

**MARKET ORIENTATION AND BUSINESS PERFORMANCE IN KENYAN SME'S**

**BY**

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**STUDENT'S DECLARATION**

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

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## **ABSTRACT**

Micro and Small Enterprises have been acknowledged as very important in economic development for job creation and poverty reduction. The government of Kenya has also acknowledged that these firms face a lot of challenges and that there is need to enhance their performance and competitiveness. This study examined market orientation in Micro and Small Enterprises in Kenya in relation to their performance. Micro and Small Enterprises are faced with many problems that include stiff competition by multinationals and government owned organizations and this has implication on their performance. With their large resource base and support from their parent organizations and the government, subsidiaries of multinationals and government organizations are a force to reckon with in the marketplace.

Market Orientation is a strategy that firms can use to gain competitive advantage and enhance their performance. Dimensions of market orientation include innovativeness, competitive aggressiveness, pro-activeness and information sharing. The study was conducted in Nairobi where most of these SMEs are found and the target population was all the SMEs which have been in existence for 3 or more years. A list of SMEs was obtained from the Kenya Business directory whereby out of the target population of 1600 employees, a sample population of 160 employees (10%) were selected after cross-checking the 2013 and 2015 directories to ensure that only those firms that are 3 years and above are in the study.

The study used the explanatory and descriptive approach to examine the relationship between the dimensions of Market Orientation (innovation, information sharing, pro-activeness and competitive aggressiveness) and the performance of Micro and Small Enterprises in Nairobi County using a questionnaire. The study established a positive relationship between Market Orientation and the performance of Micro and Small Enterprises in Nairobi County. All the four dimensions of market orientation were positively related to performance and the regression analysis indicated that an increase in each of them would result into an increase in performance.

The study recommends the integration of Market Orientation posture into the SME's strategic behavior so as to be more competitive and improve their performance. The study also established that education, and firm age had moderating influence on the relationship between market orientation and performance. These findings are of importance to policy

makers who can come up with different programs aimed at improving the competitiveness of these firms through creativity, experimentation and development of wholesome market orientation strategies. The Micro and Small Enterprises sector will further be enriched if further research is carried on in the other counties in Kenya as recommended in this study, thus establishing other market orientation factors that can increase the competitiveness and performance of these firms.

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## **DEDICATION**

This project is dedicated to my parents, for being my source of inspiration and for always encouraging me to achieve the highest degree of excellence.

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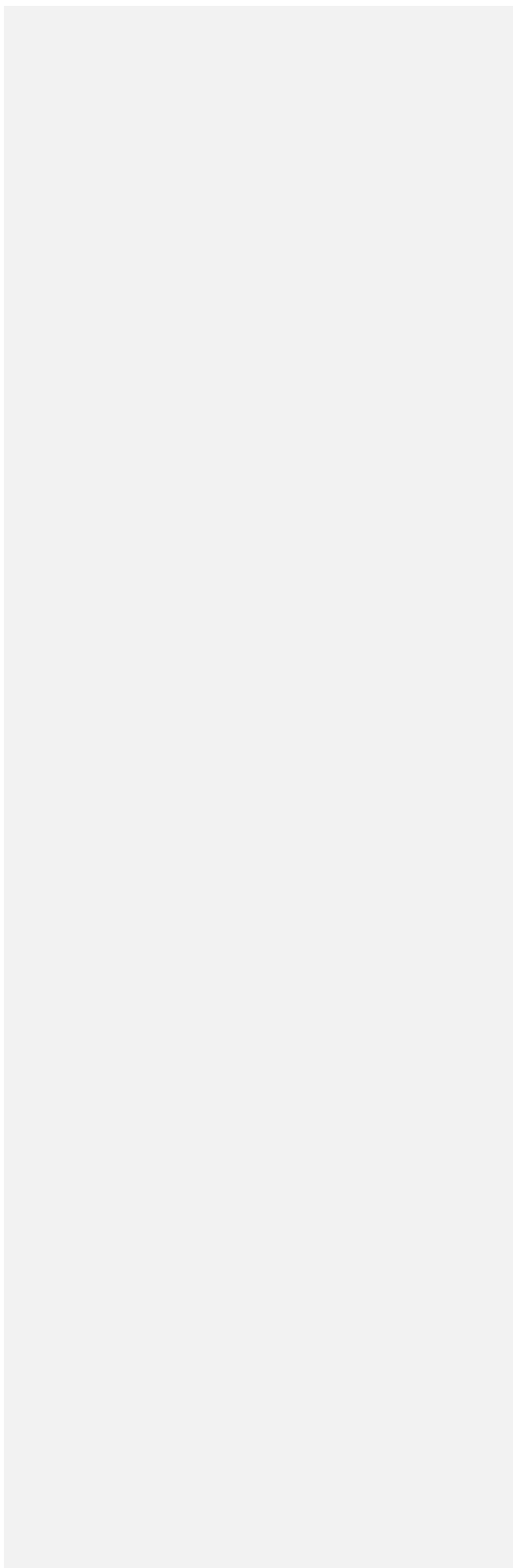
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## CHAPTER ONE

### 1.0 INTRODUCTION

#### 1.1 Background of the Problem

The prevailing business environment is highly competitive characterized by such standards as the globalization and deregulation of markets, aggressive rivalry and greater expectations of customers. To be competitive and survive in the highly competitive global marketplace, firms have to pay more attention to the needs of customers. Market-oriented firms have to constantly endeavor to understand customers' needs, and develop superior solutions to those needs (Slater & Narver, 1999, p. 1165).

