1
Multiple locations	31	5.7
Total	542	100.0

Table 5.1.3.5 shows that, in approximately half (45%) the businesses, operations were limited to the business's local or metropolitan area. Twenty five per cent of respondents operated within their state and about 10% operated interstate. A small number of businesses (7%) operated in international markets. The majority of the internationally focussed businesses were in manufacturing and professional / consultancy fields.

Table 5.1.3.5: Sphere of operation

	Frequency	Percentage
Local suburb / town	122	22.5
Metro only	122	22.5
Within the state	137	25.3
Interstate	56	10.3
International	37	6.8
Multiple response	66	12.2
Missing value	2	0.4
Total	542	100.0

Since previous research suggests small businesses often do not have reliable financial data or are reluctant to disclose financial details, respondents were asked for their annual turnover through the categorised response shown in Table 5.1.3.6. Median annual turnover was in the $100,000 to $500,000 range. However, there was wide variation, which is not surprising given that the criteria for classification as an SME used in the present study was based on the number of people employed and not on turnover.

Table 5.1.3.6: Annual turnover of businesses

Annual Turnover	Frequency	Percent
< 50 000	66	12.2
$50 000 – 100 000	91	16.8
>100K – ½ Million	185	34.1
>½ – 1 Million	72	13.3
>1 – 5 Million	100	18.5
> 5 Million	21	3.8
Missing data	7	1.3
Total	542	100.0

Ninety eight businesses employed no staff, while 166 employed only 1 or 2 staff, with an overall mean of 5.1 employees across the sample. The sample's employment profile is summarised in table 5.1.3.7. Non-employing businesses and those with less than five employees are classified as micro businesses (ABS, 1997) and 65% of the sample fell into this category. Businesses that employed more than 20 people were generally involved in manufacturing.

Table 5.1.3.7: Employment

Number of employees	Frequency	Percentage
0	98	18.1
1 to 4	254	46.9
5 to 9	101	18.6
10 to 19	62	11.4
20 or more	27	5.0
Total	542	100.0

Approximately 24% of the businesses were sole proprietors, 25% were partnerships and 39% were private companies. Other legal structures included public companies, trusts and non-profit bodies. For the majority of owners (70%), their business was a form of self-employment. Approximately 90% of respondents were involved full time in their business.

The formal education of the business operators is shown in table 5.1.3.8. As can be seen from the table, there was a wide range of educational backgrounds, ranging from 'below high school' to 'postgraduate' qualifications and from technical trade certificates to professional qualifications. According to the Industry Commission survey (1997), referred to earlier, more decision makers in larger enterprises have tertiary qualifications, with over 70% of those in the largest firms having such qualifications, more than twice that observed for smaller firms (about 35%). In the current study, about 30% of the sample had tertiary qualifications, a proportion similar to that found in the Industry Commission survey.

Table 5.1.3.8: Educational profile of business operators

Education level	Frequency	Percentage
Minimum years of high school	111	20.8
Completed high school	118	21.5
TAFE	115	21.3
University undergraduate	81	14.9
University postgraduate	83	15.3
Other	30	5.5
Missing	4	0.7
Total	542	100.0

The sample reflected the general characteristics of Australia's SMEs. Consequently, the sample seems to be representative of the population of interest, suggesting that, despite the low response rate, the sampling procedures used obtained a useful sample.

5.1.4 Marketing characteristics

Prior research suggested that SME marketing had a number of unique characteristics. Consequently, the marketing characteristics of the sample were analysed. In the majority of businesses (75%) owners managed the marketing function and only 8% employed a specific person (sales/marketing manager/assistant) for this purpose. While 32% of the businesses surveyed had a separate accounting function, only 20% had a separate marketing or sales function. This suggests that many SMEs may not place great importance on the marketing function.

The 1995 Industry Commission survey (1997) found only 16% of the enterprises surveyed had documented business plans, although half of firms employing between 50 and 99 persons and over 80% of the largest enterprises used such plans. This suggests that businesses tend to adopt formal planning processes as they grow in size and sophistication. In contrast, the percentage of businesses in the present sample with a business or marketing plan was quite high, with 42% having a marketing plan and 58% a business plan. One reason could be the increasing common requirement for such plans by government agencies and lending institutions. Sixty three percent of the businesses surveyed dealt with final customers, about 29% were involved in business to business interactions and 8% operated in both markets.

Over 60% of the sample did not formally identify their customers' needs but relied on informal means to achieve this. Those that did use formal means, however, did so regularly, with most such respondents doing so at least quarterly. Respondents were asked how often they undertook specific marketing activities and what methods they used to identify new business opportunities. The results obtained are shown in table 5.1.4.1.

Table 5.1.4.1: Frequency of specific marketing activities

Type of activities	Never		Frequency		Always	Missing
	1	2	3	4	5	data
Market survey / research	224	108	114	62	22	12
Talk to customers	8	8	39	156	331	0
Keep sales records	55	48	92	134	203	10
Monitor prices of competitors	61	88	147	128	114	4
Adjust prices to match competitors	113	102	162	94	68	3

These results again suggest that the majority of SMEs do not undertake formal market surveys but, rather, gather information informally by talking to their customers. There was an even distribution of monitoring competitors' prices but businesses did not appear to be inclined to adjust prices to match competitors.

Table 5.1.4.2: Methods used to identify new business opportunities

Type of activities	Yes	No	Missing
Talking to customers	453	89	0
Seeing what the competitors Are doing and following them	147	390	5
Doing market research	120	419	3
Use gut feeling / take chance With new ideas	320	321	1
From employees	200	337	5
From other industry sources	250	290	2

As can be seen from table 5.1.4.2, customers were regarded as the best source of information for generating ideas (84%). Perhaps surprisingly, the next most preferred approach was gut feeling or take a chance (60%). Industry sources and employees were also useful sources for some but formal market research was the least used method. These results again demonstrate the informal approach most SMEs use in their marketing decision making.

Fifty one percent of the businesses were in markets where prices did not vary greatly. Such a result was anticipated because many small businesses, especially those selling standard products, tend to keep prices stable. There may be seasonal fluctuations and long-term price movements but short run variations are kept to a minimum. Businesses were also asked about the volatility of their customers' preferences. Overall, 62% reported marginal or very little change in customer preference, suggesting a large proportion of the businesses operated in relatively stable environments.

A large proportion of the businesses (45%) used 'cost plus' methods to fix their prices. Twenty five percent fixed prices based on what the market can bear, while 14% fixed their prices based on the competition. Fourteen percent used more than one method. SMEs' preference for such a cost based pricing approach has been reported elsewhere (Carson & Cromie, 1990; Mazzarol & Ramaseshan, 1996).

For most businesses (58%), competition was localised. The proportion of businesses facing competition from other states and internationally was much smaller, which was understandable as only a small percentage of the businesses surveyed operated in the interstate and international markets. The localised nature of competition is an essential characteristic of small business that has been reported widely. However, irrespective of the source, two thirds of the sample thought that the intensity of competition was high.

Table 5.1.4.3: Relative performance

Performance	Compared to previous year	Percent	Compared to other businesses	Percent
Excellent	79	14.6	86	15.9
Very good	133	24.5	132	24.4
Good	242	44.6	279	51.5
Bad	60	11.1	36	6.6
Poor	28	5.2	9	1.7
Missing data	0	0	0	0
Total	542	100.0	542	100.0
Mean	2.7		2.5	
Median	3.0		3.0	

Respondents were also asked about the growth of their business in the previous two years and asked to rate their performance in sales growth, cash flow, net profit, return on investment (ROI), market share and product/service quality on a 5 point Likert type scale, ranging from poor to excellent. Over two thirds of the businesses surveyed reported growth in the previous two years. Median ratings (shown in table 5.1.4.3) suggest that, in most cases (80%), perceived performance was good, with only 17% reporting bad or poor performance compared to the previous year or compared to other similar businesses in the field. Both measures suggest that, on average, the relative performance of businesses surveyed had been 'good' to 'very good'.

Table 5.1.4.4: Business performance in specific areas (shown as percentage)

Performance	Sales growth	Cash flow	Net profit	ROI	Market share	Product quality
Very poor 1	7.7	8.1	6.6	11.6	4.4	0.6
2	12.9	18.6	20.1	16.6	10.1	1.7
3	36.5	41.7	36.7	43.5	48.7	23.2
4	26.6	20.1	26.8	16.8	27.5	41.3
Very good 5	16.3	11.5	9.8	11.4	9.2	33.2
Missing	0	0	0	0	0	0
N	542	542	542	542	542	542
Mean	3.3	3.1	3.1	3.0	3.3	4.1
Median	3	3	3	3	3	4

Majority of businesses reported better than average performance in sales growth, net profit, cash flow, ROI, market share and product quality, as can be seen in table 5.1.4.4.

Respondents also rated the importance of a number of factors to the success of their business and the results are shown in table 5.1.4.5. Their product was considered to be most important, followed by market understanding and price. A relatively smaller number of respondents thought that advertising and promotion were important.

Table 5.1.4.5: Perceived success factors (percentages shown in parentheses)

Factors	Not at all important 1	2	3	4	Extremely Important 5	Missing data
Market Understanding	16	45	66	159	240	16
	(3.0)	(8.3)	(12.2)	(29.3)	(44.2)	(3.0)
Understanding competitors	26	72	157	153	113	21
	(4.8)	(13.3)	(29.0)	(28.2)	(20.8)	(3.9)
Price	10	39	149	166	164	14
	(1.8)	(7.2)	(27.5)	(30.6)	(30.3)	(2.6)
Advertising / promotion	48	112	175	112	73	22
	(8.9)	(20.7)	(32.3)	(20.7)	(13.5)	(4.1)
Product	8	9	42	152	315	16
	(1.5)	(1.7)	(7.7)	(28.0)	(58.1)	(3.0)
Marketing as a whole	30	64	145	154	128	21
	(.5.5)	(11.8)	(26.8)	(28.4)	(23.6)	(3.9)

Businesses were also asked to specify the difficulties (constraints) they had faced during the previous year. Understandably, many businesses faced more than one problem. As can be seen from Table 5.1.4.6, competition, cash flow and shrinking markets were rated as major difficulties. In contrast, a lack of marketing skills and understanding of the market rated low on the list. Labour difficulty was also seen as a relatively minor issue. Such a lack of concern for marketing related issues in SMEs has been reported by other researchers (Carson & Cromie, 1990; Carson, 1985; Hurmerinta-Peltomaki & Nummela, 1998).

Table 5.1.4.6: Problems faced by businesses

Type of problem	Yes	No
Cash flow	238	302
Shrinking market	173	367
Strong competition	248	292
Labour difficulties	90	450
Lack of marketing skills	53	488
Needed to know more about the market	51	490
Other	90	452

The constraints on new or starting businesses are different from the constraints that impact on established SMEs. While the sample was biased towards established businesses, the results suggest that, even with long established businesses, a lack of marketing skills was not seen as an important problem. Of the businesses surveyed, however, 65% thought marketing was important for the reasons shown in Table 5.1.4.7.

Table 5.1.4.7: Why marketing is important

Reasons	Frequency	Percent*
Keep ahead of competition	143	40.3
Understand customers	189	53.2
To expand business	245	69.0
Changing market place	109	30.7
Other (specify)	10	3.0
Total respondents who considered marketing as important	355	

* Percentage of those who considered marketing important.

Sixty nine percent of those who considered marketing important thought it was needed to expand their businesses, followed by a need to understand customers and to keep ahead of competition. About 30% thought they needed marketing to be able to adapt to a changing market place. Some respondents had more than one reason to adopt marketing.

Given that many of the small business owners were not trained in marketing and a third did not consider marketing to be important, it was necessary to understand what the small businesses understood by 'being market oriented.' Respondents were asked what they thought a market orientation was and were given several choices. Table 5.1.4.8 summarises their responses.

Table 5.1.4.8: Market Orientation - perception of SMEs

Reasons	Frequency	Percent
Make money from the market	64	11.8
Financially successful in the business	131	24.2
Meet customer needs	440	81.2
Maximise profits	127	23.4
Other (specify)	20	3.7

Meeting customer needs emerged as the major theme (80%) of market orientation. About 50% of the businesses thought that a market orientation meant only 'meeting customer needs,' whereas 30% combined 'meeting customer needs' with other objectives to arrive at their concept of being market oriented. It seems that SMEs do have a basic understanding about what a market orientation is and feel that having a customer focus is at the centre of the approach. As Carson (1985) and Cromie (1983)) have also noted, a lack of market orientation in practice cannot be attributed to SME operators lacking knowledge.

Respondents were asked the extent to which they used a number of methods to promote their products. The summary results, shown in table 5.1.4.9, suggest that only a few SMEs use television, radio or trade magazines as a promotional medium. 'Word of mouth' was the most common method, supporting previous findings by Mazzarol (1996) and Krakoff (1993).

Table 5.1.4.9: Use of different methods of promotion

Methods of promotion	Never 1(%)	2(%)	3(%)	4(%)	Always 5(%)	Missing data (%)
TV/Radio	357	36	24	14	8	103
	65.9	6.6	4.4	2.6	1.5	19.0
Word of mouth	7	6	37	105	366	21
	1.3	1.1	6.8	19.4	67.5	3.9
Trade magazines	192	69	90	62	40	89
	35.4	12.7	16.6	11.4	7.4	16.5
Shop front ads	265	33	35	40	56	113
	48.9	6.1	6.5	7.4	10.3	20.8
Other (specify)	58	5	26	37	159	257
	10.7	0.9	4.8	6.8	29.3	47.5

Shop front advertisements and window displays have been found to be popular methods of promotion, especially for retail businesses (Weinrauch et al., 1990). Surprisingly, they did not rate highly, perhaps because the sample was heterogeneous. Many of the businesses ran from home or did not operate from a business premises (eg trades people). In such cases, shop front advertisements are irrelevant.

Advertising in the Yellow Pages was the most preferred "other" promotional method. Almost all those who opted for the 'other' category (about 30% of the sample) preferred advertising in the Yellow Pages, although this is likely to be a biased result as the sample was drawn from organisations advertising in the Yellow Pages.

Businesses were asked to rate the importance of their business location. From table 5.1.4.10, it can be seen that the importance was distributed across the five point scale used. What then are the business factors that make the 'location' important and under what conditions does location become irrelevant?

Table 5.1.4.10: Importance of location

		Frequency	Percent
Location extremely important	1	96	17.7
	2	88	16.2
	3	122	22.5
	4	104	19.2
Location has no effect	5	129	23.8
Missing data		3	0.6
Total		542	100.0

A further cross tabulation showed that location was important for specific business groups but not for others. For example, 65% of 'Deli' and other food shops considered location to be extremely important, while 43% of trade based businesses, such as plumbing and brick laying, thought that location was not at all important. In other categories, the effect of location was less clear.

In order to assess the role of various business related factors in providing competitive advantage, businesses were asked why customers bought their product or services. As can be seen from table 5.1.4.11, only 5.5% of the businesses surveyed thought that customers bought because their product or service was new, which is not surprising as the majority of the SMEs dealt with routine products. Having a lower price was also not a major factor as only 16% suggested that having lower price provided a competitive advantage. 'Being better than competitors' provided an advantage for 33.5% of the sample, having 'better service' for 50% and having a product that met 'customer needs better' for 40%.

Table 5.1.4.11: SMEs mode of competitive advantage

Reasons	Yes	No
New product / service	30	512
Meet their needs better	210	332
Better than competitors	183	354
Better service	271	270
Lower price	87	451
Other	32	510

Most businesses offered routine products or services, with 95% of those surveyed indicating that similar products or services were available in the market. These results are in line with that of Department of Industry (1995) survey, which found that only 9% of Australia's enterprises undertook innovation in 1994-95. About 6% of the smallest enterprises (about 5% in the present sample) introduced an innovative product or service, compared to one third of the largest enterprises. In this aspect, the present sample's activities are in line with the SME population.

About 80% of respondents spent less than 25% of their time on new products, with only 7% spending more than 50% of their time in this area. These results suggest that new or innovative products or services are not a significant source of competitive advantage for most SMEs in Australia.

5.2 Summary statistics of the market orientation and situational items

As discussed in Chapter 4, a number of statements covering different aspects of the market orientation construct were asked in the survey. In addition, some situational variables were included, making a total of 104 statements, all of which were measured on Likert-type "agree-disagree" scales, ranging from totally agree (1) to totally disagree (5). As a first step, summary statistics were calculated for each of the items to identify missing data and to check distributional properties. The mean, standard deviation, skewness and kurtosis values for the 104 items are shown in Appendix D. Skewness and kurtosis values identified questions with non-normal distributions. It has been suggested that skewness and kurtosis values within the -1 to +1 range can be considered normal (Browne, 1984; Muthen & Kaplan, 1985). Alternatively, the ratio of each statistic to its standard error can be used as a test of normality, with values in a range of –2 to +2 (1.95) being considered "normal" (Hair, Anderson, Tatham, & Black, 1995, p66; SPSS, 1997, p. 28). In the present analysis, absolute skewness and kurtosis values were used to identify possible non-normality.

Overall observations

As mentioned earlier, there were relatively few missing observations and these were randomly distributed. No specific pattern could be seen in the missing data. The maximum percentage of missing variables for any question was less than 6%.

The mean values for some of the variables were greater than 4 or less than 2 on the 5 point scale used (ranging from strongly agree (1) to strongly disagree (5)), suggesting some skewed responses. However, some of the statements that were included are likely to evoke such a response. For example, most respondents agreed with the statement *'our success is linked to the service we provide,'* resulting in a mean of 1.39, a standard deviation of 0.68, a skewness score of 2.06 and kurtosis score of 4.97. The skewed response occurred because most respondents considered 'service was essential to their success.' Similarly, some business practices (eg. formal market research) are seldom used in SMEs and tend to attract extreme responses.

The large number of attitudinal and perceptual questions asked (104) to measure the various constructs meant that a meaningful interpretation from summary statistics or bivariate correlations was impossible. However, as the constructs included in the model had been developed in prior research by Kohli and Jaworski (1990), Narver and Slater (1990) and Carson (1985,1990), it was possible to examine them separately. Some additional questions were added to some of the constructs as a result of the prior qualitative research and, where such questions were included, comment is made. Very little is achieved by an examination of all the items together. Consequently, the items were grouped based on the prior constructs and each of these constructs was examined in turn, as outlined in the subsequent sections.

As discussed in chapter 2, Kohli and Jaworski (1990) operationalised market orientation through three constructs (intelligence generation, intelligence dissemination and organisational response). Narver and Slater (1990) also suggested three constructs (customer orientation, competitor orientation and inter-functional coordination). Each of these constructs was measured through the use of a multiple-item scale. In addition to the market orientation construct itself, Kohli and Jaworski (1990) examined the antecedents and consequences of market orientation and the impact of situational factors, such as market turbulence and competitive intensity. While both Kohli and Jaworski (1990) and Narver and Slater (1990) measured business performance they used a limited number of indicators. In the current study overall performance was measured as a comparison with the previous year's performance and in relation to the perceived performance of similar businesses using several specific performance measures, such as sales growth and net profit.

Since the earlier studies targeted large businesses, several of the scale items had been tailored for such businesses and were not applicable to SMEs. For example, Kohli and Jaworski (1990) asked whether "intelligence on competitors is generated independently by several departments." Very few SMEs have departments and fewer still generate formal, independent intelligence. Consequently, such scale items were not asked in the present study. In some cases, the wordings of the scale items were changed to suit the SME environment without changing the overall meaning of the statement.

As the next step in the analysis, the applicability of the constructs for SME research was examined. Descriptive statistics were computed for each item and each scale's reliability was measured through coefficient alpha (Cronbach, 1951). Item to total scale correlations were also calculated to determine the strength of relationship between the various items and the overall scale (Churchill, 1979). The results of this analysis are presented in separate tables for each construct in the following sections.

In Kohli and Jaworski's (1990) study, intelligence generation was measured through a 10-item scale. However, only the four items shown in Table 5.2.1 were applicable to the present SME based research.

Table 5.2.1: Reliability analysis – Intelligence generation

Item	Variable	Mean	Std deviation	Item-total correlations
C	We monitor customer needs/preferences	2.05	1.07	0.3869
Y	We do a lot of in-house market research	3.69	1.23	0.5116
CH	We poll customers at least once a year about our quality	3.95	1.33	0.4145
CX(R)	We are slow to detect changes in our customer's product preferences	3.85	1.06	0.2065

(R) indicates that the item was reverse coded

Coefficient alpha for the four-item scale was 0.56, which is lower than the 0.70 recommended by Nunnally (1978) or the 0.60 suggested by Sekaran (1984) for exploratory research, such as that undertaken in the present study. In the current study, intelligence generation was also measured through some of the items contained in Narver and Slater's (1990) instrument (as a part of their customer and competitor orientation constructs). In addition, as discussed in chapter 3, small businesses seem to generate their market intelligence through informal, rather than through formal, means. Based on Narver and Slater's (1990) and Carson's (1985) research and the early field studies undertaken as part of the present study, four additional intelligence generation items were included in the survey, as shown in Table 5.2.1a.

The inclusion of these four items improved the alpha value to 0.67. However, one item ("most of the time customers tell us what they want') had a very low item to scale correlation and was removed, improving the alpha value to 0.71, so that the modified seven-item intelligence generation construct was sufficiently reliable to be used in subsequent analysis. An examination of the means of the various items that measured this dimension suggested that, while SMEs gather intelligence, it is not through formal market research processes or external consultants. Rather, SMEs tend to use salespeople and informal information gathering.

