

## CHAPTER 1

### INTRODUCTION, PROBLEM STATEMENT, PURPOSE OF THE STUDY AND RESEARCH METHODOLOGY

#### 1.1 BACKGROUND

Due to the high unemployment rate of 25.5 percent in South Africa one needs to create jobs (Statistics South Africa, 2007:10). Relating to this previous statement, Table 1.1 show the unemployment statistics as was obtained from statistics South Africa.

**Table 1.1:** Unemployment in South Africa, March 2007

Labour market indicators	Mar 2001	Mar 2002	Mar 2003	Mar 2004	Mar 2005	Mar 2006	Mar 2007
<b>Unemployment rate</b>							
Male	24.6	26.1	27.2	23.9	22.4	21.6	21.1
Female	28.6	33.9	25.9	32.9	31.4	30.3	30.8
<b>Sum total average of male and female</b>	<b>26.4</b>	<b>29.7</b>	<b>31.2</b>	<b>27.9</b>	<b>26.5</b>	<b>25.6</b>	<b>25.5</b>
<b>Absorption rate</b>							
Male	49.7	48.2	46.7	47.2	48.5	49.3	49.1
Female	38.0	34.2	32.4	31.6	32.7	34.6	34.5
<b>Sum total average of male and female</b>	<b>43.7</b>	<b>41.0</b>	<b>39.3</b>	<b>39.1</b>	<b>40.3</b>	<b>41.7</b>	<b>41.9</b>
<b>Participation rate</b>							
Male	65.9	65.2	64.1	62.0	62.5	62.9	63.0
Female	53.3	51.8	50.5	47.1	47.7	49.6	49.9
<b>Sum total average of male and female</b>	<b>59.4</b>	<b>58.3</b>	<b>57.1</b>	<b>54.3</b>	<b>54.8</b>	<b>56.0</b>	<b>56.2</b>

**Source:** Statistics South Africa (2007:10)

Economies through out the world have benefited greatly through the job creation resulting from successful small and medium enterprises (SME's). It is

therefore important to create an environment in South Africa that will ensure sustainable and successful start-up SME's. In order to be successful, research is in agreement that market orientation is a prerequisite for the business performance of a company in that the successful implementation of market orientation as a management philosophy will result in sustainable competitive advantage (SCA) (Kruger, 1995:18).

When business performance is under discussion one need to qualify and quantify business performance. Without a measurement system for business performance the study would not be possible. In a quest to qualify business performance one need to define it and measure business performance.

In order to define business performance one needs to ask: "What is business performance"? Fifty years ago the general perception were that the financial accountant had all the answers on business performance, which they obtained from the company's financial statements.

In the last decade there has been a growing criticism of traditional management control as to narrowly focus on financial measures. Financial measures showed the effect of decisions already taken but failed to provide adequate guidance for long-term strategic development (Olve, Roy & Wetter, 1999:12). Since the technical revolution the data processing tools enabled managers to look at business holistically and futuristically. Concepts and tools like total quality management (TQM), economic value added (EVA), lean production, just-in-time and business process redesign (BPR) emerged (Olve, 1999:12). These tools emphasised internal and historical aspects of the company, but fail to consider external and futuristic aspects (i.e. strategy) of the business.

Further critique on financial measurement as an exclusive means of performance measurement tool came from Paul Niven. "As we move into the twenty-first century however many are questioning our exclusive reliance on financial measures of performance. Perhaps these measures would better serve as a means of reporting on the stewardship of funds entrusted to

management's care rather than charting the future direction of the organization" (Niven, 2002:6).

Business performance is deferent for almost every business. The business performance of an organisation depends on the goal/mission/vision of a business and the measurement of variables which impact on the success of realising the goal/mission/vision. To incorporate business performance into the assessment of an organisation the researcher needs to address two issues: (1) Select a conceptual framework from which to define business performance and (2) identify accurate, available measures that operationally business performance (Dess, 1986: 1).

Kaplan and Norton had the following critique on traditional financial measurement of performance. "The traditional financial performance measures worked well for the industrial era, but they are out of step with the skills and competencies companies are trying to master today. As managers and academics researchers have tried to remedy the inadequacies of current performance measurement systems, some have focused on making financial measures more relevant. Others have said: "Forget the financial measures. Improve operational measures and financial results will follow. But managers should not have to choose between financial and operational measures. No single measure can provide a clear performance target or focus attention on the critical areas of the business. Managers want a balanced presentation of both financial and operational measures (Kaplan & Norton, 1998:125).

From the above critique it is clear that if one is to measure the performance of a company one will have to consider all aspects that impact on the goal of the company as defined in the mission and vision statements of the company. One such a business performance measurement tool is the balanced scorecard (BSC). In their ground-breaking *Harvard Business Review* article, "The Balanced Scorecard - Measures that Drive Performance" (January – February 1992), Robert Kaplan and David Norton proposed a new measurement system that provided managers with a comprehensive framework to translate a company's strategic objectives into a coherent set of

performance measures (Kaplan & Norton, 1998:147). This study will define and discuss business performance with the BSC as a framework.

This study aim to identify the correlation between market orientation and business performance in start-up SME's in South Africa.

## **1.2 PROBLEM STATEMENT**

South Africa has an unemployment rate of 25.5 percent. Because SME's are normally labour intense operations they afford an opportunity to create employment on a significant scale (Ligthelm and Cant, 2003:41). South Africa would therefore benefit from the subsequent job creation resulting from a strong SME sector.

The general perception is that substantial percentages of small and medium enterprises (SME) do not survive their first year of operations. In support Martins (Ligthelm and Cant, 2002:11) said: "The survival rate of SME's is relative low. Less than half of newly established businesses survive beyond five years. This is not only true for South Africa, but also a common phenomenon in the rest of the world, including first world countries". In support of Martins, Monk (2000:12) state "Chances are that if you are an entrepreneur and start a small business, you won't make it past the five-year mark. Statistics indicate that small to medium-sized enterprises (SME's) fail at staggering rate. 68 percent of those with less than five employees and 48 percent of those with between five and ninety-nine employees fail within five years of start-up. Philips and Kirchhoff (1998:34) mentioned the myth of nine out of ten new businesses closing in their first year" (Headd, 2003:52). Therefore many claims and estimates are made which could be as high as 96 percent failure or as low as 20 percent failure. A more realistic figure of 60 percent is suggested as a norm for Europe and the United States of America. Research into the actual percentage is not readily available due to people tending to keep quite about their failures. The actual percentage of failure is

not as important as to note that the probability of failure of start-up SME's is high.

With the high unemployment rate on the one hand and the job creation potential of SME's on the other, it is critically important to identify factors responsible for failure of start-up SME's.

Then, why do start-up SME's fail?

From literature the most significant reasons for failure is the lack of knowledge on business management sciences amongst entrepreneurs. The deficient experience/training/skills in terms of business management sciences is prevalent on all levels whether it is formal tertiary qualifications, on the job training, work experience or even exposure through seminars and conferences. Ligthelm and Cant (2002:6) is in agreement by proposing the deficiencies in the internal microenvironment as a reason for failure with the following statement: "Endogenous causes of failure centres largely around the following areas: management skills, management behaviour and financial knowledge". Further evidence is provide by Monk (2000:12) when he state the following: "However the most significant reason for this high failure rate is the inability of SME's to make adequate use of essential business and management practices".

Amongst entrepreneurs in South Africa the levels of business management education and training is low and subsequently also the specific theoretical knowledge of the marketing concept and market orientation as a philosophy for business management (Ligthelm and Cant, 2002:4). If entrepreneurs then possess limited knowledge on business management sciences, then one can argue that knowledge on the marketing concept and on market orientation is also limited. Thus, in the absence of formal training on the market orientation philosophy one can assume that such entrepreneurs would not have implemented the market orientation philosophy in a formally fashion.

To summary of the above the prevalent lack of knowledge give rise to organisations not being market orientated.

Scholars of modern business management sciences will agree with Kruger (1995:18) "Market orientation is a prerequisite for the business success of a company in that the successful implementation of market orientation as a management philosophy will result in sustainable competitive advantage (SCA)" (Kotler in Kruger, 1995:18). A tendency exists to assume that the degree of market orientation is prerequisite for business performance (Labuschangne, 1998:9). Kruger (1995:17) opts that a resistance to migrate from a production or product orientation to a market orientation will eventually lead to failure in business.

With market orientation in absentia and market orientation being a prerequisite for SCA then the following questions arise:

- Will business performance elude start-up SME's in South Africa due to the absence of the market orientation philosophy?
- To what extent is business performance possible without the full intentional and comprehensive implementation of the market orientation philosophy?
- If business performance was achieved through the unintentional implementation of the marketing concept then to what degree do a company need to be market orientated to ensure this level of business performance?

From the literature, answers to these questions is categorised in two opposing schools of thought namely the pro-group (i.e. market orientation is a prerequisite for business performance) and the anti-group (i.e. market orientation is not a prerequisite for business performance).

The pro-group would be scholars like Kohli & Jaworski (1993:467), Kotler (1972:46), and Kruger (1995:18). These scholars will argue the absence of marketing orientation as the reason for the high rate of failure amongst start-up SME's.

The anti-group would be scholars like Noble, Sinha and Kumar (2002:27) and Nwokah (2006:59). This group is of the opinion that market orientation is not always a determinate of business performance. Nwokah (2006:59) showed

that the base of market orientation originated in the context of the United States of America's cultural setting that is vastly different from the cultural setting and values found in Nigeria. This group will argue a weak link between market orientation and business performance (Nwokah, 2006:59). Further support come from Naver and Slater (1990:22): "Many empirical findings from studies of the relationship between market orientation and performance have produced results that are complex and, in several cases, unsupportive. In several studies of the performance consequences of market orientation in international settings, no effects have been found, perhaps suggesting a cultural influence on the phenomenon. Across many contexts, various studies have found no direct relationship between market orientation and objective measures of performance. Even in one of the founding pieces in this stream, performance effects vary on the basis of the business context". In addition Noble, Sinha and Kumar (2002:27) said: "From these findings, it appears that more work is needed to understand the range of factors influencing the relationship between market orientation and performance".

In light of the above, the following two extreme view points is put forward to expand on:

1. A South African entrepreneur will survive the first five years of business because he/she obtained sustainable competitive advantage through being educated in business management sciences and with specific knowledge on market orientation.
2. A South African entrepreneur will not survive the first five years of business because he/she was not educated in business management sciences and subsequently without any specific knowledge on market orientation (i.e. absence of business education = absence of marketing concept = absence of market orientation = absence of sustainable competitive advantage = absence of business performance).

Although these opposing viewpoints are extreme and absolute in nature, they do not reflect the reality of business performance of SME's in South Africa. In South Africa one find many examples of successful entrepreneurs of whom

the majority does not possess any formal business education. These entrepreneurs may have (unintentionally and/or instinctively) implemented aspects of market orientation. In the absence of formal business education the survival of start-up SME's can therefore be accredited to either the entrepreneur's business instincts and natural inclination towards successful business practises or alternatively, the survival of start-up SME's is not depended on aspects of being market orientated.

By determining if a correlation exists between market orientation and business performance it is possible to make a contribution towards more sustainable and successful SME's in South Africa.

### **1.3 PURPOSE OF THE STUDY**

The purpose of this study is to identify factors that influence the failure rate of start-up SME's. By measuring both market orientation and business performance in existing successful SME's, this study will aim to identify factors that were crucial for survival throughout the start-up period. The findings of this study will help would-be entrepreneurs by proposing factors for consideration before attempting to start a SME in South Africa.

### **1.4 RESEARCH OBJECTIVES**

Research objectives are viewed as the beginning of the empirical study in that the objectives are the point of reference for which the design of the hypothesis and the research methodology is constructed.

#### **1.4.1 Primary research objective**

The primary objective of this study is to discover and evaluate whether market orientations is a prerequisite for business performance of SME's trading in the South African Mining Communication Industry.



#### **1.4.2. Secondary research objective**

The secondary objectives are:

- a) to discover if SME owners/managers are successful without being market orientated; and
- b) to discover the link between market orientation and business performance; and
- c) to develop a questionnaire to measure business performance in SME's at start-up ; and
- d) to assist in deriving at a list of criteria which can guide SME's in future during start-up.

#### **1.5. RESEARCH HYPOTHESIS**

The following research hypothesis pertaining to the market orientation of successful SME's in the South African Mining Communication Industry and will be thoroughly scrutinised in subsequent chapters.

H<sub>1</sub>: A prerequisite for business performance in the South African Mining Communication Industry is market orientation.

The research hypothesis may be judged as either true or false upon completion of the necessary empirical studies.

#### **1.6 RESEARCH METHODOLOGY**

The study to determine the correlation between market orientation and business performance in South African SME's in the Mining Communication Industry will consist of a literature review and an empirical study.

### **1.6.1 Literature review**

The research study firstly focuses on a literature review through which two topics of interest will be studied. In order to gain theoretical insight into market orientation and business performance, recent publications in the printed media and World Wide Web will be researched.

### **1.6.2 Empirical study**

Firstly, to compliment the theory and secondly to consider the correlation between market orientation and business performance an empirical study will be carried out. The population of the study will include SME's in the South African Mining Communication Industry, which have been in business for period in excess of three years.

The data collection method will take on the form of a questionnaire published on a website and e-mails inviting prospective SME's to partake in the survey by logging in on to the website. The questionnaire will consist of three sections. Section A is related to the demographics, section B relates to market orientation and section C relate to business performance.