According to Walker (2001), the traditional view of marketing was that, the key to profitability was greater sales volumes and therefore it was marketing responsibility to sell whatever the factory could produce (Webster, 1988). Marketing approaches leaned towards a short-term, tactical process of personal selling, advertising, and sales promotion (Webster, 1988).

In the mid-1950s, as a result of the postwar condition of scarcity being replaced by an abundance of products competing for the sustenance by consumers, the "marketing concept" evolved. The short-term sales approach to marketing was replaced by a long-term strategic positioning (Webster, 1988) that encouraged firms to look at basic consumer needs as opposed to transient products (McGee & Spiro, 1988). Marketing orientation has evolved from sales orientation and product orientation as shown in Figure 1.1 below.



Figure 1.1: Evolution of Marketing (Webster, 1988)

Today, many firms are aligning their business operations from a product oriented approach to market oriented approach. The market orientation approach puts customer satisfaction as key to business operations. Market orientation has attracted a significant amount of academic and practitioner interest in the current marketing literature. This approach represents the implementation of marketing concept characterized by a firm's tendency to deliver superior value to its customers on a continuous basis (McCarthy & Perreault, 1984).

According to Mckitterick (1957);Felton (1957); and Keith (1960), marketing is a corporate state of mind that demand for the integration and coordination of all the marketing functions with the objective of producing maximum range of corporate profits. McNamara (1972), regarded the marketing concept as a business philosophy, an ideal, or policy statement. Houston (1986) defined the concept as a willingness to not only recognize and understand consumers' needs and wants but also the willingness to adjust the marketing mix elements to satisfy those needs and wants. The marketing concept refers to a distinct organizational culture that puts the customer in the center of the firm's thinking about strategy and operations.

Traditionally, SMEs based their competitiveness on a number of factors such as their tendency to concentrate in particular regional areas, giving rise to industrial districts; and their high degree of specialization and flexibility resulting from their informal organization wherein the entrepreneur usually represents the sole decision maker. Yet, in the last few years, due to some emerging drivers of market change for example the markets' internationalization, the increasingly global competition and the diffusion of ICT, their traditional factors of success which include agglomeration, flexibility and specialization have been replaced with other key-factors such as innovation and marketing orientation (Marcati, Guido & Peluso,2010).

Past research acknowledges that market orientation can predict a firm's performance in the context of an increasingly competitive and volatile environment spiced with rapid changes in customer needs and desires (Kolar, 2006). Market orientation concern is the marketing

concept, which is considered a strategic approach capable of improving organizational performance (Jia-JengHou, 2008; Zeithaml & Bitner, 2003). Although the market orientation performance relationship appears to be fairly strong, the robustness of the relationship across different sectors is not clear. This notion can be stated for SMEs, owing to rapid technological changes in this industry. Modern SMEs industry has gone through numerous changes thus fostering competition, hence, the focus to become more market oriented, more innovative, and improved performance (Ko & Pastore, 2005).

Having a market-orientated strategy is perceived as a way of successfully managing the impact of changes in the SME industry. Market-orientation which was ideally developed for large-scale firms may not have similar connotations in the context of SMEs. This is because SMEs face a different range of challenges including concerns arising from their limited resources as compared to the larger organizations. Several other factors affecting SMEs success include: technological competencies, decision-making, minimum number of customers and suppliers and efficiency of current operations. In order for an organization to remain competitive rationally, firms need to manage a process of competitive advantage. (Leyland, 2010).

Improving organizational performance through the development of a market oriented culture is also acknowledged as a marketing intervention. This can be achieved through some changes in the organizational setting, adoption of social factors and also encompassing technology that will lead to changes in employees view in helping the organization to have a strong market orientation.

Market orientation is fundamental in achieving organizational goals such as information generation and dissemination, market intelligence, responsiveness and inter-functional coordination and customer/ competitor orientation (Zeithaml & Bitner, 2003). This involves market intelligence, information generation and dissemination, customer/ competitor orientation, responsiveness and inter-functional coordination. However, little attention has been paid to the concept in small enterprises. Research on the relationship between market orientation, and its influence on firm performance is also scanty (Charles *et al.*, 2006; Salavo & Lioukas, 2003).

According to Houston (1986), market orientation may not be rewarded uniformly across diverse market conditions. It is upon this basis that an evaluation of the market orientation in the SMEs industry becomes paramount. Verma *et al* (2005), point out that innovation plays an important role in the marketing concept because it gives the service firm market information. This gives a firm the ability to stay ahead of its competitors through new market offerings.