Table 5.2.1a: Reliability analysis – Intelligence generation (additional items)

Item	Variable	Mean	Std deviation	Item-total correlation
F	Most of the time customers tell us what they want	2.33	1.15	0.0053
BB	We regularly discuss competitors strengths and strategies	3.18	1.24	0.4734
BU	Our sales people play a key role in evaluating customer's needs	2.62	1.46	0.3969
CV	Our sales people regularly share information about competitor's strategies	2.89	1.30	0.4884

Intelligence dissemination

Table 5.2.2: Reliability analysis – Intelligence dissemination

Item	Statement	Mean	Std deviation	Item-total correlation
AI	We spend time discussing customers' future needs.	2.45	1.26	0.5073
AJ	Data on our customer's satisfaction is available on a regular basis.	3.44	1.37	0.4762
CP	We have meetings at least once a quarter to discuss market trends and developments.	3.08	1.52	0.4289
CU	When something important happens to a major customer or market, we know about it quickly.	2.01	1.03	0.2925

In Kohli and Jaworski's (1990) study, the dissemination of intelligence within the organisation was considered to be important as it enabled it to respond to the market place based on a common understanding. Within the present SME study, the four items shown in Table 5.2.2 were used to measure this construct. The resulting scale had a coefficient alpha of 0.63. Removal of CU improved alpha to 0.64.

While the number of items used affects the value of alpha, the relatively low reliability may have arisen because intelligence dissemination is not relevant to many SMEs because of their size and type of operation. As discussed in section 5.1 (summary statistics of business related variables), the majority of the SMEs in the sample (as well as in Australia) were micro businesses, with less than five employees. Even when they were not micro businesses, respondents seldom had separate divisions.

Yet another SME characteristic is their decision-making processes. The owners themselves managed most of the businesses in the sample and there was little scope for formal intelligence dissemination. By contrast, Kohli and Jaworski (1990) and Narver and Slater (1990) surveyed large businesses or business units from large corporations, where the dissemination of information is likely to be a major factor.

An examination of the items' means suggested that most SMEs spend time discussing the future needs of their customers (2.45). In comparison, more respondents disagreed with the statement that 'data on our customer's satisfaction is available on a regular basis' (3.44), suggesting formal data collection and dissemination is not common.

Response to Intelligence

Kohli and Jaworski's (1990) third construct was the organisation's 'response' to the intelligence gathered and disseminated. This construct had two sub-constructs (response design and implementation). The data did not suggest that either construct could be used in the present study, as the coefficient alphas were 0.13 and 0.46 respectively. It seems that SMEs do not respond as Kohli and Jaworski (1990) suggested. Rather than having a formal response process, they respond in a reactive rather than in a planned manner. Kohli and Jaworski (1990) termed this construct 'organisationwide response' but it was termed 'business response' in the present study, reflecting the SME population being studied. Given the small size of the businesses in the sample and the absence of formal departmental boundaries, this was felt to be more appropriate. Combining the two sub-constructs only improved alpha to 0.50, suggesting that Kohli and Jaworski's (1990) 'organisational response' construct should not be used in the present study.

Table 5.2.3: Reliability analysis – Response design

Item	Statement	Mean	Std dev
AK	It takes for ever to decide how to respond to competitors	4.03	1.14
CK	Our plans are driven more by technological advances rather than by market research	3.58	1.28
CN	We periodically review our products to ensure that they are in line with what customers want	2.22	1.08

Table 5.2.4: Reliability analysis – Response implementation

Item	Statement	Mean	Std dev
AW	Our marketing activities are well coordinated	3.10	1.10
CT	When we find that our customers are unhappy with our service, we take corrective action	1.36	.69
CY	Even if we came up with a great marketing plan, we probably would not be able to implement it in a timely fashion	3.45	1.21
CZ	If a competitor were to launch an intensive campaign targeted at our customers, we would respond immediately.	2.18	1.22

Table 5.2.5: Reliability analysis – Formalisation

Item	Statement	Mean	Std dev	Item- total correlation
J	We have strict guidelines on how to do things	2.47	1.28	0.2134
AX	We justify new projects with extensive, detailed plans	3.25	1.28	0.2352
BK	In our business we are very formal	4.07	1.09	0.0616
BL	Most people here make their own rules	3.74	1.28	0.1595
BP	Our staff are given freedom to make decisions	2.20	1.05	0.0877
CJ	People doing the work decide how things will be done in our business	2.79	1.30	0.0724
CL	Employees feel as though they are constantly being watched to see that they obey the rules	4.19	1.01	0.0047

The alpha reliability of the formalisation construct was low (0.29). Not surprisingly, the 'item to total' correlations were also low. The absence of departments, the small number of employees and the centralised decision-making (undertaken mostly by the owners of businesses) make formal processes unnecessary in most SMEs. By contrast, formal processes and inter-functional coordination are common in large organisations. It seems that Kohli and Jaworski's (1990) formalisation construct should not be used in the present study.

Reward system orientation

Kohli and Jaworski (Kohli & Jaworski, 1990, p.12) argued that the presence of a market based evaluation and reward system was an antecedent to market oriented behaviour. In the present SME sample, the items they developed to measure this aspect of their model did not create a reliable construct (the alpha coefficient was 0.48). An examination of the means suggested that, to a degree, SMEs reward staff for their new ideas. However, most did not use customer satisfaction assessments to reward staff. SMEs, because of their size, rarely adopt formal mechanisms to measure customer satisfaction, which may explain why Kohli and Jaworski's (1990) reward system construct was not reliable.

Table 5.2.6: Reliability analysis – Reward system orientation

Item	Statement	Mean	Std dev	Item-total corr.
BJ	We reward staff for new ideas	2.68	1.20	0.4249
BM	Customer satisfaction assessments influence what we pay our staff	3.96	1.20	0.3273
BN	We use customer polls to evaluate our staff	4.40	99	0.3755

Top Management Antecedents

Table 5.2.7: Reliability analysis – Risk aversion

Item	Statement	Mean	Std dev
M	We like playing safe even if it means a little less profit	2.40	1.08
BD	We encourage innovation, even though some fail	2.28	1.06
BF	We attempt small rather than major changes	2.24	1.02
BQ	We believe that risks are worth taking if there is a possible reward	2.36	1.11

Kohli and Jaworski (1990) also viewed risk aversion and top management's emphasis as vital antecedents to market oriented behaviour, arguing that the greater managers' risk aversion, the lower would be the market orientation of the organisation. Neither risk aversion, nor top management's emphasis, were reliable constructs in the present study, however, with alpha values of 0.17 and 0.35 respectively. Again it seems that some of Kohli and Jaworski's constructs are relevant to large organisations but should not be used when studying SMEs.

Table 5.2.8: Reliability analysis – Top management emphasis

Item	Statement	Mean	Std dev
AY	We tell employees to be sensitive to our competitor's activities	2.92	1.30
BA	Serving customers is the most important thing we do	1.56	.89
CE	We often tell employees our survival depends on adapting to the market	2.84	1.17

In the absence of a formal 'top management structure,' these items focussed more on the emphasis of the business. As can be seen from the items' means, the focus was more on customer service and less on competitor's activities or on adapting to the market.

Organisational commitment

Table 5.2.9: Reliability analysis – organisational commitment

Item	Variable	Mean	Std dev	Item-total corr.
AF	Our staff are committed to their work	1.81	.93	0.5319
BG (R)	The bonds between this organisation and its employees is weak	4.30	1.04	0.4261
BO	Employees feel that their future is linked to this organisation	2.67	1.33	0.3963
CA	In general, employees are proud to work for us	1.91	.97	0.5833
CM	Our employees would be happy to make personal sacrifices if it was important	2.30	1.14	0.4969

Kohli and Jaworski (1990) suggested that organisational commitment and esprit de corps are consequences of market-oriented behaviour. In the present study, five of their items (shown in Table 5.2.9) were used to measure organisational commitment, while esprit de corps was measured through four items (shown in Table 5.2.10).

The organisational commitment construct had an alpha coefficient of 0.72, while the esprit de corps construct had an alpha of 0.68, suggesting the organisational commitment and esprit de corps constructs can be used in subsequent analysis. An examination of the items' means suggests that respondents (who were managers) felt staff were committed to the firm and that there was a strong esprit de corps in their organisation.

Table 5.2.10: Reliability analysis – Esprit de Corps

Item	Statement	Mean	Std dev	Item-total corr.
U	There is a good team spirit in this organisation.	1.80	.92	0.5546
V	Our staff informally deal with each other	1.75	.99	0.4274
BS	Working for this business is like being part of a big family	1.94	1.05	0.4475
CQ	Our staff are genuinely concerned about the needs and problems of other workers	2.23	1.07	0.4323

Competitive intensity and market turbulence

Table 5.2.11: Reliability analysis – Competitive intensity

Item	Statement	Mean	Std dev	Item-total corr.
L	In our business, competition is cut throat	2.28	1.25	0.3910
BT(R)	We are market leaders in our line of business	2.72	1.31	0.2739
BZ	There are many promotion wars in the market place	3.54	1.47	0.2925
CB(R)	Our competitors are relatively weak	3.83	1.08	0.2995
CC	Anything that a competitor can offer, others can match readily	2.74	1.22	0.1756

Kohli and Jaworski (1990) argued that competitive intensity and market turbulence were market-related factors that moderated the relationship between market orientation and business performance. In a highly competitive or turbulent market, being market oriented would have a positive influence on performance. In contrast, in a technologically turbulent situation, the link between market orientation and business performance would be weaker as technological advances, rather than being market oriented, provide the competitive advantage.

With an alpha coefficient of 0.51, competitive intensity was not a reliable construct in the present SME sample. An examination of the items' means showed that, while there was intense competition, there were few promotion wars. A similar result was reported in section 5.1. However, the items suggested by Kohli and Jaworski (1990) do not make a reliable scale, perhaps because SME operators do not think of such factors in the same way as managers in large organisations. The construct should not be used in subsequent analysis.

Table 5.2.12: Reliability analysis – Market turbulence

Item	Statement	Mean	Std dev	Item-total corr.
S	Most of our business is repeat business	2.32	1.20	0.5363
BY(R)	Most of the customers that come in everyday are new customers	3.74	1.17	0.4696
CD(R)	Customers don't often come for repeat business	4.42	0.98	0.4656
P	Our business is dependent on long-term relationship with the client.	1.79	1.05	0.4749
BW	We cater to the same customers that we had in the past.	2.23	1.09	0.4541

Market turbulence was a reliable construct in the present SME sample (alpha coefficient = 0.72). An examination of the items' means suggested that respondents were dependent on repeat business, which explains the importance of their long-term relationship with clients. Kohli and Jaworski (1990) measured market turbulence through changes to an organisation's customer base and changing tastes but market turbulence could also be measured in terms of price volatility. As discussed in section 5.1, customers' preferences were stable and price volatility was low to moderate, suggesting most respondents faced low to moderate market turbulence. It is likely that some business segments are more turbulent than others are but, given the wide range of businesses surveyed, it seems that SMEs do not see market turbulence as high.

Narver and Slater's market orientation constructs

As discussed in chapter 2, Narver and Slater (1990) viewed the market orientation construct as having customer orientation, competitor orientation and inter-functional coordination dimensions. From a theoretical, as well as a practical, perspective inter-functional coordination was not considered to be important for SMEs and was not included in the present study. The competitor orientation and customer orientation dimensions were included, however.

Table 5.2.13: Reliability analysis – Competitor orientation

Item	Statement	Mean	Std dev
AB	We constantly watch what our competition is doing	2.65	1.26
AD	We formulate our strategies based on what our competitors are doing	3.75	1.14
AV	We respond rapidly to competitive actions that threaten us	2.65	1.21
BB	We regularly discuss competitors strengths and strategies	3.18	1.24
CI	People in this business are recognised for being sensitive to competitive moves	3.12	1.21
CV	Our sales people regularly share information about competitor's strategies	2.89	1.30

Table 5.2.14: Reliability analysis – Customer orientation

Item	Statement	Mean	Std dev
X	We measure customer satisfaction systematically.	3.13	1.24
AE	We provide customer relations training to our staff	3.33	1.35
AG	We monitor the level of our commitment to our customers.	2.64	1.25
AM	Our principal mission is to satisfy the needs of our target markets	1.76	.99
AP	We are driven primarily by customer satisfaction	1.78	.86
AT	We give close attention to after sales service	2.20	1.14
BU	Our sales people play a key role in evaluating customer's needs	2.62	1.46
CR	We fix the price based on the value of our product or service to our customers	2.28	1.15
CS	Our strategy for competitive advantage is based on understanding our customer's needs	1.81	.86

Both the customer and competitor orientation constructs had coefficient alphas greater than 0.70 (0.74 and 0.71 respectively). An examination of the items' means suggested a range of activities were used to target customers and competitors. These included (informal) intelligence generation and dissemination, customer relations training and an emphasis on customer satisfaction. The means for the customer satisfaction related items suggested the importance attached to customer satisfaction. In contrast, competitor related activities were around the mid-point of the scale, suggesting they were viewed as less important.

The mean and standard deviation values of the summed scales and the reliability (alpha) coefficients for each of Kohli and Jaworski's (1990) and Narver and Slater's (1990) constructs are shown in Table 5.2.15. Among Kohli and Jaworski's constructs, only intelligence generation exceeded 0.70. Perhaps because of the small size of the businesses in the sample, the intelligence dissemination and organisational response constructs were not reliable.

On the other hand, the organisational commitment and esprit de corps constructs were reliable. Kohli and Jaworski (1990) argued that organisational commitment and esprit de corps were the consequences of a market orientation. Given the importance respondents attached to customer satisfaction and their reliance on long-term relationships and repeat business for business performance, employee dimension could be important to SMEs. In addition, a large percentage of the organisations surveyed were service businesses, in which service delivery depends on employees.

The alpha coefficients for market turbulence, intelligence dissemination and competitive intensity did not meet Nunnally's (1978) 0.70 standard but were in the 0.60s, suggesting they were sufficiently reliable for the present exploratory study and can be used in subsequent analysis. In contrast, the two constructs of Narver and Slater that were tested were found to be reliable.

Table 5.2.15: Construct reliability – A summary

Author(s)	Market Orientation Construct	Alpha	Mean of summed scales	Std. dev of summed scales
Kohli and Jaworski	Intelligence generation	0.71	3.06	0.86
	Intelligence dissemination	0.64	2.74	0.89
	Organisational commitment	0.72	2.10	0.73
	Esprit de Corps	0.68	1.93	0.91
	Market turbulence	0.62	2.52	0.57
Narver and Slater	Competitor orientation	0.74	3.04	0.8
	Customer orientation	0.71	2.39	0.62

Note that the mean of the summed scores for customer orientation are lower than that for competitor orientation indicating that respondents agree more with customer oriented responses than competitor oriented responses. In comparison, the mean score for intelligence generation is marginally higher again indicating a higher level of disagreement. Organisational commitment and esprit de corps scales had low mean scores meaning that respondents strongly agreed that employees were committed and showed good team spirit. Both these constructs had alphas close to or exceeding 0.7. Intelligence dissemination scale did have a lower mean score but alpha for this scale was also lower (0.64).

Performance measures

Kohli and Jaworski (1990) measured 'perceived overall performance' as a single item, while Narver and Slater (1990) used an organisation's ROA (return on assets) as its principal performance measure. The present research used a wider variety of perceived performance measures, namely:

1. Overall growth during the previous two years;
2. Overall performance compared to the previous year;
3. Overall performance compared to other like businesses;

Performance was compared to the previous year in terms of:

- market share,
- sales growth,
- return on investment,
- net profit, and
- cash flow.

Performance was based on respondents' opinions and estimates were not obtained through an examination of financial figures. As discussed in chapters 2 and 3, subjective assessments have been shown to correlate strongly with measures of objective business performance, suggesting that such an approach is an appropriate way to measure performance in studies such as the present one (Dess & Robinson , 1984). An exploratory factor analysis was undertaken to determine if the eight relevant performance items created a unidimensional or multidimensional scale. The analysis found a single factor with an eigen value greater than one, which explained 56% of the variance in the performance items, suggesting a single performance measure is appropriate in the present study. This was confirmed when the alpha coefficient was calculated (0.88), suggesting a strong convergence in the performance measures included in the study. The means, standard deviations and item to total scale correlations for the relevant items are shown in Table 5.2.16.

Table 5.2.16: The performance measures

Item	Statement	Mean	Std dev	Item-total corr.
BV	Last year our business grew well	2.60	1.34	0.6259
FI	Performance compared to previous year was good	2.68	1.02	0.7436
FJ	Performance compared to similar businesses was good	2.54	0.89	0.5967
FS*	Sales growth good	3.31	1.12	0.7383
FT *	Cash flow good	3.08	1.08	0.6369
FU*	Net profit good	3.13	1.05	0.7322
FV*	Return on investment good	3.00	1.12	0.6852
FW*	Market share good	3.27	0.92	0.5713

* Items scaled in opposite direction, such that high is better

Revised market orientation constructs

As mentioned in chapter 4, Kohli and Jaworski (1990) and Narver and Slater (1990) used similar items in such constructs as intelligence generation and dissemination (Kohli and Jaworski) and customer and competitor orientation (Narver and Slater).

While the reliability of these constructs was examined separately in the earlier sections of this chapter, given the closeness and overlap of these items, it was felt that it would be useful to review them together. The items from the four constructs were pooled and reclassified as "targeting competitors and customers" constructs and the results of the pooling are shown in Table 5.2.17.

Table 5.2.17: Reliability analysis - Competitor related activities

Item		Mean	Std dev	Item to total correlation
AB	We constantly watch what our competition is doing	2.65	1.26	0.5065
AD	We formulate our strategies based on what our competitors are doing	3.75	1.14	0.3599
AK	It takes us forever to decide how to respond to competitors	4.03	1.14	0.0284*
AV	We respond rapidly to competitive actions that threaten us	2.65	1.21	0.5074
AY	We tell employees to be sensitive to our competitors activities	2.92	1.30	0.4759
BB	We regularly discuss competitors strengths and strategies	3.18	1.24	0.6202
CZ	If a competitor was to launch an intensive campaign targeted at our customers, we would respond immediately	2.18	1.22	0.3955
CI	People in this business are recognised as being sensitive to competitive moves	3.12	1.21	0.3832
CV	Our sales people regularly share information about competitor's strategies	2.89	1.30	0.5430
	Summed scale	**2.92**	**0.76**	**0.7805**

These nine variables targeted competitor related activities. Mean values, in the range 2 to 4, indicated that the overall agreement or disagreement was moderate. There was also a wide variation in results demonstrating that, while some businesses may worry very little about competitors and their actions, there were those who were quite sensitive to competition. The reliability of this combined scale was better than that of the separate scales. Alpha for competitor related activities was 0.78. Item AK was eliminated because of a low item to total correlation, improving alpha from 0.74 to 0.78. Mean for the scale (summed scores) was 2.92 with a standard deviation of 0.76.

Table 5.2.18: Reliability analysis - Customer related activities

Item	Statement	Mean	Std dev	Item-total corr.
C	We monitor customer needs/preferences	2.05	1.07	.5108
F	Most of the time customers tell us what they want	2.33	1.15	.0117
W	Day to day contact with customers gives us the information we need	2.36	1.15	.2806
X	We measure customer satisfaction systematically	3.13	1.24	.5214
Y	We do a lot of in-house market research	3.69	1.23	.5852
AE	We provide customer relations training	3.33	1.35	.5302
AG	We monitor the level of our commitment to our customers	2.64	1.25	.5649
AI	We spend time discussing customers' future needs	2.45	1.26	.5766
AJ	Data on customer satisfaction is available on a regular basis	3.44	1.37	.5710
BN	We use customer polls to evaluate staff	4.40	0.99	.3171
BU	Our sales people play a key role in evaluating customer's needs	2.62	1.46	.3995
CE	We often tell employees our survival depends on adapting to the market	2.84	1.17	.3825
CH	We poll our customers at least once a year about the quality of our products and services.	3.95	1.33	.5290
CN	We periodically review our products to ensure that they are in line with what customers want	2.22	1.08	.5056
CP	We have meetings at least once a quarter to discuss market trends/developments	3.08	1.52	.5256
CS	Our strategy for competitive advantage is based on understanding customer needs	1.81	0.86	.4682
CT	When we find that customers are unhappy with our service, we take corrective action	1.36	0.69	.2683
CU	When something important happens to a major market, we know quickly	2.01	1.03	.3467
CX	We are slow to detect changes in our customer's product preferences.	3.85	1.06	.2530
CY	Even if we came up with a great marketing plan, we probably wouldn't be able to implement it in a timely fashion.	3.45	1.21	.2164
	Summed scale	**2.88**	**0.56**	**.84**

As in the case of competitor related activities, the alpha coefficient for the 'customer related activities' (Table 5.2.18) construct was high (0.84). One item ("most of the time customers tell us what they want") correlated poorly (0.01) with the total scale and was removed. Mean for the scale (using summed scores) was 2.88 with a standard deviation of 0.56. Altogether, 19 items asked about customer orientation and covered several aspects of customer orientation, such as intelligence generation, information dissemination and organisational response. Several items asked about the level of customer related intelligence generation and modes of intelligence generation.

Looking at individual items, a mean of 2.05 for 'we monitor customer needs and preferences' suggests there was agreement with this statement. In comparison, variable 'we monitor the level of our commitment to our customers' had a mean of 2.64. "Day to day contact with customers gives us the information we need" had a mean of 2.36, suggesting the SMEs use day to day contact to gather market information rather than formal methods of gathering and disseminating market information. Scores above 3 suggest more disagreement.

It seems that, while methods of intelligence gathering varied widely, SMEs used informal rather than formal methods, such as market research. Several of the small businesses did not have any employees and it is natural that formal processes won't take place in such businesses. In contrast, the statement 'when we find out that customers are unhappy with our service, we take corrective action' evoked a very strong positive response (1.36), indicating that, while SMEs were responsive to customer needs and preferences, they preferred to use informal rather than formal methods. Likewise, a score of 3.85 for the item 'we are slow to detect changes in our customer's product preferences' suggests that SMEs are quick in understanding changing customer needs.