## **1.7 RELEVANCE OF THE STUDY**

The results will be useful for entrepreneurs and those who foster entrepreneurship and SME development. Through studies into the factors affecting SME performance, the investigation will produce knowledge that will be valuable for nascent and acting entrepreneurs and those in charge of SME's. It seems likely that many SME's and their stakeholders could learn from the failures and successes of others. Venture capitalists, financiers, and consultants can take advantage of these results. Moreover, on the basis of the results, organisations fostering entrepreneurship and SME development can better direct their actions.

The results will also be useful in the public sector for those who are responsible for drafting policy and legislation. The results may provide some guidelines for decision-making in terms of the allocation of resources and efforts. The results could be helpful in the evaluation of present SME policies and legislation.

Predominately however this study aims to help would-be-entrepreneurs and new businesses with the identification of possible solutions to some of the problems experienced during the start-up period of business.

## **1.8 CLARIFICATION OF KEY CONCEPTS**

It is essential to clarify the following key concepts that form an integral part of the study.

### **1.8.1 SME**

Definitions on SME's are abundant and they vary in terms of the criteria that are used in the definitions. For this study a SME is defined as an organisation with less than fifty employees.

### **1.8.2 Start-up period**

The start-up period differs from company to company. In this study the start-up period is defined as the first three years of business that is normally the time one need to establish oneself in the market.

## **1.9 DEMARCATION OF STUDY**

The current chapter describes the problem statement, research objectives and propositions as well as the importance and value of the study to be conducted regarding the correlation between market orientation and business

performance at SME's trading in the South African Mining Communication Industry. The following chapters will be segregated as follows:

### **Chapter 2: Market orientation**

This chapter will provide a theoretical discussion regarding the origin of the marketing concept, market orientation as a philosophy that is a result of the implementation of the marketing concept, and information on previous research concerning the elements of market orientation.

### **Chapter 3: Business performance**

This chapter will provide a theoretical discussion regarding the aspects influencing business performance and the balance scorecard as a method for measuring business performance.

### **Chapter 4: Research methodology, procedure and frequency distributions**

The research methodology will be discussed with special reference to the population, sampling process and sample size; the data collection method and specific measuring instrument; as well as the proposed statistical analysis.

### **Chapter 5: Research findings and interpretations**

This chapter will present the results from the empirical research that will be reported on a question-by-question basis for the total sample.

### **Chapter 6: Conclusions, implications and recommendations for future research**

The final chapter will provide a summary of all the major findings of this study. The chapter will be concluded by a discussion of the limitations of the study, followed by a discussion of several recommendations for future research.

## 1.10 CONCLUSION

In order to contribute towards the eradication of the high rate of unemployment in South Africa it is important to exploit the potential of SME's in terms of job creation possibilities. By identifying factors that is required to ensure sustainable and successful SME's it will be possible to empowering entrepreneurs with the knowledge and resources that will ensure the sustainability of start-up ventures. The realisation of large-scale job creation through the establishment of sustainable SME's will have a positive economical effect on the country as a whole.



## CHAPTER 2

### MARKET ORIENTATION

#### 2.1 INTRODUCTION

In this chapter, market orientation will be discussed as a management philosophy. The key to profit and the success of a company is the development of sustainable competitive advantage (SCA) (Kruger, 1995:18). To maintain SCA a company need to install a philosophy that will produce the necessary behaviours and will drive a desire to create superior value for its customers (Slater & Narver, 1992:1-2). This chapter will propose the market orientation philosophy as the philosophy of choice to produce the environment for SCA by defining market orientation and by discussing aspects concerning market orientation.

#### 2.2 EVOLUTION OF MARKETING.

Business management philosophies evolved from an internal focus, with little cognisance of the market, into an external focus, which had the market as the common point of reference (Van Der Walt, Strydom, Marx, & Jooste, 1995:19). The first phase was the production phase, which progressed into the product phase. Eventually management noted the important role of the market within their businesses. The phases pertaining to this era are the selling phase, the marketing phase and later societal marketing phase (Kotler, 2000:5). Although the phases represent specific time frames in terms of the evolution of marketing, it also characterise different management philosophies. Market orientation is the management philosophy associated with the marketing phase. The various philosophies of marketing are briefly discussed next.

### **2.2.1 The production phase**

Although the production phase started around the fifteenth century it was only after the Industrial Revolution that the principals of the production phase was properly established. Management was focused on the improvement of mass-producing machines and the relating manufacturing processes (Van Der Walt, Strydom, Marx, & Jooste, 1996:17). The goal was to produce products in bigger quantities, at cheaper prices and distribute bigger volumes over bigger areas. The production phase or concept holds that consumers will prefer products that are widely available and inexpensive (Kotler, 2000:17).

### **2.2.2 The product phase**

The product phase holds that customers will favour those products that offer the most quality, performance, or innovative features (Kotler, 2000:17). Customer preferences are less important than the continuous improvement of the product (Kruger, 1995:20). Management assume that customers will favour quality and achievement (Kotler, 1991:14).

### **2.2.3 The selling phase**

The selling phase holds that consumers, if left alone, will ordinarily not buy enough of the organisation's products. The organisation must, therefore, undertake an aggressive selling and promotion effort (Kotler, 2000:18). From the beginning of the twentieth century, manufactures had sufficiently mastered mass-production and increased stock levels at the factory, which created the need to get rid of the burden of accumulated stock. Although the production process and the product were still important, management began to focus on selling the products. Selling was everything. Ethics and customer satisfaction was seldom abandoned in favour of a sale-at-any-price (Van Der Walt, Strydom, Marx, & Jooste, 1996:19).

#### **2.2.4 The marketing phase**

This phase is characterised by management's growing awareness of customer's needs and profiting through the offering of products and services towards satisfying such needs (Kruger, 1995:19). During the marketing phase the customer's needs determined what product would be manufactured and not the design engineer as was the case during the previous phases. The client needs to determine the quality, price and availability of products and services. Advertising, branding, packaging and distribution networking is disciplines that was no longer separate functions in the company but where now integrated into the business management function of the company (Van Der Walt, Strydom, Marx, & Jooste, 1996:20). This was the start of the marketing concept, which is the corner stone of marketing for the last four decades. The marketing concept hold that the key to achieving its organisational goal consist of the company being more effective than competitors in creating, delivering, and communicating customer value to its chosen target markets (Kotler, 2000:19).

#### **2.2.5 The societal marketing phase**

The marketing phase did not consider whether the endeavours of satisfying the customer's needs and expectations are beneficial to himself, those around him and the environment in the short and long term. The societal marketing phase is characterised by conscientiousness about the well being of the customer, the society and the environment (Van Der Walt, Strydom, Marx, & Jooste, 1996:20). The societal marketing concept hold that the organisation's tasks is to determine the needs, wants, and interests of target markets and to deliver the desired satisfactions more effectively than competitors in a way that preserves or enhances the customer's and the society's well-being.



## **2.3 THE MARKETING CONCEPT**

The marketing concept is a business philosophy, an ideal or a policy statement. Kohli and Jaworski (1990:3) defined the marketing concept as a philosophy of business management, based upon the company-wide acceptance of the need for customer orientation, profit orientation and recognition of the important role of marketing in communicating the needs of market to all the major corporate departments (McNamara, 1972 in Kohli and Jaworski, 1990:3).

### **2.3.1 The pillars of the marketing concept**

Although a clear relationship exists among researchers and academics in their thought on the pillars of the marketing concept, a general absolute conclusion has not been reached. Kotler (2000:19) proposed target market, customer needs, integrated marketing, and profitability as the pillars of the marketing concept while Kohli and Jaworski (1990:3) again proposed customer focus, co-ordinated marketing, and profitability. These findings reflect the similarities and differences that exist in terms of the pillars of the marketing concept.

In summary of the above and considering the absence of absolute conclusion the key pillars of marketing concept is viewed as the customer perspective, profitability of the business, integration of systems and activities, and co-ordination of the disciplines in an organisation.

## **2.4 DESCRIPTION OF MARKET ORIENTATION**

Market orientation is the implementation of the marketing concept (Pitt, Caruana & Berthon, 1996:6). Market orientation is a logical result of the evolution processes of marketing: an ongoing process without end. Day (1994:38) propose that organisations can become more market orientated by identifying and building the special capabilities that set market-driven organisations apart.

Definitions on market orientations are plentiful and diverse. The most commonly quoted definitions found in the literature review are the following:

“A set of beliefs that puts the customer’s interest first” (Deshpandé, Farley, and Webster, 1993:24).

“The Marketing Concept is a business philosophy; an ideal or a policy statement” (McNamara, 1972 in Kohli & Jaworski, 1990:3).

“Market orientated organisations are superior in their market sensing and customer-linking capabilities” (Day, 1994:38).

Kotler defined market orientation as determining the needs and wants of target markets and delivering the desired satisfaction more effectively and efficiently than competitors (Au and Tse, 1995:79). In terms of an operational definition Kotler was the first to provide the five domains along which market orientation is defined namely (Au and Tse 1995:79):

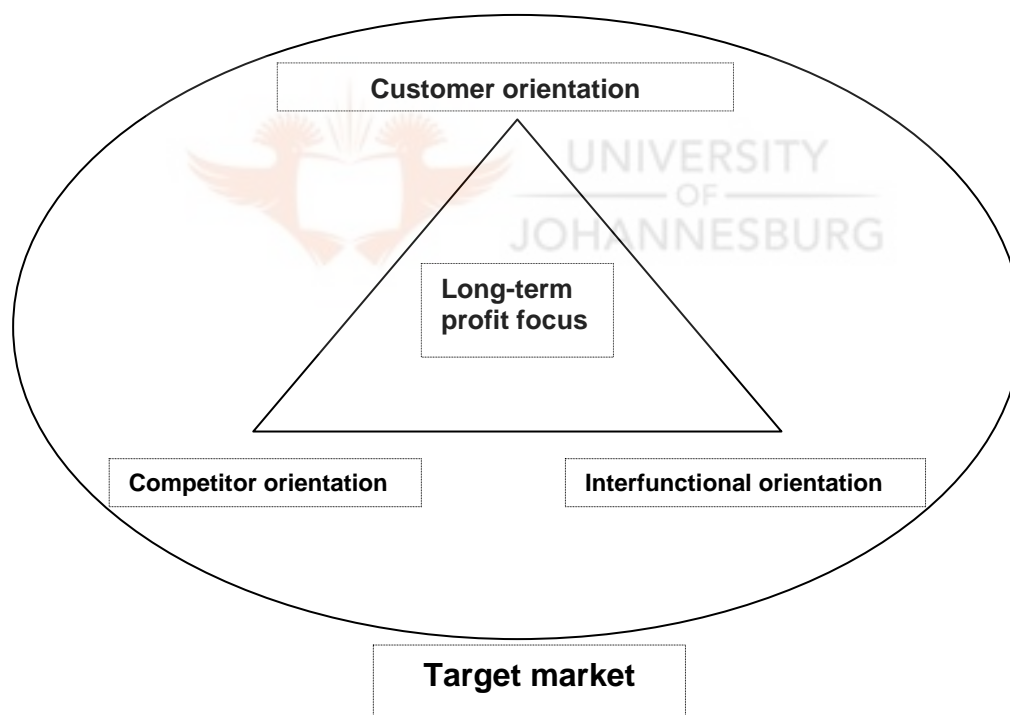
1. Consumer philosophy
2. Integrated marketing organisation
3. Adequate marketing information
4. Strategic orientation
5. Operation efficiency

Kohli and Jaworski (1990:4) define 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”. Kohli and Jaworski proposed a model for market orientation that entails the following: (1) one or more departments engaging in activities geared toward developing an understanding of customers’ current and future needs and the factors affecting them, (2) sharing of this understanding across departments, and (3) the various departments engaging in activities designed to meet select customers needs. In other words market orientation is the ability of the organisation to generate,

disseminate, and use superior information about customers and competitors (Kohli & Jaworski, 1990 in Hooley, Saunders & Piercy, 2004:8).

Naver and Slater (1990:22) define market orientation as the co-ordinated application of interfunctional resources to the creation of superior customer's value. (They elaborated by with the following description of market orientation: "... market orientation consist of three behavioural components - customer orientation, competitor orientation, and interfunctional co-ordination - and two decision criteria, namely long-term focus and profitability". Naver and Slater summed the three behavioural components of a market orientation as the

**Figure 2.1:** Naver and Slater's (1990) model of the dimensions of market orientation



**Source:** Naver and Slater (1990:23)

comprehension of the activities of market information acquisition and dissemination and the co-ordinated creation of customer's value. Figure 2.1 give a model of the dimension of market orientation as proposed by Naver and Slater. Parallel with these views Kohli and Jaworski (1990:3) offer a more process-driven model that considers the stages of generating, disseminating,

and responding to market intelligence as the construct of market orientation. The two frameworks share many underlying concepts and activities, such as the understanding of customer wants, cross-functional integration with the organisation, and the importance of decisive action in response to market opportunities (Kohli & Jaworski, 1990:3).

