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# The Impact of Market Orientation on SMMEs in Developing Economies: A Case-study of Botswana

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## Abstract

The anecdotal research conducted on market orientation in service small businesses and the mixed findings on the impact of market orientation and business performance reported complicate efforts amongst both academics and practitioners to conclude on the real effects of the construct upon business performance. This is exacerbated by the acute paucity of empirical research conducted on Market Orientation (MO) construct in Botswana, thus representing both an empirical and theoretical gap to which this proposed study seek to fill, using the service small and medium sized enterprises in Botswana as a study context.

The purpose of this study is to investigate the effects of market orientation on business performance using service SMMEs in Botswana, in order to discern the relationship between MO and performance, test applicability of MARKOR scale in a new empirical context and develop MO framework to guide practitioners in their marketing efforts, so that their level of MO ensures that they deliver superior customer value and realise superior business results, with a competitive advantage over those that are not market oriented. It is envisaged that intelligence generation, intelligence dissemination and Responsiveness activities of a market oriented firm would have a positive impact on the performance of service SMMEs in Botswana.

A cross-sectional survey is proposed to be conducted, using a sample size of 400 participants, selected using a snowball sampling technique on the basis of sub-sectors, size, and location. Data will be collected using a survey questionnaire, to be tested for reliability and validity using Cronbach alpha coefficient, and confirmatory factor analysis respectively. Finally the survey questionnaire will then be self-administered by the researcher using a drop-pick method, and data collected, analysed using descriptive statistics and hypotheses tested with SPSS for windows 18.0.

**Keywords:** Market Orientation, Business Performance, Small, Micro, and Medium Enterprises, Botswana, Developing Economy.

## 1. Introduction

Conventional marketing wisdom holds that Market Orientation (MO) leads to superior firm performance (Kara, 2005). It is a popular term used by marketers as an indicator of the extent a firm implements its marketing concept (Aziz and Yassin, 2010) since it facilitates the firm's ability to anticipate, react to and capitalize on environmental changes, there by leading to superior performance (Vieira, 2010). Despite this agreement amongst a few scholars of a strong positive correlation between market orientation and business performance (Greenly, 1995; Matsuno et al., 2002; and Kara, 2005; Vieira, 2010), others have reported mixed findings (Jaworski and Kohli, 1993; Han et al., 1998; and Pelham, 2005). Therefore, the anecdotal research conducted on market orientation and the mixed findings reported complicate efforts amongst both academics and practitioners to conclude on the real effects of the construct upon business performance (Dauda, 2010). This is exacerbated by the absence of empirical research conducted on market orientation construct in Botswana, thus representing both an empirical and theoretical gap to which this proposed pragmatic study seek to fill, using MARKOR scale, with the service small and medium sized enterprises as a study context.

### 1.1 The Small, Medium and Micro Enterprise Sector in Botswana

The population of Botswana is estimated to be about 2 million, currently ranked as an upper middle-income country with per capita income in excess of US\$5,000 (LEA, 2007). SMMEs play a crucial role towards achieving industrial and economic development objectives of the Botswana economy (LEA, 2009). There are no standard definitions of SMMEs; but rather vary from country to country, depending largely on the size of a given economy and the levels of development.

The most common parameters used to categorize SMMEs are the annual turnover and the number of workers. However, the policy report enshrined in the Government paper (1999) notes that some countries tend to have a higher threshold figures for numbers of employees and turnover for the services sector since it tends to be less labor-intensive and produces relatively lower cost items which result in a smaller volume of sales than other sectors. Nevertheless, for Botswana, Government paper, (1999) provides a comprehensive categorization of SMME firms:

Micro enterprises refers to firms employing less than six workers, including the owner, with a turnover of less than P60,000. There are approximately 50 000 micro enterprises in Botswana: 75% lack formal registration, and 70% located in rural areas, and thus hard to reach.

Small enterprises refers to firms having less than 25 workers, with a turnover between P60000-P1500,000. There are approximately 6000 small firms actively operating in Botswana; with 80% located in urban areas. Approximately 40% of these small enterprises are in the service sector, 20% in manufacturing, 16% in retailing, 10% in transport/distribution, 6% in construction and 8% in agriculture.

Medium enterprises refer to firms having less than 100 employees, with a turnover between P1500 000-P5000 000. There are approximately 300 medium-sized enterprises actively operating in Botswana, with the majority involved in manufacturing sub sector.