The ability of SMEs to respond to market stimuli has been shown to provide them with a competitive advantage over large businesses (Birley & Norburn, 1985).

Other factors related to small business marketing:

As discussed in chapter 3, small business marketing has some unique characteristics and, because of resource and other constraints, SMEs often adopt their own brand of marketing (Carson & Cromie, 1990; Carson, 1985; Cook, 1993; Davies et al., 1982; Mazzarol & Ramaseshan, 1996; Weinrauch et al., 1991a; Weinrauch et al., 1990). In addition to the market orientation constructs of Kohli and Jaworski and Narver and Slater, Carson (1985,90) has suggested that the success of SMEs may depend on generating repeat business and long term client relationships. The role of customer satisfaction in generating repeat business has been discussed widely in the marketing literature. Consequently, the validity of customer service as a separate dimension was examined, along with the dependence of SMEs on repeat business. These constructs have not been separately specified in previous market orientation studies.

With a reliability coefficient of 0.68, the customer satisfaction construct was reliable (Table 5.2.19). The means for most of the items were close to 1 (totally agree) and standard deviations were small, suggesting a high degree of agreement with the scale items. This indicated that most respondents were acutely aware of the role that customer satisfaction played in their business operations and there was little variation in perceptions within the sample. The mean for the scale (summed scores) was 1.56 with a standard deviation of 0.54. These values, compared to 2.92 and 0.76 for competitor related activities and 2.88 and 0.56 for customer related activities, confirmed that customer satisfaction was a key element for SMEs.

The 'repeat business' construct was the same as Kohli and Jaworski's (1990) 'competitive intensity' construct that was discussed earlier in this chapter and that was found to be reliable.

Table 5.2.19: Reliability analysis – Customer satisfaction

Item	Statement	Mean	Std dev	Item-total corr.
O	Our success is linked to the service we provide.	1.39	0.68	0.4185
BA	Serving customer is the most important thing we do.	1.56	0.89	0.4602
AP	We are driven primarily by customer satisfaction.	1.78	0.86	0.5011
AL	The quality of our service is a key to the success of our business	1.33	0.65	0.5382
AM	Our principal mission is to satisfy the needs of our target markets.	1.76	0.99	0.3148

Business related factors

The unique nature of marketing in SMEs mentioned earlier raises some important questions. For example, 'is advertising important to SMEs and does it have significant impact on business performance?' The present study also looked at a number of business-related factors and their impact on business performance, as outlined in subsequent sections.

The impact of advertising

Seven statements (shown in Table 5.2.20) were included in the questionnaire to examine the level and impact of advertising in SMEs. The qualitative research found that many SMEs rarely advertised and, even when used, advertising was undertaken on a very small scale. The statements in the survey verified this as the relevant means were in the mid range, with reasonably large standard deviations. This suggests that the level of advertising varied among the SMEs, with some using very little advertising, while others undertook a reasonable amount of advertising.

Table 5.2.20: Advertising

Item	Statement	Mean	Std dev
I	We don't have the money to do much advertising	2.81	1.21
K	Advertising brings in most of our business	3.75	1.08
N	A lot of our customers come to know about us from other clients	1.83	1.32
AC	We do very little advertising	2.77	1.32
AN	A lot of our business happens without advertising or promotion	1.88	1.00
CG	A lot of business comes from leads generated from personal contacts	2.39	1.28
CW	Most of our advertising is localised in and around our premises.	2.84	1.48

Coefficient alpha = 0.61

Advertising was not seen to generate a lot of business, rather word of mouth and personal contacts were seen to play an important role in this regard. This was not surprising as the majority of respondents operated locally. Further, while some advertising was used by the SMEs, the impact of advertising in generating new business was low, inferring that advertisements and promotions were more to inform existing clients of the SME's presence than to generate new business.

As was shown earlier in this chapter, market turbulence was low to moderate for the SMEs in the sample and customer loss was low. Respondents' dependence on repeat business may explain the low level and minimal impact of advertising. These results suggest that, while SMEs advertise on a small scale, they depend much more on long-term relationships and repeat business, perhaps explaining the importance attached to customer satisfaction.

Impact of pricing

Table 5.2.21: Pricing

Variable	Statement	Mean	Std dev
A	Price is a key issue in our business	2.37	1.09
H	We price a product / service based on its cost	2.32	1.26
CR	We fix the price based on the value of our product or service to our customers	2.28	1.16

Pricing did not emerge as a reliable construct in the current study. Cronbach's alpha for this construct (Table. 5.2.21) was low (0.26), which could be partly due to the small number of scale items used to measure this construct. There was a moderate degree of agreement that price was a key element in the business. However, pricing was not the only key element. Quality and service also emerged as key issues. There was also agreement about using cost based pricing, which was in line with observations made in section 5.1 that cost based, rather than competitive, pricing was most common in SMEs.

Table 5.2.22: Need for marketing

Variable	Statement	Mean	Std dev
R	We don't need marketing to run our day to day business	3.18	1.39
AA	We are not clear what we want achieve with our marketing	3.74	1.19
AH	Our marketing has clear purpose	2.60	1.24
AW	Our marketing activities are well coordinated	3.07	1.10
BC	We are not at a stage where we need to know a lot about marketing	3.38	1.24
BI	Our marketing is based on intuition	2.95	1.17

Six statements (table 5.2.22) were used to gauge perceptions about the need for marketing, the clarity of purpose of marketing and the planned approach, if any, to marketing. Previous research has suggested that SME's often don't undertake marketing activities and, even where such activities are undertaken, they are unplanned and uncoordinated. During the early qualitative phase of the present research, a similar view was expressed by some of the small businesses questioned. However, other SMEs expressed the opposite view, arguing that they needed planned marketing for growth.

Coefficient alpha for the marketing perception scale was 0.65. With the elimination of item BI, reliability improved to 0.69, which was acceptable. Summary statistics showed that the items' mean values ranged from 2.6 to 3.7, suggesting only mild agreement that SMEs needed marketing. While the businesses surveyed had some idea about the purpose of marketing, their marketing activities were uncoordinated and generally based on intuition. While there was a leaning towards marketing, this leaning was small.

Table 5.2.23: Nature of product

Item	Statement	Mean	Std dev
E	We produce state of the art/hi-tech or innovative products	3.62	1.43
AU	We are driven by technology and not the market place	3.82	1.10
CK	Our plans are more driven by technological advances than by market research	3.59	1.25
CO	Before we came up with the product / service we had a clear idea about the target market	2.37	1.21
AM	Our principal mission is to satisfy the needs of our target markets	1.78	0.98

A mean score of 3.62 for item E suggested that the majority of businesses did not deal with innovative or hi-tech products. This was expected as most respondents came from very small firms that marketed routine products or services. It appears that few of the SMEs surveyed were driven by technology.

Based on information from other small business studies and the qualitative research, it was expected that small businesses would gather their market information through informal means, such as talking to customers, rather than through formal means, such as market research. Several statements, shown in table 5.2.24, were included in the survey to examine this expectation.

As the items' means indicated, there was strong support for the role of day to day customer contact and word of mouth. However, some of the items ('F,' for example) did not have a high correlation with the proposed scale. This could be due to the heterogeneous nature of the respondents in the sample, as they had varying practices, which can be seen in the magnitude of the standard deviations.

Table 5.2.24: Informal intelligence gathering in SMEs

Item	Statement	Mean	Std dev
F	Most of the time, our customers tell us what they want.	2.36	1.16
N	A lot of our customers come to know about us from other clients.	1.74	0.87
T	A lot of business comes from people passing by and noticing us.	3.94	1.17
W	Day to day contact with customers gives us all the information we need.	2.38	1.15
CG	A lot of our business comes from leads generated from personal contacts.	2.22	1.20

Conclusions:

An analysis of the sample suggested that it was representative of SMEs in Australia along a number of dimensions. Several statistics were in line with national figures published by the Australian Bureau of Statistics, the Industry Commission and the Department of Industry, Science and Tourism. Because of the nature of Australian businesses, the sample was dominated by small and micro businesses and there were very few medium businesses in the sample.

Respondents' marketing practices were similar to those found in other small business studies (Carson & Cromie, 1990; Cook, 1993; Folsom, 1991; Mazzarol & Ramaseshan, 1996; Weinrauch et al., 1991b). Respondents preferred informal marketing and there was a general preference for low cost strategies, such as advertising in the Yellow

Pages. 'Word of mouth' was also a preferred strategy. Respondents tended to use simple measures, such as cash flow, net profit and sales growth, to measure performance. In large businesses, market share is an important aspect of performance but was less important to the SMEs in the present study, perhaps because market share has little meaning in the local markets in which most respondents competed.

An examination of the reliability of various market orientation and related constructs found that some, but not all, of Kohli and Jaworski's (1990) and Narver and Slater's (1990) dimensions could be used in an SME setting. Intelligence generation, organisational commitment, esprit de corps and market turbulence were reliable constructs. In contrast, intelligence dissemination, top management approach and formalisation were not reliable. Competitive intensity had moderate reliability. Both the customer orientation, and the competitor orientation constructs suggested by Narver and Slater (1990) were reliable. Pooling some of Kohli and Jaworski's and Narver and Slater's items resulted in more reliable constructs for customer and competitor related activities.

From earlier small business studies and the preliminary field interviews, customer satisfaction and repeat business were identified as important to SMEs. Both constructs were found to be reliable in the current study.

An examination of business practices confirmed the minimal role and impact of advertising on generating SME business. Pricing, along with customer service, was seen as important by SMEs.

Having examined the profile of SMEs in the sample, their market orientation and their marketing practices, the next stage of the data analysis was to develop and test a market orientation–performance model. The measurement models of the various constructs, their structural relationships and their impact on performance are presented and discussed in the next chapter.

CHAPTER 6

Market orientation model building and evaluation

The profile of the sample SMEs and aspects of their marketing operations and attitude were presented in chapter 5. The reliability of the various market orientation constructs suggested by Kohli and Jaworski (1990) and Narver and Slater (1990) and of a number of situational variables was also examined, using Cronbach's alpha. Item to total-scale correlations were also calculated to check the usefulness of the suggested constructs. The present chapter attempts to further examine the measurement properties of these constructs and evaluate the relationships between them using a structural equation modelling approach. As mentioned in chapter 4, structural equation modelling was used to build and evaluate a number of "market orientation" models because it can simultaneously estimate interdependent relationships and can handle latent constructs with observed variables.

The first part of the present chapter briefly discusses the approach taken in building the model that was estimated and the rationale for using a confirmatory factor analysis and structural equation approach rather than exploratory factor analysis. It should be noted that most previous studies on market orientation relied on exploratory factor or correlation analysis (eg. (Kohli & Jaworski, 1990; Narver & Slater, 1990) (Au & Tse, 1995; Kwaku, 1995; Tse, 1991)). The second part of the present chapter discusses the development of an appropriate structural model and its evaluation.

6.1 Missing variables in structural equation modelling

Missing data are a problem in both cross sectional and longitudinal research. A related problem is that most multivariate methods require complete data. Incomplete data are often handled through listwise or pairwise deletion, or through some type of imputation of missing values. These methods attempt to alter a data set so that it can be analysed by methods designed for complete data but they are ad hoc procedures that have little theoretical justification.

6.2 Construct development – conventional approaches and structural equation modelling

Research constructs in marketing (eg. customer satisfaction, value), as well as in other areas of the social sciences, are often made up of multiple and distinct sub-components. Developing and testing these constructs has been a problem for researchers and considerable effort has been applied to improve the process (Carver, 1989; Hull et al., 1991). Typically, three approaches have been used to develop multiple item measures.

The simplest is the total score approach in which items are summed, the fundamental assumption being that each sub-component contributes equally to the construct. The key advantage of this approach is its simplicity in both conceptualisation and analysis. In addition, because the total score is based on a number of related items, the combined variable is generally more reliable. As the number of items increase, the reliability of the scale also tends to increase. In addition, as the total score is composed of a range of related items, it may capture the complexity of the underlying construct better. Assuming that the items used are related to the general construct, their combination will have greater content validity than any of the individual sub-components (Carmines & Zeller, 1979).

However, such an approach loses information. A total score can hide the fact that only some of the sub-components are responsible for an observed effect. The process of aggregation may mask the contribution of such variables, while falsely accentuating the contribution of others. It is also possible that the contribution from some variables may not be same in all settings. Thus it is unclear whether the outcome is equally associated with all of the items in all situations. Further, any interrelationships (covariances) between the items can be masked by the total score approach. If some items are mostly responsible for an observed effect and other items contribute very little, the total measure may have only a weak relationship with other measures of interest.

Such an approach has been widely used, mainly because of its simplicity. However, results based on such an approach have been criticised in recent times. For example, in the early 1980's, there were several studies on 'Type A' personality and its link to heart disease. However, subsequent research demonstrated that only some of the sub-components of Type A were linked to heart disease. As a result there have been suggestions that the 'Type - A' personality should be abandoned in favour of its sub-components (Hull et al., 1991).

In the second ('individual score') approach, each item is used by correlating it with the outcome variable. If the data are analysed using both total and individual scores, the loss of information can be minimised and it is possible to examine the role of each of the items (Carver, 1989). While this approach maximises information, its major disadvantage is interpretive complexity. The main source of this complexity is the need to interpret several (or many) effects, rather than a single effect. Added to this are ambiguities as to what constitutes evidence about an item's specific or unique effect (Hull et al., 1991).

In the third approach, all of the items are simultaneously entered in a multiple regression analysis. Perloff and Persons (1988) suggested that the 'R' yielded by the regression analysis would exceed the simple r obtained from the total score approach. They argued that, using regression coefficients to linearly combine items provides better predictive power than weighting all of the items equally. In addition, the regression approach gives a test of the unique effects of each item (Hull et al., 1991 p. 934).

However, the regression approach has several limitations, a major one being muticollinearity. In cases where there are strong relationships among the items, estimated regression coefficients can be unstable and small changes in data may affect coefficients significantly. In addition, standard errors tend to become large. As Dillon and Goldstein (1984 pp 271 - 272) commented, "in the presence of severe correlations between predictors, little if anything can be said about the properties of regression coefficients in the given sample."

Unreliability also adds to the problem. Given that none of the predictors are totally reliable, the impact of including multiple "unreliable" predictors must be recognised. Further, the unreliability of a predictor in a multiple regression affects not only the relation of that predictor to the outcome variable, but also affects the relation of all of the other predictors to the outcome variable. As a consequence, the inclusion of multiple unreliable predictors makes any conclusion difficult to interpret and potentially unreliable. Regression analysis is also not suitable for testing relationships among variables (ie. the existence of an underlying construct), which is a primary interest in many studies, including this one.

6.3 Structural modelling with latent variables as an alternative approach

Structural modelling techniques (Bentler & Chou, 1987; Bollen, 1989; Joreskog & Sorbom, 1989) overcome several of these disadvantages. In the structural equation approach, a construct's sub-components are measured separately. However, instead of summing them to form a total score or treating them as separate predictors, the modelling approach begins by estimating the extent to which the sub-components correlate with one another because they share a common source (a latent or underlying construct). This estimation procedure takes the form of a confirmatory factor analysis. Further, it is assumed that the sub-components do not co-vary perfectly (inter-correlations are less than one) because of measurement error and the unique aspects of each sub-component. The advantages of the structural equation approach over conventional approaches have been discussed in many books and research papers (eg. (Hull et al., 1991; Loehlin, 1992)).

6.3.1 Partial disaggregation approach to structural equation modelling

Different structural equation modelling approaches (total aggregation, partial aggregation, partial disaggregation and total disaggregation) have been suggested (Bagozzi & Heatherton, 1994). The partial disaggregation approach is a compromise between the most aggregative approach (summing responses to all items) and the most disaggregative approach (treating each item as an individual indicator). The main drawback with the aggregative approach is that information is lost and the distinctiveness of the sub-components is obscured. The traditional total disaggregation approach provides a more detailed level of analysis but can be unwieldy because of random error. Such an approach is also very sensitive to measurement error (making it difficult to obtain a satisfactory fit for the model) and many parameters must be estimated, requiring very large samples to achieve appropriate ratios of sample size to parameter estimates. The partial disaggregation approach overcomes both drawbacks.

In the partial disaggregation approach, a construct's sub-components are randomly divided and aggregated to form two or three indicators that are used as observed variables. The rationale for the random combination of items is that all items or indicators related to a latent variable should correspond in the same way to that latent variable; thus any combination of such items should yield the same model fit. The partial disaggregation approach's key drawback lies in the way the items are aggregated. There appears to be no theoretical basis for aggregating items and this introduces an element of arbitrariness.

Bagozzi and Heatherton (1994) used an exploratory factor analysis to identify items loading onto specific factors, verified them theoretically, and then randomly assigned the items under each factor to two or three indicators. Such an approach has been used by personality researchers (Hull et al., 1991), as well as by marketing researchers (Dabholkar, Thorpe, & Rentz, 1996).

6.3.2 Estimation of models and assessment of fit

Some aspects of model estimation and the assessment of fit were discussed in chapter 4. As a number of models are assessed in the second half of this chapter, fit indices are crucial and are discussed in the present section.

The basic measure of a model's fit is the likelihood ratio chi-square statistic, which can be used to test the null hypothesis that the model reproduces the population covariance matrix of the observed variables. By convention, an acceptable model is one where the p-value is greater than or equal to 0.05. However, the chi-square test is not recommended as a sole measure of fit because of the impact of sample size. With reasonable size samples, even very small differences will suggest a poor fit.

An alternative approach is to use an index that compares the fit of an hypothesised model to the fit of a baseline model in which all variables are uncorrelated (ie. only error variances are estimated). Such an index is termed an incremental fit index as an hypothesised model is compared with a more restricted model.

In 1980, Bentler and Bonett (1980) proposed the Normed Fit Index (or NFI) that they argued was less subject to sample size. The NFI shows the percentage of the variance in a covariance matrix that is accounted for by the 'theorised" model. It can take values from zero to one, with higher values suggesting a better fit. Bentler and Bonett (1980) argued that models with an NFI of less than 0.90 could and should be improved. A subsequent study, however, found that the NFI could also be affected by sample size and that it tended to underestimate fit in small to moderate samples (Marsh, Balla, & McDonald, 1988). Bollen (1989) proposed an adjustment, termed delta 2, which was less affected by sample size, but could be interpreted in the same way as the earlier statistic.

Bentler (1990) subsequently proposed the comparative fit index (CFI), which is identical to the relative noncentrality index developed by McDonald and Marsh (1990). The CFI can vary from zero and one, with higher values implying better fit. Monte Carlo studies have shown that the CFI performs well for sample sizes varying from 50 to 1600 (Bentler, 1990). As a rough rule of thumb, the CFI should be greater than or equal to 0.90 as values that are less than 0.90 suggest significant amounts of variation remain to be explained.

As discussed in chapter 4, the RMR (Root mean square residual) and the RMSEA (Root mean square error of approximation) can also be used to examine a model's fit. The RMSEA (Browne & Cudeck, 1993) uses a population discrepancy function as a measure of model adequacy and compensates for model complexity. An RMSEA of 0.05 or less suggest a model fits the observed data (Arbuckle, 1997, p.571) while an RMSEA greater than 0.10 are generally seen to be unacceptable (Browne & Cudeck, 1993).

The RMR (root mean square residual) is the square root of the average squared amount by which sample variances and covariances differ from their estimates obtained under the assumption that the model is correct (Arbuckle, 1997, p.571). The smaller the RMR, the better the model fits the observed data.

The overall goodness-of-fit tests provide information about the degree of correspondence between a model and observed data. Further analyses are needed to determine construct validation. An indication of the magnitude of convergence of measures within components can be gained by examining factor loadings, which should be high and significant. The square of the standardised factor loadings shows the amount of variance in the respective measure that is due to the hypothesised component.

6.4 An investigation of the "market orientation" constructs

Kohli and Jaworski's (1990) constructs

A confirmatory factor analysis of all of the items used to these constructs obtained a chi-square statistic of 3181.12 (df = 629; p = 0.00). Other goodness fit indices were also low (GFI = 0.648; AGFI = 0.606; NFI = 0.453; RFI = 0.420; CFI = 0.504 and RMR = 0.119; RMSEA = 0.087). Since these values were well below the levels considered acceptable for a good model, it was clear that the model did not fit the data well. However, this was not surprising, as the variables measured diverse dimensions relating to customers, competitors and employees and marketing attitudes.

Each construct was therefore examined separately before being integrated into a structural model and the results obtained are outlined in subsequent sections. As discussed in chapter 4, such a two-step approach is well supported in the literature (Bagozzi & Yi, 1988; Joreskog & Sorbom, 1989; Marsh & Hocevar, 1985). The purpose of the first step in the process was to estimate a confirmatory factor analysis (CFA) for each construct and assess its reliability.

Intelligence generation

As mentioned in chapter 5, in the present study, Kohli and Jaworski's (1990) intelligence generation was measured using the eight items shown in Table 6.4.1.

Table 6.4.1: Intelligence generation - Standardised regression coefficients

Item	Statement	Standardised regression coefficients
C	We monitor customer needs and preferences.	0.420
Y	We do a lot of in-house market research	0.620
CH	We poll customers at least once a year about the quality of our products and services	0.500
CX(R)	We are slow to detect changes in our customer's product preferences	0.203
F	Most of the time customers tell us what they want	0.029
BB	We regularly discuss competitors strengths and strategies	0.612
BU	Our sales people play a key role in evaluating customer's needs	0.529
CV	Our sales people regularly share information about competitor's strategies	0.621

A confirmatory factor analysis (CFA) obtained fit indices that were generally below acceptable levels (chi-square = 73.21 (df = 20; P = 0.000); NFI = 0.876; CFI = 0.906; RFI = 0.827; GFI = 0.966; AGFI = 0.939 and RMSEA = 0.070). Further, two items (F and CX) had very low regression coefficients that were well below the 0.60 level suggested for an analysis of this type (Bagozzi & Yi, 1988). When these two items were removed, the fit improved (chi-square = 46.80 (df = 9; p = 0.000); NFI = 0.915;

CFI = 0.929; RFI = 0.858; GFI = 0.971; AGFI = 0.933 and RMSEA = 0.088). In the final model, standardised regression coefficients were generally above 0.50 and the elimination of further items adversely affected the fit. Consequently, the six-item construct was used in the subsequent analysis.