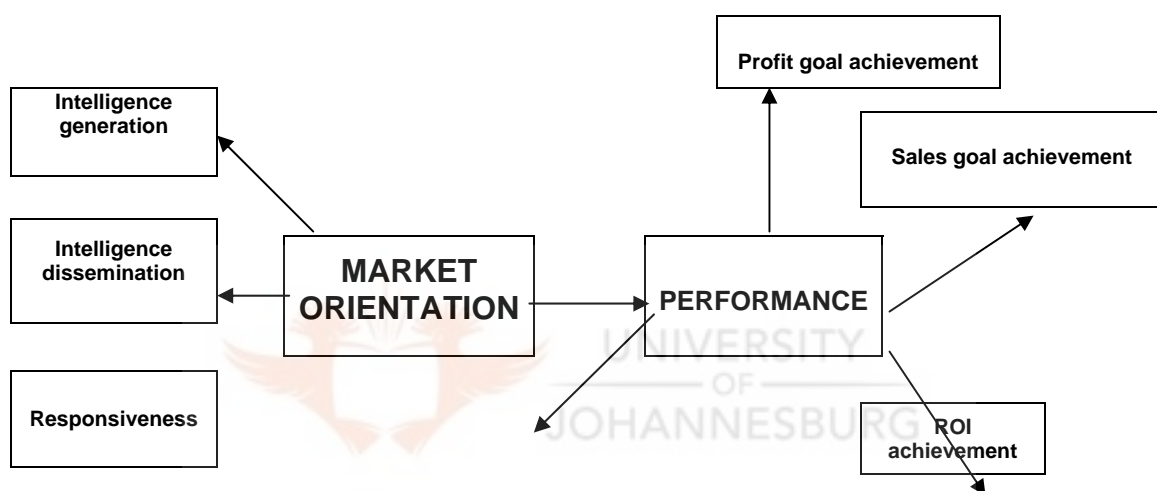
Kohli and Jaworski (1990:2) highlight the activities that a market-orientated organisation must perform. A market orientation is not solely the responsibility of a marketing department. It is critical for a variety of departments to be cognisant of customer needs (i.e. aware of market intelligence) and to be responsive to those needs. A market orientation is a concerted action by the various departments of an organisation. This pillar of market orientation is the co-ordination related to market intelligence. Co-ordination is important because it facilitates operationalising the construct by clearly specifying the type of co-ordination that is relevant to customers (Kohli & Jaworski, 1990:3). Kohli, Jaworski & Kumar (1993:469) also postulate of that, although the market orientation construct is conceptualised as consisting of three distinct components. The covariation among the items can be accounted for by a single factor, i.e. a general market-orientation factor.

In terms of measurement of market orientation Pitt, Caruana & Berthon, (1996:5) said "Much of their (i.e. Kohli and Jaworski (1993:469)) work in the early 1990's focused on the development of a scale to measure market orientation, which was given the abbreviated name of "MARKOR". The original items in the MARKOR scale are obtained by comparing the three core elements of market orientation as a philosophy, to the perceptions held by practicing managers of activities required for a market orientation (Pitt, Caruana & Berthon, 1996:5). The scale has been demonstrated to be reliable (alphas always exceeding 0.7), and evidence of its validity has been shown in the form of significant correlations with measures of business performance (Pitt, Prinsloo & Berthon, 2007:21).

The MARKOR scale describes market orientation by proposing the following elements: the generation of information, the dissemination of information, and responsiveness to the information. It is with these elements as a reference

that the following discussion will elaborate on the elements of market orientation.

**Figure 2.2:** Market orientation (MARKOR) model



**Source:** Adapted from Kara, Spillan and De Shields, (2005:105)

### 2.4.1 Information generation

The starting point of a market orientation is market intelligence. Market intelligence is a broader concept than customers' verbalised needs and preferences in that it includes an analysis of exogenous factors that influence those needs and preferences (Kohli & Jaworski, 1990:4).

Perhaps the first offering of an external focus in terms of the information is Kotler (1977, in Heiens, 2000:1) with "...an effective marketing organisation focuses on the external environment, which is said to include both customers and competitors. Customer orientation and competitor orientation include all activities involved in acquiring information about buyers and competitors in the target market and disseminating it throughout the business (Naver & Slater, 1990:21).

Effective market intelligence pertains not just to current needs, but to future needs as well. The notion that market intelligence includes anticipated customer needs is important because it often takes years for an organisation to develop a new product offering. Slater (2001:231) adds to the information generation element by describing the second generation of market-oriented businesses. Second generation market-oriented businesses are committed to generating information not only of the expressed needs of customers but also of the unexpressed needs. In terms of the competitor second generation market-oriented businesses focus not only on the present but also on the future plans and capabilities through the process of acquiring and evaluating market information in a systematic and anticipatory manner (Slater, 2001:231).

Though assessment of customer needs is the cornerstone of a market orientation, defining customers may not be simple. In some cases, businesses may have consumers (i.e. end users of products and services) as well as clients (i.e. organisations that may dictate or influence the choices of end users). It is critical for organisations to understand the needs and preferences of not just end customers but also retailers through whom products are sold. This sentiment reflects the growing power of retailers over manufacturers owing to the consolidation of the former retailer's access to scanner data, and increased competition among manufacturers due to proliferation of brands. Keeping retailers satisfied is important to ensure that they carry and promoted one's products, which in turn enabled him to cater to the needs of his end customers. Today the appropriate focus appears to be the market, which includes end users and distributors as well as exogenous forces that affect their needs and preferences (Kohli & Jaworski, 1990:4).

The generation of market intelligence relies not just on customer surveys, but also on a host of complementary mechanisms. Intelligence may be generated through a variety of formal as well as informal means (e.g. informal discussions with trade partners) and may involve collecting primary data or consulting secondary sources (Kohli & Jaworski, 1990:4). Another way of collecting data is to work closely with lead users. A lead user is one who has

advance needs compared to other market members and one that expects to benefit significantly from the solution to those needs. These sophisticated and often demanding users are quick to respond and give negative or positive feedback (Slater, 2001:231).

Importantly, intelligence generation is not the exclusive responsibility of a marketing department. Non-marketing employees need to be encouraged to exchange information with customers. This approach not only enables manufacturing personnel to understand better the purchase motivations of customers, but also helps customers to appreciate the limits and constraints of processes involved in manufacturing items they require (Kohli & Jaworski, 1990:5).

To anticipate customer needs accurately, studies of trends and forces in the industries to which major customer groups belong will identify future needs of customers and plan future offerings jointly with customers. The generation of market intelligence does not stop at obtaining customer opinions, but also involves careful analysis and subsequent interpretation of the forces that impinge on customer needs and preferences. The generation of market intelligence is not the exclusive responsibility of a marketing department. Individuals and departments throughout an organisation generate market intelligence collectively. Mechanisms therefore must be in place for intelligence generated at one location to be disseminated effectively to other parts of an organisation (Kohli & Jaworski, 1990:5).

#### **2.4.2 Information dissemination**

Responding effectively to a market need requires the participation of virtually all departments in an organization – R & D to design and develop a new product, manufacturing to gear up and produce it, purchasing to develop vendors for new parts/materials, finance to fund activities, and so on. Marketing managers must develop and facilitate dissemination of market intelligence. These activities echo suggestions in the literature that organisational direction is a result of marketing managers educating and communicating with managers in other functional areas and that marketers'

most important role may be selling within the firm. The marketing department need not always disseminate market intelligence to other departments. Intelligence may flow in the opposite direction, depending on where it is generated. Effective dissemination of market intelligence is important because it provides a shared foundation for concerted actions by different departments (Kohli & Jaworski, 1990:5).

Interfunctional co-ordination is based on the customer and competitor information and requires the business's co-ordinated efforts, typically involving more than the marketing department, to create superior value for the buyers (Narver & Slater, 1990:21).

### **2.4.3 Responsiveness**

An organisation can generate intelligence and disseminate it internally. However, unless it responds to market needs, very little is accomplished. Being customer oriented involves taking actions based on market intelligence, not on verbalised customer opinions alone. Market intelligence is a broader concept in that it includes consideration of (1) exogenous market factors (e.g. competition, regulation) that affect customer needs and preferences and (2) current as well as future needs of customers. These extensions reflect practitioners' broader, more strategic concerns related to customers (Kohli & Jaworski, 1990:3).

Responsiveness is the action taken in response to intelligence that is generated and disseminated. Responsiveness to market intelligence takes the form of selecting target markets, designing and offering products/services that cater to their current and anticipated needs, and producing, distributing, and promoting the products in a way that elicits favourable end-customer response. Virtually all departments – not just marketing – participate in responding to market trends in a market-oriented company (Kohli & Jaworski, 1990:5).

Paralleled to the MARKOR scale of Kohli & Jaworski (1990:5), Narver and Slater reported a proposal of a valid measure of market orientation in their



ground breaking article “The Effect of a Market Orientation on Business Profitability” published in the Journal of Marketing (Naver and Slater, 1990:20).

Naver and Slater (1990:20-23) proposed five components of market orientation. Following is a brief description of these components:

- **customer orientation:** understanding customers well enough continuously to create superior value for them;
- **competitor orientation:** awareness of the short- and long-term capabilities of competitors;
- **interfunctional co-ordination:** using all company recourses to create value for target customers;
- **organisational culture:** linking employee and managerial behaviour to customer satisfaction;
- **long-term profit focus:** as the overriding business objective.

It is with these components as a reference that section B of the questionnaire in appendix A has been constructed. The aim of section B of the questionnaire is to measure market orientation in SME's.

## 2.5 PARADOXES OF MARKET ORIENTATION

The conceptual worth of the theory of market orientation was never in doubt; the practicalities concerning the sustainable implementation of market orientation have proven to be a weakness. What follow is comments from literature pertaining to the difficulties experienced through endeavours to implement market orientation sustainable and effective.

Objections to market orientation in organisations are that it is “ too expensive” or “inappropriate in the present economic climate because of resource shortages” (Harris & Piercy, 1997:33).

Critique on Narver and Slater's model of market orientation come from Noble, Sinha & Kumar (2002:27): "Narver and Slater do not achieve sufficiently high reliability values to evaluate the decision components (long-term focus and profit focus) of their model. Later work in this area has generally avoided an attempt to measure these two dimensions of Narver and Slater's original conceptualisation, creating a knowledge gap surrounding these seemingly important factors. In general, studies of disaggregated dimensions of market orientation have been avoided or have encountered similar problems (Noble, Sinha & Kumar, 2002:27).

In terms of the correlation between market orientation and business performance a significant correlation was found when "overall performance was assessed using judgmental measures" but no significant relationship was found when performance was measured using more objective measures (e.g. market share) (Harris & Piercy, 1997:34).

Day (1994:37) express reserves about the implementation of market orientation with the following: "Throughout much of its history, however, the marketing concept has been more an article of faith than a practical basis for managing a business. Little is known about the characteristics of successful programmes for building market orientation." In addition Harris and Piercy (1997:35) found that despite the conceptual worth of the theories of Narver and Slater (1990:22) and Kohli and Jaworski (1990:5), the real issue for most executives is that "we would love to become more market-led, but we simply cannot afford it." The affordability that is expressed is in terms of time and money.

Harris and Piercy (1997:33) found that evidence about company practices and success in achieving market focus which suggest that there is rather more lip service and tokenism to be found, than the genuine and effective implementation of market orientation.

Piercy and Harris (1999:125) found the implementation of market orientation is linked with management behaviour. High levels of political manoeuvring, conflict and formalised behaviour were linked with lower levels of market

orientation. This was perceived as intuitively plausible due to the divide attention of managers focusing more on politics than on the market.

In conclusion and in agreement with Day (1994:45), many organisations have aspired to become market orientated but have failed to instil and sustain this orientation because they underestimated the difficulty of the task to shift an organisation's focus from the internal to the external.

## **2.6 SUSTAINABLE COMPETITIVE ADVANTAGE**

Although the previous section have focused on the aspects of market orientation it is important to note that the market orientation philosophy is but a means to an end. The ultimate goal of any organisation is sustainable competitive advantage and market orientation is the plan to realise this goal. This section will briefly discuss sustainable competitive advantage.

### **2.6.1 Defining sustainable competitive advantage**

Capabilities are complex bundles of skills and collective learning, exercised through organisational processes that ensure superior co-ordination of functional activities (Day, 1994:38).

A sustainable competitive advantage (SCA) is the ability to deliver superior value to the market for a protracted period of time (Du Plessis, Jooste & Strydom, 2001:169). A clear distinction need to be made between two aspects of this definition in terms of the ability to deliver superior value and the ability to sustain the offering over time.

The competitive advantage model of Porter (not.disclosed:1) learns that competitive strategy is about taking offensive or defensive action to create a defendable position in an industry, in order to cope successfully with competitive forces and generate a superior return on investment. According to Porter, the basis of above-average performance within an industry is sustainable competitive advantage. There are two basic types of competitive

advantage: 1. cost leadership (low cost), and 2. differentiation. Both can be more broadly approached or narrow, which results in the third viable competitive strategy: focus (Porter, n.d:1).

In the first approach to competitive advantage (cost leadership), an organisation sets out to become the low cost producer in its industry. A cost leader must achieve parity or at least proximity in the bases of differentiation, even though it relies on cost leadership for its competitive advantage. If more than one company aim for cost leadership, usually this is disastrous. It is often achieved by economies of scale (Porter, n.d:1).

The second approach of competitive advantage (differentiation), an organisation seeks to be unique in its industry along some dimensions that are widely valued by buyers. A differentiator cannot ignore its cost position. In all areas that do not affect its differentiation it should try to decrease cost: in the differentiation area the costs should at least be lower than the price premium it receives from the buyers. Areas of differentiation can be: product, distribution, sales, marketing, service, image, etc (Porter, n.d:1).

The third approach of competitive advantage (focus) is the result where both types of competitive advantage (cost leadership and differentiation) are followed (Porter, n.d:1).