The total number of SMMEs in Botswana as at 1999, from the above figures, was estimated at 56300, accounting for 50% of formal sector employment, with 30-45% contribution to GDP. SMMEs sector in Botswana is largely dominated by the following sub-sectors: service, manufacturing, retailing, transport/ distribution, construction and agriculture. The census conducted by central statistics office (CSO) in 2005 (CSO, 2005) cites the above figures, with a summary of all registered establishments by 1999, totaling to 56300 SMMEs, out of which, 70% were located in Gaborone. It is difficult to define the total number of SMMEs in the informal sector although it is known to exist globally (Rojas-Mendez, 2006). Therefore, analysis of the informal sector is beyond the scope of this current study and thus focus will only be protracted on the registered SMMEs in the service industry in Botswana.

These SMMEs are faced with a multiplicity of constraints including but not limited to: lack of access to finance, lack of entrepreneurial skills, shortage of business premises, excessive government regulations, lack of marketing skills, inherent biases against SMMEs (Government paper, 1999), and above all, low survival rates as a result of 'would be entrepreneurs' exploiting government schemes as a means of cheap funding and not necessarily interested in establishing a business and once the funds are secured, they are then diverted and the business folds (Hinton et al, 2006). This is consistent with the earlier report that noted that there seem to be a high failure rate of SMMEs in Botswana, with 80-85% of such enterprises disappearing with five years of startup (Government paper, 1998). The report adds that a substantial proportion of micro enterprises however, neither disappear nor grow, since their survival is due to lack of a better economic alternative. Again, although small business owners try to expand, only 2% actually significantly succeed beyond the typical very marginal existence. Despite the government efforts to circumvent these challenges faced by SMMEs in the economy, the ability for them to survive and prosper entirely depends on how well they implement the marketing concept, by understanding and serving their customers better than their competitors.

### *1.2 Market Orientation in Service SMMEs in Botswana*

A market oriented firm has a superior capability in achieving higher profits compared to their counter parts that are not (Aziz and Yassin, 2010). They concluded that service SMMEs require the concept of market orientation than large firms due to their size, nature of offer and operational constraints. They add that the nature of services is that they are consumed directly and inseparable between the customer and the supplier, implying that awareness of the changes in the marketplace in terms of customer perception and competitor actions, are critical ingredients of gaining a competitive advantage. Market orientation as a driver of SMME service business performance has attracted scholarly interests as others question its relevance (Walsh and Lipinski, 2009). In an empirical study conducted on service SMMEs in Jordan, the findings revealed that the concept of MO is not clear and not adopted by most of the Jordanian service SMMEs (Ismail et al, 2009).

## **2. Statement of the Problem**

To compete and survive in this highly competitive global business era, firms have to pay more attention to the needs of their customers by constantly innovating every aspect of their business (Dauda, 2010). This recognition has made the concept of market orientation to receive increasing attention from both researchers and practitioners, as a tool for firms to survive and grow. However, while some past studies have verified a strong correlation between market orientation and performance (Greenley, 1995; Matsuno et al., 2002; Kara, 2005; Kirca et al, 2005; and Dauda, 2010), others did not support a direct positive relationship between performance and market orientation (Jaworski and Kohli, 1993; Han et

al., 1998; Pelham, 2005). Yet, it has also been noted that the perceived correlation between MO and business performance may vary between industries as Kirca et al. (2005) posit that unlike manufacturing, services involves a higher degree of customization which may result in higher costs and thus generate reduced profits, implying that findings of a given industry may not apply to another.

Moreover, a review of the marketing and management literature reveals that only anecdotal empirical research in this area of market orientation was focused on issues concerning its relationship to the performance of small business enterprises (Dauda, 2010) with no such a study conducted in Botswana. Yet as earlier noted, business firms cannot assume that market orientation findings in one firm or culture context work well in other countries with different business cultures (Aziz and Yassin, 2010). Thus the disagreement on the relationship between market orientation and business performance amongst scholars and the theoretical gap in Botswana and particularly in the service SMME sector as a new empirical context, underpins the basis of this study, using MARKOR scale, integrative MO implementation model. This will help small business firms in the service sector in Botswana, still compounded with marketing challenges and above all do not seem to understand the concept of market orientation, to guide them in their market orientation implementation efforts and thus realise superior business results, with a competitive advantage.

Thus the purpose of this study is to investigate the effects of market orientation on business performance in service SMMEs in Botswana using MARKOR scale, in order to confirm the relationship between MO and performance.