Intelligence dissemination

The intelligence dissemination construct was measured using the four items shown in Table 6.4.2. The fit indices obtained from a CFA of these items were acceptable (Chi square = 0.145 (df = 2; p = 0.930); NFI = 0.999; CFI = 1.0; RFI = 0.998; GFI = 1.0 and AGFI = 0.999; RMR = 0.006; RMSEA = 0.000) indicating a near perfect fit of the data to the measurement model. As a result, this construct was retained for further analysis. Variable CU was retained because its removal made model estimation not possible.

Table 6.4.2: Intelligence dissemination - Standardised regression coefficients

Item	Statement	Standardised regression coefficients
AI	We spend time discussing customer's future needs.	0.679
AJ	Data on our customer's satisfaction is available on a regular basis.	0.628
CP	We have meetings at least once a quarter to discuss market trends and developments.	0.543
CU	When something important happens to a major customer or market, we know about it quickly.	0.347

Organisational response

Organisational response included a response design and an implementation dimension. A CFA of seven items produced a poor fitting model with low regression coefficients for all items. Two items with very low regression coefficients (AK = 0.25; CK = 0.05) were eliminated, which improved the fit (Chi-square = 12.9 (df = 5; p = 0.024); RMR = 0.033; NFI = 0.93; CFI = 0.955 and RFI = 0.86; RMSEA = 0.054). However, the regression coefficients were still low (table 6.4.3), with only two 0.50 or higher, suggesting this may not be a useful construct in an SME environment. It was therefore not used in subsequent analysis.

Table 6.4.3: Organisational response - Standardised regression coefficients

Item	Statement	Standardised regression coefficients
CN	We periodically review our products to ensure that they are in line with what customers want	0.56
AW	Our marketing activities are well coordinated.	0.49
CT	When we find that our customers are unhappy with our service, we take corrective action	0.35
CY	Even if we came up with a great marketing plan, we probably would not be able to implement it in a timely fashion	0.33
CZ	If a competitor were to launch an intensive campaign targeted at our customers, we would respond immediately.	0.50

Formalisation risk aversion and top management emphasis

The formalisation construct showed an extremely poor fit, with some indices (NFI, RFI and CFI) less than 0.50. The standardised regression coefficients were also low, suggesting the formalisation construct may not be applicable in an SME context. Similarly, the risk aversion and top management emphasis constructs did not seem applicable in the present SME context. It is perhaps not surprising that this was the case as respondents were generally the SME's top management and SMEs tend to be informal organisations.

Organisational commitment

Table 6.4.4: Confirmatory Factor Analysis- Organisational commitment (Standardised regression coefficients)

Item	Statement	Standardised regression coefficients
AF	Our staff are committed to their work	0.625
BG (R)	The bonds between this organisation and its employees is weak	0.474
BO	Employees feel that their future is linked to this organisation	0.476
CA	In general, employees are proud to work for us.	0.706
CM	Our employees would be happy to make personal sacrifices if it was important	0.608

The five items shown in Table 6.4.4 were used to measure organisational commitment. A CFA produced generally acceptable fit indices (chi-square = 15.516 (df = 5; p = 0.008); RMR = 0.037; GFI = 0.989; AGFI = 0.966; NFI = 0.966; CFI = 0.977 and RFI

= 0.933; RMSEA = 0.062). While some of the regression coefficients were less than 0.60, their removal did not improve the fit and they were retained and the five-item construct was used in the subsequent analysis.

Esprit de corps

The esprit de corps construct was measured using the four items shown in Table 6.4.5. A CFA of these items produced very good fit indices (chi-square = 6.788 (df = 2; p = 0.034); RMR = 0.026; GFI = 0.994; AGFI = 0.968; NFI = 0.980; RFI = 0.939; RMSEA = 0.067). Consequently, the four-item construct was used in the subsequent analysis.

Table 6.4.5: Confirmatory Factor Analysis – Esprit de corps (standardised regression coefficients)

Item	Statement	Standardised regression coefficients
U	There is a good team spirit in this organisation.	0.751
V	Our staff informally deal with each other	0.576
BS	Working for this business is like being part of a big family	0.544
CQ	Our staff are genuinely concerned about the needs and problems of other workers	0.503

Competitive intensity

Competitive intensity was measured using the five items shown in Table 6.4.6. A CFA produced poor fit indices (chi-square = (df = 2; p = 0.0); NFI = 0.885; RFI = 0.776; CFI = 0.880; RMSEA = 0.119; RMR = 0.072) and regression coefficients that were generally low, suggesting the competitive intensity construct was not applicable in the present SME context.

Table 6.4.6: Confirmatory Factor Analysis - Competitive intensity (standardised regression coefficients)

Item	Statement	Standardised regression coefficients
L	In our business line competition is cut throat	0.634
BT(R)	We are market leaders in our line of business	0.358
BZ	There are many promotion wars in the market place	0.453
CB(R)	Our competitors are relatively weak	0.421
CC	Anything that a competitor can offer, others can match readily	0.226

Market turbulence

Table 6.4.7: Confirmatory Factor Analysis – Market turbulence (standardised regression coefficients)

Item	Statement	Standardised regression coefficients
S	Most of our business is repeat business	0.668
BY(R)	Most of the customers that come in everyday are new customers	-0.557
CD(R)	Customers don't often come for repeat business	-0.561
P	Our business is dependent on long term relationship with the client.	0.567
BW	We cater to the same customers that we had in the past.	0.544

Market turbulence was measured through the five items shown in Table 6.4.7. A CFA produced generally good fit indices (chi-square = 11.627 (df = 5; p = 0.000); RMR = 0.028; GFI = 0.992; AGFI = 0.975; NFI = 0.974; RFI = 0.948; CFI = 0.985; RMSEA = 0.056). Consequently, the five-item construct was used in the subsequent analysis

Narver and Slater's (1990) constructs

Of the three behavioural constructs of Narver and Slater (customer orientation, competitor orientation and inter-functional coordination) only the first two were tested, the third one being considered inappropriate for SMEs.

Competitor orientation

Table 6.4.8: Confirmatory Factor Analysis – Competitor orientation (standardised regression coefficients)

Item	Statement	Standardised regression coefficients
AB	We constantly watch what our competition is doing	0.593
AD	We formulate our strategies based on what our competitors are doing	0.430
AV	We respond rapidly to competitive actions that threaten us	0.559
BB	We regularly discuss competitors strengths and strategies	0.739
CI	People in this business are recognised for being sensitive to competitive moves	0.440
CV	Our sales people regularly share information about competitor's straiegies	0.606
AY	We tell employees to be sensitive to our competitor's activities	0.563

Narver and Slater's (1990) competitor orientation construct was measured using the seven items shown in Table 6.4.8. A CFA revealed generally good fit indices (chi-square = 37.520 (df = 14; P = 0.001); RMR = 0.054; GFI = 0.979; AGFI = 0.958; NFI = 0.950; RFI = 0.920; CFI = 0.967; RMSEA = 0.056), which suggests that the construct has applicability in the present SME context and it was used in the subsequent analysis. Variables AD and CI did have low regression coefficients. However, since the model already had an excellent fit, these were retained so that a wider range of scale items could be used in the partial disaggregation model later. (This is in contrast to other models where items with low regression coefficients had to be removed to improve the model fit.)

Customer orientation

The customer orientation construct was measured using the nine items shown in Table 6.4.9. A CFA found a relatively poor fit (chi-square = 148.064 (df = 27; p = 0.000); RMR = 0.074; NFI = 0.785; RFI = 0.714; CFI = 0.815; GFI = 0.941; AGFI = 0.902; RMSEA = 0.091), which suggests that the construct could be significantly improved. The removal of several items with low regression coefficients (AM, CR, AP, AT and BU) improved the fit (chi-square = 3.373(df =2; p =0.185); RMR = 0.021; NFI = 0.990; RFI = 0.966; CFI = 0.996; GFI = 0.999; AGFI = 0.984; RMSEA = 0.036) and the revised four item construct was used in the subsequent analysis.

Table 6.4.9: Confirmatory Factor Analysis – Customer orientation (standardised regression coefficients)

Item	Statement	Standardised regression coefficients
X	We measure customer satisfaction systematically.	0.616
AE	We provide customer relations training to our staff	0.582
AG	We monitor the level of our commitment to our customers.	0.644
AM	Our principal mission is to satisfy the needs of our target markets	0.315
AP	We are driven primarily by customer satisfaction	0.384
AT	We give close attention to after sales service	0.388
BU	Our sales people play a key role in evaluating customer's needs	0.348
CR	We fix the price based on the value of our product or service to our customers	0.325
CS	Our strategy for competitive advantage is based on understanding our customer's needs	0.472

Customer and competitor related activities

As was mentioned in chapters 4 and 5, some of Kohli and Jaworski's (1990) and Narver and Slater's (1990) items were similar. Consequently the two sets of items were combined and reclassified into customer and competitor related activities.

The customer related activities construct was measured using twenty of the items contained in the questionnaire. However, a CFA of these items obtained a poor fit (chi-square = 537.897 (df = 170; p = 0.000); RMR = 0.074; NFI = 0.774; RFI = 0.747; CFI =

0.832; GFI = 0.896; AGFI = 0.871; RMSEA = 0.063), which suggests the construct should be further refined. The elimination of items with low regression coefficients improved the fit (chi-square = 97.185 (df = 27; p =0.000); NFI = 0.927; CFI = 0.946; RFI = 0.902; GFI = 0.961; AGFI = 0.935; RMR = 0.070; RMSEA = 0.069). Consequently, the revised construct, measured through the nine items shown in Table 6.4.10, was used in the subsequent analysis.

Table 6.4.10: Confirmatory Factor Analysis – Customer related activities (standardised regression coefficients)

Item	Statement	Standardised regression coefficients
C	We monitor customer needs and preferences	0.51
AG	We monitor the level of our commitment to our customers	0.64
X	We measure customer satisfaction systematically	0.63
Y	We do a lot of in-house market research	0.65
AI	We spend time discussing customers' future needs	0.57
AJ	Data on customer satisfaction is available on a regular basis	0.68
CH	We poll our customers at least once a year about the quality of our products and services.	0.59
AE	We provide customer relations training to our staff	0.60
CP	We have meetings at least once a quarter to discuss market trends and developments	0.54

Competitor related activities

Adopting the same procedure as for the customer orientation construct, the nine items that asked about competitor related activities were examined. The fit was borderline but some items had low regression coefficients and were removed. A CFA of the remaining five items produced a good fit (chi-square = 13.929 (df = 5; p = 0.016); RMR = 0.041; NFI = 0.975; RFI = 0.949; CFI = 0.983; GFI = 0.990; AGFI = 0.969; RMSEA = 0.057), which suggested that the construct, measured using the items shown in Table 6.4.11, could be used in the subsequent analysis.

Table 6.4.11: Confirmatory Factor Analysis – Competitor related activities (standardised regression coefficients)

Item	Statement	Standardised regression coefficients
AB	We constantly watch what our competition is doing	0.593
AV	We respond rapidly to competitive actions that threaten us	0.559
AY	We tell employees to be sensitive to our competitors activities	0.563
BB	We regularly discuss competitors strengths and strategies	0.739
CV	Our sales people regularly share information about competitor's strategies	0.606

Customer service orientation

During the early field interviews, almost all businesses interviewed stressed the importance of customer service and customer satisfaction. Further, as discussed in chapter 3, small business literature also stresses the importance of customer service. As a result, 'customer service orientation', as distinct from other 'customer related activities' was modelled and tested as a separate construct.

Table 6.4.12: Confirmatory Factor Analysis – Customer service orientation (standardised regression coefficients)

Item	Statement	Standardised regression coefficients
AP	We are driven primarily by customer satisfaction	0.554
O	Our success is linked to the service we provide.	0.623
AL	The quality of our service is a key to the success of our business.	0.715
BA	Serving the customers is the most important thing we do.	0.514
AM	Our principal mission is to satisfy the needs of our target market	0.371

Respondents' attitudes towards customer service were examined through nine items. However, a CFA found a poor fit. Consequently, four items with low regression coefficients were removed. The remaining five items had a generally acceptable fit (chi-square = 22.555 (df = 5; p = 0.000); RMR = 0.023; GFI = 0.983; AGFI = 0.949; NFI = 0.949; CFI = 0.959 and RFI = 0.898; RMSEA = 0.083). The fit indices were acceptable and regression coefficients except for AM were greater than or close to 0.60, which suggests the construct, measured through the items shown in Table 6.4.12, could be used in subsequent analysis. In spite of low regression coefficient (0.37), variable AM was deliberately kept as its elimination, while not significantly improving CFI or other fit indices, adversely affected RMSEA. All the scale items in the model related to the service orientation of the business.

New and repeat business

The items shown in Table 6.4.13 had been used in previous studies to measure market turbulence. However, in an SME context, the construct can be viewed as 'new or repeat business' as the items relate to the nature of an organisation's customers.

Table 6.4.13: Confirmatory Factor Analysis – New or Repeat business (standardised regression coefficients)

Item	Statement	Standardised regression coefficients
P	Our business is dependent on long term relationship with our client	-0.567
S	Most of our business is repeat business	-0.668
BW	We cater to the same customers that we had in the past	-0.544
CD	Customers don't often come for repeat business	0.564
BY	Most of the customers that come in every day are new customers	0.557
T	A lot of business comes from people passing by and noticing us	0.008

A CFA found regression coefficients that were generally close to 0.60, with the exception of an item that asked whether 'a lot of business comes from people passing by and noticing us.' The fit indices were generally acceptable (chi-square = 11.627 (df = 5;

P = 0.040); RMR = 0.028; GFI = 0.992; AGFI = 0.975; NFI = 0.974; RFI = 0.948; CFI = 0.985; RMSEA = 0.049), which suggests the five item construct, could be used in the subsequent analysis.

Performance

As was mentioned in chapter 5, performance was operationalised in several ways. As can be seen from Table 6.4.14, respondents were asked for their perceptions of business performance in specific aspects such as net profit, cash flow and so on. A CFA suggested a single performance index was appropriate (chi-square = 34.560 (df = 5; P = 0.000); RMR = 0.042; GFI = 0.975; AGFI = 0.926; NFI = 0.970; RFI = 0.939; CFI = 0.974; RMSEA = 0.105). The regression coefficients, shown in Table 6.4.14, suggest, however, that market share may not be a part of such a single performance measure and it was removed. The revised four-item performance construct obtained an even better fit (chi-square = 8.045 (df = 2; P = 0.016); RMR = 0.023; GFI = 0.992; AGFI = 0.962; NFI = 0.992; RFI = 0.976; CFI = 0.994; RMSEA = 0.075) and was used in the subsequent analysis.

Table 6.4.14: Confirmatory Factor Analysis – Business performance (standardised regression coefficients)

Variable	Performance measure	Standardised regression coefficients
FS	Sales growth	0.629
FT	Cash flow	0.736
FU	Net profit	0.897
FV	Return on investment	0.815
FW	Market share	0.468

Employee's Sense of belonging

As discussed earlier, the organisational commitment and esprit de corps constructs seemed to fit the SME data well. Since both constructs related to an employee's sense of belonging (to the organisation and to each other), it is possible that a single construct may be more appropriate. In the majority of SMEs, the number of employees is small and employees tend to work closely together. Consequently, there could be little differentiation between commitment to the organisation and to fellow employees. Further, this is the business owner / manager's perception of the employee's commitment and esprit de corps and not the perception of the employees themselves.

Table 6.4.15: Confirmatory Factor Analysis – Employee's sense of belonging (standardised estimates)

Item	Statement	Standardised regression coefficients
AF	Our staff are committed to their work	0.656
BG (R)	The bonds between this organisation and its employees is weak	0.512
BO	Employees feel that their future is linked to this organisation	0.489
CA	In general, employees are proud to work for us	0.714
CM	Our employees would be happy to make personal sacrifices if it was important	0.581
U	There is a good team spirit in this organisation.	0.661
V	Our staff informally deal with each other	0.488
BS	Working for this business is like being part of a big family	0.626
CQ	Our staff are genuinely concerned about the needs and problems of other workers	0.593

For this reason, a single construct, termed 'employees sense of belonging' in this research, was developed from the nine items that measured organisational commitment (5) and esprit de corps constructs (4). A CFA found a good fit (chi-square = 111.09 (df = 27; P = 0.0); RMR = 0.050; GFI = 0.952; AGFI = 0.921; NFI = 0.915; RFI = 0.0.887; CFI = 0.934) and the estimated regression coefficients, shown in table 6.4.15, were generally greater than 0.50. The two items with low regression coefficients (BO and V) were removed and the CFA of the remaining items obtained a good fit (chi-square = 62.013 (df = 14; P = 0.000); RMR = 0.044; GFI = 0.966; AGFI = 0.933; NFI = 0.939; RFI = 0.909; CFI = 0.952; RMSEA = 0.080), suggesting that the simplified model that combined the organisational commitment and esprit de corps constructs was acceptable.

Of the three constructs of Kohli and Jaworski (1990) intelligence generation and intelligence dissemination were found to be applicable and valid in the SME sample. Fit indices for organisational response were less than optimum and hence this construct was considered not applicable. Organisational commitment and esprit de corps were found to be applicable constructs in the present SME context, as was market turbulence, but not competitive intensity. Narver and Slater's (1990) customer orientation and competitor orientation constructs were also found to be applicable.

Combining similar items from Kohli and Jaworski's and Narver and Slater's constructs, into customer related and competitor related dimensions obtained constructs that fitted the data well, suggesting that such a conceptualisation may be more applicable to SMEs. Customer service orientation and repeat business also emerged as applicable constructs. 'Employee's sense of belonging' modelled as a single construct met all the model fit criteria and was found valid in the SME context.

The poor fit of some of the market orientation constructs and the emergence of some new constructs suggests that the market orientation performance model may have to be modified in the present SME context to include new dimensions, such as customer service orientation, an employee's sense of belonging and the repeat nature of business. A revised market orientation – performance model is suggested and tested in the next section of the present chapter.

6.5 Market orientation and performance: Model building and evaluation

As discussed earlier in this chapter, the measurement models suggested that some constructs proposed by Narver and Slater as well as Kohli and Jaworski may not be applicable to SMEs. Further, emergence of new constructs such as customer service orientation, repeat business and employee's sense of belonging necessitated the revision of existing models. This section examines the inter-relationships between different constructs. First the existing models of Kohli and Jaworski and Narver and Slater are briefly examined. This is followed by an in depth analysis of revised market orientation - performance models using different conceptualisations.

Kohli and Jaworski's model

Kohli and Jaworski's model was discussed in detail in chapter 2. Figure 2.7.1 (reproduced here for reference) shows the antecedents, moderators and consequences of market orientation. Of the several antecedents discussed by Kohli and Jaworski, top management emphasis, organisational systems and inter departmental dynamics were found to be not applicable to SMEs. The small size of the SMEs and their informal organisational structure meant that these constructs were not theoretically justifiable.

Measurement models of these constructs supported this view. Of the supply and demand side moderators tested, competitive intensity was found to be not of relevance to SMEs because of low competition. As can be inferred from earlier results in chapter 5, even in the face of competition, most SMEs respond in a limited way to competitive moves. SMEs were also in a stable product market and the market turbulence was low.

The consequences of a market oriented behaviour appeared to be applicable to SMEs also. Employee responses manifesting as organisational commitment and esprit de corps were found to be applicable and so did customer responses in the form of better satisfaction and repeat business.

Of the three market orientation constructs (intelligence generation, dissemination and organisational response), intelligence generation and dissemination emerged as applicable to SMEs. Organisational response construct could not be supported. This was not surprising, given that Kohli and Jaworski's conceptualisation was activity based. As discussed in Chapter 3, SMEs adopt an informal approach to marketing and do not have the resources or skills to undertake specialist activities. Their marketing has been described in the literature as uncoordinated and haphazard with only a few engaging in proactive marketing. Further, the small size of most SMEs in the sample meant that 'organisational response' was irrelevant. Essentially, the results suggested that Kohli and Jaworski's conceptualisation might not suit SMEs. Further, given the limited impact of most SMEs on their market, their organisational response has little relevance.