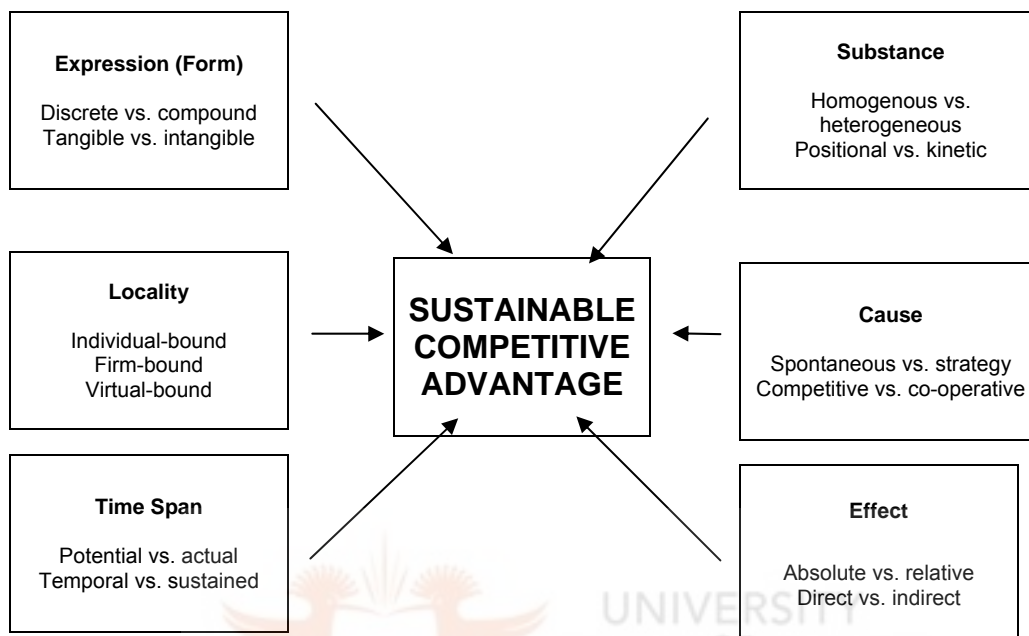
## **2.6.2 The structure of a sustainable competitive advantage**

Because capabilities are deeply embedded within the fabric of the organisation, they can be hard for the management to identify (Day, 1994:38). In order to construct a competitive advantage it is required to take note of the various building blocks available for the purpose of construction. Capabilities and organisational processes are closely entwined, because it is the capability that enables the activities in the business process to be carried out (Day, 1994:38). The following components were developed for the description of the different ways to construct a SCA (Ma, H. 1999:711):

### **2.6.2.1 Substance**

It is the strengths that is present from within the organisation like assets knowledge, skills, the ability to do things different and better than the rest.

**Figure 2.3:** The Select Framework



**Source:** Adapted from Du

Plessis, Jooste, and Strydom, (2001:172)

### 2.6.2.2 Expression

This component is about the perception that is created and it could be a visible advantage like location or the intangible like Kentucky Fried Chicken's secret mix of eleven herbs and spices. This expression can be the result of a single advantage or the sum of many advantages.

### 2.6.2.3 Locality

The location of advantages can be located inside the organisation in either the individual member or in groups within the organisation. It is also possible that an organisation's competitive advantages could reside outside the organisation.

#### **2.6.2.4 Effects**

The effects of a competitive advantage on the competitor can vary from an absolute advantage to relative advantage. The effect could also be directly linked to the organisation or it could be that the advantage can not be trace directly to the organisation.

#### **2.6.2.5 Cause**

The origins of a SCA can be either spontaneous or strategic and the motive for its existence can be either competitive or co-operative.

#### **2.6.2.6 Time span**

The time span refers to the duration of the advantage and it could be either temporal or sustainable. A distinction must also be made in terms of a potential advantage (i.e. an advantage realised in the future) and an actual advantage (i.e. a present-day advantage).

### **2.6.3 The link between SCA and market orientation**

The aim of the select framework is to provide the means to examine sustainable competitive advantage, which in turn is the prerequisite for market orientation. It is therefore then required to consider the select framework in a discussion of market orientation.

## **2.7 SUMMARY**

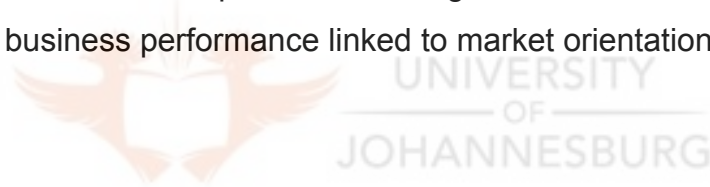
An entrepreneur starting a SME is generally enthusiastic and in their rush to get the venture of the ground they fail to implement important aspects of business fundamentals that are required for success. Some entrepreneurs would argue that the philosophy of market orientation is not relevant in SME's in that it's implementation is too comprehensive. In some cases the

implementation of the marketing orientation philosophy has proved to be difficult and time consuming.

On the other hand it is clear that start-up SME's have a high rate of failure.

What this chapter have shown is that guidelines do exist for entrepreneurs to minimise their risk of failure by strategically implementing business practices like the components of the market orientation philosophy and SCA's. From the literature it is believed that the entrepreneur should at least minimise their risk of failure by taking cognisance of the market orientation philosophy and by implementing some or all of the components.

By measuring market orientation in successful SME's this study will aim to provide the start-up entrepreneur with an indication on whether the effort to implement the market orientation philosophy is profitable and beneficial for the creation of sustainable competitive advantages. The next chapter therefore will deal with business performance linked to market orientation.



## CHAPTER 3

### BUSINESS PERFORMANCE

#### 3.1 INTRODUCTION

This chapter discuss business performance with the balanced scorecard as a point of reference. This chapter will propose to employ the balance scorecard as measure for business performance and argue the relevance of the proposal.

#### 3.2 THE BALANCED SCORECARD

In the endeavoured to source a reliable measurement tool for business performance from literature it was evident that generally accepted and tested tools are not available for the measurement of business performance in specifically SME's. From literature the balanced scorecard (BSC) was then chosen as the foundation for the development of a measurement tool for business performance in SME's.

In support of the decision to use the BSC as a framework, then the following:

"The balanced scorecard is one of the most highly touted management tools today and Fortune 500 companies are increasingly using it. A survey found that approximately 50 percent of Fortune 1000 companies in North America and 40 percent in Europe use a version of the BSC" (Gumbus & Lussier, 2006:407).

"The balanced scorecard is considered by many as a critical business tool for thousands of organisations around the globe that supports the relevancy of the balance scorecard as a business tool for performance measurement in SME's in South Africa" (Niven, 2002:4).



This chapter will therefore discuss the balance scorecard as criteria against which the business performance of SME's will be defined and measured.

### **3.2.1 Introduction**

The balanced scorecard was born from a yearlong research project, conducted in 1990, with twelve companies at the leading edge of performance measurement. Kaplan and Norton devised a set of measurements that gave top managers a fast but comprehensive view of the business (Niven, 2002:4).

The balanced scorecard (BSC) includes financial measures that tell the results of actions taken. It compliments the financial measures with operational measures on the customer satisfaction, internal processes, and the organisation's innovation and improvement activities – operational measures that are the drivers of future financial performance (Norton and Kaplan, 1990:125).

A BSC is a format for describing the activities of an organisation through a number of measures for each. Usually four perspectives are described using a small number of measures for each. The description may refer to the business's current performance, or its goals for the next period (Olve, Petri, Roy, J. & Roy, S. 2003:3).

Kaplan and Norton (1998:139) state that the balance scorecard differentiates itself from other performance measurement systems by putting strategy – not control – at the center when analysing a company's performance.

### **3.2.2. The balanced scorecard as preferred means of performance measurement**

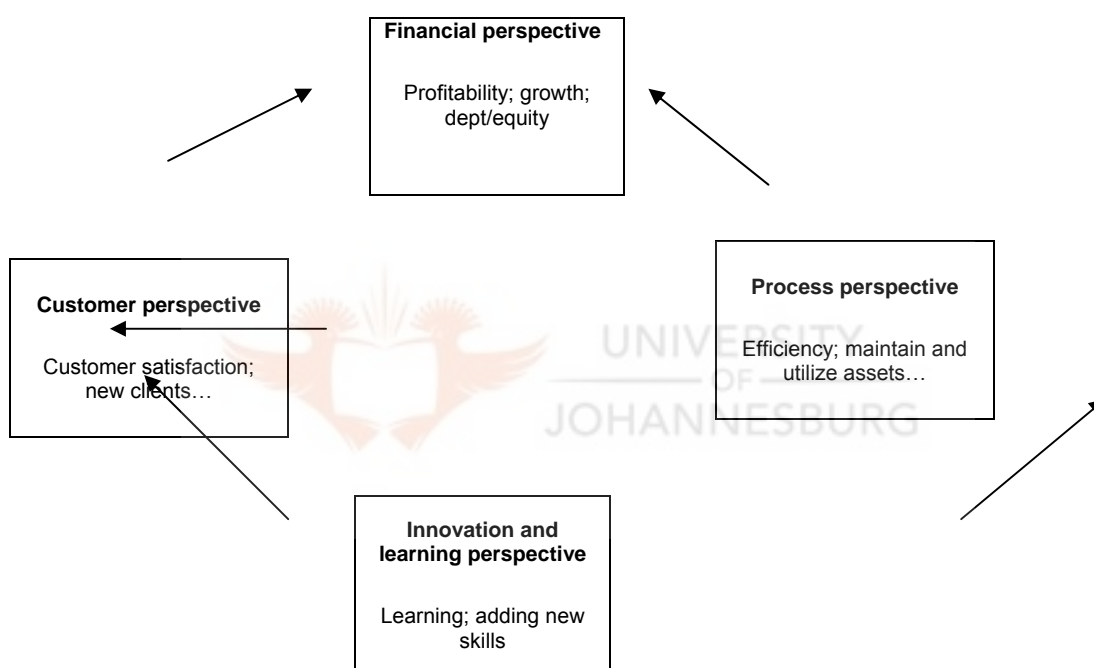
What make the BSC the preferred business tool of performance measure? Olve et al (2003:4) had the following opinion on why:

- The scorecard is balanced: the four perspectives aim for a complete description of what one need to know about the business.

- The scorecard is balanced: it shows both internal and external aspects of the business.
- The scorecard is linked through cause-and-effect assumptions.

The balance scorecard was a relief for many organisations. It gave management a new way of monitoring a company's performance by measuring past success and setting goals for the future (Gupta, 2004:14).

**Figure 3.1:** A basic BSC, with examples of typical contents for each of the four perspectives



**Source:** Adapted from Olve, Petri, Roy and Sofie Roy (2003:3)

### 3.2.3. Perspectives of the balanced scorecard

The complexity of managing an organisation today requires that managers be able to view performance in several areas simultaneously. To allow for a comprehensive look at the business from four perspectives, managers need answers to four basic questions:

- how do customers see us (customer perspective)?; and
- what must we excel at (internal perspective)?; and

- can we continue to improve and create value (innovation and learning perspective)?; and
- how do we look to shareholders (financial perspective)?

While giving senior managers information from four different perspectives, the balanced scorecard also minimizes information overload by limiting the number of measures (Kaplan & Norton, 1992:126). The balanced scorecard is designed to provide a strategic vision for the organisation by looking at four perspectives: financial, customer, learning and growth, and internal business processes. For each of these four areas, the company looks at goals, measures, targets and initiatives (Gupta, 2004:14).

The balanced scorecard has four perspectives, as noted above, and are utilised to categorise the strategy of the organisation. These aspects must be discussed and understood to ensure the effective implementation and utilisation of this strategic performance measurement tool.

### 3.2.3.1 Financial perspective

Many have criticised financial measures because of their well-documented inadequacies, their backward-looking focus, and their inability to reflect contemporary value-creating actions. Terms of competition have changed and traditional financial measures do not improve customer satisfaction, quality, cycle time and employee motivation. Financial performance is the result of operational actions and therefore companies must not be navigated by financial measures alone. By making operational improvements financial numbers will take care of themselves (Kaplan & Norton, 1992:136). Although financial measures have shortcomings, a well-constructed balanced scorecard is not complete without financial measures of performance.

To identify measures that will impact on the financial goals of the company the following questions must be asked:

- How do our shareholders view our performance consumers (Gumbus & Lussier, 2006:409)?

- How do we look to shareholders (Kaplan & Norton, 1998:126)?
- To succeed financially, how should we look to our shareholders (Olve, 1999:17)?

The financial measures one chooses represent the end in mind. Scorecard architects Kaplan and Norton put it this way: "We start with the destination. What are we trying to achieve? ... . If you look at the logic of the scorecard, the arrows all end up with financials." As "the destination," the measures in the financial perspective help lay the selection of measures in each of the other three perspectives. Samples of financial measures are (Olve, 1999:118):

- Total assets
- Return on net assets
- Gross margin
- Net income
- Profit per employee
- Revenue per employee
- Return on equity
- Economic value added
- Compound growth rate
- Dividends
- Market value
- Share price
- Shareholder loyalty
- Cash flow
- Total costs
- Debt
- Times interest earned
- Accounts receivable turnover
- Days in payables

The final aim of the financial perspective should be to develop linked measures in the customer, internal process and employee learning and

growth perspectives, that will ensure that this inclusion will lead to improved financial results as well as the implementation of strategy (Olve, 1999:118).

### 3.2.3.2 Customer perspective

Answers to the following questions will determine specific goals and measurements that will eventually define the customer perspective of any given company:

- How do customers see us (Kaplan and Norton, 1998:126)?
- How must we be viewed in the eyes of our consumers (Gumbus & Lussier, 2006:409)?
- To succeed with our vision, how should we look to our customers (Olve, 1999:17)?

The balanced scorecard demands that managers translate their general mission statement on customer service into specific measures that reflect the factors that really matter to customers. Customer concerns tend to fall into four categories: time, quality, performance and service, and cost. To put the balance scorecard to work, companies should articulate goals for time, quality and performance and service and then translate these goals into specific measures (Kaplan and Norton, 1992:129).