Marketing as defined by the American Marketing Association (2004), involves processes for creating, communicating and delivering value to customers and for managing customer relationships. Typically this is implementation of the marketing concept whose elements are the marketing mix to meet customer expectations profitably. However, despite the importance attached to marketing, recreation sector managers have been slow to effectively implement marketing principles (Johnson *et al.*, 1999). Out of all considerable research that has been conducted on marketing orientation there is little focus on the micro and small sized enterprises, and more so in the developing countries. There lacks documentation about the SMEs industry and market orientation in Kenya. Yet, in SMEs lies potential for the entrepreneurs/ managers dreams to be reflected strongly in the enterprises characteristics and operations.

Market orientation outcomes include sustainable competitive advantage, profitability, greater capacity for speed and innovation and overall firm performance. Pelham (2000), found market orientation has strong relationship with performance in small and mid-sized firms though they have limited resources. This makes their market orientation levels to vary, hence the need to investigate the practice of market orientation among SMEs. The importance and relevance of market orientation to service operations rests in the increased emphasis on innovation and service quality in customer oriented enterprises. This is because customers not only purchase products but they also co-produce in service organizations (Manville & Ober, 2003; Salavon & Lioukas, 2003).

Stokes and Wendy (2008), argue that market orientation plays an essential role in micro-enterprises and it is an important factor in business growth. A market orientation strategy identifies customers which the business can better serve (than its competitors), and tailors product offerings, prices, distribution, promotional efforts, and services towards those customers. In addition, a good market orientation strategy helps an enterprise to develop a long-range plan to ensure its survival, profitability, growth, and perpetuity (Schiffman & Kanuk, 1992; Cohen, 1983; Fifield, 1992). Ahmed and Rafiq (1995), posit that one of the pertinent areas in the field of marketing is market orientation.

To provide high quality and satisfying experiences, SMEs managers therefore must determine clients' perception of service quality (Nicholas and Kostantinos, 2008). A key purpose of SMEs is to provide products and services to clients so as to meet their emergent needs most appropriately to best achieve these goals. SMEs managers must make every effort to build positive experience for clients. Understanding what factors contribute to market orientation, higher product and service quality and satisfaction among different clients may develop appreciation of operational issues and promote business performance.

Since service production is based on different grounds other than goods production, the product (product innovation) and new methods of production (process innovation) are likely to be different and may also have a different impact on customer satisfaction Panayides, (2006), market orientation, service quality and innovativeness affect one another recursively, hence the synergy in this study. Innovativeness refers to the organization's openness to new ideas, as well as to its capacity to innovate, to implement and to adopt the new idea, to adopt a process or change a product successfully. Innovativeness encompasses both the tendency to change as well as the practical capacity to innovate. While openness to new ideas and learning is part of innovativeness, the practical aspect of the organizational capacity to innovate is central. An organization that does not implement innovations cannot be perceived as innovative. Based on the definitions of innovativeness as an organizational tendency to support new and creative ideas towards their implementation, we perceive innovativeness as a practically-driven organizational orientation (Deshpandé & Farley, 2004).



Market intelligence addresses how firms acquire and manage market information and improve inter- and intra- coordination of activities. Innovativeness is dependent on such knowledge and learning which leads to superior performance, consequently affecting firm's innovativeness. (Therin, 2002; Tasi, 2001; Slater & Narver, 1995). A theoretical review of organizational market orientation, service quality and innovativeness indicates their central role as drivers of enterprise performance. This linkage is documented in several studies such as by Han *et al.*, (1998).

Narver and Slater (1990), provide a basis for examining the mediating variables that connect market orientation and performance. They indicate that a series of activities dictated by market orientation create superior customer value/ quality, which in turn brings superior returns to the firm. Therefore, superior value quality is one of the possible constructs that mediate the relationship between market orientation and performance. Superior value of a firm's product can be explicated as consisting of service quality and innovation (Zeithaml & Bitner, 2003). The SMES provides products and services or value creating activities performed for the customers (Edgar, 2004; Guo, 2002). It is worth evaluating the service quality gaps that may exist so as to identify any existing problems that could eventually hinder efficiency and effective firm performance (Guo, 2002). Han *et al.*, (1998), contend that market orientation may promote the innovativeness of an organization. Specifically, the market information generation that occurs in market oriented firms provides an opportunity for customer directed and intelligent innovation. This affects the overall firm performance. Vila *et al.*, (2005) and Guo (2002), contend that market orientation as a strategic marketing concept influences performance, innovation, as well as service quality, which in turn impacts on firm's performance. A close examination of the relationship between these variables within the SMEs sector is lacking in Kenya hence the focus of the proposed study.

## **1.2 Statement of the Problem**

During the last decade, the construct of market orientation has been the object of considerable interest and attention from researchers. A range of definitions of market orientation have been suggested and refined, and operationalized measures developed (e.g. Deng and Dart, 1994; Deshpandé and Farley, 1998; Ruekert, 1992). Antecedent conditions

for, and consequences of, being market-oriented have been examined as well (e.g. Greenley, 1995; Jaworski & Kohli, 1993; Narver & Slater, 1990). Since 1990, more than 150 articles about market orientation have appeared in scientific (peer-reviewed) journals.