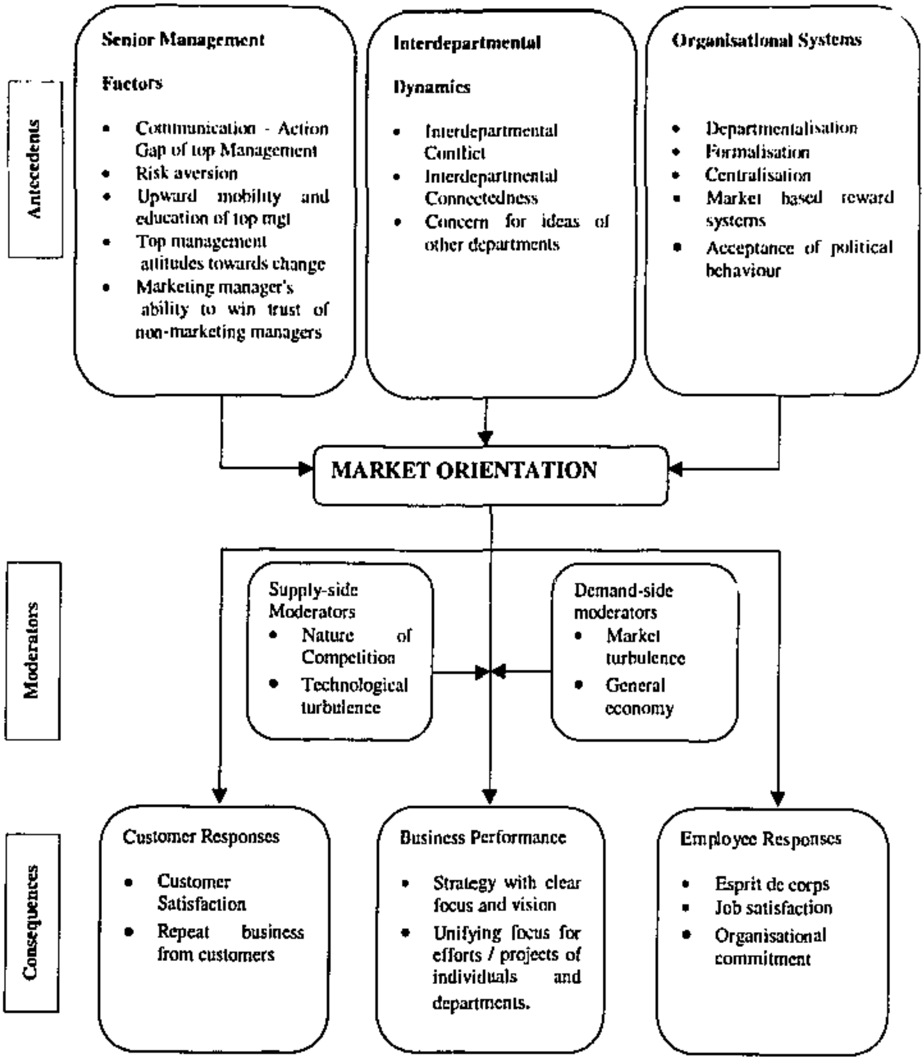


Figure 2.7.1. Kohli – Jaworski's market orientation construct

With intelligence generation and dissemination alone and without a valid response dimension, the market orientation performance model could not be empirically evaluated. Further, such a model doesn't make any theoretical sense. Generating intelligence and discussing it without a response cannot have any impact on performance. In summary, it appeared that Kohli and Jaworski's conceptualisation may not be applicable to SMEs.

Evaluation of Narver and Slater's model of market orientation and performance

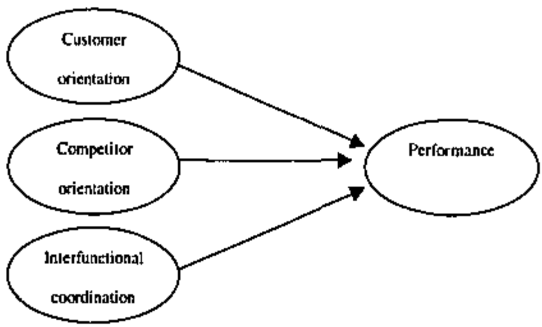


Figure 6.5.1: Narver and Slater's market orientation model

Of the three constructs, customer and competitor orientation constructs were found valid in the measurement models. A partial disaggregation model (Figure 6.5.2) with acceptable fit indices demonstrated a positive influence of customer and competitor orientation on performance.

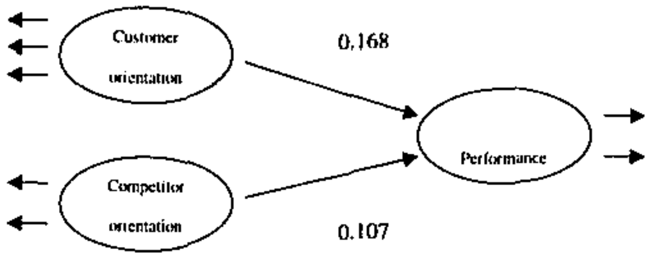


Figure 6.5.2: Partially disaggregated model of market orientation - performance relationship in SMEs using Narver and Slater's model

In this model the variables for each construct were randomly combined to form indicators. Customer orientation had 3 indicators and competitor orientation and performance had two indicators each. The regression weights for all the indicators were above 0.7, indicating the usefulness of the partial disaggregation approach. Fit indices for this model were (chi square = 45.643 (df = 12; p = 0.000); NFI = 0.970; CFI = 0.978; RFI = 0.948; GFI = 0.976; AGFI = 0.945; RMR = 0.035; RMSEA = 0.072) indicating a good model fit. Critical ratios in the model did not suggest any improvement. Relative regression weights suggested that customer orientation was more important in comparison to competitor orientation. These results demonstrate that Narver and Slater's conceptualisation of market orientation - performance relationship is applicable to SMEs also.

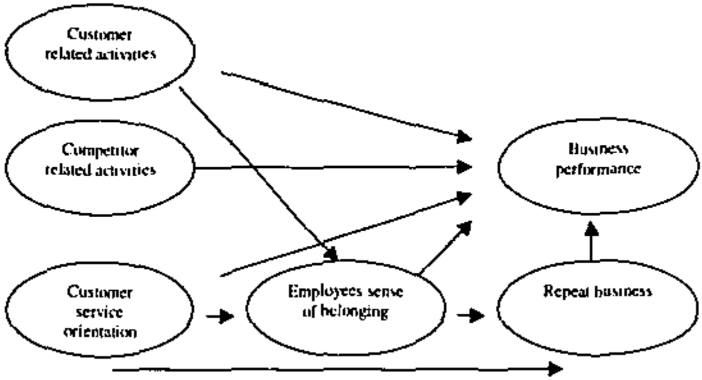


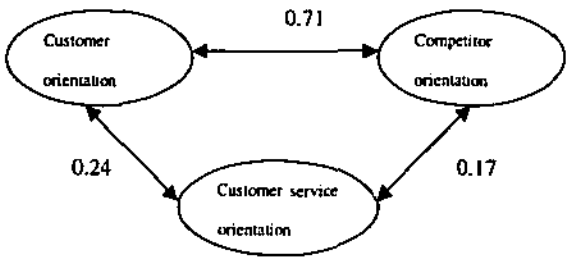
Figure 6.5.3: Conceptualisation of market orientation and performance in SMEs

However, as discussed in the earlier part of this chapter, evaluation of the measurement models suggested that a modified conceptualisation might be necessary. The revised model in figure 6.5.3 includes customer service orientation as an element of market orientation.

'Customer service orientation' construct was distinctly separate from the customer related activities construct and appeared to relate to the interaction between the customer and the business (or its employees) at the interface and the service ethos of the business. A market oriented behaviour has been shown to have a positive impact on employees' commitment and esprit de corps (Jaworski & Kohli, 1993; Kohli & Jaworski, 1990). Consequently both customer related activities and customer service orientation were modelled as impacting on 'employee's sense of belonging'. Unlike large organisations, in a small or medium business setting, competitor related activities are mostly in the realm of the owners / managers of the business. Consequently, it is logical to assume that competitor related activities will have very little impact on 'employees'. Hence this path was not included in the model[5].

Evaluation of SME market orientation model:

An earlier section of this chapter established the importance of customer service orientation and customer satisfaction as an element in the market orientation - performance relationship. As the first step in model evaluation, the structural relationship between elements of SME market orientation (ie. customer orientation, competitor orientation and customer service orientation) was tested.



Chi-square = 322.535 (df = 116; p = 0.000); NFI = 0.873; CFI = 0.914;

RFI = 0.851; GFI = 0.932; AGFI = 0.910; RMR = 0.074; RMSEA = 0.051

Figure 6.5.4: Structural relationship - Customer related activities, competitor related activities and service orientation

[5] Subsequent tests did show very low loading of competitor related activities on 'sense of belonging' thus supporting our initial argument.

Theoretically, customer service should have no correlation with competitor orientation and should have higher correlation with customer orientation. The resulting correlation coefficients and model fit indices are given in figure 6.5.4.

As anticipated, customer service orientation had a low correlation (0.17) with competitor related activities. Customer related activities showed a relatively higher correlation (0.24) with the service dimension but this was still low in absolute terms and was relatively low compared to the correlation between customer and competitor related activities (0.71). This suggested that, while customer related activities such as gathering intelligence, providing training to staff etc may be important, customer service orientation was another distinctly separate and important dimension for SMEs. This related to customer service at the service provider interface. This model provided a good fit. Given the increased complexity of the model, fit indices close to 0.9 were considered acceptable. CFI, GFI and AGFI were above 0.9 (refer figure 6.4.6). RMSEA value (0.057) was close to 0.05 indicating a good fit. The critical ratios were also low indicating that further modifications are not needed.

Market orientation - performance in SMEs

The full model (model A), shown in figure 6.5.5, was tested using AMOS and a partial disaggregation approach. In this model, the validated scale items for each of the constructs were randomly split to form two or three indicators (Dabholkar et al., 1996). Details of the partial disaggregation process were discussed earlier in this chapter. The interrelationships between latent constructs and the model fit were evaluated.

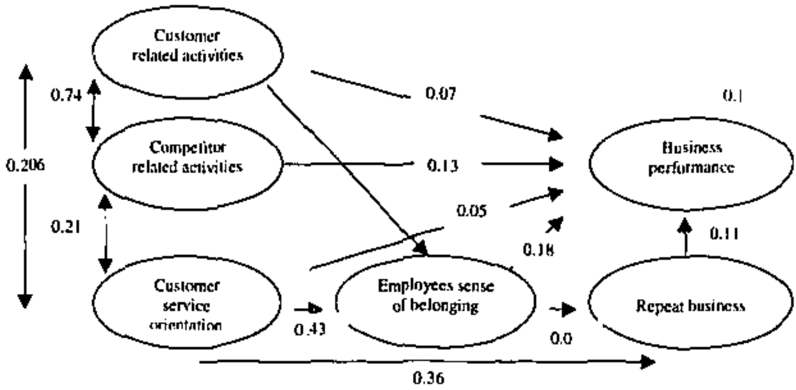


Figure 6.5.5: Market orientation and performance - Model A

This model yielded good fit indices (Chi-square = 153.208 (df = 54; p = 0.000); RMR = 0.033; NFI = 0.935; RFI = 0.906; CFI = 0.957; GFI = 0.958; AGFI = 0.929; RMSEA = 0.058). RMSEA of 0.05 is considered excellent and this, combined with other indices suggested that this model is quite acceptable.

Looking at the regression weights in the model, one can conclude that the overall impact of market orientation on business performance is minimal (squared multiple correlation = 0.102). This indicates that there are other non-marketing factors that impact on business performance much more than those related to marketing. Though a negative finding, this is in tune with findings in several small business studies discussed in chapter 3, where marketing was assigned the last priority by SMEs. Results of this study, discussed in chapter 5, also demonstrated that marketing was least of the problems for the SME sample population. On the contrary, as discussed in chapter 3, resource and other constraints have been shown as major problem areas for SMEs.

The loadings between latent constructs and performance were generally low. As can be inferred from the standardised regression weights, competitor related activities had much lesser impact on performance compared to customer related activities or service orientation. In contrast, both customer related activities and customer service orientation had significant impact on 'sense of belonging' of employees. The respective regression weights were (0.28 and 0.43). Service orientation also had significant impact on repeat business (standardised regression weight = 0.36). Service orientation had much less direct impact on performance than through repeat business. Employee's sense of belonging also had no direct impact on repeat business. Theoretically, this is justified because employee's sense of belonging operates through better customer service, this in turn leading to satisfaction and repeat business. Organisational commitment is also seen to impact directly on performance. The regression weights of latent constructs leading to performance are negative because of the reversed scale used for measuring performance. Table 6.5.1 gives the total effects of latent constructs on performance. The modification indices were either moderate <20 (most of them around 10) indicting that no modification is called for. Where it was > 20, there was no theoretical justification to undertake the modification.

An alternative model (model B) in which 'customer service' was seen as a result of 'employee's sense of belonging' was tested. Such an approach can be theoretically justified in that SMEs rarely do any marketing planning and their marketing is more reactive rather than proactive. Consequently, the set of scale items that were conceptualised as 'customer service orientation' can also be viewed as 'customer service' as it happens. Under these conditions, employee's sense of belonging leads to better customer service, which in turn can lead to repeat business and performance.

While such a conceptualisation also produced acceptable model fit indices, generally the fit indices were marginally lower and RMR and RMSEA values were marginally higher compared to model A. Model B also did not significantly improve the explanatory power or offer additional insights into the market orientation - performance relationship. Hence, model A was retained.

Compared to a totally disaggregated model, the fit indices for the partially disaggregated model were better, establishing usefulness of the partial disaggregation approach in this model. As can be expected, because of the aggregation of the scale items, the standardised regression weights improved significantly. There were no significant changes in the regression weights of latent variables.

In addition to assessing the direct effects that various model constructs have on others, it is necessary to examine the total effects of each construct. Total effects cover both direct and indirect effects and consequently provide a better indication of the overall importance of each construct. Total effects computed using AMOS are given in table 6.5.1.

Table 6.5.1: Total effects on endogenous constructs (model A)

Effect on ⇒ Of ⇓	Repeat business	Perfor mance	Sense of belonging	SMC
Competitor orientation		0.08		
Customer orientation	0.001	0.175	0.220	
Sense of belonging	0.003	0.221		0.311
Customer service orientation	0.513	0.098	0.545	
Repeat business		0.116		0.128
Performance				0.102

SMC: Squared multiple correlations

Blank space indicates zero effect due to the absence of a path. Squared multiple correlations are given in the last column. Negative effect on performance is due to reversal of scales.

Looking at total effects, one can infer that service orientation had notable effect on repeat business and sense of belonging. Though small in absolute terms, customer orientation had more impact on business performance compared to competitor orientation. The direct effect of employee's commitment on performance was also relatively high, suggesting the important role of employees (service providers) in SMEs.

In summary, the measurement models demonstrated the validity of Kohli and Jaworski and Narver and Slater's market orientation constructs in SMEs in Australia. Kohli and Jaworski's intelligence generation and intelligence dissemination and Narver and Slater's customer orientation and competitor orientation were found to be valid for SMEs. Because of the size and the number of employees in most businesses, inter-functional coordination and organisational response design and implementation were found to be not valid constructs. Significant correlation between customer and competitor orientations suggested the existence of a higher order market orientation construct. In addition to these constructs, customer service orientation emerged as an important and valid construct. The results from a market orientation – performance model suggested that customer service orientation resulted in generation of repeat business and this contributed to business performance. 'Sense of belonging' of employees was also found to be an important factor in business performance. The results also suggested that, while market orientation and other constructs were valid in SMEs, it had minimal impact on business performance. A host of other factors such as resources, limited market, low market turbulence could impact on the performance of SMEs. The measurement model also emphasised the informal nature of many of the market oriented activities in SMEs. The next chapter discusses the limitations of the study, provides recommendations to SMEs and suggests areas of further research.

CHAPTER 7

Conclusions, limitations, implications of the research

The present chapter discusses the managerial and research implications of the findings of the present study, examines its limitations and suggests areas for future research.

7.1 Conclusions

The present study examined the applicability of Kohli and Jaworski's (1990) and Narver and Slater's (1990) market orientation constructs to Australian SMEs and found that their overall models were not applicable to the businesses surveyed. Of Kohli and Jaworski's (1990) three constructs (intelligence generation, intelligence dissemination and organisational response), intelligence dissemination and organisational response (response design and response implementation) were not found to be applicable to the SMEs surveyed. Conceptually, the 'inter-functional coordination' construct suggested by Narver and Slater (1990) could not be justified in the SME context and was not included in the present study. A similar argument can be advanced with respect to organisational design and implementation constructs of Kohli and Jaworski. The absence of formal organisational structures and formal processes in small businesses meant that the organisational response construct was not supported.

Kohli and Jaworski and Narver and Slater developed their models within large businesses that had multiple divisions. Consequently, the dissemination of information across the organisation, the coordination across specialist functions, such as marketing, R&D and manufacturing were important. A lack of communication or conflict and disharmony between functional areas in such large organisations are major problems that have been well researched (eg (Souder, 1981) (Masiello, 1988)). Large businesses are also known to generate independent intelligence within divisions, necessitating good intelligence dissemination systems across the organisation.

As the present results demonstrated, the SMEs surveyed were relatively small, very few had separate functional areas and, by definition and in practice, decision making was undertaken by their owner(s) and/or manager(s). Further, many were managed by the owners themselves rather than by the professional managers who run large organisations. In the absence of separate functional areas, coordination constructs could not be justified.

Kohli and Jaworski's (1990) intelligence generation construct was found to be applicable to the SMEs surveyed. However, the scale items that measured this construct suggested that, intelligence generation in the SMEs surveyed was informal, rather than formal. Indeed, formal market research was respondents' least preferred method of generating market intelligence. The informal nature of marketing in SMEs has been well documented and was discussed in detail in chapter 3. Kohli and Jaworski's (1990) conceptualisation of market orientation is based on an activities approach, including intelligence generation and dissemination. As discussed in chapter 3, SMEs do not tend to engage in specialist marketing activities. Consequently it was perhaps not surprising that their conceptualisation did not hold in the SMEs surveyed.

The key difference between the two models studied is the way the constructs were operationalised. Kohli and Jaworski looked at market orientation from a functional perspective (ie. specific activities such as intelligence generation), whereas Narver and

Slater viewed the construct from a cultural viewpoint (eg. A customer focus and a competitor focus) (Webb, 2000). In the absence of specialist departments or functional specialists, it was not surprising that Narver and Slater's model was found to be more applicable to SMEs. A recent study by Webb, Webster and Krepapa (2000) supported these findings.

Narver and Slater's (1990) market orientation conceptualisation seemed to be more applicable to SMEs than Kohli and Jaworski's. Their customer and competitor orientation constructs that covered activities relating to customers and competitors respectively, without focussing on any one type of activity, such as intelligence generation, seemed to be applicable in the present research context. This may be because SMEs may not have the need, skills or resources to conduct specific marketing activities, such as market research. Given the localised nature of many of the SMEs surveyed and their small presence in the market, large-scale market intelligence may be unnecessary, unduly expensive and unwarranted. Even when the more generic customer and competitive orientation constructs were used, the informal nature of the SMEs' marketing processes was apparent from the means of the various scale items.

Kohli and Jaworski (1990) discussed the effect of a number of antecedents, such as top management's emphasis and risk aversion, on the development of a market orientation. In the SMEs surveyed, these antecedents did not emerge. The role of entrepreneurship in small businesses has been the subject of numerous studies but did not come within the scope of the present study. However, it would seem that, as with the market orientation construct itself, Kohli and Jaworski's suggestions are more relevant to large organisations than they are to SMEs.

A customer service orientation emerged as an important dimension in the qualitative phase of the present research. The majority of the SMEs surveyed felt that customer service and customer satisfaction were crucial to their success and this was true across all business segments (eg. manufacturing, service, retail and others). The dependence of SMEs on repeat customers was also clear in the present study. The marketing literature has discussed in detail the advantages of retaining existing customers over acquiring new customers and has stressed the lifetime value of customers (Cannie, 1994; Srinivasan, 1996; Wyner, 1996). However, the present study suggests that 'repeat business' has an added meaning for the SMEs surveyed. Because of the localised nature of their businesses and their limited exposure in the market place, SMEs depend more on repeat business and long term relationships. In the absence of other ways of gaining a competitive advantage, such as low cost production, pricing, advertising and promotion, customer satisfaction and repeat business have a substantial impact on an SME's performance.

The present study also found a distinction between having a 'customer service orientation' and undertaking 'customer related activities.' Customer related activities covered activities such as intelligence generation, staff training and the measurement of satisfaction. In contrast, the service orientation construct measured interactions at the customer–provider interface. The distinction was seen in both the confirmatory and the exploratory factor analyses and it seems that having a customer service orientation was more important to performance than having either a customer orientation or a competitor orientation.

In Kohli and Jaworski's (1990) model, organisational commitment and esprit de corps were viewed as a consequence of having a market orientation; the suggestion being that the more market oriented an organisation is, the more satisfied employees will be and the more committed they will be to the organisation. A similar effect was noticed in the present study in which these two constructs were combined into a single "employees' sense of belonging' construct that had a strong direct impact on business performance.

The SMEs surveyed had a relatively weak competitor orientation, and they placed more emphasis on monitoring competition than on responding to it. In businesses, the "four Ps" can be used to gain a competitive advantage. As the majority of the SMEs surveyed had adopted a 'cost based pricing' approach, entering into a price war did not emerge as a potential tactic. Promotion was also low-key and was confined to newspaper advertising, the Yellow Pages, displays around their business premises and word of mouth. As many businesses provided a standard product or service, they did not obtain an advantage through product innovation. All of these results reflect the low emphasis on competitors in the SMEs surveyed. Slater and Narver (1994b p 23) stressed the importance of competitors as 'target customers could view them as alternate satisfiers of their needs.' The results from the present study suggest that, generally, SMEs monitored competition but that they did not respond vigorously.

Narver and Slater (1994) argued that a market oriented culture is necessary to build and maintain the core business capabilities that can create superior value and they modelled the link between having a market orientation, competitive advantage and business performance as shown in figure 7.1.

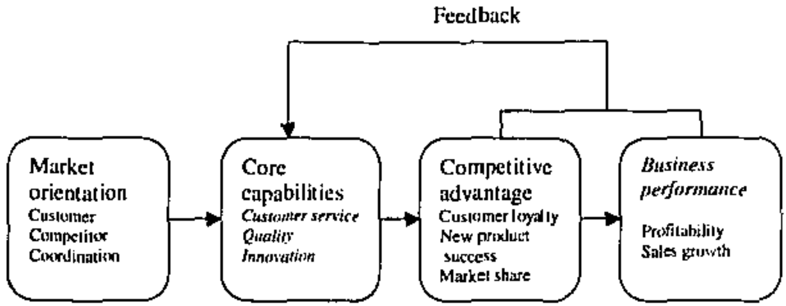


Figure 7.1: Market orientation, competitive advantage and business performance

(Reproduced from Slater and Narver (1994) p.25)

Their model appeared to be suitable for SMEs with some modifications. The present study suggested that *market orientation* and *core capabilities* are inseparable in SMEs. In the absence of specialised functions, such as intelligence generation, and functional groups, such as marketing and manufacturing, customer and competitor oriented activities are integrated into the daily activities of the SME so they became the way of doing 'business as usual.' Competitive advantage appears to flow from customer loyalty that results in repeat business. A revised model for SMEs is shown in Figure 7.2.