### 3. Research Objectives

This proposed research attempts to significantly contribute to the theory and practice of market orientation by testing the hypotheses envisaged, and there by achieving the following objectives:

- (i) To assess if the level of market orientation of SMMEs in the service industry in Botswana is positively associated with business performance.
- (ii) To determine if intelligence generation through market information collection and processing capabilities (referring to the collection of information about customer needs and preference, and forces that influence the development of those needs) by SMMEs in the service industry in Botswana is positively associated with Business performance.
- (iii) To investigate if intelligence dissemination (referring to the process and extent of market information exchange across all functional units in a given business firm), by SMMEs in the service industry in Botswana is positively associated with Business performance.
- (iv) To determine if intelligence responsiveness (referring to the steps taken in response to market information generated and disseminated across its departments), by SMMEs in the service industry in Botswana is positively associated with Business performance.

### 4. Literature Review

Kohli and Jaworski (1990) define market orientation (MO) as organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization wide responsiveness to this intelligence. Market intelligence not only pertains to monitoring customer's needs and preferences, but also includes an analysis of how customers might be affected by factors such as government regulation, technology, competitors, and other environmental forces (Kara et al., 2005). It mainly represents a response of firms to current and future market demand for a sustained competitive advantage. The eventual outcome of MO within an organization is an integrated effort by individuals and across departments, which in turn, delivers superior organizational performance (Kohli and Jaworski, 1990).

#### 4.1 Market Orientation Measurement Scales

There exist a number of frameworks, dubbed as market orientation measurement scales in the literature, due to the criticality of the concept to both academics and practitioners. These frameworks include: MARKOR scale (Kohli and Jaworski, 1990); MKTOR scale (Narver and Slater, 1990); MORTN scale (Deshpande and Farley, 1998); Deshpande, Farley, and Webster's (1993) scale; and MOCCM scale (Carr and Lopez, 2007). Despite a proliferation of MO scales of measurement, MARKOR and MKTOR scales have dominated the literature and thus been widely used, either in their original form or as a basis for adapted scales (Raaij and Stoelhorst, 2008), since they are largely interchangeable (Deshpande and Farley, 1999, cited in Alhakimi and Baharun, 2009).

MARKOR scale, developed by Kohli and Jaworski (1990), views an organization as including: one or more departments engaged in activities geared toward developing an understanding of customers' current and future needs and the factors affecting them; sharing of this understanding across departments; and the various departments engaging in activities

designed to meet select customer needs. the unit of analysis appears to be the strategic business unit (SBU) rather than the whole firm and thus the scale assesses the degree to which an SBU engages in multi-department market intelligence generation activities, disseminates this intelligence vertically and horizontally through both formal and informal channels, and develops and implements marketing programs on the basis of the intelligence generated (Alhakimi and Baharun, 2009). Thus underlying MARKOR 20 items are three components: intelligence generation, intelligence dissemination, and responsiveness (Kohli and Jaworski, 1990). Again, the third component of the scale is composed of two sets of activities: response design and response implementation.

MKTOR scale, developed by Narver and Slater (1990), proposes three components of MO: customer orientation; competitor orientation; and inter-functional coordination. These components interact to foster an organization-wide understanding of customer needs and competitive offerings so that there is an organizational focus on providing superior value to customers (Alhakimi and Baharun, 2009). Underlying MKTOR's scale is the 15 items, made up of three components of MO: customer orientation, competitor orientation, and interfunctional coordination and thus a firm's MO score is the simple average of the scores of the three components (Narver and Slater, 1990).

After a substantive review of MO seminal literature available on both MARKOR and MKTOR scales above, the researcher chose to operationalize the former, by Kohli and Jaworski (1990), in this pragmatic research. This decision is based on content analysis of the MARKOR and MKTOR scales conducted by Gauzente (1999, cited in Rojas-Mendez et al. 2006) who concluded that MARKOR is better to evaluate MO because it measures not only the present state of the firm but also its capabilities. MARKOR scale allows the assessment of reactivity and proactivity of the business, which is not possible with MKTOR scale (Kara et al. 2005). The main weakness with MKTOR scale is due to the inconsistency with its own definition and its excessive emphasis on customer orientation (Rojas-Mendez et al. 2006). Equally to note, the choice of MARKOR scale is solidly underpinned by the fact that it has been widely used in the measurement of the degree of MO and has been considered valid in various studies conducted in diverse countries and cultures (Rojas-Mendez et al. 2006) and therefore it is envisaged to be perfectly applicable in measuring MO within service SMMEs in Botswana. Kara et al. (2005) acclaim MARKOR scale on the basis of its ability for application in different locations and contexts. thus it is expected to be perfectly applicable in the service SMME industry in Botswana.