Liberalization of the economy in Kenya that started in the 1990's led to increased investments by entrepreneurs and development of small and micro enterprises in various sectors including the SMEs industry (Central Bureau of Statistics *et al*, 1999; Barkan, 1994). Observations within the small and micro-sector in Kenya indicate they suffer from poor infrastructure, marketing and management skills (Lois & St-Onge, 2005; McPherson 1999). Concern about customer needs and satisfaction then is low resulting in poor productivity and business performance.

In the last decade, market orientation has attracted strong interest among practitioners. There are compelling reasons to believe that business managers are interested in and motivated to attend to and try out the ideas of market orientation. In today's turbulent and competitive environments, customers are a scarce "resource". To survive and prosper, business firms need to attend to and attract a sufficient number of customers who are willing to purchase their products and services at a price which at least covers the costs involved. Usually, firms also need to pay attention to competitors because competitors' goods and services are likely to influence customers' preferences and choices (Dickson, 1992). A market orientation offers a "lens", believed to provide organizations with a unifying focus and clear vision that will lead to improved access to information and understanding centered on creating superior value for customers (Day, 1994). It is also believed that firms "oriented" toward the market (i.e. customers and competitors) should have good prospects for attracting a sufficient number of profitable customers (Kohli & Jaworski, 1990). Thus, market orientation is assumed to be highly beneficial for business firms and other types of organizations.

In their operations, SMEs face major challenges and threats such as new technologies, consumer tastes and lifestyle changes and business competition (McMahon-Beattie & Yeoman, 2004; Ko & Pastore, 2004; Russell, 2001). Consequently they must innovate and improve the service quality of their services to survive. Kumar (1998). notes that efficient

market orientation coupled with innovativeness provides strategic guidelines on the development of a firm; thus it is critical for SMEs performance and premium customer satisfaction. Despite this fact, exploratory and comparative research on market orientation, innovation as well as service quality in SMEs sector, few studies have made been carried in this field (Chick, 2000). These observations necessitate inquiry to examine and unravel existing uncertainty in order to create understanding on the extent of adoption and utilization of these concepts among the SMEs in Kenya.

### **1.3 Purpose of the Study**

This study sought to examine the effect of market orientation on business performance of SMEs in Kenya.

### **1.4 Research Objectives**

This study was guided by the following research objectives:

- 1.4.1 To determine the scope and nature of market orientation
- 1.4.2 To find out how market orientation impact SMEs innovation rate, new product development and overall marketing performance
- 1.4.3 To examine the characteristics of underlying factors of market orientation among Kenyan SME's
- 1.4.4 To determine how market orientation affects business performance among Kenyan SME's

### **1.5 Research Questions**

This study was guided by the following research questions:

- 1.5.1 What is the scope and nature of market orientation?
- 1.5.2 How does market orientation impacts SMEs innovation rate, new product development and overall marketing performance?
- 1.5.3 What are the characteristics of underlying factors of market orientation in Kenyan SMEs?
- 1.5.4 What is the relationship between market orientation and business performance among Kenyan SMEs?

## **1.6 Research Hypotheses**

The null hypotheses tested were:

H0<sub>1</sub> There is no relationship of market orientation on SMEs innovation rate, new product development and overall marketing performance

H0<sub>2</sub> There is no significant relationship between market orientation and business performance among Kenyan SMEs

## **1.7 Significance of Study**

**1.7.1** To design a valid instrument for measuring market orientation from a behavioral perspective and relating this to the development of a system by which the SMEs can actually evaluate their performance in the general markets and how to improve on the aspects that are pulling them down.

**1.7.2** Creating measurable marketing activities and having a system that checks the progress and gives feedback on the growth of the organizational goals that lean towards marketing and the departments that are directly linked to marketing.

## **1.8 Scope of Study**

The study is based on sixty employees from SMES that have been in existence for 3 years and above. This study examines market orientation in Micro and Small Enterprises in Kenya in relation to their performance. The study took approximately six months between October 2015 and March 2016. In cases where there was a limitation of the extensive research tools that could be employed due to the small sizes of the organizations, focus groups discussions were conducted to collect information.

## **1.9 Definition of Terms**

**1.9.1 Marketing:** The science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit (Kotler & Armstrong 2003)

**1.9.2 Market Orientation:** A form of organizational culture where employees throughout the organization are committed to continuously create superior customer value or as a sequence of marketing activities that leads to better performance (Adrianus, 2008)

### **1.9.3 Marketing planning**

The process by which business analyze the environment and their capabilities decide upon courses of marketing action and implement those decisions (Jobber, 2010)

SMEs Performance refers to quantifiable outcomes in form of financial performance (profits, return on investments), improved sales and investment, market share, retention of clients, new client acquisition and employee retention.

### **1.9.4 Product:**

The core element in the marketing mix providing the functional requirements sought by customers (Jobber*et al*, 2009)

### **1.10 Chapter Summary**

In conclusion, various factors directly affect the market orientation of SMEs in Kenya and this study seeks to find out the challenges and the limitations facing entrepreneurs and how to approach them by developing solutions that can be readily adapted to the SME prompting growth. Response to these factors, the environment and competition are aspects which are clearly linked with an organization's growth potential and resources. By developing systems and solutions that will enhance an environment that is market oriented within the organization will enhance productivity and eventually lead to growth of the organization as a whole.