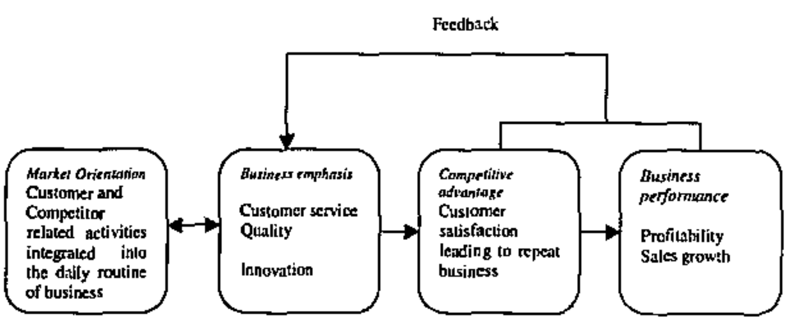


Figure 7.2: Market orientation, competitive advantage and business performance in SMES (a revised model)

Some SME studies have used very sophisticated measures of performance. However, the results from the present research suggest that SMEs use simple performance measures, such as sales growth, cash flow and net profit, to measure their performance. In both the qualitative and the quantitative surveys, market share was found to be less important as a performance measure. The simple measures that are used are easy to understand and interpret by those involved in the day-to-day operation of a business, compared to other more sophisticated measures that require accounting skills.

Apart from the relationship between having a marketing orientation and business performance, the present research investigated some of the marketing practices undertaken by SMEs. The results obtained suggested that advertising in Yellow Pages was common among the SMEs surveyed. Citing Marchesney (1989), Lorraine made a similar observation, noting that SME owners were not very concerned about marketing planning and made very little use of advertising. Their limited expenditure meant that advertising tended to be restricted to the Yellow Pages and professional magazines. Such an observation is interesting, as well as important, in that government agencies, such as SBDC, as well as educational institutions in Australia, have been offering training in small business marketing and management. These findings suggest that such programs may need to be refocussed.

The present study has several practical implications for SMEs. The low levels of customer orientation and competitor orientation are a source of competitive advantage for those seeking to expand their business. The qualitative interviews suggested that SMEs did very little with the informal intelligence they generated. Their intelligence gathering appeared to be reactive, often only involving noting feedback from customers, rather than proactive, or based on what the business wanted to know. A more thoughtful and planned collection of information from customers and the better use of such market information would give a competitive advantage.

There is a perception among the SMEs surveyed that gathering and analysing market information requires formal and expensive market research. This, combined with their general apathy towards marketing, opens opportunities for training and educating SME owners or managers. Such programs should emphasise simple and practical ways to analyse available market information. In discussing the market orientation of British businesses, Harris (1996) noted that, in many ways, a 'market orientation is free' and he stressed that developing a market orientation did not mean spending more money on marketing but, rather, it meant doing things differently.

The dependence of the SMEs surveyed on repeat business makes clear the importance of customer satisfaction and customer service. There appeared to be a high level of recognition among these SMEs about the importance of customer service. However, given its importance, the emphasis should be on getting the 'service encounter' right every time, rather than aiming for some measure of overall customer satisfaction.

7.2 Limitations of the study

Any research has inherent limitations and the present project was no exception. As was described in chapter 2, the 'market orientation' area is an evolving field and most studies are exploratory in nature. While there is a general understanding as to what 'having a market orientation' means, there is no generally accepted operationalisation and several alternatives have been suggested. Kohli and Jaworski's (1990) and Narver and Slater's (1990) descriptions of market orientation, that were the basis of the present study, create a conceptual limitation in themselves and questions have been raised as to whether there are other more useful constructs. This study, in addition to examining the applicability of existing market orientation constructs, explored and validated new constructs that were applicable to SMEs. The market orientation construct can be all encompassing as the creation of 'superior value to customers' can be achieved in several ways and any action an organisation takes can impact on its customers and other stakeholders.

Some of the internal actions that an organisation takes can have far reaching implications for customers. Such actions, while profitable to management and shareholders, may adversely affect customers. However, most market orientation studies have only looked at customer focussed or competitor focussed actions, such as intelligence generation, human resource issues, such as customer relations training, and other organisational response variables. Further, the 'superior value' concept has generally been measured from the perspective of the organisation and its manager(s) and not from the customer's point of view. Previous market orientation studies have obtained variable and sometimes contradictory results, which could be due in part to the evolving nature of the field. The present study focussed on the market orientation of Australian SMEs and suggested one possible conceptualisation.

As discussed in Chapter 3, the definition of an SME varies widely from country to country. In Australia, the classification is based on their number of employees, without any regard to their annual turnover or the nature of the business. Consequently, the sample in the present study was heterogenous. While this provides an advantage in generalising results, fitting a model across a spectrum of SMEs can reduce the power of the analysis. In contrast, a model that is applied to a more homogeneous sample can be more specific. As was discussed in chapter 2, most market orientation models were developed in large business environments, where marketing practices are similar. The very size of the SMEs surveyed (employee numbers varying from 0 to 200), and their types of businesses can make marketing practices different, imposing further constraints on the present study.

Large businesses (that have been the basis of most previous market orientation studies) are professionally managed. However, in SMEs, entrepreneurship plays a dominant role in shaping the performance and growth of the business. In some businesses, owners may decide not to expand the business, while others may be actively trying to improve their business performance and yet both may be very market oriented. It could be argued that not responding to competition is not a market oriented behaviour but, given the localised nature of most SMEs and the emphasis SMEs place on customer orientation and customer service, such arguments may not be reasonable. Under such conditions, performance (especially financial performance) and growth may be influenced by the owner(s)' decisions, rather than by their market orientation. Further, many studies have found that SME operators chose to go into business because of the flexible working hours they expected, life style considerations or for life satisfaction. In the present study, only 50% of respondents said they had a financial reason for starting their business, which suggests that the intangible or non-monetary aspects of operating an SME may be more important to many respondents.

In the present study only financial performance was measured and related to the market orientation construct, creating another limitation within the study. Entrepreneurship should be a part of any SME market orientation study, or it should at least be an antecedent of market orientation. It should be noted that in Kohli and Jaworski's (1990) study, top management's emphasis was an antecedent. Conceptually, entrepreneurship may play a similar role in SMEs but it may be more complex. Its effect may be more profound due to the lack of formal management systems in SMEs. Because the focus of the present study was on examining existing constructs, the impact of entrepreneurship was not investigated.

All previous market orientation studies have recognised the role that situational and business related factors play in modifying the market orientation-performance relationship. While the present research investigated the impact of some such variables (eg pricing, advertising and location of the business), there may be others that are specific to business segments that were not investigated. For example, the present study found that location had a different impact in different industry segments. The presence of such industry specific factors needs to be investigated further. The impact of relative size of the business on market orientation also needs to be examined.

As was shown in chapter 5, the present sample was representative of Australian SMEs. However, the sample was skewed in favour of long running businesses. Consequently, the suggested model needs to be validated for new businesses.

Generally, past studies have concentrated on products, consumer goods and the retail trade, with less emphasis on services and other non-consumer goods businesses. While the present study attempted to overcome these biases, because of the primary focus on examining existing market orientation constructs, there might have been some inadvertent biases. In one of the early interviews it was pointed out that professional businesses, such as consulting, generate new business through networking, word of mouth and other methods, rather than by the conventional methods (eg. the four Ps) used in traditional product marketing. Further, there may be a limitation in the research instrument itself. Though Kohli and Jaworski's and Narver and Slater's instruments were modified and some items from other studies were added, these instruments had not been widely tested in an SME context.

7.3 Suggestions for future research

In developing a market orientation model, the present research looked at SMEs as a whole. However, as was discussed earlier in this chapter, the operationalisation of the market orientation construct could vary depending on the size and type of industry segment. This will be the subject of future investigation.

Further, the present study was based on a sample of Australian SMEs. The suggested model needs to be tested in other countries to see if the results obtained can be generalised. For example, Singapore SMEs exports much of their production and many are technology driven. A key question is if Singaporean SMEs are more market oriented than Australian SMEs and, if so, in what ways. Greenley (1995) differentiated between the degree of market orientation and forms of market orientation. Comparing market orientation from different types of economies should give new insights into the form of market orientation practiced by various businesses and their impact on performance.

A useful parallel line of research would be to compare successful and not so successful businesses and their market orientation, as well as other business related factors, to determine if success or failure was due to market orientation or other factors.

In addition, the various conceptual limitations of the present study provide opportunities for further research. The role of entrepreneurship, the conscious decision of some SME owners to blend business and life style and their market orientation in comparison to those SME owners who aggressively seek financial goals are all areas where further research would provide useful information.

'Providing superior value to customers' has been the basis for all the market orientation models that have been suggested. However, all previous studies have been based on the organisational/manager's viewpoint, rather than being examined from the point of view of the front line employee or the customer. While it has been found that the market orientation of the (shop floor) employees can be different from the senior managers (Harris, 1997a) a comparison of the three perceptions would give better insight into the 'market orientation' construct and might make it more operational at a business level.
A new trend in Australian large businesses (eg. Banks) is to focus on the financial and shareholder aspects of the business to the detriment of employees and customers. Entry barriers for the financial sector businesses are high in Australia and these institutions appear to be intent on increasing their profit in the face of a mounting public outcry. Staff reductions, closure of branches and increased customer service charges seem to be the current norm in this industry. In such institutions, what does market orientation mean? This is just one example of the emerging global debate on corporate vs social market orientation, a fertile future area for further research.

In summary, market orientation research is still in an exploratory phase and there are several unknowns. While the marketing concept, which underpins the market orientation construct, has been discussed since the early 1950's, it remains an elusive concept and generalised models do not exist. The suggestions in the foregoing paragraphs suggest some avenues for further research that would add to our rapidly expanding knowledge in this vital area of marketing and strategy.

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APPENDIX - A

The Qualitative Research Phase

Rationale:

The qualitative phase was based on an ontological assumption that reality was a mental construct, rather than a physical fact. Epistemologically, this required an interpretive approach with an interactive, inter subjective relationship between the researcher and respondent. The methodology was qualitative, interested in surfacing meaning and in having constructs of meaning interpreted by respondents. The resulting data was judged to be robust enough to become quasi-factual, capable of being presented in questionnaire form, with minimal risk of misunderstanding within the measurement process.

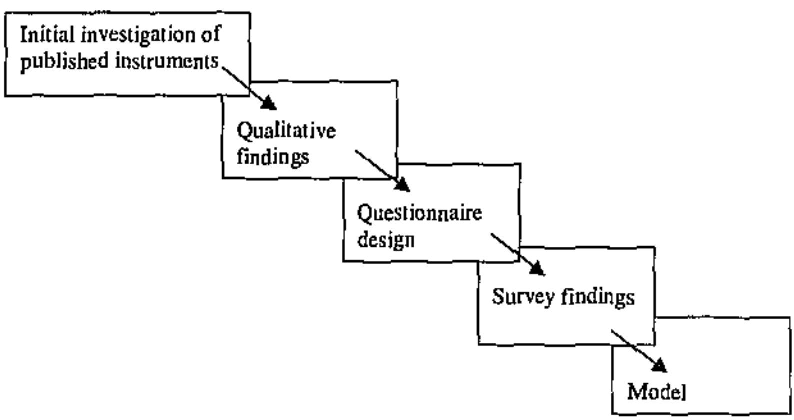

Figure A1. Research scheme used in the study

The major quantitative study took the ontological stance that there was a reality about the items selected for measurement that was factual in nature. Epistemological, the rules of empirical research could be followed. These included an impersonal, value free position of the researcher, precise and replicable items and an objective method of collecting and analysing data. Statistical protocols used in quantitative studies supported the quantitative methodology used. The research process is depicted in figure A1.

Methodology:

This section expands on the qualitative research methodology that was briefly discussed in Chapter 4.

The primary aim of the qualitative research phase was to understand 'marketing in SMEs'. On the surface one could argue that small businesses engage in very little marketing. Generally, small business literature supports this view. However, the principles of marketing are fundamental to the success of a business. Consequently, it was necessary to understand how marketing happens in the target population. Further, given the broad definition of 'SMEs', it was expected that there will be a variation in the marketing practices of the target population. Hence, the qualitative phase targeted a range of businesses. Based on results from the preliminary phase some of the scale items suggested by Kohli and Jaworski (1990) and Narver and Slater (1990) were eliminated and new items were added.

In depth, personal / phone interview was used as preferred methods of data collection over other methods such as focus groups. This was mainly because of the difficulty ingetting groups of SME operators in one location for focus groups. Further, a personal interview gave the opportunity for the researcher to see the respondents in action mostly in their business. In some cases where personal interview was not possible due to time and other constraints on the part of respondents, an in depth phone interview was used. Qualitative information from these interviews were then analysed to see what marketing practices they adopted, how they gathered their intelligence (if any), what they understood by the term market orientation and the like. The key themes from this stage were used as the base for quantitative phase and questionnaire development. No qualitative data analysis software was used in the study. This was mainly because, in the opinion of the researchers, the qualitative research was about understanding the business / marketing practices and not about any contentious issue where different subgroups could have opposing viewpoints.

Results:

Following an extensive literature review, interviews with a number of small and medium businesses were conducted. The aim was to understand the marketing and other business practices in SMEs in Australia and to identify significant departures from practices adopted elsewhere.

The fluid definition of the term 'small / medium business' necessitated that qualitative interviews be undertaken in a diverse range of businesses. Focus groups would have offered a better solution but the logistics of getting a group of business people purely for research purpose made personal or telephone interviews a better option. Such an option also gave the researcher the opportunity to observe the business practices in some cases.

While the format of the interview was open, the interviews generally followed a script so as not to miss any significant point. The questions were open-ended and the script was used mainly for prompting. Confidentiality and anonymity of the respondents was assured. Phone interviews were also conducted on the same basis. For some respondents, the script was faxed earlier so as to allow them time to prepare their responses. The interviews covered details of their business, marketing practices, performance, customer focus, impressions of marketing and related topics.

General format of the script used in the interviews

The following script is in point form and not in the format of specific questions. During the interviews, the respondents were asked to talk about their business, themselves and their marketing practices. As discussed in the previous section, this script was used mainly for prompting.

Profile of the business and its owner(s)

Length of time in business - type of business (manufacturing, retail, service etc) – business structure (single owner or partnership or company or trust) - branches if any - part of national chain or franchise - number of employees - approximate annual turnover (if possible) - family business? - run from home or from a business location - run on part-time or full-time basis - who does the sales / marketing for the company - special sales / marketing staff - their designation – sphere of operation - any separate division for manufacturing or other activities - The respondent's position in the firm - previous experience in running a business - educational background.

Marketing practices

How does the business find out what the customers want or do they just sell what is available - do they conduct market research - if not why (do they understand what is *market research) - is it because market research is expensive - not needed for business - which is their best source of information on what the customers are looking for - what the competition is doing - do they have competition (for example, a deli operating locally may be in a different situation compared to a large retail store) - do their staff do any intelligence gathering - do they talk to they clients to find out what they want. - do they take part in finding out what the customers want - is the information shared around with other staff in the business.*

Do businesses think marketing is necessary - if not why (is it because of financial or time pressure) - How did they start the business - did they just start with an idea or there was a need for the product - why did they choose the location - was it based on any market data or just gut feeling - how do they price their product - is it all almost a standard - is it a very competitive market - is there a price war - do they keep following the prices of competition - if manufacturing firm, is there competition from imported products.

Has the business been growing - if yes how much - if not why- how did your business do compared to others in similar line of business - do they have a marketing / business plan - do they have a market share - if yes how much?

What do they understand by customer focus or market focus - are they market focussed – did they consider market focus necessary - in the company are there rewards for excellence in performance – what is their understanding of their term 'market orientation' - What are the goals of the business? - Are the owners driving their business towards growth or are they happy to keep the business as it is or is it beyond *their control? - What factors do they think contribute to the success or failure of their business?*

If there are separate departments for manufacturing, sales, accounting - how well do they function together - for example, does the manufacturing talk to customers to understand their needs - are there conflicts between departments.

Did they think marketing had any impact on their business - how do you identify new business opportunities - how do they promote their products - do they advertise - how? (billboards, newspaper, magazines, TV, radio etc) - how much do they depend on word of mouth advertising - what do emphasise in your ads - What emphasis you place on after sales service .

Do the staff have the authority to solve customer problems or does the owner / manager have to personally attend to it? Do they develop products based on what the market wants or what the company can produce? Employees, do they feel committed to the organisation - are they proud to work for the business?

Do they respond to their customer needs and their competitor's actions? - What factors affect the success of their business? Is entrepreneurship a contributing factor? What is entrepreneurship? What do they mean by 'entrepreneurship'?

Is their marketing dependent on their line of business? or the level of education of the manager and the sphere of activities (local, national, international etc.) How is their business performance compared to last year and how does it compare with other *similar businesses. Is their business performance location dependent? On what basis do the businesses say whether their business is doing well or bad or poor etc.*

What type of customers do they get? Are they mostly new customers (eg. large shopping centres and Perth CBD) or are they repeat customers? Is the type of client interaction dependent on the type of clients? Is it dependent on the size of the business? Effect of 4Ps?

Sampling

Convenience sampling was used for the qualitative interview phase. Business owners in a shopping centre in Perth were approached in person for interviews and interviews were done at the business premises at a time convenient to them. Some manufacturing and service based businesses were surveyed over phone. Because of the lengthy nature of the interview, most samples were obtained through referrals.

Results

The following general themes emerged from these interviews.

- There was considerable variation in the nature and size of the businesses interviewed.
- SMEs generally lacked planning and a coordinated approach to marketing strategy and determination of the marketing mix.
- There appeared to be a distinct lack of education and understanding of marketing concepts, and very little importance was placed on the role of marketing in the success of the business.

- If and when marketing budget allocation was done, it was a tiny amount without any consideration to what needed to be done. The typical view was 'when we have some cash to spare, we will do it.'
- Little or no formal data gathering was done, and even the information collected did not appear to be actioned.
- Firms did not appear to formally analyse the result of the promotional campaigns.
- Product quality and customer service were considered to be more important than price in achieving customer satisfaction. One business described it as 'customer service is the backbone of our business'.
- Small businesses appeared to have a high level of repeat business and considered location as an important factor to their success.
- Entrepreneurship – taking calculated risks was considered an essential part of success of SMEs.
- Many businesses considered marketing as synonymous to advertising. Comments included 'making people aware of your products' and 'marketing is advertising'.
- Word of mouth was considered to be the best form of advertisement.
- Marketing was seen as a sales representative's role.
- Largely, SMEs did not seek outside help (such as consultants) for their marketing. In most small businesses with no coordinated marketing, it was left to one individual as one of the many functions carried out whereas some larger businesses hired outside help to design heir advertising campaigns.
- Marketing in SMEs appeared mostly to depend on the line of business. While some businesses (eg. clothing shop) did a reasonable degree of

advertising depending upon competition, professional businesses such as pharmacies did practically no advertising except through yellow pages and shop front ads mainly to let people know of their location. It should be noted that large franchises were not included in the study. These franchises did a lot of advertising.

- The level of education of owners also appeared to be a minor factor in deciding the level of advertising.
- Personal contact and word of mouth were the best sources of advertisements for SMEs, especially for the ones in the service industries. The personal contact factor was more dominant in project and contract related businesses such as professional consultancy services.
- The 'small and medium businesses' classification based on number of employees was found to be arbitrary. Business size and practices varied widely within this classification.
- The businesses also appeared to price their products based on what it cost them to produce (cost pricing method). At the same time businesses generally appeared to keep their prices on par with competitors except when their product could be highly differentiated and higher price could be charged. The decision to charge higher prices was not based on any formal analysis but on educated guess. One comment from a business was 'if we find that we are not selling enough we can always put the price down'. This suggested an informal approach to pricing. Businesses did not report much flexibility in the prices of their products or services.

- Businesses generally used the terms such as 'different, customer friendly, value for money, good service' to indicate sources of competitive advantage.
- Life style also emerged as an important goal of business owners. The following statement from one of the interviews exemplifies their thinking: 'the aim is simply to build up the company to a stage where the directors are able to enjoy their own life styles and rely on staff to continue the operation of the company in their absence.'
- Lack of resources was seen as the main constraint for businesses wanting to expand their business.
- Some businesses advertised only in yellow pages to make their presence known to the public. They never advertised in other media, as the cost did not appear to pay off sufficiently. Even when competitors engaged in heavy advertising and promotion, they rarely responded.

The informal style of marketing activities in SMEs has been reported in the literature and was discussed in chapter 3. Generally, the preliminary findings were in conformity with published literature. These results were used in developing the questionnaire for the large-scale field survey.

APPENDIX B

EDITH COWAN UNIVERSITY
PERTH WESTERN AUSTRALIA

Survey Questionnaire

SMALL & MEDIUM ENTERPRISE RESEARCH CENTRE
SMERC

An Invitation
to
Small and Medium Businesses
of
Australia

Research into the Market Orientation of Small and Medium Enterprises.

Dear Participant

Edith Cowan University is studying the Market Orientation of Small and Medium Businesses in Australia and is surveying about 5000 selected small and medium businesses in Australia.

The success of a business depends a lot on how much it is focussed on the market. However, very little is known about the market focus of Australia's small businesses.

The present study of the small and medium enterprises in Australia is an attempt to find such information. We believe that your participation in this survey will help us understand what works in small businesses and what doesn't. This survey is confidential and personal details (such as name and address) will not be released to anyone. The survey takes about 30 minutes to complete.