Furthermore, Kohli et al, (1993) and Bhuian (1997) have suggested further testing of MARKOR scale in divergent settings, and thus the choice of MARKOR scale is in response to these suggestions where the researcher believes that the Botswana service SMME environment represents a new empirical context that will permit an in-depth measurement of MO implementation. The study also provides a test of applicability of MARKOR scale developed in the western markets to developing economies, and particularly Botswana.

#### 4.2 Market Orientation and Business Performance

A dominant position amongst MO pundits is that the firm's degree of MO has a positive effect on business performance (Kohli and Jaworski, 1990; Rojas-Mendez et al. 2006), more especially on sales, market share and profitability (Raaij and Stoelhorst, 2008). Recent studies have provided empirical support for the positive impacts of MO on customer perceived quality, customer satisfaction and loyalty, and employees as well (Jaworski and Kohli, 1996; Kirca et al. 2005; Dauda, 2010). Thus MO is critical to a firm's performance because it encourages and supports new product development to meet current and future market needs. The study of Kara et al. (2005) attests that MO in SMMEs is positively correlated with performance in transitional economies, and particularly China, where their empirical study was conducted. Thus if possible to extrapolate the above findings to any industry and or culture, MO should be expected to have a positive effect on business performance for service SMMEs in Botswana.

The rationale linking MO and business performance is that the former facilitates collection and use of market information as well as focusing on coordinating resources to deliver superior customer value (Li et al, 2008). Thus a firm with a high degree of MO continuously examines alternative sources of sustainable competitive advantage to determine how it can effectively create superior value and future target customers. Firms that develop better or more appropriate MO tend to pay more attention to understanding and meeting customer needs, understanding the economic environment which they face and responding to changing markets and competitive environments (Li et al., 2008) and thus realising superior performance.

However, a number of authors on the concept have questioned the existence of a positive relationship between MO and business performance. Greenley (1995) found existence of no relationship between MO and business performance. This is corroborated with the findings of Jaworski and Kohli (1993) that MO is not related to a firm's actual market share. While Narver and Slater (1990) report a negative coefficient for MO, Diamantopoulos and Hart (1993, cited in Rojas-Mendez et al., 2006) identified a weak association between MO and business performance. Rojas-Mendez et al. (2006) observe that the variations in the findings of studies conducted on MO impacts on business performance in

different contexts could be due to variations in the cultural factor, that in turn affect the information dissemination function.

While some empirical studies find a positive relationship between MO and overall business performance (Kholi and Jaworski, 1990; Jaworski and Kohli, 1993) and financial performance (Kara et al., 2005; Kirca et al., 2005; Kaynak and Kara, 2004), such findings were based on evidence from western economies, and the transitional economy of China (Kara et al., 2005) and developing economy of Chile (Rojas-Mendez et al., 2006). Therefore, it is of scholarly prudence that a related empirical study of the impacts of MO on business performance especially for SMMEs in the service industry, be conducted in Botswana to validate the fore mentioned correlations between MO and business performance. This is very timely as Botswana under goes economic recovery from the global economic recession that has severely hit its SMME sector (BIDPA, 2009 annual report). These SMMEs would then be required to place their emphasis on MO to obtain significant improvements in their performance. This will also help these firms to adjust their strategies according to the changing market conditions as well as meeting customer needs.

Deshpande (1999) observes that whether to be or not to be market oriented, firms should bear in mind that a MO requires commitment of resources and thus the orientation is useful only when the benefits afforded by it exceed the cost of these resources committed. Thus under conditions of limited competition, stable market preferences, technologically turbulent industries, and booming economies, MO may not be particularly strongly related to business performance. Pelham and Wilson (1996, cited in Li et al., 2008) reinforce that SMMEs operating under highly uncertain and turbulent environmental conditions should develop MO as an especially effective strategy primarily because of their limited resources. As small firms may have difficulties pursuing other sources of potential business profitability, MO becomes a critical strategic alternative for them (Kara, Spillan, and Deshields, 2005; cited in Li et al., 2008). It is logical therefore to hold that SMMEs in the service industry in Botswana that generates market intelligence, disseminates it across all its departments and responds to it, are likely to perform better and have more satisfied customers and employees than those that do not.