The chapter that follows below gives an overview of the marketing concept, market orientation-SMEs performance relationship and a discussion of research problems and research objectives.

## CHAPTER TWO

### 2.0 LITERATURE REVIEW

#### 2.1 Introduction

This chapter presents the marketing concept- an overview, market orientation- SMEs performance relationship, business performance and Small and Medium Sized Enterprises (SMEs). The research problems and research objectives have been defined. A summary of the literature reviewed is also presented.

#### 2.2 Marketing Concept – An Overview

The marketing mix developed as a method of optimizing profit in enterprises and aims at creating ideas to solve marketing problems and meet customers' needs effectively (Gronroos, (2002); Woolf (2008); Wise & Baumgartner (1999), observe that customer expectations must be met since they affect the satisfaction levels, which on the other hand significantly influence customer's retention rate. To meet customers' needs, enterprises must exceed the customer's expectations through responsiveness, innovations, assurance, and empathy.

Day (1990), contend that marketing concept is the key to modern business success whose implementation in organizations requires the maintenance of a particular managerial orientation. Kohli and Jaworski (1990), viewed marketing concept as a culture which enterprises must develop over time in order to be beneficial. Marketing is an organizational culture that most effectively and efficiently forms the necessary behavior for creation of superior value for customers (Narver and Slater, 1990).

Miller and Layton (2001), asserted that, marketing concept is a philosophy of doing business that recognizes customer orientation and coordination of marketing activities in achieving the performance activities in an organization. Shapiro (1988) indicated that three characteristics make a company market driven; these include information relating to corporate function, inter-functional and interdivisional strategic and tactical decisions, and the execution of well-coordinated decisions. These attributes constitute implementation of the marketing concept that is the market orientation which emphasizes the need for an enterprise to understand its target markets and customers (Shapiro, 1988). Thus, an enterprise should seek to meet the

current customer needs and anticipate the future ones. Effective enterprises should also understand their customers so as to create products that give superior value. Development of strategies aimed at meeting customer needs and wants eventually leads to customer orientation and optimal service (Ruekert, 1992).

### **2.3 Market Orientation**

The marketing concept is a central tenet of marketing that holds that company success depends on determining customers' needs and wants and satisfying them more effectively than competitors do. Considered as one of the marketing priorities, market orientation has been interpreted differently though with a dominant operative focus and closely aligned to the market intelligence process (Albert & Lado, 2003).

Desphande and Farley (1998) defined market orientation as a group of activities and cross-functional processes driven from the focus on a customers' satisfaction through the continuous evaluation of their needs. Market orientation is the degree of market intelligence generation about present and future customer needs, the dissemination of the information generated through all the departments, and the response to the market based on the intelligence generated (Kohli and Jaworski). Market orientation involves organization of market intelligence and intelligence generation and dissemination within the organization.

According to Klauset *al*(2005), a firm is characterized as market oriented if it has developed an appreciation that understands present and potential customer needs in addition to providing superior customer value. Such a firm must encourage systematic gathering and sharing of information (Grinstein, 2008). Foley and Fahy (2009), posit that market orientation entails a set of tangible actions initiated by a firm and which form the underlying culture upon which it operates. Narver and Slater (1990) conceptualized market orientation as a culture existing within the internal framework of an organization. Similarly, market orientation forms the competitive strategy that efficiently generates the right kinds of behavior to create enhanced value for the consumer, subsequently assuring the firm better long-term results. Grinstein (2008).

This implies that market orientation is based on orientation towards the customer, orientation towards competitors and inter-functional coordination. Structural components of market orientation includes generation and analysis of all relevant information about the market; dissemination of this information among the various departments of the organization in order to coordinate and arrange strategic planning; and implementation of strategic initiatives designed to satisfy the market. Ruekert (1992) defines market orientation as the intensity with which companies obtain and use information on customers, develop strategic plans on the basis of that information, and implement these plans, thus responding to customers' wishes and needs.

### **2.3.1 Cultural Definition of Market Orientation By Narver And Slater**

The firm's ability to achieve above-normal performance depends on its ability to create a sustainable competitive advantage by creating superior value for customers (Narver and Slater, 1990). In order to do so, the firm's organizational culture must be driven by a desire to create superior value for customers. Organizational culture refers to the norms and values among the employees of the organization, and Narver and Slater *et al* (1990), argue that organizations must create and maintain a culture that will generate the behavior necessary to achieve and sustain competitive advantages. According to Narver and Slater, market orientation is an organizational culture that most effectively and efficiently creates necessary behaviors' for the creation of superior value for buyers leading to continuous superior business performance. Narver & Slater *et al*, (1990)

As organizations develop a valid market orientation concept, market orientation entails the following behavioral components; competitor orientation, customer orientation, competitor orientation and inter-functional coordination. Customer orientation involves activities that enable organizations to develop an adequate understanding of how to create value for their existing and prospective customers. Competitor orientation refers activities associated with creating knowledge about existing and prospective competitor strengths and weaknesses, capabilities and strategies. This includes both acquiring information about customers and competitors, and disseminating it across the organization. Inter-functional refers to the coordinated effort and resource utilization of the organization to create superior value for its



customers. Market orientation and the three behavioral components are the responsibility of all departments and all members at all levels of the organization (Narver & Slater et al, 1990).