We value your time and to make your efforts worthwhile we have introduced three major prizes. Details are enclosed. We would also be happy to send you a summary of our final report if you want it.

All completed responses will be entered into a prize draw and three successful businesses will be receiving prizes.

Please return the completed questionnaire by **20th December, 96** in the enclosed reply paid envelope to

V. S. Venkatesan
Faculty of Business
Edith Cowan University
Pearson Street, Churchlands, WA 6018

We thank you for your support and contribution to this research. For any queries please call Venkat (09) 386 8965.

Sincerely

Research Team : V. S. Venkatesan, Professor Geoff Soutar and Assoc. Prof. Alan Brown

Small and Medium Enterprises

Market orientation Survey

Please indicate your agreement or disagreement with the following statements using the 1 - 5 scale provided, with 1 for total agreement and 5 for total disagreement.

Your choice of number should reflect how much eacl statement is applicable to your current business rathe than what you would like to see. We are interested in you experience.

Please note that there is no 'right' or 'wrong' answer.

Totally agree				Totally disagree
1	2	3	4	5

Price is a key issue in our business.	1	2	3	4	5
Our products don't require much service.	1	2	3	4	5
We monitor customer's needs and preferences.	1	2	3	4	5
Our business operates in an up-market segment.	1	2	3	4	5
We produce state of the art / hi-tech / innovative product(s).	1	2	3	4	5
Most of the time, our customers tell us what they want.	1	2	3	4	5
Our business requires little personal selling.	1	2	3	4	5
We price a product / service based on its cost.	1	2	3	4	5
We don't have the money to do much advertising.	1	2	3	4	5
We have strict guidelines on how to do things.	1	2	3	4	5
Advertising brings in most of our business.	1	2	3	4	5
In our business line, competition is cut-throat.	1	2	3	4	5
We like playing safe even if it means a little less profit.	1	2	3	4	5

Totally agree				Totally disagree
1	2	3	4	5

A lot of our customers come to know about us from other clients.	1	2	3	4	5
Our success is linked to the service we provide.	1	2	3	4	5
Our business is dependent on long term relationship with our client.	1	2	3	4	5
In our business, quality is not an issue.	1	2	3	4	
We don't need marketing to run our day to day business.	1	2	3	4	
Most of our business is repeat business.	1	2	3	4	
A lot of business comes from people passing by and noticing us.	1	2	3	4	
There is a good team spirit in this organisation.	1	2	3	4	
Our staff deal informally with each other.	1	2	3	4	
Day to day contact with customers gives us the information we need.	1	2	3	4	
We measure customer satisfaction systematically.	1	2	3	4	
We do a lot of in-house market research.	1	2	3	4	
Our primary objective is to maximise profits.	1	2	3	4	

Totally agree				Totally disagree
1	2	3	4	5

We are not clear what we want to achieve with our marketing.	1	2	3	4	5
We constantly watch what our competition is doing.	1	2	3	4	5
We do very little advertising.	1	2	3	4	5
We formulate our strategies based on what our competitors are doing.	1	2	3	4	5
We provide customer relations training to our staff.	1	2	3	4	5
Our staff are committed to their work.	1	2	3	4	5
We monitor the level of our commitment to our customers.	1	2	3	4	5
Our marketing has clear purpose.	1	2	3	4	5
We spend time discussing customers' future needs.	1	2	3	4	5
Data on our customers' satisfaction is available on a regular basis.	1	2	3	4	5
It takes us forever to decide how to respond to competitors	1	2	3	4	5
The quality of our service is a key to the success of our business.	1	2	3	4	5
Our principal mission is to satisfy the needs of our target markets	1	2	3	4	5
A lot of our business happens without advertising or promotion.	1	2	3	4	5
New ideas are welcome in our business.	1	2	3	4	5
We are driven primarily by customer satisfaction.	1	2	3	4	5
We segment our markets and develop strategies for each segment.	1	2	3	4	5
Our plans are primarily based on extrapolating past performance.	1	2	3	4	5

Totally agree				Totally disagree
1	2	3	4	5

We are driven primarily by cost reduction.	1	2	3	4	5
We give close attention to after-sales service	1	2	3	4	5
We are driven by technology and not by the market place.	1	2	3	4	5
We respond rapidly to competitive actions that threaten us.	1	2	3	4	5
Our marketing activities are well coordinated.	1	2	3	4	5
We justify new projects with extensive, detailed plans.	1	2	3	4	5
We tell employees to be sensitive to our competitors activities.	1	2	3	4	5
Our customers would come to us, wherever we are located.	1	2	3	4	5
Serving customers is the most important thing we do.	1	2	3	4	5
We regularly discusses competitors' strengths and strategies.	1	2	3	4	5
We are not at a stage where we need to know a lot about marketing.	1	2	3	4	5
We encourage innovation, even though some fail.	1	2	3	4	5
We have a small number of well defined goals.	1	2	3	4	5
We attempt small rather than major changes.	1	2	3	4	5
The bonds between this organisation and its employees are weak.	1	2	3	4	5
We encourage new ideas from employees as well as customers.	1	2	3	4	5
Our marketing is based on intuition.	1	2	3	4	5
We reward staff for new ideas.	1	2	3	4	5

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Totally agree				Totally disagree
1	2	3	4	5

In our business we are very formal.	1	2	3	4	5
Most people here make their own rules.	1	2	3	4	5
Customer satisfaction assessments influence what we pay our staff.	1	2	3	4	5
We use customer polls to evaluate our staff.	1	2	3	4	5
Employees feel that their future is linked to our organisation.	1	2	3	4	5
Our staff are given freedom to make decisions.	1	2	3	4	5
We believe that risks are worth taking if there is a possible reward.	1	2	3	4	5
People don't care much about our service as long as the price is low.	1	2	3	4	5
Working for this business is like being a part of a big family.	1	2	3	4	5
We are market leaders in our line of business.	1	2	3	4	5
Our salespeople play a key role in evaluating customers' needs.	1	2	3	4	5
Last year our business grew well.	1	2	3	4	5
We cater to the same customers that we had in the past.	1	2	3	4	5
Concluding a sale takes a lot of effort from our sales people.	1	2	3	4	5
Most of the customers that come in every day are new customers.	1	2	3	4	5
There are many "promotion wars" in our market place.	1	2	3	4	5
In general, employees are proud to work for us.	1	2	3	4	5
Our competitors are relatively weak.	1	2	3	4	5

Totally agree				Totally disagree
1	2	3	4	5

Anything that one competitor can offer, others can match readily.	1	2	3	4	5
Customers don't often come in for repeat business.	1	2	3	4	5
We often tell employees that our survival depends on adapting to the market.	1	2	3	4	5
Our customers will pay a higher price for the quality and service we offer.	1	2	3	4	5
A lot of our business comes from leads generated from personal contacts.	1	2	3	4	5
We poll customers at least once a year about the quality of our products and services.	1	2	3	4	5
People in this business are recognised for being sensitive to competitive moves.	1	2	3	4	5
People doing the work decide how things will be done in our business.	1	2	3	4	5
Our plans are driven more by technological advances than by market research.	1	2	3	4	5
Employees feel as though they are constantly being watched to see that they obey the rules.	1	2	3	4	5
Our employees would be happy to make personal sacrifices if it was important.	1	2	3	4	5
We periodically review our products to ensure that they are in line with what customers want.	1	2	3	4	5
Before we came up with the product /service we had a clear idea about the target market.	1	2	3	4	5
We have meetings at least once a quarter to discuss market trends and developments.	1	2	3	4	5

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Totally agree 1	2	3	4	Totally disagree 5

Our staff are genuinely concerned about the needs and problems of other workers.	1 2 3 4 5
We fix the price based on the value of our product or service to our customers.	1 2 3 4 5
Our strategy for competitive advantage is based on understanding our customers' needs.	1 2 3 4 5
When we find out that customers are unhappy with our service, we take corrective action.	1 2 3 4 5
When something important happens to a major customer or market, we know about it quickly.	1 2 3 4 5
Our salespeople regularly share information about competitors' strategies.	1 2 3 4 5
Most of our advertising is localised in and around our premises.	1 2 3 4 5
We are slow to detect changes in our customers' product preferences.	1 2 3 4 5
Even if we came up with a great marketing plan, we probably would not be able to implement it in a timely fashion.	1 2 3 4 5
If a competitor was to launch an intensive campaign targeted at our customers, we would respond immediately.	1 2 3 4 5

This section concerns the details of your business. For each question, please tick one box only unless otherwise required.

1. How many businesses do you own?

☐ One ☐ Two ☐ Three or more

2. How long have you owned this business?

☐ less than a year
☐ 1 - 2 years
☐ 3 - 5 years
☐ 6 - 8 years ☐ More than 8 years

3. Is this business a part of any national chain or franchise?

☐ Yes ☐ No

4. Is this business locally financed and managed?

☐ Yes ☐ No

5. How much previous experience did you have in running a business before you started this one?
(Circle on the 1 - 5 scale provided)

No experience A lot of experience

1 2 3 4 5

6. What is your main line of business (tick only one)

☐ Deli or other food shop

☐ Large retail store selling food

☐ Retail store selling products eg. white goods, clothing etc.

☐ Manufacturing

☐ Service (specify)____________________

☐ Consultancy

☐ Trade based business (plumbing, brick laying etc.)

☐ Professional services (management, secretarial, engineering, medical, law etc)

☐ Other (specify) ____________________

☐ Non-profit organisation

7. Your main business operations are located in :

- ☐ WA ☐ SA ☐ TAS ☐ VIC
- ☐ NSW ☐ QLD ☐ NT ☐ ACT

8. Your location is

- ☐ Metropolitan area
- ☐ Major town other than metro
- ☐ Small town or country

9. Your business operates in

- ☐ Local suburb / town only
- ☐ Metro only
- ☐ Within the state
- ☐ Interstate
- ☐ Internationally

10. The approximate Annual Turnover of this business is: (please tick one)

- ☐ Less than $ 50,000
- ☐ $50,000 - 100,000
- ☐ Above 100,000 - upto 1/2 million
- ☐ $ 1/2 million - upto 1 million
- ☐ $ 1 million - 5 million
- ☐ More than 5 million

11. How many staff (other than owner) are normally employed in the business? (Please give the actual number. If no oneelse is employed please write '0') _________

12. In your business, who is in charge of marketing?

- ☐ No one
- ☐ Proprietor / Director
- ☐ Sales / Marketing manager
- ☐ Sales Assistant
- ☐ Marketing Assistant ☐ Other__________________

13. Is your business

- ☐ Single owner
- ☐ Partnership
- ☐ Private company
- ☐ Public company
- ☐ Trust
- ☐ Non profit organisation

14. Does your business market

- ☐ one product only
- ☐ multiple products
- ☐ Services

15. Does your business have a marketing plan?

- ☐ Yes ☐ No

16. Does your business have a business plan?

- ☐ Yes ☐ No

17. How did you start this business?

- ☐ By myself
- ☐ With someone else
- ☐ Bought an existing business
- ☐ Inherited the business
- ☐ Franchise
- ☐ Other (please specify) __________________

18. Is this business mainly a form of self employment?

- ☐ Yes ☐ No

19. Your position in the business:

- ☐ Owner / Partner
- ☐ CEO / Managing Director
- ☐ General Manager
- ☐ Marketing Manger
- ☐ Sales Manager
- ☐ Other (specify)__________________

20. Your highest level of formal education:

- ☐ Minimum years of high school
- ☐ Completed high school
- ☐ TAFE
- ☐ University undergraduate
- ☐ University postgraduate
- ☐ Other (please specify)__________________

21. How involved are you in your business?

- ☐ Full time
- ☐ Part time
- ☐ Other (please specify)__________________

22. In your business, are there separate sections for:

Marketing / Sales	☐ Yes	☐ No
Production / Manufacturing	☐ Yes	☐ No
Personnel / Accounting	☐ Yes	☐ No
Other (specify)	☐ Yes	☐ No

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23. How did you start the business? (Tick one box only)

- ☐ with a product
- ☐ based on an idea
- ☐ based on an identified market need
- ☐ modified an existing product for the market

24. How often do you formally contact your clients to find out their future needs?

- ☐ Once a month
- ☐ About once every three months
- ☐ About once in six months
- ☐ Once a year
- ☐ Don't do any formal contact but do it on an informal basis.

~~25. How~~ often do you do the following activities? (1 - Never, 2- Rarely, 3 - Sometimes, 4 - Regularly, 5 - Always)

	Never				Always
Market survey/ research	1	2	3	4	5
Information from staff	1	2	3	4	5
Talk to customers	1	2	3	4	5
Sales records	1	2	3	4	5
Monitor prices of competitors	1	2	3	4	5
Adjust prices to match competitors	1	2	3	4	5

26. How do you identify new business opportunities? (Tick all the applicable)

- ☐ Talking to customers
- ☐ Seeing what competitors are doing and following them
- ☐ Doing market research
- ☐ use gut feeling / take a chance with new ideas
- ☐ from employees ☐ from other industry sources

27. Are the market prices for your products standard?

☐ Mostly standard ☐ Price varies a lot

28. How do you fix the price of your products?

- ☐ Cost plus pricing
- ☐ based on what market can offer
- ☐ based on competition

29. If you are a manufacturer, is there much competition from imported products?

☐ Yes ☐ No
☐ Not a manufacturer ☐ Don't know

30. Does your competition come mostly from

- ☐ Other local firms
- ☐ within state firms
- ☐ Interstate firms
- ☐ International

31. How competitive is your market (use 1 - 5 scale)

Intense competition 1 2 3 4 5 No competitio

32. Has your business been growing in the last two years?

☐ Yes ☐ No ☐ New business, less than 2 yea

33. Compared to last year, overall performance this year has been (tick one)

- ☐ Excellent
- ☐ Very good
- ☐ Good
- ☐ Bad
- ☐ Poor

34. Overall performance compared to similar businesses has been (Tick one)

- ☐ Excellent
- ☐ Very good
- ☐ Good
- ☐ Bad
- ☐ Poor

35. What are the difficulties your business faced last year? (Tick all the applicable)

- ☐ Cash flow
- ☐ Shrinking market
- ☐ Strong competition
- ☐ Labour difficulties
- ☐ Lack of marketing skills
- ☐ Needed to know more about the market
- ☐ Other (specify) ____________________

36. Compared to the previous years, how did your business perform this year in the following areas?

	Very Poor				Very Go
Sales growth	1	2	3	4	5
Cash flow	1	2	3	4	5
Net Profit	1	2	3	4	5
Return on investment	1	2	3	4	5
Market share	1	2	3	278	5
Product / service quality	1	2	3	4	5

37. How much does your customer's preferences change with time?

- ☐ Changes happen almost every day
- ☐ Changes often
- ☐ Marginal changes
- ☐ Very little change
- ☐ No change.

38. Is marketing important to you?

☐ Yes ☐ No

39. If 'yes' Why?

- ☐ Keep ahead of competition
- ☐ Understand customers
- ☐ To expand business
- ☐ Changing market place
- ☐ Other (specify)

____

40. In your opinion, what does a market orientation mean? (Tick all the applicable)

- ☐ Make money from the market
- ☐ financially successful in the business
- ☐ Meet customer needs
- ☐ Maximise profits
- ☐ Other (specify) ____________________

41. Rate the importance of the following factors to the success of your business.

	Not at all				Extremely important
Market understanding	1	2	3	4	5
Understanding competitors	1	2	3	4	5
Price	1	2	3	4	5
Advertising / Promotion	1	2	3	4	5
Product	1	2	3	4	5
Marketing as a whole	1	2	3	4	5

42. Do you pass on market information to your staff? (Tick one box only)

☐ Yes ☐ No ☐ No staff

43. In your business, does the staff discuss sales among themselves?

☐ Yes ☐ No ☐ No staff

44. To what extent do you use the following methods to promote your products.

	Never				Always
TV / Radio	1	2	3	4	5
Word of mouth	1	2	3	4	5
Trade magazines	1	2	3	4	5
Shop front ads	1	2	3	4	5
Other (please specify)	1	2	3	4	5

45. To what extent is the volume of your business dependent on the location of your business.

Location extremely important				Location has no effect
1	2	3	4	5

46. In your opinion why do your customers buy your product / service? (tick **one** box)

- ☐ New product / service
- ☐ meets their needs better
- ☐ better than competitors
- ☐ better service
- ☐ Lower price
- ☐ Other (specify)

____

47. Are there any others providing a similar product to the market?

☐ Yes ☐ No

48. What percentage of your time is spent on new products or services?

- ☐ None
- ☐ Up to 25%
- ☐ 25 - 50%
- ☐ More than 50%

49. Your business mainly deals with

- ☐ Other businesses
- ☐ Final consumers

50. Please tell us briefly your objectives (reasons) for starting this business?

____

____

____

51. To what extent have these objectives been met ? (Mark it on the 1 - 5 scale)

Did not meet any objective — Completely met all the objectives

1 2 3 4 5

Thank you for your cooperation.

Please complete your name and other details so that we could include you in the prize draw.

Mail the completed survey form to us in the enclosed prepaid envelope.

Name of the Participant :

Name of the company / business :

Address :

Suburb

Post Code State:

Phone No. : Area code ( )

APPENDIX C

Characteristics of the businesses surveyed

The following tables provide further information on the sample of Australian businesses surveyed. This supplements the discussion of the organisational characteristics and marketing activities of the SMEs surveyed that was contained in chapter 5.

The present survey concentrated on the businesses in Australia's metropolitan areas. Out of the 542 respondents used in the present analysis, 518 were from such areas.

Type of business ownership

Table C1: Type of business ownership

Type of ownership	Frequency	%
Single owner	128	23.6
Partnership	133	24.5
Private company	211	38.9
Public company	11	2.0
Trust	31	5.7
Non profit	5	0.9
Missing	23	4.3
Total	542	100.0

In 75% of the SMEs surveyed, the owners themselves were in charge of marketing and in 10% of the SMEs, no one took care of marketing. Approximately 10% of the sample (53 out of 542) employed a sales / marketing manager or a sales or marketing assistant.

Many businesses (238 or 44%) were started by the current owners themselves while another 20% (111) was in partnership with other people. In comparison, 23% had bought (125) an existing business and 21 (4%) had inherited an existing business. About two thirds of respondents used their SME as a form of self-employment.

Most of the respondents (70%) were owners or partners in the business. A relatively small percentage of respondents (5%) had come into their SME from a marketing or sales position.

Level of education by type of business

Table C2: Level of education of operators versus type of business

Type of business	Level of Education						
	Missing data	Minimum years at high school	Completed high school	TAFE	Under graduate	Post graduate	Other
Missing values	2	1	3	1	2	2	-
Deli or food shop	-	7	6	-	6	1	1
Retail store selling durables	-	13	13	8	2	4	-
Manufacturing	-	19	12	19	7	4	3
Service	-	28	27	32	19	20	7
Consultancy	-	2	1	1	7	12	1
Trade based business	-	15	14	8	4	1	5
Professional services	-	3	1	8	13	21	1
Other	1	19	35	30	16	13	11
Non profits	-	-	-	-	-	1	-
Total							

There seems to be a dominance of school and high school leavers and TAFE educated respondents in the 'trade based business' segment. Apprenticeship and TAFE (Technical and Further Education) qualifications seem to be the entry point for such trade based businesses and there are very few graduates and postgraduates in this category. Delicatessen and retail stores are predominantly run by people without high level of formal education, whereas people with a wide variation of formal education ran service organisations. In contrast, graduates and postgraduates dominate the 'consultancy' and 'professional services' segments. Further, a vast majority (90%) of respondents were involved in their business on a full-time basis.

Overall, less than one third of businesses had separate production, accounting or marketing sections. Less than a quarter had a separate marketing or sales section. At least a half of those who responded had started their business based on a clearly identified market need and about a quarter had stated their business based it on an innovative idea.

About 50% of those surveyed considered that prices in their market were "standard," while the rest felt there was considerable variation. This was not surprising given the variation in the size and nature of businesses included in the present survey. About 65% of the respondents had noticed very little change in their customers' preferences over a period of time and less than 10% reported a rapid change in such preferences.

Approximately three quarters of the respondents thought that having a 'market understanding' was important or very important (categories 4 and 5 on a five point scale) to their ongoing success. In comparison, around 50% thought that having an 'understanding of competitors' was important or very important to such success. Pricing obtained a similar response from 60% of respondents, while advertising and promotion obtained 35% and product/service obtained 86% respectively. The comparatively high level of importance attached to products/services (86%) suggests that SMEs are more product oriented than they are market oriented. Indeed, 'marketing as a whole' obtained a similar response from only 52% of those surveyed.

Among businesses employing staff, the majority (67%) of owner(s) and manager(s) passed market information on to staff and discussions did take place with and among staff, suggesting there was some intelligence dissemination in the SMEs surveyed.