Kaplan and Norton (1992:129) warns then one must be careful not to choose only measures which are bias towards lagging indicators such as customer satisfaction, market share, retention and customer profitability. What need to be measured is leading indicators as well. Leading indicators is what drive lagging indicators. Ask these questions: "Why are the customers satisfied? Why do one have market share? The insight gained from answers to these questions will provide direction on how to chose the mix of leading and lagging indicators for the balanced scorecard.

The next step in initiating customer perspective measurements is the development of a customer value proposition. The level of market differentiation determines the customer value proposition and this will

subsequently determine the choice of market to serve (Niven, 2002:120).

There are three “disciplines” to choose from:

- *Operational excellence.* The focus is on low price, ample selection, convenience and often “no frills”.
- *Product Leadership.* Innovation is the key. Getting the best product on the market is the focus.
- *Customer Intimacy.* The focus is building long time relationships with customers. Get into a relationship with the customer through an intimate knowledge of the customer’s unique needs and expectations. One-time transactions are not the goal.

Samples of customer measures are (Olve, 1999:118):

- Customer satisfaction
- Customer complaints
- Complaints resolve in the first contact
- Response time per customer request
- Price relative to competition
- Total cost to customer
- Average duration of customer relationship
- Customers lost
- Customers retained
- Number of customers
- Number of proposals made
- Response rate
- Sales volume
- Customer profitability
- Frequency (number of sales transaction)

If customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator future decline, even though the current financial picture may look good. In developing metrics for satisfaction, customers should be analysed in

terms of kinds of customers and by kinds of processes for which we are providing a product or a service to those customers groups.

### **3.2.3.3 Internal business perspective**

Once customer and shareholder based measures have been identified then they must be translated into measure of what the company must do internally to meet its customers' expectations. After all, excellent customer performance derives from processes, decisions, and actions occurring throughout an organisation. Managers need to focus on those critical internal operations that enable them to satisfy customer needs (Kaplan & Norton, 1992:132). This is called the internal perspective. Therefore the following questions will help to determine goals and measures pertaining to the internal perspective:

- Which processes are working well and which needs to be fixed in order to meet one's internal and external customer demands (Gumbus & Lussier, 2006:409)?
- To satisfy one's shareholders and customers, at what internal business processes must one excel (Olve, 1999:17)?
- What must one excel at (Kaplan & Norton, 1998:128)?

Factors that affect customer satisfaction will be the focus when determining which internal processes to measures in the balanced scorecard (Kaplan & Norton, 1998:132). Niven (2002:126-134) distinguished between four focus areas for the determining measurements for the internal processes perspective. These areas of influence is categorised in one of the following focus areas namely customer intimacy (i.e. focus on customer service), operational excellence (i.e. measuring the supply chain), product leadership (i.e. innovating to stay ahead), and good citizenship.

Samples of internal process measurements are (Olve, 1999:134):

- On-time delivery
- Inventory turnover
- Response time to customer requests

- Rework
- Customer database availability
- Breakeven time
- Warranty claims
- Number of positive/negative media stories
- Community involvement
- Time to market of new products
- Environmental emissions
- Space utilisation

Information systems play an invaluable role in helping managers disaggregate the summary measures. If the information system is unresponsive then the performance measurement will collapse. Without a proper internal information system the BSC will not function (Kaplan and Norton, 1992:133).

#### **3.2.3.4 Innovation, learning and growth perspective**

Targets for success keep changing. Intense global competition requires that companies make continual improvements to their existing products and processes and have the ability to introduce entirely new products with expanded capabilities (Kaplan and Norton, 1998:134).

A company's ability to innovate, improve, and learn ties directly to the company's value. That is, only through the ability to launch new products, create more value for customers, and improve operating efficiencies continually, can a company penetrate new markets and increase revenues and margins - in short, growth and thereby increase shareholder value (Kaplan and Norton, 1992:134).

The following questions will help to determine goals and measures pertaining to the innovation, learning, and growth perspective:

- To achieve my vision, how must my organisation learn and improve (Milgate, 2004:8)?



- What kind of people do we need to hire and retain, and what sort of company culture do we promote to achieve our vision (Gumbus & Lussier, 2006:409)?
- To succeed with our vision, how shall we sustain our capacity to learn and grow (Olve, 1999:17)?
- Can we continue to improve and create value (Kaplan & Norton, 1998:128)?

At any company the innovation, improvements and the positive picture presented to the market is accomplished by employees and therefore the value of the company is determined by the value added by the employees. Niven (2002:16) state: "Value creation in today's organisation is overwhelmingly dominated by the influence of human capital. People – their knowledge and means of sharing it – are what driving value is in the new economy. Describing the activities that drive this value is the purview of the employee learning and growth perspective. The value of the workforce in turn is determined by the levels of employee satisfaction, retention and productivity of the employees (Neely, Adams & Kennerley, 2002:265). By measuring, managing, training, caring for, and rewarding the employees, the company retain and satisfy its productive employees. However it is crucial to align these activities with the vision and strategic goals of the organisation to create sustainable benefits for both the employer and employee.

The measures of the employee learning and growth perspective are really the "enablers" of the other perspectives. Motivated employees with the right mix of skills and tools operating in an organisational climate designed for sustaining improvements are the key ingredients in driving process improvements, meeting customer expectations, and ultimately driving financial returns (Niven, 2002:135). To measure and improve employee satisfaction, retention and productivity we need to know what employees want and need. Accordingly, Neely, Adams & Kennerley (2002:254) addresses the needs-and-wants of employees as follows:

- **Purpose:** Employees seek interesting work or, at the minimum, work that they can take pride in accomplishing.
- **Care:** Employees want to be treated with respect; they want to be treated fairly (regardless of gender, race or creed); they want to work in a pleasant, safe and comfortable environment with a practical and ergonomic layout. They want to work for an organisation that has a fundamentally caring attitude towards its employees, where morale is generally good and where prospects are positive (both for the organisation and for the individual).
- **Skills:** Employees today have given up on the “job-for-life” mentality of their forebears (even in Japan), but they do want to pick up the transferable skills that will be useful to them in enhancing their careers. If a firm is unable to offer long-term employment, it should at least be able to offer long-term employability. Employees want portable skills that they can take with on their curriculum vitae to other alternative jobs. So, the availability and quality of the training made available by their current employer may be of considerable importance to them.
- **Pay:** The compensation package offered by organisations is important to potential employees seeking recruitment opportunities; to ambitious incumbent employees who may be tempted to take their skill-sets elsewhere (where better packages are offered) and also to those more “long in the tooth” employees who intend to retire with a decent pension provided and contributed to by their former employer. There is also the thorny issue of bonuses. Linking a substantial proportion of pay to the performance of the company as a whole; to particular business units within it; to particular teams; and to individuals’ contribution (as measured via the firm’s employee appraisal system) has become commonplace.

To align the innovation, learning and growth perspective with the vision and strategic goals of the organisation the company will need to determine what they need and want from their employees (Neely, 2002:256):

- **Hands:** A company need enough employees with the right skill-set to accomplish its goals. A company need to track its headcount closely to ensure that the appropriate levels of productivity are maintained.

- **Hearts:** Employer generally wants to retain loyal and committed employees. They are the nucleus of the firm, who possess a bank of knowledge about the company – its history (successes and failures), its people, its processes, its products and services, its customers and its competitors in the industry in which it does business.
- **Minds:** Employers need employees to think. Until recently it seemed that ideas for improvement came from the managers and workers only had to implement and execute the ideas. Today the ideas for improvements are obtained from every employee involved, through less formalised initiatives with a greater emphasis on team-based projects.
- **Voices:** Employers want employees to articulate their thoughts, interact with their colleagues and seniors, and work in a team environment, to advocate the firm as a good employer who are friendly towards customers and other important stakeholders.

Samples of internal process measurements are (Olve, 1999:140):

- Average years of service
- Percentage of employees with advanced degrees
- Number of cross-trained employees
- Absenteeism
- Turnover rate
- Employee satisfaction
- Lost time accidents
- Quality of work environment
- Training hours
- Reportable accidents
- Percentage of employees with computers
- Ethics violations

Considering the needs and wants of both the employer and employee, the link between employee performance and financial returns is clear. Not only do the measures in the employee learning and growth perspective lead to improved financial results for the organisation, but also, it is through these indicators

that we pave the way for sustaining that success over the long term. As the business environment inevitably changes, the enablers of future success described in this perspective will allow your organisation to maintain flexibility and adapt to changing conditions (Niven, 2002:136).

### **3.3 FACTORS RELATING TO BUSINESS PERFORMANCE IN SME's IN SOUTH AFRICA**

To propose a single BSC that would suite all SME's is not possible due to the obvious differences in environments, markets and products in which SME's in South Africa conduct business. From literature it was also concluded that limited reference was mad of the BSC being applied in SME's. In support of this statement, Gumbus & Lussier (2006:422) referred to their study "*Entrepreneurs Use a Balanced Scorecard to Translate Strategy into Performance Measures*" and stated: "This is the first published paper on the BSC in a small business/entrepreneur journal, thus there is no literature base."

However, evidence was found in literature of factors that impact on the business performance of SME's in South Africa. In the following paragraph the factors that relate to success and failure of SME's in South Africa will be addressed. The discussion is grouped in terms of the perspectives of the BSC.

#### **3.3.1 Financial perspective**

The following financial aspects was identified from the literature review on the factors that impact on the financial perspective of SME's:

Ligthelm and Cant (2003:48) identified the following financial problems as factors which impact SME's in Guateng namely: obtaining or access to

finance or credit, high operating expenses, bad debt, high interest rate, and high inflation.

Headd (2003:52) found that those firms with more resources at start-up have a higher likelihood of survival (such characteristics would include having higher levels of financing, being in the manufacturing sector, having employees, not being home based, and numerous owners.)

Theng & Boon (1996:52) rate the factors that influence SME failures as follows: (a) high operating expenses; (b) lack of capital.

In the following paragraph the factors relating to the customer perspective of SME's will be discussed.

### **3.3.2 Customer perspective**

In terms of the customer perspectives of SME's the following factors were identified:

Ligthelm and Cant (2003:44) identified the following customer related problems as factors which impact SME's in Guatemala namely: increased competition, lack of knowledge on competitors, and ineffective marketing.

A valuable experience for SME's in many industries is participation in trade fairs – at home and/or abroad, the latter of which can be a good means of penetrating (Berry, 2002:12).

Theng & Boon (1996:52) rate the factors that influence SME failures the most is an inappropriate marketing strategy.

In the following paragraph the factors relating to the internal perspective of SME's will be discussed.

### **3.3.3 Internal perspective**

The following factor were identified as factors that impact on the internal perspective of SME's:

Ligthelm and Cant (2003:44) identified the following problems as factors which relate to the internal perspectives, which impact SME's in Guateng They are: 1. crime, 2. planning and prioritising, and 3. managing change.

Headd (2003:55) found that the factors, which relate to the internal perspectives and also best explain the likelihood of survival of start-up SME's as being an employer (i.e. not a one-man-show), being home-based at start-up (i.e. having less overheads at start-up), and starting a business for personal reasons (i.e. it is believed that starting a business for personal reasons gives the owner increased motivation to keep the business going).

Monk (2000:13) found that SME's in successful business networks could generate up to 50 percent more in gross revenues than organisations that work in solitude. International research shows that SME's that seek opportunities to work in synergy with other SME's and larger organisations to gain new knowledge, increase competitive advantage, and find new business opportunities (Monk, 2000:13). In support of Monk, Berry (2002:14) states the importance of SME network support programs, of which the Danish Network Co-operation Programme and Chile's PROFOs are good examples.

Technology upgrading is the key to the continuing success of SME's, especially those which produce tradable (Berry, 2002:12).

Theng & Boon (1996:52) rate the factors that influence SME failures as follows: (a) short-sighted view of the future; (b) lack of control over cash.

In the following paragraph the factors relating to the innovation and learning perspective of SME's will be discussed.

### **3.3.4 Innovation and learning perspective**

In terms of the customer perspectives of SME's the following factors were identified:

Ligthelm and Cant (2003:49) identified the following innovation and learning problems as factors which impact SME's in Guateng namely: 1. the introduction of new labour laws. 2. inability to find and attract suitable staff. 3. HIV/AIDS

Headd (2003:52) found that those organisations with old owners, organisations having multiple owners, organisations having owners with a college degree, and organisations having owners with previous business experience, have a higher likelihood of survival (these characteristics would then hold that experience in business and lessons learnt in the past result in better decision making in the future).

Monk (2000:13) found the most significant reason for business failure rate is the inability to make adequate use of essential business and management practises. Entrepreneurs start a business because they have an interest in a particular area and they have related technical skills. Seldom management skills are absent or outsourced to external and/or off-line advisors that is not enough (Monk 2000:13).

Theng & Boon (1996:52) rate the factors that influence SME failures as follows: (a) lack of knowledge of the company's product; (b) lack of formal education.

These factors relating to business performance in South African SME's was obtained through the literature review of recent and older publications on the subject of performance management. This discussion as well as the literature review in the preceding paragraphs will serve as a reference for the construction of a questionnaire that will aim to measure business performance in SME's.

### **3.4 CONCLUSION**

This chapter discussed the aspects of business performance with the BSC as a framework. The insight gained in this chapter will be applied in chapter four

for the construction of a questionnaire with the purpose of determining the business performance of SME's. The successful achievement of this goal was also set as a secondary objective for this study (see paragraph 1.4.2). The next chapter will propose the research methodology for the empirical research, explain the questionnaire design and discuss the sample choice.