### **2.3.2 Behavioral Definition of Market Orientation**

Kohli and Jaworski (1990) identified three aspects key in market orientation: intelligence generation, intelligence dissemination and responsiveness, which are important components of a market orientation. Generation of market intelligence involves gathering of information about the market. Market intelligence includes both present and potential customer needs as well as future needs and preferences such as competitors, government regulations and technology. Responsiveness refers to the concerted actions made by the organization to comply with the conditions in the market including selection of target market and developing products and services.

### **2.4 Market Orientation and Firm Performance**

Kohli and Jaworski (1990) saw the generation of marketing knowledge (from marketing research), its dissemination, and organizational response to it, as key aspects of an organization's market orientation, which also moderates firm performance. Narver and Slater *et al* (1990) inferred that market orientation has three behavioral components which are competitor orientation, decision criteria of long term focus and profitability and finally an inter-functional coordination. Ellis (2006), from a meta-analysis of various studies illustrates that less than 7 per cent of the variation in firm performance is associated with market orientation. These clearly indicates the likelihood of moderator effects from other sources like the multi-item inventories themselves, objective versus subjective measures of performance, cultural distance across countries, and the level of market development. There is strong correlation between the market orientation and firm performance as reported by managers (though subjective) in various related studies such as by Foley and Fahy (2009). This affirms that market orientation influences both market (non-financial) and financial measures of firm performance. The background of these studies generally is in developed

economies and with the moderation of culture and environment as sources of variability then this study is timely in a different setting.

#### **2.4.1 Outcomes of market orientation**

According to Kohli and Jaworski *et al*(1990), market orientation enables clarity of vision and focus when coming up with a firm's strategy and provides an amalgamation of focus for the projects and efforts of individuals and departments contributing positively to business performance. Narver and Slater *et al*(1990), emphasize that market oriented firms are able to comprehend how to create superior value for customers and realize competitive advantages, which in turn leads to greater financial performance. According to Day (1994), market orientation provides firms with market-sensing and customer linking capabilities, enabling firms to develop market offerings in tune with customer needs.

Shoham *et al* (2006), while assessing the impact of market orientation on the performance of voluntary and non-profit organizations in a meta-analysis found that market orientation contributes to higher organizational performance positively. Similarly, various studies by (Pelham & Wilson, 1996; Gainer & Padanyi, 2005; Woodside, 2005) contend that customer orientation (concerned with determining the needs, interests and preferences of visitors, and designing programs, activities and experiences to try to satisfy them), leads to a superior economic performance.

Contrasting findings about market orientation and firm performance have however been advanced, for instance, Voss and Voss (2000), while examining the impact of customer orientation on a variety of subjective and objective economic performance measures in the non-profit professional theatre industry found that customer orientation was negatively associated with financial performance. In the same vein, Wood *et al* (2000), also, in the hospital set-up, found a low and non-significant correlation between market orientation and performance.

Bathgate *et al.*, (2006) and Caruana *et al* (1999), both acknowledge that much market orientation research is being conducted in the western countries. Further it is accepted that

the relevance, application/adoption and impacts on business success is worldwide. The market orientation concept is accepted in literature, however, despite this fact; little research has been conducted in the African context. Market orientation not only provides knowledge about competitor trailing, control of environmental factors and customer present and future needs, it also generates market intelligence. It therefore, may be an important source of ideas for design of new products and services. Grinstein (2008) and Subramanian (1997), report a positive significant association between innovation and firm performance within the banking industry, whereas a positive association between degree of innovation and economic performance from Japanese corporations is observed (Deshpandé *et al*, 1993).

Strategic orientation of the firm leads to partial, superior performance because of the innovations that are brought to market (Hult *et al.*, 2004; Gatignon & Xuereb, 1997). Even though market-oriented firms generally benefit from the firms' resultant (marketing) activities, the capacity and ability to introduce new services and products with the potential to be successful is critical. This is embedded in the concept of innovation wherein lies the importance of market orientation as a determinant of innovation within the SMEs industry. According to an observation by Atuahene-Gima (1996), services like banking and insurance, innovation success is dependent on a firm's customer and market orientation. To gain innovation success, it is important to focus on the needs and wants of the customer and having an appropriate response.

Other studies supporting the market orientation- performance relationship include one by Webb *et al* (2000), who found market orientation had strong effect on customer satisfaction from a sample of 77 clients in a US corporate bank. Since Webb *et al*, (2000) studied one company, generalizing their findings to other firms and industry context is difficult. Kreppa *et al*(2003), examined different perceptions of market orientation and resultant impact on satisfaction. They suggested that when there was a significant divergence between customer and firms perceptions of market orientation, then satisfaction tended to be reduced. Han *et al* (1998), basing their work on that of Narver and Slater *et al* (1990), examined the effect of market orientation on organizational performance using banking industry data and found a substantial positive relationship between these two variables.