APPENDIX D

Table D1: Descriptive statistics - Market orientation variables

Variable	Statement	Mean	Std dev	Kurt	Skew	N	Construct and source (if appropriate)
A	Price is a key issue in our business	2.36	1.09	-.72	.29	536	Situational
B	Our products don't require much service	3.56	1.46	-1.18	-.51	536	Situational
C	We monitor customer needs and preferences	2.05	1.07	-.39	.73	537	Int generation
D	Our business operates in an up-market segment	3.01	1.25	-.93	.06	531	Situational
E	We produce state of the art/ hi-tech/innovative products	3.58	1.43	-1.16	-.47	521	Situational
F	Most of the time customers tell us what they want	2.33	1.15	-.70	.45	539	Carson - SME
G	Our business requires little personal selling	3.69	1.39	-.82	-.71	539	Situational
H	We price a product / service based on its cost	2.30	1.26	-.65	.63	537	Narver and Slater
I	We don't have the money to do much advertising	2.39	1.28	-.77	.54	540	Carson - SME
J	We have strict guidelines on how to do things	2.47	1.28	-.92	.42	539	Formalisation
K	Advertising brings in most of our business	3.81	1.22	-.21	-.82	539	Carson - SME
L	In our business line competition is cut throat	2.28	1.25	-.67	.61	541	Competitive intensity
M	We like playing safe even if it means a little less profit	2.40	1.08	-.72	.36	539	Risk aversion
N	A lot of customers come to know about us from other clients	1.73	.87	1.17	1.17	540	Carson - SME
O	Our success is linked to the service we provide	1.39	.68	4.97	2.06	541	Carson - SME
P	Our business is dependent on long term relationship with our client.	1.79	1.05	.99	1.30	541	Carson - SME
Q	In our business, quality is not an issue.	4.59	.89	5.87	-2.49	541	Carson - SME
R	We don't need marketing to run our day to day business	3.12	1.40	-1.23	-.16	539	Carson - SME
S	Most of our business is repeat business	2.32	1.20	-.46	.65	540	Carson - SME
T	A lot of business comes from people passing by and noticing us.	3.99	1.18	-.06	-.97	539	Carson - SME
U	There is a good team spirit in this	1.80	.92	.11	.94	528	Esprit de corps

	organisation.						
V	Our staff informally deal with each other	1.75	.99	1.45	1.36	525	Esprit de corps
W	Day to day contact with customers gives us the information we need	2.36	1.15	-.44	.57	540	Carson – SME
X	We measure customer satisfaction systematically.	3.13	1.24	-.99	-.06	537	Cust.on N&S
Y	We do a lot of in-house market research	3.69	1.23	-.58	-.65	536	Int generation
Z	Our primary objective is to maximise profits	2.70	1.25	-.82	.33	538	Business practices-N&S
AA	We are not clear what we want to achieve with our marketing	3.75	1.19	-.58	-.63	537	Carson – SME
AB	We constantly watch what our competition is doing	2.65	1.26	-.96	.26	539	N&S
AC	We do very little advertising	2.43	1.35	-1.01	.50	538	Carson – SME
AD	We formulate our strategies based on what our competitors are doing	3.75	1.14	-.59	-.56	538	N&S
AE	We provide customer relations training to our staff	3.33	1.35	-1.13	-.26	522	N&S
AF	Our staff are committed to their work	1.81	.93	.77	1.08	530	Organisational commitment
AG	We monitor the level of our commitment to our customers	2.64	1.25	-.78	.38	533	N&S
AH	Our marketing has a clear purpose	2.62	1.26	-.91	.31	536	Carson – SME
AI	We spend time discussing customer's future needs	2.45	1.26	-.66	.60	538	Int.dissemin
AJ	Data on our customer's satisfaction is available on a regular basis.	3.44	1.37	-1.00	-.46	538	Intelligence dissemination
AK	It takes for ever to decide how to respond to competitors	4.03	1.14	.04	-.99	534	Response design
AL	The quality of our service is a key to the success of our business	1.33	.65	6.50	2.37	538	Carson – SME
AM	Our principal mission is to satisfy the needs of our target markets	1.76	.99	1.53	1.37	534	N&S
AN	A lot of business happens without advertising or promotion	1.94	1.14	.75	1.23	538	Carson – SME
AO	New ideas are welcome in our business	1.44	.78	4.76	2.11	539	N&S
AP	We are driven primarily by customer satisfaction	1.78	.86	.61	.96	538	N&S
AQ	We segment our market and develop strategies for each segment	3.17	1.31	-1.05	-.10	531	N&S, Response design
AR	Our plans are primarily based on extrapolating past performance	2.85	1.07	-.40	.43	530	N&S
AS	We are driven primarily by cost reduction	3.57	1.12	-.46	-.42	535	N&S
AT	We give close attention to after sales	2.20	1.14	-.21	.75	532	N&S

	service						
AU	We are driven by technology and not by the market place	3.77	1.12	-.59	-.51	534	N&S
AV	We respond rapidly to competitive actions that threaten us	2.65	1.21	-.73	.34	534	N&S
AW	Our marketing activities are well coordinated	3.10	1.10	-.55	-.06	533	Response implementation
AX	We justify new projects with extensive, detailed plans	3.25	1.28	-.95	-.22	531	N&S
AY	We tell employees to be sensitive to our competitor's activities	2.92	1.30	-1.02	.10	518	Top mgt emphasis
AZ	Our customers would come to us, wherever we are located.	2.58	1.28	-.80	.46	532	Situational
BA	Serving customers is the most important thing we do	1.56	.69	3.43	1.85	537	Top mgt emphasis
BB	We regularly discuss competitors strengths and strategies	3.18	1.24	-.96	-.12	535	N&S
BC	We are not at a stage where we need to know a lot about marketing	3.35	1.25	-.78	-.37	531	Carson - SME
BD	We encourage innovation, even though some fail	2.28	1.06	-.27	.56	533	Risk aversion
BE	We have a small number of well defined goals	2.25	1.09	-.15	.69	536	N&S
BF	We attempt small rather than major changes	2.24	1.02	.12	.72	531	N&S, Risk aversion
BG	The bonds between this organisation and its employees is weak	4.30	1.04	1.54	-1.51	515	Organisational commitment
BH	We encourage new ideas from employees as well as customers	1.79	.97	1.29	1.28	525	N&S
BI	Our marketing is based on intuition	2.92	1.17	-.66	.25	531	Carson - SME
BJ	We reward staff for new ideas	2.68	1.20	-.64	.32	513	Reward system orientation
BK	In our business we are very formal	4.07	1.09	.03	-.98	536	Formalisation
BL	Most people here make their own rules	3.74	1.28	-.64	-.68	528	Formalisation
BM	Customer satisfaction assessments influence what we pay our staff	3.96	1.20	-.37	-.85	517	Reward system orientation
BN	We use customer polls to evaluate our staff	4.40	.99	2.33	-1.72	517	Reward system orientation
BO	Employees feel that their future is linked to this organisation	2.67	1.33	-.90	.42	513	Org.commit
BP	Our staff are given freedom to make decisions	2.20	1.05	.22	.81	516	Centralisation
BQ	We believe that risks are worth taking if there is a possible reward	2.36	1.11	-.01	.70	534	Risk aversion
BR	People don't care much about service as long as the price is low	4.12	1.08	.37	-1.08	537	Situational
BS	Working for this business is like being part of a big family	1.94	1.05	.21	.94	527	Esprit de corps
BT	We are market leaders in our line of	2.72	1.31	-.98	.27	534	Competitive

	business						intensity
BU	Our sales people play a key role in evaluating customer's needs	2.62	1.46	-1.34	.46	512	N&S
BV	Last year our business grew well	2.60	1.34	-.96	.43	535	Performance
BW	We cater to the same customers that we had in the past	2.23	1.09	-.31	.64	538	Market turbulence
BX	Concluding a sale takes a lot of effort from our sales people	3.24	1.30	-1.06	-.14	513	Situational
BY	Most of the customers that come in everyday are new customers	3.74	1.17	-.41	-.66	532	Market turbulence
BZ	There are many promotion wars in the market place	3.54	1.47	-1.19	-.51	534	Competitive intensity
CA	In general, employees are proud to work for us	1.91	.97	.81	1.02	513	Org commitment
CB	Our competitors are relatively weak	3.83	1.08	-.29	-.63	530	Comp intensity
CC	Anything that a competitor can offer, others can match readily	2.74	1.22	-.88	.26	532	Comp intensity
CD	Customers don't often come for repeat business	4.42	.98	3.19	-1.92	537	Market turbulence
CE	We often tell employees that our survival depends on adapting to the market	2.84	1.17	-.61	.32	517	Top management emphasis
CF	Our customers will pay a higher price for the quality and service we offer	2.32	1.14	-.36	.63	537	Situational
CG	A lot of our business comes from leads generated from personal contacts	2.30	1.20	-.36	.77	536	Carson
CH	We poll customers at least once a year about the quality of our products and services	3.95	1.33	-.23	-1.02	532	Int.generation
CI	People in this business are recognised for being sensitive to competitive moves	3.12	1.21	-.86	.00	532	N&S
CJ	People doing the work decide how things will be done in our business	2.79	1.30	-.97	.27	531	Formalisaiton
CK	Our plans are driven more by technological advances rather than by market research	3.58	1.28	-.95	-.43	529	Response design
CL	Employees feel as though they are constantly being watched to see that they obey the rules	4.19	1.01	.91	-1.20	516	Formalisation
CM	Our employees would be happy to make personal sacrifices if it was important	2.30	1.14	-.24	.69	518	Org.commit
CN	We periodically review our products to ensure that they are in line with what customers want	2.22	1.08	-.03	.74	533	Response design
CO	Before we came up with the product / service we had a clear idea about the target market	2.38	1.23	-.61	.57	532	Situational
CP	We have meetings at least once a	3.08	1.52	-1.46	-.04	528	Int.dissem

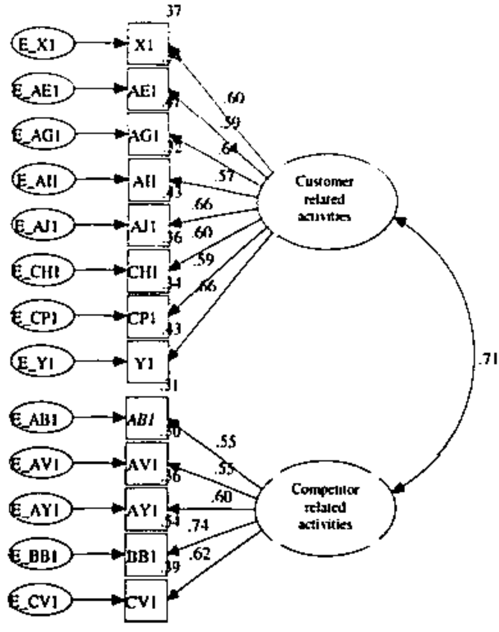
	quarter to discuss market trends and developments						
CQ	Our staff are genuinely concerned about the needs and problems of other workers	2.23	1.07	-.16	65	514	Esprit de corps
CR	We fix the price based on the value of our product or service to our customers	2.28	1.15	-.25	73	537	N&S
CS	Our strategy for competitive advantage is based on understanding our customer's needs	1.81	86	1.39	1.06	533	N&S
CT	When we find that our customers are unhappy with our service, we take corrective action	1.36	69	8.17	2.55	537	Response implementation
CU	When something important happens to a major customer or market, we know about it quickly	2.01	1.03	35	93	533	Int disseminatio n
CV	Our sales people regularly share information about competitor's strategies	2.89	1.30	-.98	21	513	N&S
CW	Most of our advertising is localised in an around our premises	3.25	1.51	-1.41	-.26	529	Carson
CX	We are slow to detect changes in our customer's product preferences	3.85	1.06	-.13	-.72	532	Int generation
CY	Even if we came up with a great marketing plan, we probably would not be able to implement it in a timely fashion	3.45	1.21	-.78	-.33	529	Response implementation
CZ	If a competitor were to launch an intensive campaign targeted at our customers, we would respond immediately.	2.18	1.22	-.45	76	532	Response implementation

APPENDIX E

Model evaluation

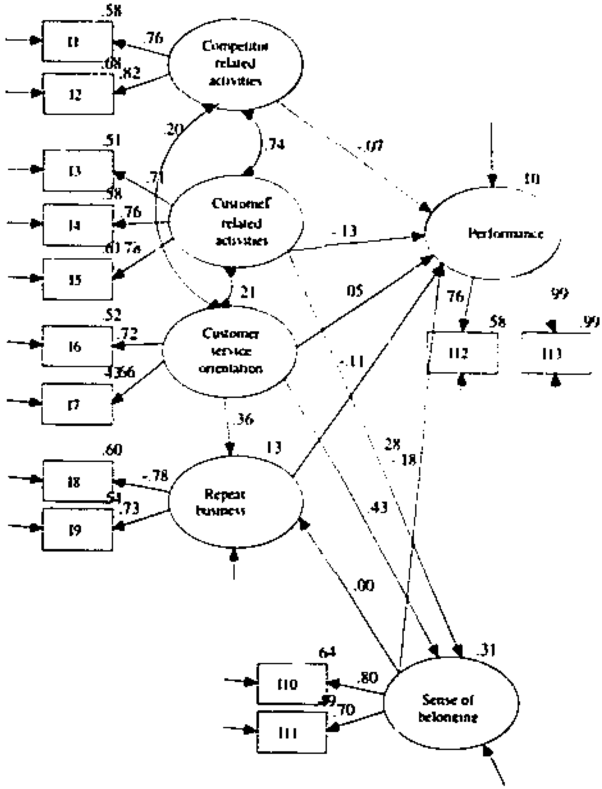
Appendix E gives full details of structural equation models described in chapter 6 including fit indices, regression weights and other parameters. Two models (i) Relationship between customer and competitor related activities and (ii) Partially disaggregated model of SME market orientation and performance are presented.

Customer and competitor related activities (standardised estimates)



Chi square = 192.413 DF = 64 P = 0.000
NFI = .905 CFI = .934 RFI = .884 GFI = .945 AGFI = .922
RMR = .082 RMSEA = 0.061

Figure E1: Interrelationship between customer and competitor related activities



Chi square = 153.208 DF = 54 P = .000
NFI= , 935 CFI = .957 RFI = 906 GFI = .958 AGFI = .929
RMR = , 033 RMSEA = .058

Figure E2: SME market orientation and performance (partial disaggregation model)

APPENDIX F

Latest ABS Statistics on Australian Small Business Sector

As mentioned in the foot note of page 82 of this thesis, the latest small business figures published by Australian Bureau of Statistics (ABS, 1999) are included in this appendix.

Relevant tables reproduced from ABS – Small Business Australia, Update 1997 – 98.

Table F1: Small Businesses and Persons Employed (1997 –98)

1.1 SMALL BUSINESSES AND PERSONS EMPLOYED, 1997–98

	Small business								
	Employing			Non-employing		Total small business		Total all businesses	
State and Territory	Businesses '000	Employers '000	Employees '000	Businesses '000	Own account workers(a) '000	Businesses '000	Employment '000	Businesses '000	Employment '000
NSW	182.6	110.8	777.7	132.0	204.8	314.6	1 093.3	325.2	2 215.8
Vic.	128.0	60.4	593.3	102.1	158.6	230.1	812.3	238.7	1 651.6
Qld	95.5	64.6	415.5	89.3	139.4	184.8	619.5	189.4	1 127.7
SA	35.1	23.0	164.2	36.5	57.4	71.6	244.6	73.8	465.1
WA	52.2	32.9	230.2	54.2	84.0	106.4	347.1	109.0	677.2
Tas.	10.4	8.3	51.4	9.8	15.8	20.2	75.5	20.7	139.8
NT	3.6	2.8	18.3	2.5	4.2	6.1	25.3	6.3	53.6
ACT	7.5	4.6	34.4	7.2	10.2	14.7	49.2	14.8	84.0
Aust.(b)	**514.9**	**307.4**	**2 285.0**	**433.6**	**674.4**	**948.5**	**3 266.8**	**977.9**	**6 414.8**

Note: See Explanatory Notes, Common footnotes page 54.

Source: Unpublished data, Survey of Employment and Earnings; unpublished data, Labour Force Survey.

Table F2: Small Businesses and persons employed (1997 –98)

1.2 SMALL BUSINESSES AND PERSONS EMPLOYED, BY INDUSTRY—1997–98

	Small business								
	Employing			*Non-employing*		*Total small business*		*Total all businesses*	
Industry division(c)	*Businesses* '000	*Employers* '000	*Employees* '000	*Businesses* '000	*Own account workers(a)* '000	*Businesses* '000	*Employment* '000	*Businesses* '000	*Employment* '000
Mining	1.3	0.5	7.6	1.4	2.4	2.7	10.5	2.8	80.5
Manufacturing	51.2	25.0	438.3	32.1	55.8	83.3	519.1	84.6	999.3
Construction	63.1	47.0	208.8	94.0	160.1	157.1	415.9	158.4	533.1
Wholesale trade	37.8	13.5	189.3	16.6	26.4	54.4	229.2	59.2	517.6
Retail trade	92.7	87.6	418.7	60.2	101.4	152.9	607.7	157.3	1 184.8
Accommodation, cafes and restaurants	24.1	23.6	146.4	6.7	12.1	30.8	182.1	34.4	411.5
Transport and storage	23.1	14.9	90.0	30.1	50.7	53.2	155.6	54.4	288.3
Finance and insurance	11.2	3.1	35.7	6.7	9.3	17.9	48.1	18.6	292.7
Property and business services	114.3	44.0	382.6	79.9	113.2	194.2	539.8	198.6	916.4
Education	7.4	2.8	38.1	10.0	16.0	17.4	56.9	19.1	199.3
Health and community services	45.2	18.8	185.5	23.7	31.5	68.9	235.8	72.0	531.6
Cultural and recreational services	13.5	6.0	50.5	20.2	28.3	33.7	84.8	35.1	197.9
Personal and other services	28.3	17.9	90.4	41.3	53.7	69.6	162.0	70.7	237.5
Total(b)	**514.9**	**307.4**	**2 285.0**	**433.6**	**674.4**	**948.5**	**3 266.8**	**977.9**	**6 414.8**
Goods producing industries	115.6	72.5	654.7	127.5	218.3	243.1	945.5	245.8	1 612.9
Services producing industries	399.3	234.9	1 630.3	306.1	456.1	705.4	2 321.3	732.1	4 801.9

Note: See Explanatory Notes, Common footnotes page 54.

Source: Unpublished data, Survey of Employment and Earnings; unpublished data, Labour Force Survey.

Table F3: Employed persons by industry and employer size (1997 – 98)

2.1 GROWTH IN PRIVATE SECTOR SMALL BUSINESSES

	Average annual growth		*Annual growth rates*					
	1983–84 to 1997–98		*1994–95 to 1995–96*		*1995–96 to 1996–97*		*1996–97 to 1997–98*	
	Businesses	*Employment*	*Businesses*	*Employment*	*Businesses*	*Employment*	*Businesses*	*Employment*
Industry division(c)	%	%	%	%	%	%	%	%
Goods producing								
Manufacturing	3.8	1.7	–7.5	0.6	11.0	6.7	7.1	–4.4
Construction	3.2	3.8	–0.4	6.2	–1.9	–2.9	–1.0	–0.5
Total goods producing growth rate(d)	3.4	2.5	–2.2	3.2	1.7	1.9	1.6	–2.5
Services producing								
Wholesale trade	1.8	1.9	1.7	2.2	–4.0	–3.3	3.0	–3.0
Retail trade	0.4	1.4	4.2	6.1	2.1	3.7	–3.6	–3.1
Accommodation, cafes and restaurants	3.2	3.1	–1.4	–10.6	–1.1	13.4	10.0	5.7
Transport and storage	2.1	3.2	10.3	10.8	–5.8	–6.8	5.1	6.3
Finance and insurance	2.6	1.9	–13.1	4.1	–9.0	–16.1	–1.1	–4.9
Property and business services	7.9	6.1	9.0	4.9	1.9	4.5	17.0	10.6
Education	6.2	6.2	12.9	22.5	–6.8	–9.4	–2.8	0.2
Health and community services	7.8	6.2	23.5	27.4	–7.0	–6.2	1.5	–2.1
Cultural and recreational services	4.2	2.9	–1.7	–7.5	4.0	5.1	8.7	4.8
Personal and other services	5.5	3.8	–10.8	–11.7	5.8	11.5	19.0	6.1
Total services producing growth rate(e)	3.7	3.2	5.4	5.3	–0.5	1.5	6.8	1.9
Total private sector growth rate(f)	**3.6**	**3.0**	**3.3**	**4.7**	**0.1**	**1.6**	**5.4**	**0.6**

Note: See Explanatory Notes, Common footnotes page 54.

Source: Unpublished data, Survey of Employment and Earnings.

Table F4: Growth in private sector small business (1997 – 98)

2.5 EMPLOYED PERSONS, BY INDUSTRY AND EMPLOYER SIZE—*continued*

	Persons working in own business(a)		*Private sector employees*						
			Employer size group						
Industry division(c)	*Own account workers*	*Employers*	*1–9*	*10–19*	*20–49*	*50–99*	*100 or more*	*Small business employees*	*All employees*
				1997–98					
	'000	'000	'000	'000	'000	'000	'000	'000	'000
Mining	2.4	0.5	3.9	3.7	5.4	4.8	59.8	7.6	77.6
Manufacturing	55.8	25.0	133.3	98.7	120.8	85.5	480.2	438.3	918.5
Construction	160.1	47.0	173.1	35.7	23.4	24.3	69.5	208.8	326.0
Wholesale trade	26.4	13.5	112.7	76.6	102.2	69.3	116.9	189.3	477.7
Retail trade	101.4	87.6	286.3	132.4	72.2	58.2	446.7	418.7	995.8
Accommodation, cafes and restaurants	12.1	23.6	79.0	67.4	83.9	45.1	100.4	146.4	375.8
Transport and storage	50.7	14.9	61.8	28.2	28.2	16.9	87.6	90.0	222.7
Finance and insurance	9.3	3.1	26.3	9.4	9.0	26.0	209.6	35.7	280.3
Property and business services	113.2	44.0	290.5	92.1	72.8	64.1	239.7	382.6	759.2
Education	16.0	2.8	24.6	13.5	36.3	22.5	83.6	38.1	180.5
Health and community services	31.5	18.8	131.9	53.6	46.9	65.0	183.9	185.5	481.3
Cultural and recreational services	28.3	6.0	33.3	17.2	25.2	18.7	69.2	50.5	163.6
Personal and other services	53.7	17.9	75.7	14.7	22.6	16.2	36.7	90.4	165.9
Total(b)	**674.4**	**307.4**	**1 432.5**	**646.2**	**649.0**	**517.9**	**2 187.4**	**2 285.0**	**5 433.0**