## **CHAPTER 4**

### **RESEARCH METHODOLOGY, PROCEDURE AND FREQUENCY DISTRIBUTIONS**

#### **4.1 INTRODUCTION**

In chapter one, paragraph 1.6, mention was made of the research methodology to determine the correlation between market orientation and business performance in SME's within the mining communication sector of South Africa. Kruger (1995:147) proposes the following as a construct for the research methodology:

- 1 Reasons for the choice of the sample
- 2 Determination and description of the sample
- 3 The type and design of the data collection method
- 4 Sending and receiving of questionnaire

This chapter will discuss the research methodology at the hand of the latter.

#### **4.2 REASONS FOR CHOOSING THE STUDY GROUP**

The study was conducted in the Mining Communication sector of South Africa. The population targeted in this research was the individuals responsible for the survival of the SME during the first three years of existence. The target sample would therefore constitute mainly of owners, executive officers and managers of SME's.

Reasons for this decision are:

- The decision to implement market orientation during the start-up phase is made by the individual that is also responsible for the survival and business performance of the SME. In a start-up SME it is either the CEO or the

manager of the SME that would make these decisions. Therefore the sample targeted was the most likely persons to have the relevant knowledge on the subjects of market orientation and business performance, and it was believed to be either the CEO or the manager or the owner of the SME.

- The writer has been actively employed in the mining communication industry since 1998 and has gained understanding and knowledge on the industry. This was the reason for deciding on this industry as the industry of choice in which to conduct the research.
- Curiosity and a need for insight into factors relating to business performance within the mining communication industry also played a role in the choice of industry.

#### **4.3 DETERMINING AND DESCRIBING THE STUDY GROUP**

A list of organisations from within the mining communication industry was compiled through information obtained in the following publications: Electronic Yellow Pages (2007), Eeze-dex (2007), Brady's (2007) and the South African Instrumentation and Control Buyers Guide (2007). In cases where information on the e-mail addresses of either the CEO or the manager or the owner of the organisations was not available, the relevant organisations were contacted via telephone in order to obtain such e-mail addresses. The following omissions were made. All listed companies and all multi-national companies were omitted. In cases where it was obvious that the companies did not fit the criteria of a SME (i.e. less than fifty employees as was stipulated in chapter 1, paragraph 1.8.1) were omitted.

The final research population comprised of the individuals from which the e-mails was obtainable. In total two hundred and sixteen individuals were included in the study group.

#### 4.4 THE NATURE AND DESIGN OF THE DATA COLLECTION METHOD

The method employed to collect data for a study is determined by the objectives of the study and the demographic profile of the sample.

##### 4.4.1 Introduction

The nature of the research population dictated the careful consideration of the data collection method. Due to the busy schedules of executive managers it was apparent that the data collection method would have to have the least impact on the time of the prospective participant. Due to this constraint it was decided to use a web based questionnaire. Prospective participants were invited via e-mail to participate in the study by accessing the questionnaire through the World Wide Web and answering it electronically. The responses were collected electronically from the server that hosted the questionnaire.

##### 4.4.2 Questionnaire design

The questionnaire was constructed with three sections namely the demographics, market orientation and business performance sections. The questions on market orientation, section B, was an adaptation on of the conceptual model on market orientation and performance of Naver and Slater (1990:20) on a 5-point Likert-type scale anchored on 1 = *I strongly disagree* through 5 = *I strongly agree*.

For the question design in section A and C consideration was given to the following common errors in questionnaire construction (Mouton, 2001:103):

- No piloting or pre-testing done on questions.
- Ambiguous or vague items like words that are not defined vagueness and statements that assume too much about the respondents.
- Double-barrelled questions: Questions that combine two or more questions in one.
- Item order or sequence of questions that affect the response accuracy and response rates.

- The fictitious construct: One sometimes ask questions that measure constructs or attitudes that do not exist, e.g. asking people something they have no knowledge on.
- A question that lead or influence the respondent to give a certain response through the wording of the question.
- Poor layout of the questionnaire can result in non-response or errors.
- A questionnaire that is too long have a negative effect on the quality of the response.
- Sensitive or threatening questions of a personal nature may lead to non-response or refusal to participate.

The questions in Section C, business performance, were designed with the balanced scorecard (Kaplan and Norton, 1998:147) as a framework. Section C comprise of four parts, which correspond with the perspectives of the balance scorecard. From the literature study, aspects pertaining to each perspective were addressed in the questions. The questions were grouped together in terms of context on a 5-point Likert-type scale anchored on 1 = *to no extent* through 5 = *to a very large extent*. To limit errors and improve quality the questionnaire was subjected to the Cronbach's alpha ( $\alpha$ ) caluculation. The Cronbach's alpha test the reliabliity of the instrument and a reliability of  $\alpha \geq 0.70$  or higher before an instrument is used.

#### **4.5 QUESTIONNAIRE ADMINISTRATION**

The services of Statcon, University of Johannesburg, were commissioned for the hosting of the web-based questionnaire. A letter was send via e-mail to all potential participants with an invitation to partake in the study by answering the questionnaire and a URL address was included that pointed the participant to the web base questionnaire. The initial response was poor due to in-corrected contact details and e-mail addresses as was provided in the printed media. All potential participants were then contacted telephonically and the study and its relevance were explained for a second time. A further

plea was made for their willingness to participate in the study. Although a substantial amount of participants did commit to answering the questionnaire there were a large amount that was either unreachable or not prepared to partake due to a perception that the questionnaire would be time consuming. The reason for not being able to make contact with the other prospective participants was due to the fact that the personal assistants and secretaries blocked access to the executive. In some of the cases where access to the executive were blocked, there were instances where the assistant did indicate that the questionnaire would be brought to the attention of the executive for his/her consideration. In total one hundred and eight responses were received out of a sample of two hundred and sixteen, resulting in a 50 percent response rate.

#### 4.6 DEMOGRAPHICS OF RESPONDENTS

Table 4.1 indicate that 39.8 percent of the sample fell into the category “I am not the CEO or the manager or the MD of the business”.

**Table 4.1:** Response on the current position held at the company

		Frequency	Percent	Valid percent	Cumulative percent
Valid	I am the CEO or the MD of the business	36	33.3	34.0	34.0
	I am the manager of the business	27	25.0	25.5	59.4
	<b>I am not the CEO or the manager or the MD of the business</b>	<b>43</b>	<b>39.8</b>	<b>40.6</b>	<b>100.0</b>
	Total	106	98.1	100	
Missing	System	2	1.9		
Total		108	100.0		

**Source:** Question 10, Section A, of the questionnaire in annexure A

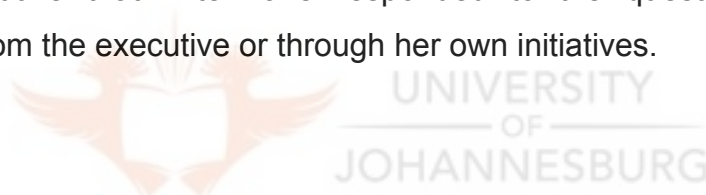
From table 4.2 it is clear that the majority of the sample (58.3 percent) was female.

**Table 4.2:** Response on gender

	Frequency	Percent
Male	45	41.7
<b>Female</b>	<b>63</b>	<b>58.3</b>
Total	108	100.0

**Source:** Question 2, Section A, of the questionnaire in annexure A

Due to this phenomenon a cross tabulation was performed and the results (see table 4.3) show that 52.5 percent of the female respondents were non-executives at the company. The explanation for this high incidence of non-female-executives participation could possibly be related to female assistants to the executive that might have responded to the questionnaire under instruction from the executive or through her own initiatives.



**Table 4.3:** Cross tabulation of the current position held at the company and gender

		Position at the company			Total	
		I am the CEO or the MD of the business	I am the manager of the business	I am not the CEO or the manager or the MD of the business		
Gender	Male	Count	20	14	11	45
		% within Gender	44.4%	31.1%	24.4%	100.0%
	Female	Count	16	13	32	61
		% within Gender	26.2%	21.3%	52.5%	100.0%
Total		Count	36	27	43	106
		% within Gender	34.0%	25.5%	40.6%	100.0%

**Source:** Question 2 and question 10, section A, of the questionnaire in annexure A

In view of this observation for the sake of relevance of the findings the forty three non-executive respondents were omitted from the sample and the new population on which the rest of the study will focus is then N = 65.

#### 4.7 DESCRIPTIVE STATISTICS REGARDING RESPONDENTS

The majority of the population are between twenty-five and forty-seven years of age. This is an indication of a healthy mix of maturity and youth amongst SME executives in South Africa (Table 4.4.).

**Table 4.4:** Statistics on the age of the respondents

<b>N</b>	<b>Valid</b>	63
	<b>Missing</b>	2
<b>Mean</b>		38.86
<b>Median</b>		36.00
<b>Mode</b>		32(a)
<b>Standard deviation</b>		11.241
<b>Skewness</b>		.964
<b>Standard error of skewness</b>		.302
<b>Kurtosis</b>		.456
<b>Standard error of kurtosis</b>		.595
<b>Minimum</b>		20
<b>Maximum</b>		70
<b>Percentiles</b>	<b>25</b>	31.00
	<b>50</b>	36.00
	<b>75</b>	45.00
A multiple modes exist. The smallest value is shown		

**Source:** Question 1, section A, of the questionnaire in annexure A.

Stable and experienced individuals lead the SME's in this research. The majority (60 percent) of the individuals have held the same position for longer than four years and 53.9 percent of this majority have been in the same position for more than seven years (Table 4.5). A high level of tertiary education (75.1 percent) was found amongst the population (Table 4.6).

**Table 4.5:** Years appointed in current position

	Frequency	Percent	Cumulative percent
<b>0 – 1 years</b>	6	9.2	9.2
<b>2 – 3 years</b>	20	30.8	40.0
<b>4 – 6 years</b>	18	27.7	67.7
<b>7 years and longer</b>	21	32.3	100.0
<b>Total</b>	<b>65</b>	<b>100.0</b>	

**Source:** Question 11, section A, of the questionnaire in annexure A

**Table 4.6:** Education

	Frequency	Percent	Valid percent	Cumulative percent
<b>Post graduate degree(s)</b>	9	13.8	14.1	14.1
<b>Baccalaureate degree(s)</b>	17	26.2	26.6	40.7
<b>Post-matric diploma or certificate</b>	22	33.8	34.4	<b>75.1</b>
<b>Grade 12 (matric, std 10)</b>	13	20.0	20.2	95.3
<b>Grade 11 or lower (std p or lower)</b>	1	1.5	1.6	96.9
<b>Other</b>	2	3.1	3.1	100.0
<b>Total</b>	<b>64</b>	<b>98.5</b>	<b>100.0</b>	
<b>Missing</b>	1	1.5		
<b>Total</b>	<b>65</b>	<b>100.0</b>		

**Source:** Question 4, section A, of the questionnaire in annexure A

In terms of the various disciplines within the mining communication industry (i.e. radio, telephone, data, video or control and instrumentation communication) the SME's were found to be active in only one of the disciplines (Table 4.8). The majority of the companies focus on either the telephone or the data communication sector (Table 4.7).

**Table 4.7:** Disciplines of the mining communication industry

	Frequency
<b>Radio</b>	11
<b>Telecomm</b>	27
<b>Data comms.</b>	29
<b>Video comms.</b>	7
<b>Control and instrumentation</b>	15
<b>Totals</b>	<b>65</b>

**Source:** Question 5, section A, of the questionnaire in annexure A



**Table 4.8:** Amount of respondents marking one or more of the disciplines

Multi discipline marks	Frequency	Percent	Valid percent	Cumulative percent
One	44	67.7	75.9	75.9
Two	6	9.2	10.3	86.2
Three	2	3.1	3.4	89.7
Four	3	4.6	5.2	94.8
Five	3	4.6	5.2	100.0
<b>Total</b>	<b>58</b>	<b>89.2</b>	<b>100.0</b>	
Missing	7	10.8		
<b>Total</b>	<b>65</b>	<b>100.0</b>		

**Source:** Question 5, section A, of the questionnaire in annexure A

The location of the business premises is reported in table 4.9.