A study was conducted by Slater and Narver (2000), to help determine the relationship between market orientation and business profitability. For this purpose data were collected from 53 single-business corporations of small business units of multi-business corporations in three Western cities. Despite the relatively small sample, they conducted a stepwise regression analysis and found market orientation and business profitability positively and significantly related. Pulendran *et al* (2000), using the scales of Jaworski and Kohli (1993), checked the moderating effect of market turbulence, competitive intensity, and technological turbulence and identified the relationship between market orientation and profitability arguing that superior profitability can be achieved by undertaking market-oriented activity. In this connection, they suggested further research to determine how market orientation relates to aspects of performance such as self-assessment performance measures, quantitative performance measures, job satisfaction, organizational satisfaction, organizational commitment, role clarity, and self-esteem measures. Pelham (2000), conducted another study among 160 small and medium sized manufacturing firms. The study used a market orientation scale adapted from both Narver and Slater *et al* (1990) and Jaworski and Kohli (1993). The findings of the study suggested that total market orientation was significantly correlated with marketing/sales effectiveness, growth/share and profitability.

Appiah-Adu (1997), conducted a market orientation and performance study in the United Kingdom that examined whether the market orientation-performance link established in large firm studies also holds for firms in the small business sector. The possible effects of market growth, competitive industry, and market and technological turbulence on any identified relationship were investigated. Regression analysis was conducted in order to identify the market orientation-performance link. Findings suggested a positive and significant impact of market orientation upon small business performance. There was a significant and positive impact of market orientation on new product success in the study. Appiah-Adu *et al* (1998), conducted another study among manufacturing and service firms in the UK where they identified a customer orientation and performance relationship. They used regression analysis in order to identify the customer orientation's relationships with new product success, sales

growth, and return on investment. The study identified a positive and significant relationship between customer orientation and all the three performance measures.

Dawes (2000) conducted a study that examined the association between market orientation and company profitability. In the study two methodological approaches that have generally not been used in previous research were used. Firstly, he used company and environmental control variables in the data analysis in order to better discern their effects on profitability and to clarify any relationship between market orientation and performance. Secondly, he separately analyzed the individual components of market orientation and their relationships with business profitability. It was found that competitor orientation, as a component of market orientation, had the strongest association with performance. They argued that, while customer orientation is vital, competitor intelligence activities constitute a key factor in ensuring high performance. Further, it was claimed that each component of market orientation should not necessarily be assumed to have equally strong associations with profitability. Thus, the researcher suggested further research in the absence of a significant association between market information sharing and reported performance.

The contention of this study is as set in a developing country, with unknown overall adoption levels of the concept within the SMEs' sector. It is observed from an applied perspective that due to industry market orientation variability, there is an appeal to assess increments in the SMEs economic performance. The research isolates the within-industry variation by adopting a single industry approach, thereby preventing the generalization of the results outside the scope of the industry considered. As a result of the research, there is minimization of threat to validity and noise caused by certain environmental variables such as market growth, competitive intensity on business performance, buying and supplying power and market turbulence. According to Montoya-Weiss & Calantone (1994), Market-related activities are some of the factors that distinguish new product success or failure. It is observed that the most successful firms pay attention to customer needs and wants and develop products and that address them. These companies have skills and good market knowledge that are critical in developing and launching the product (Raaij & Stoelhorst 2008).

According to Grinstein (2008), a strong market orientation is critical for firm success while innovation performance, innovation degree, and business performance are all linked together. Raaij and Stoelhorst (2008) suggest that the performance of a new product is related to the degree of innovation of a firm. Consequently, firms that attempt to bring out more innovations may be more likely to succeed. Grawe, *et al.*, (2009);Deshpande*et al.*, (1993), suggest that superior firm performance is associated with increased levels of innovation. The more market oriented firms are, there will be an increased innovation performance, a higher innovation degree which will ultimately lead to the firms economic success. As a result of market orientation, there will be higher customer loyalty and product/service quality which will lead to economic success.

Various studies on market orientation show that it results in several different benefits, for instance: can be converted into a profit increase as fronted by Slater and Narver (1994),can enhance change in attitudes and culture (Jaworski & Kohli, 1993), can enhance the creation of more customer-orientated sales forces, (d) and can increase the potential for success of new products (Perin & Sampaio, 2001). Additionally the level of a firms" market orientation as articulated by Jaworski and Kohli (1993) creates the foundation for developing competitive advantage hence mediates managerial performance. These conclusions are buttressed by Perin and Sampaio (2001), who studied the extent to which each of the market orientation dimensions (market intelligence generation, dissemination, and responsiveness) influences performance. Using a sample of companies in Brazil their results demonstrated that market orientation dimensions are positively associated with firm performance.

The market orientation field is consistent and theoretically consolidated, and its influence on organizational performance is commonly accepted. However, increasingly it has been argued that whilst market orientation is necessary, it is not sufficient to sustain competitive advantage and optimal performance within a firm singularly (Baker & Sinkula, 1999). Hence need to investigate the role of moderating factors internal to a firm, particularly, and to this study firm innovation and service quality.