## 5. The Theoretical Model

From a focused and sustained meta-analytical review of the above seminal literature on market orientation, stretching from 1990-2010, the researcher distilled a theoretical framework, in figure 1 below, upon which this study is based. The framework depicts the four hypotheses suggested to be tested in this empirical study, focused on measuring the impact of market orientation on business performance of SMMEs in the service industry in Botswana.

### 5.1 Research Hypotheses

A focused search and scrutiny of both empirical and theoretical seminal literature on market orientation in relation to the statement of the problem above, the researcher managed to generate the following scientific hypotheses that the study will seek to test as evident on the framework:

H1: the level of market orientation of SMMEs in the service industry in Botswana is positively correlated with business performance.

H2: For SMMEs in the service industry in Botswana, intelligence generation through market information collection and processing capabilities (referring to the collection of information about customer needs and preference, and forces that influence the development of those needs) is positively associated with business performance.

H3: For SMMEs in the service industry in Botswana, intelligence dissemination (referring to the process and extent of market information exchange across all functional units in a given business firm), is positively associated with business performance.

H4: For SMMEs in the service industry in Botswana, intelligence responsiveness (referring to the steps taken in response to market information generated and disseminated across its departments), is positively associated with business performance.

### 5.2 Research design

In this study, a quantitative strategy will be taken in the design, data collection and analysis. Particularly, a cross-sectional survey will be conducted, on a sample size of 400 owner managers as study subjects, selected using a snowball sampling technique on the basis of sub-sectors, size, and location. Data will be collected using a survey questionnaire, to be tested for reliability and validity using Cronbach alpha coefficient, and confirmatory factor analysis respectively. Finally the survey questionnaire will then be self-administered by the researcher using a drop-pick method, and data collected, analysed using descriptive statistics and hypotheses tested with SPSS for windows 18.0.

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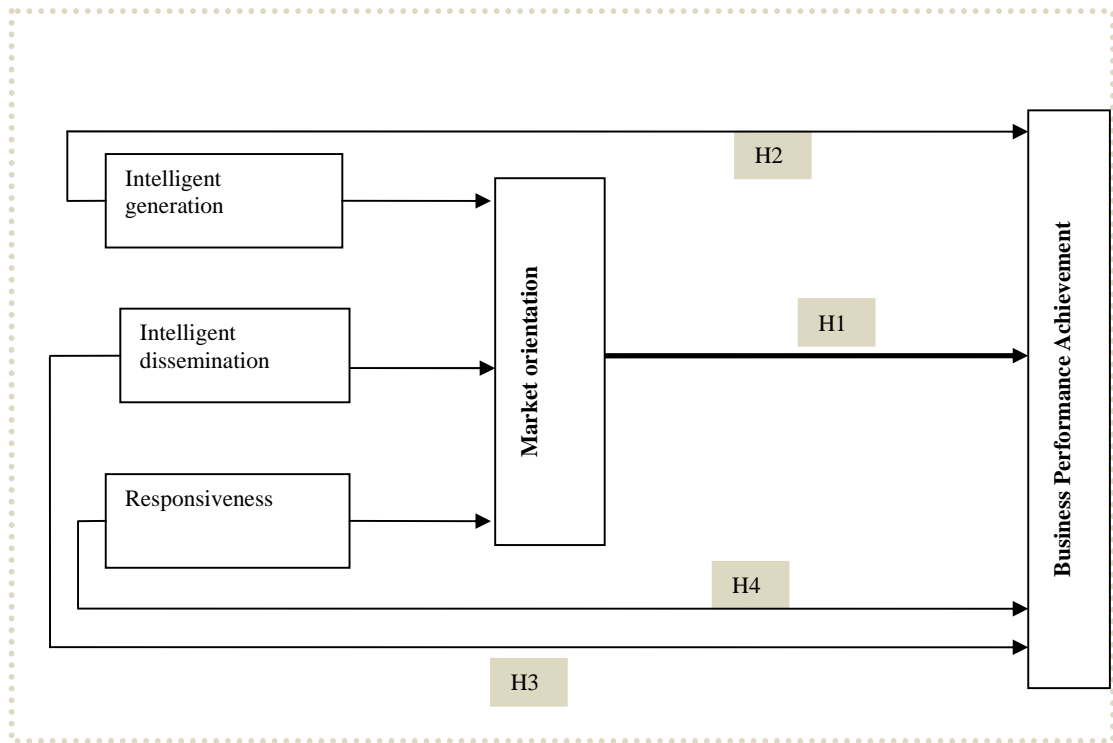


Figure 1. Framework of the Effects of Market Orientation on Business Performance