**Table 4.9:** Location of business premises

		Not marked	Marked	Total
Eastern Cape – Head office	Count	107	1	108
	%	99.1%	.9%	100.0%
Eastern Cape - Regional offices	Count	101	7	108
	%	93.5%	6.5%	100.0%
Eastern Cape - Working from home	Count	107	1	108
	%	99.1%	.9%	100.0%
Free State - Head office	Count	108		108
	%	100.0%		100.0%
Free State - Regional offices	Count	101	7	108
	%	93.5%	6.5%	100.0%
Free State – Working from home	Count	106	2	108
	%	98.1%	1.9%	100.0%
Gauteng - Head office	Count	69	39	108
	%	63.9%	36.1%	100.0%
Gauteng – Regional offices	Count	94	14	108
	%	87.0%	13.0%	100.0%
Gauteng – Working from home	Count	98	10	108
	%	90.7%	9.3%	100.0%
KwaZulu-Natal - Head office	Count	107	1	108
	%	99.1%	.9%	100.0%
KwaZulu-Natal - Regional offices	Count	98	10	108
	%	90.7%	9.3%	100.0%

KwaZulu-Natal - Working from home	Count	107	1	108
	%	99.1%	.9%	100.0%
Limpopo - Head office	Count	106	2	108
	%	98.1%	1.9%	100.0%
Limpopo – Regional offices	Count	97	11	108
	%	89.8%	10.2%	100.0%
Limpopo – Working from home	Count	105	3	108
	%	97.2%	2.8%	100.0%
Mpumalanga – Head office	Count	86	22	108
	%	79.6%	20.4%	100.0%
Mpumalanga - Regional offices	Count	75	33	108
	%	69.4%	30.6%	100.0%
Mpumalanga - Working from home	Count	96	12	108
	%	88.9%	11.1%	100.0%
Northern Cape - Head office	Count	108		108
	%	100.0%		100.0%
Northern Cape - Regional offices	Count	103	5	108
	%	95.4%	4.6%	100.0%
Northern Cape - Working from home	Count	107	1	108
	%	99.1%	.9%	100.0%
North West Province - Head office	Count	95	13	108
	%	88.0%	12.0%	100.0%
North West Province - Regional offices	Count	92	16	108
	%	85.2%	14.8%	100.0%
North West Province - Working from home	Count	104	4	108
	%	96.3%	3.7%	100.0%
Western Province - Head office	Count	106	2	108
	%	98.1%	1.9%	100.0%
Western Province - Regional offices	Count	100	8	108
	%	92.6%	7.4%	100.0%
Western Province - Working from home	Count	105	3	108
	%	97.2%	2.8%	100.0%
Other (Neighbouring states) - Head office	Count	108		108
	%	100.0%		100.0%
Other (Neighbouring states) - Regional offices	Count	104	4	108
	%	96.3%	3.7%	100.0%
Other (Neighbouring states) - Working from home	Count	107	1	108
	%	99.1%	.9%	100.0%

**Source:** Question 8, section A, of the questionnaire in annexure A

Table 4.9 report the majority of the sample have their head office in Gauteng province, then Mpumalanga province and lastly in the Northwest province. This correlate with table 4.10 that report on the geography of business activity which in turn correlate with the geographical location of mines in South Africa.

**Table 4.10:** Geography of business activity

		Never	Monthly	Quarterly	6 monthly	Total
<b>Eastern Cape</b>	<b>Count</b>	60	13	3	5	81
	<b>%</b>	74.1%	16.0%	3.7%	6.2%	100.0%
<b>Free State</b>	<b>Count</b>	51	19	7	8	85
	<b>%</b>	60.0%	22.4%	8.2%	9.4%	100.0%
<b>Gauteng</b>	<b>Count</b>	14	67	11	6	98
	<b>%</b>	14.3%	68.4%	11.2%	6.1%	100.0%
<b>KwaZulu-Natal</b>	<b>Count</b>	48	20	7	11	86
	<b>%</b>	55.8%	23.3%	8.1%	12.8%	100.0%
<b>Limpopo</b>	<b>Count</b>	44	22	16	6	88
	<b>%</b>	50.0%	25.0%	18.2%	6.8%	100.0%
<b>Mpumalanga</b>	<b>Count</b>	17	65	11	3	96
	<b>%</b>	17.7%	67.7%	11.5%	3.1%	100.0%
<b>Northern Cape</b>	<b>Count</b>	55	9	11	5	80
	<b>%</b>	68.8%	11.3%	13.8%	6.3%	100.0%
<b>North West Province</b>	<b>Count</b>	38	36	10	4	88
	<b>%</b>	43.2%	40.9%	11.4%	4.5%	100.0%
<b>Western Province</b>	<b>Count</b>	59	16	5	3	83
	<b>%</b>	71.1%	19.3%	6.0%	3.6%	100.0%
<b>Other (Neighbouring states)</b>	<b>Count</b>	46	7	5	12	70
	<b>%</b>	65.7%	10.0%	7.1%	17.1%	100.0%

**Source:** Question 9, section A, of the questionnaire in annexure A

In terms of size (i.e. number of employees) the majority of the respondents were found to be relatively small. It was found that 33.8 percent of the SME's employed less than five employees and 24 percent employed between six and ten employees (Table 4.11).

**Table 4.11:** Employees

Number of employees	Frequency	Percent	Valid percent	Cumulative percent
Between 1 and 5	22	33.8	34.4	34.4
Between 6 and 10	16	24.6	25.0	59.4
Between 11 and 25	10	15.4	15.6	75.0
Between 26 and 50	5	7.7	7.8	82.8
More than 50	11	16.9	17.2	100.0
<b>Total</b>	<b>64</b>	<b>98.5</b>	<b>100.0</b>	
Missing	1	1.5		
<b>Total</b>	<b>65</b>	<b>100.00</b>		

**Source:** Question 7, section A, of the questionnaire in annexure A

In terms of the location of their activities 43 percent of the sample did have regional offices in addition to a head office. Of this sample the majority (60.7 percent) had only one regional office (Table 4.12). This phenomenon correlates with the relative small size and the narrow focus in terms of the various disciplines of the SME's.

**Table 4.12:** Cross tabulation of head office sum and regional offices sum

		Regional office(s) sum					Total
		1	2	3	4	5	
Head office sum	1	12	3	2	2	2	21

**Source:** Question 8, section A, of the questionnaire in annexure A

#### 4.8 CONCLUSION

The responses on the questions of the questionnaire that have been use in this study have been statistically analysed. These analyses and the subsequent findings will be discussed in chapter five.

## CHAPTER 5

### RESEARCH FINDINGS AND INTERPRETATIONS

#### 5.1 INTRODUCTION

Market orientation and business performance was described in chapters two and three. Quantitative proof is required to determine the relation between business and market orientation. In order to obtain data on the two subjects, data was collected as discussed in chapter four. This chapter will present the quantitative results from the statistical analysis performed on the collected data and findings will be discussed.

#### 5.2 STATISTICAL ANALYSIS

The demographic results (section A of the data) of the study were discussed in chapter four and this chapter will focus on the correlation between market orientation (i.e. section B of the data) and business performance (i.e. section C of the data)(see Annexure B for the statistical results).

##### 5.2.1 Descriptive statistics and reliability testing on Section B: market orientation

Section B consists of nineteen questions that were taken from a questionnaire that have been used extensively to determine market orientation (see paragraph 4.4.2 in chapter four for details). Although section B consists of four distinct sub-sections it was decided to sum the statistics on the section because of the origin and the subsequent confirmation on the reliability of the questionnaire (Pitt, Prinsloo and Berthon, 2007:21). Cronbach's alpha ( $\alpha$ ) was used to test the reliability of the instrument. Cronbach's alpha is an unbiased estimator of reliability. Cronbach's alpha can take values between negative infinity and one (although only positive values make sense). Some

professionals, as a rule of thumb, require a reliability of  $\alpha \geq 0.70$  or higher before they will use an instrument. Results from the analysis on the reliability of the data from section B is presented in table 5.1.

**Table 5.1:** Total statistic on section B, nineteen questions

Question number	Scale mean if deleted	Scale variance if deleted	Total correlation	Cronbach's alpha if deleted
B.1	73.11	54.3	.377	.814
B.2	72.53	54.7	.511	.803
B.3	72.40	52.1	.611	.797
B.4	72.60	53.4	.618	.798
B.5	72.97	57.8	.234	.821
B.6	73.03	58.5	.229	.820
B.7	72.98	57.4	.241	.821
B.8	72.26	56.3	.562	.805
B.9	72.71	57.7	.301	.816
B.10	73.31	60.6	<b>.042</b>	.832
B.11	72.90	56.7	.362	.813
B.12	72.81	58.1	.301	.816
B.13	72.45	56.7	.529	.806
B.14	72.44	53.4	.565	.801
B.15	72.52	57.1	.450	.809
B.16	72.47	57.6	.368	.812
B.17	72.82	56.2	.454	.808
B.18	72.53	57.1	.469	.808
B.19	72.52	55.5	.569	.803

**Source:** Section B, of the questionnaire in annexure A

Because of the low correlation value of question B.10 of section B of the questionnaire, and the vagueness of the question, it was decided to omit this data in further analysis. Reliability statistics on the remainder of the question is presented in table 5.2.

**Table 5.2:** Total statistic on section B, eighteen questions

Question number	Scale mean if deleted	Scale variance if deleted	Total correlation	Cronbach's alpha if deleted
B.1	69.68	52.2	.410	.827
B.2	69.10	52.9	.581	.816
B.3	68.97	50.5	.624	.812
B.4	69.16	52.2	.599	.814
B.5	69.53	56.3	.226	.836
B.6	69.60	57.1	.215	.835
B.7	69.55	56.5	.202	.838
B.8	68.55	54.7	.570	.819
B.9	69.27	56.6	.261	.832
B.11	69.47	55.6	.337	.829
B.12	69.37	56.5	.300	.830
B.13	69.02	54.8	.572	.819
B.14	69.00	51.6	.590	.814
B.15	69.08	55.42	.464	.823
B.16	69.03	55.5	.418	.824
B.17	69.39	54.5	.463	.822
B.18	69.10	55.6	.468	.823
B.19	69.08	53.9	.572	.817

**Source:** Section B, of the questionnaire in annexure A

The data in table 5.2 show a high level of reliability. The required Cronbach alpha is  $\alpha \geq 0.7$  and all of the Cronbach alpha's of the market orientation question having passed the test for reliability with  $\alpha \geq 0.812$ .

## **5.2.2 Descriptive statistics and reliability testing on Section C: business performance**

This section consists of four sub-sections, which were constructed, with the four perspectives of the balance scorecard as a framework. The questions in this section were designed with the aim of contributing in terms of a measurement tool for determining business performance in SME's. With the aim of contributing, the reliability tests were performed on all of the four sub-section of section C (i.e. perspectives).

### **5.2.2.1 Descriptive statistics and reliability testing on the financial perspective**

The financial perspective in section C consists of thirteen questions and the results from the analysis on the reliability of the data is presented in table 5.3.

**Table 5.3:** Total statistics on Section C, financial perspective, thirteen questions

Question number	Scale Mean if deleted	Scale variance if deleted	Total correlation	Cronbach's alpha if deleted
C1.1	30.34	79.9	.334	.856
C1.2	30.36	78.5	.426	.851
C1.3	30.49	81.2	.316	.856
C1.4	31.05	85.8	<b>.057</b>	.874
C1.5	30.98	73.9	.558	.842
C1.6	31.11	76.6	.570	.842
C1.7	30.49	79.0	.383	.853
C1.8	31.15	74.0	.626	.838
C1.9	30.95	73.9	.635	.837
C1.10	31.16	72.8	.702	.833
C1.11	31.16	72.7	.738	.831
C1.12	31.13	74.4	.681	.835
C1.13	31.11	71.2	.747	.829

**Source:** Question C1 – C12, Section C, of the questionnaire in annexure A

Because of the low correlation value of question C1.4 it was decided to omit the data of question C1.4 in further analysis. Reliability statistics on the remainder of the questions is presented in table 5.4.

**Table 5.4:** Total statistics on section C, financial perspective, twelve questions

Question number	Scale mean if deleted	Scale variance if deleted	Total correlation	Cronbach's alpha if deleted
C1.1	27.93	78.1	.287	.880
C1.2	27.95	76.2	.402	.873
C1.3	28.08	79.4	.267	.880
C1.5	28.57	72.0	.520	.867
C1.6	28.70	73.9	.567	.864
C1.7	28.08	76.0	.393	.874
C1.8	28.74	70.4	.680	.856
C1.9	28.54	70.2	.687	.856
C1.10	28.75	69.3	.750	.852
C1.11	28.75	69.6	.765	.851
C1.12	28.72	71.3	.707	.855
C1.13	28.7	68.1	.769	.850

**Source:** Question C1 – C12, section C, of the questionnaire in annexure A

The data in table 5.4 show a high level of reliability with all the Cronbach alpha's of the financial perspective questions passing the test for reliability with all the values of  $\alpha \geq 0.85$ .



### 5.2.2.2 Descriptive statistics and reliability testing on the customer perspective

The customer perspective in section C is constructed with four groups of questions. Group one consist of five questions, group two consist of three questions, group three consist of five questions, and group four consist of four questions. In total the customer perspective consist of seventeen questions and the results form the analysis on the reliability of the data is presented in table 5.5.

**Table 5.5:** Total statistic on section C, customer perspective, seventeen questions.

Question number	Scale mean if deleted	Scale variance if deleted	Total correlation	Cronbach's alpha if deleted
C2.1	56.20	71.5	.527	.849
C2.2	56.25	72.9	.446	.853
C2.3	55.57	74.1	.498	.851
C2.4	55.68	72.4	.529	.849
C2.5	55.52	72.6	.546	.849
C3.1	55.43	72.1	.624	.846
C3.2	55.67	73.4	.523	.850
C3.3	55.72	72.1	.573	.847
C4.1	55.68	69.7	.657	.843
C4.2	55.78	72.0	.541	.848
C4.3	55.43	70.8	.669	.843
C4.4	55.57	72.0	.648	.845
C4.5	55.55	70.3	.669	.843
C5.1	56.50	71.3	.396	.857
C5.2	56.42	74.0	.259	.865
C5.3	56.45	72.8	.342	.859
C5.4	57.25	78.2	<b>.077</b>	.873

**Source:** Questions C2, C3, C4 and C5, section C, of the questionnaire in annexure A

Although the low correlation value in question C5.4 was noted, it was decided to keep the question due to the relevance of its context. The statistical results in table 5.5 show a high level of reliability with all of the Cronbach alpha 's of the customer perspective passing the test for reliability with all the values of  $\alpha \geq 0.843$ .

### 5.2.2.3 Descriptive statistics and reliability testing on the internal business perspective

The internal business perspective in section C consists of eleven questions and the results from the analysis on the reliability of the data is presented in table 5.6.

**Table 5.6:** Total statistic on section C, internal business perspective, eleven questions

Question number	Scale Mean if deleted	Scale variance if deleted	Total correlation	Cronbach's alpha if deleted
C6.1	35.70	42.9	.464	.872
C6.2	35.91	42.8	.390	.880
C6.3	35.70	40.7	.666	.858
C6.4	35.46	42.6	.578	.864
C6.5	36.04	42.4	.525	.868
C6.6	35.59	41.5	.653	.859
C6.7	35.91	40.3	.628	.861
C6.8	35.13	43.0	.571	.865
C6.9	35.71	41.5	.677	.858
C6.10	35.77	42.6	.608	.863
C6.11	35.59	40.9	.714	.855

**Source:** Questions C6, section C, of the questionnaire in annexure A

The data in table 5.6 show a high level of reliability with all of the Cronbach alphas of the internal business perspective passing the test for reliability with all the values of  $\alpha \geq 0.855$ .

### 5.2.2.4 Descriptive statistics and reliability testing on the innovation and learning perspective

The innovation and learning perspective in section C consists of eight questions and the results from the analysis on the reliability of the data is presented in table 5.7.

**Table 5.7:** Total statistic on section C, innovation and learning perspective, eight questions

Question number	Scale mean if deleted	Scale variance if deleted	Total correlation	Cronbach's alpha if deleted
<b>C7.1</b>	25.85	28.5	.534	.895
<b>C7.2</b>	25.65	28.3	.696	.882
<b>C7.3</b>	25.76	27.3	.713	.879
<b>C7.4</b>	25.76	26.0	.814	.869
<b>C7.5</b>	25.74	26.9	.644	.886
<b>C7.6</b>	26.19	26.2	.720	.878
<b>C7.7</b>	26.06	27.1	.590	.892
<b>C7.8</b>	25.71	26.9	.741	.877

**Source:** Questions C7, section C, of the questionnaire in annexure A

The data in table 5.7 show a high level of reliability with all of the Cronbach alpha's of the innovation and learning perspective passing the test for reliability with all the values of  $\alpha \geq 0.869$ .

### 5.2.3 Inferential statistics

Inferential statistics is statistical deductions about a population from a random sample drawn from it. Inferential statistics include hypothesis testing, significance, Error, Z-test, P-value and analysis of variance.

#### 5.2.3.1 Test for normality

In statistics the Shapiro-Wilk (W) test, tests the null hypothesis that the sample is taken from a normal distribution, thus  $P < 0.05$  for W rejects this supposition of normality. The value of the test for normality in terms of correlation statistic is the opportunity it affords to make a decision concerning the choice of correlation testing. In cases where the null hypothesis of normal distribution is violated then the choice would fall on the non-parametric correlation test due to a more lenient approach of the procedure. See table 5.8 for the statistical results on the test of normality.

**Table 5.8:** Test for normality

	Shapiro-Wilk		
	Statistic	Df	Significance (W)
<b>Market orientation</b>	.940	63	.004
<b>Financial</b>	.981	63	.448
<b>Customer</b>	.961	63	.044
<b>Internal business</b>	.979	63	.349
<b>Innovation and learning</b>	.952	63	.016

**Source:** Section B and C, of the questionnaire in annexure A

The financial perspective and the internal perspective have normal distributions (Table 5.8). Due to the fact that the null hypothesis of normal distribution have been violated in, it is required to employ a non-parametric tests as well as a parametric correlation test.

#### 5.2.4 Correlation statistics

Due to the fact that the null hypothesis of normal distribution have been violated by the market orientation section, the innovation and learning perspective and the customer perspective, it is required to employ the non-parametric as well as the parametric correlation test. The nonparametric correlations result is reported in table 5.9

The Pearson product-moment correlation coefficient (Pearson coefficient) is a parametric correlation test and therefore will be used to determine the correlation of market orientation with the four perspectives of the balance scorecard. The Pearson coefficient ranges from  $-1$  to  $1$ . A value of  $1$  shows that a linear equation describes the relationship between two random variables perfectly and positively, with all data points lying on the same line and with  $Y$  increasing with  $X$ . A score of  $-1$  shows that all data points lie on a single line but that  $Y$  increases as  $X$  decreases. A value of  $0$  shows that a linear model is inappropriate – that there is no linear relationship between the variables.

In statistics, a result is called significant if it is unlikely to have occurred by chance. The significance 2-tailed test is used to test the significance (p-value) of a 2-sample case.

**Table 5.9** Non-parametric correlation test result

Correlations						
		M.O. secb.sum	Fin.sum	Cus.sum	Internal.sum	Innovation.sum
Market O sec. B sum	Correlation coefficient	1.000	-.058	.600(**)	.522(**)	.484(**)
	Sig. (2-tailed)	.	.651	.000	.000	.000
	N	64	64	63	63	63
Financial.sum	Correlation coefficient	-.058	1.000	.004	-.026	-.298(*)
	Sig. (2-tailed)	.651	.	.973	.838	.018
	N	64	64	63	63	63
Customer.sum	Correlation coefficient	.600(**)	.004	1.000	.572(**)	.503(**)
	Sig. (2-tailed)	.000	.973	.	.000	.000
	N	63	63	63	63	63
Internal.sum	Correlation coefficient	.522(**)	-.026	.572(**)	1.000	.586(**)
	Sig. (2-tailed)	.000	.838	.000	.	.000
	N	63	63	63	63	63
Innovation.sum	Correlation coefficient	.484(**)	-.298(*)	.503(**)	.586(**)	1.000
	Sig. (2-tailed)	.000	.018	.000	.000	.
	N	63	63	63	63	63

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

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

**Source:** Section B and C, of the questionnaire in annexure A

Correlation statistics like the Pearson coefficient is complemented by the p-value of the two groups of data under investigation. In this study market orientation is the control group and the financial, customer, internal and innovation groups are the four sample groups. To demonstrate significance in this study the p-value must be  $p \leq 0.05$ . The results of the Pearson product-

moment correlation coefficient and the significance 2-tailed test are presented in table 5.10.

**Table 5.10:** Parametric Correlation test results

		Market orientation	Financial	Customer	Internal business	Innovation and learning
Market orientation	Pearson correlation coefficient	1	-.098	.536(**)	.568(**)	.568(**)
	Significance 2 tailed (p)		.443	.000	.000	.000
	N	64	64	63	63	63
Financial perspective	Pearson correlation coefficient	-.098	1	.011	-.025	-.295(8)
	Significance 2 tailed (p)	.443		.935	.847	.019
	N	64	64	63	63	63
Customer perspective	Pearson correlation coefficient	.536(**)	.011	1	.601(**)	.537(**)
	Significance 2 tailed (p)	.000	.935		.000	.000
	N	63	63	63	63	63
Internal business perspective	Pearson correlation coefficient	.568(**)	-.025	.601(**)	1	.693(**)
	Significance 2 tailed (p)	.000	.847	.000		.000
	N	63	63	63	63	63
Innovation and learning perspective	Pearson correlation coefficient	.568(**)	-.295(8)	.537(**)	.693(**)	1
	Significance 2 tailed (p)	.000	.019	.000	.000	
	N	63	63	63	63	63
<b>(**) Correlation is significant at the 0.01 level (2-tailed)</b>						
<b>(*) Correlation is significant at the 0.05 level (2-tailed)</b>						

**Source:** Section B and C, of the questionnaire in annexure A

In terms of parametric and non-parametric results it is reported that both correlations tests have produced similar results. Further discussions will therefore focus on the parametric results.

From table 5.10 the tests on the control group, market orientation and the sample group, financial perspective produced a negative Pearson product-moment correlation coefficient value and a p-value of  $p > 0.05$ . This is an indication of insignificance and of no correlation between these groups. The results of the other 2-sample tests were normal (i.e. significance was demonstrated and a positive correlation was determined).

### 5.3 CONCLUSION

Strong statistical values were obtained from the statistical tests performed in this chapter in terms reliability, correlation coefficients and significance parameters. For this reason these statistical result will ensure that this study will meet the majority of its objectives and make substantial contributions. The findings, objectives, contributions and conclusion will be discussed in the following chapter.



## CHAPTER 6

### CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

#### 6.1 INTRODUCTION

In the previous chapters of this study market orientation and business performance were discussed, measured and analysed. This chapter concludes by reporting on findings and by making recommendations for future research into these two subjects.

#### 6.2 ACHIEVEMENT OF OBJECTIVES

Although the sample in this study was relatively small the results of the empirical study presented the opportunity to achieve the objectives of the study.

##### 6.2.1 Primary objective

The primary objective of the study was to discover and evaluate whether market orientation is a prerequisite for business performance of SME's trading in the South African Mining Communication Industry. The results of table 5.10 indicate a strong correlation between market orientation and three of the four perspectives of the balanced scorecard. However market orientation does not correlate with the financial perspective of business performance. In the light of the critique against the traditional financial measures in terms of business performance (see paragraph 3.2.3.1) and because of the strong correlation between market orientation and the other three perspectives the verdict is that the primary objective was achieved.



## 6.2.2 Secondary objectives

The secondary objectives of the study are: (a) to discover if SME owners/managers are successful without being market orientated and; (b) to discover the link between market orientation and business performance and; (c) to develop a questionnaire to measure business performance in SME's at start-up and; (d) to assist in deriving at a list of criteria which can guide SME's in future during start-up.

In paragraph 6.2.1, the results of table 5.10 indicate a strong correlation between market orientation and three of the four perspectives of business performance, with the exception of the financial perspective. Therefore the following discoveries are reported:

The secondary objective (a) has been achieved in that business owner/managers will not be successful if market orientation is not implemented.

The secondary objective (b) has been achieved in that the link between market orientation and business performance has been discovered. A link exists between market orientation and three of the perspectives of business performances. No link could be found between market orientation and the financial perspective.

The secondary objective (c) has been achieved in that the strong correlation between market orientation and three of the four perspectives of business performance, with the exception of the financial perspective, imply that the market orientation questionnaire (i.e. section B of the questionnaire in annexure A) together with the questions pertaining to the financial perspective (i.e. question 1 of section C of the questionnaire in annexure A) will turn out significant results when used as a tool to measure business performance.

The secondary objective (d) has been achieved in that the strong correlation between market orientation and three of the four perspectives of business performance, with the exception of the financial perspective. This imply that, if

aspects of the market orientation (as discussed in chapter two) and aspects that impact on the financial perspective (as discussed in chapter three, paragraph 3.2.3.1 and paragraph 3.3.1) are combined in a list, then such a list will contain the necessary criteria for consideration where significant guidance is required in order to obtain business performance.

### **6.3 RESEARCH HYPOTHESIS**

The following research hypothesis was stated in chapter one:

H<sub>1</sub>: A prerequisite for business performance in the South African Mining Communication Industry is market orientation.

Due to the low p-value of  $p = .000$  and the strong Pearson correlation coefficients of market orientation vs. the customer perspective, the innovation and learning perspective, and the internal business perspective in table 5.9, chapter 5 the hypothesis H<sub>1</sub> is supportive.

### **6.4 LIMITATIONS OF THE STUDY**

Although limitations of the study will be discussed in the following paragraphs, it is important to note the statistical results in chapter four and five was not significantly influenced to the point where the result were unusable. In actual fact the results proved to be robust enough to with stand the limitations.

#### **6.4.1 Limitations in the literature review**

From the literature review, limited information on the balance scorecard was available in terms of SME's specific studies. Assumptions were made about the relevance of the subject related findings in the literature in that the findings would apply to SME's.

The majority of the findings in the literature have been written and compiled in the context of foreign countries and different continents. Assumption about the relevance in a South African context was made.

#### **6.4.2 Limitations in the empirical research**

The endeavour to obtain the e-mail addresses proved difficult in the realisation of the limited population size of the South Africa communication industry.

Apart from the small population size, a further difficulty was experienced in obtaining relevant contact details. Firstly the printed media provide only generic contact details on the relevant organisations and exclude specific details on the executives. This was expected due to privacy concerns. The blocking of access to the executive by personnel assistants and staff members proofed a limiting factor due to the low rate of participation response that was realised.

From the initial statistical analysis on the demographic statistics it became apparent that non-executives was part of the responses received. This was a limitation due to the fact that the sample had to be amended by omitting data from the forty-three responses of non-executive individuals. The limitation is found in the fact that correlation tests do produce more significant results as the sample size of the random variable increase.

#### **6.5 RECOMMENDATIONS**

This study concerning the correlation between market orientation and business performance in start-up SME's in the South African Mining Communication Industry resulted in the following recommendations:

- 1) The correlation between market orientation and three of the perspectives of the balanced scorecard proofed to be positive and strong. These findings indicate the questions in section C pertaining to the customer

perspective, the internal business perspective and the innovation and learning perspective correlate significantly with questions of section B of the questionnaire. The implication of this finding is that business performance can be measured by the questions in section B with the exception of the questions in section C pertaining to the financial perspective of a SME. In short the measure of business performance in a SME's is equal to market orientation plus the financial perspective. The following formula describe the link between businesses performance and market orientation:

**Business performance = market orientation + financial perspective.**

With this formula the study make a contribution towards the proposal of a questionnaire to measure business performance.

2) The study provides evidence that market orientation does not have a link with the financial perspective of business performance. The effect of this finding is that the implementations of market orientation alone will not ensure business performance. The study recommends that business performance will only be possible if strong financial systems and procedures are implemented in conjunction with market orientation. In more specific terms the study recommends that start-up SME's may limit the risk of failure by implementing market orientation and financial systems and procedures.

## **6.6 CONCLUSION**

The study was successful in achieving its objectives and it made three important contributions:

- 1) the study proposed a measurement tool for business performance as in the case of SME's; and
- 2) the study proposed criteria for guidance when business performance is to be achieved; and

3) it formulated the relationship between market orientation and business performance in the Mining Communication Industry of South Africa with the following:

**Business performance = market orientation + financial perspective.**