The main purpose of market orientation is for a firm to be both proactive and responsive (Narver *et al.*, 2004). Conclusively, progressive firms should focus on developing a culture

that embraces awareness and learning about customers and competitors (Carr & Lopez, 2007). Indeed the results of Gainer and Padanyi (2005), support the assumption that there is a positive association between market-oriented culture, customer satisfaction and peer reputation. They argue that client-oriented activities result in stronger client-oriented culture, and this in turn increases client satisfaction. Nevertheless, other mediatory dimensions should be considered while examining the market orientation and performance relationship, namely a learning orientation (Verhees & Meulenber, 2004), innovation (Keskin, 2006) or organizational culture (Deshpande, *et al.*, 2004; Carr & Lopez, 2007). While investigating the relation between the market orientation, the learning orientation, and innovation in Brazilian electronic industry using structural equations modeling Perin and Sampaio (2003), showed a direct, positive and significant influence of both market orientation and learning orientation, on innovative performance. The market orientation presented a direct influence on innovation.

Market-orientation creates a competitive advantage for small firms over the larger firms as SMEs are at a closer reach to customers and they are able to identify and reach their needs and wants quickly. As a result of market orientation, SMEs are able to transfer customer intelligence quickly, with less deterioration, due to their reduced organizational layers and bureaucracy. Market orientation assists SMEs in implementing marketing plans within a shorter period due to reduced formalities..

#### **2.4.2 The moderating role of environment**

According to Kohliand & Jaworski (1990), a firm's need for being market oriented is affected by conditions in their environment. Firms operating in a dynamic and continuously changing industry have to be market oriented to survive. In addition, firms that are more market oriented than their competitors enjoy greater performance. Strong indicators of the competitive environment in an industry include competitive intensity, market turbulence, technological turbulence, and general economy (Kohli & Jaworski *et al*, 1990).

Apart from the environmental conditions affecting the need for a market orientation in terms of strengthening or weakening the performance effects of a market orientation, other potential environmental moderators such as competitor hostility and concentration, market

growth and buyer power have been hypothesized (Slater & Narver, 1994). In addition, ease of entry and supplier power, customer network size and diversity (Ellis, 2010) has all been hypothesized to have direct impact on a firm's level of market orientation (Bhuian, 1998).

## **2.5 Innovation**

Innovation is thought to provide organizations with a means of creating a sustainable competitive advantage and is considered to be an essential component of economic growth (Brown & Eisenhardt, 1995; Mandel, 2004). In fact, innovation is a key strategic activity undertaken by organizations that provides them with a mechanism for better alignment with market conditions (Schoonhoven *et al.*, 1990). In other words, innovation is action often undertaken by organizations as a means of handling market dynamism. Innovation is a mechanism by which organizations can draw upon core competencies and transition of these into performance outcomes critical for success (Reed & De Fillippi, 1991; Barney, 1991). While the importance of this innovation is acknowledged, there seems to be a lack of clarity and consistency of results on the drivers and performance implications associated with innovation in academic research (Hoff, 2004; Mandel, 2004). In fact, the most consistent finding within the innovation literature is that the results are inconsistent with regards to innovation (Camison-Zornoza *et al.*, 2004; Wolfe, 1994). Indeed, of great interest is the lack of clarity between the link of innovation and performance. For example, the relationship between innovation and performance has been found to be positive for financial performance (Ahuja, 2000; Robinson, 1990; Tsai, 2001) while at the same time several other studies have found the opposite to be true (Boeker, 1997; Greve, 2003; Kotabe, 1990). The aim of this research is to gain an understanding of the relationship between market orientation and innovation and performance.

According to Keskin (2006), innovation is the new look of competition in the twenty-first century. Increased competition, change, uncertainty and ceaseless turbulence create a necessity for firms, both large and small scale to embrace innovation as a critical element of their corporate strategy. The capacity to innovate encourages an increased level of innovation and creativity. The availability of resources, processes to solve problems and collaborative structures is referred to innovation capacity. Available resources in the SME context are in



most cases financial and skilled workforce. Multi-functional or cross-functional teams are collaborative structures and systems, technologies, and “Investors In people” (IIP) are the firm’s processes..

According to Laforet (2011) absorptive capacity is linked to innovation. With a basis CBR data, innovation requires appropriate human capital to raise absorptive capacity of SMEs (DTI report, 2007). SMEs having 15 employees or more are viewed to have a capacity to absorb and use new knowledge. It is especially common in firms that have employees with higher educational levels and clear growth objectives. These traits are mostly observed in younger firms with younger founders and management. Human capital is a critical aspect of organizational performance. A key component of human capital is the possession of specific knowledge, which yields competitive advantage (Dimov & Shepherd, 2005).

In a study by Siqueira and Cosh (2008), firms multi-skilling or conducting job rotations with high levels of product innovations are more likely to be top performers in their specific industries.. Firms with flexible policies, with short communication lines, open company culture, having constant benchmarking and networking activities and experiencing less bureaucracy with an ability to plan ahead are determinant factors in being successful in terms of innovation for SMEs. Networking brings numerous advantages which lead to positive innovation for the firm. Through networking, firms get access to enhanced resources, the risk can be shared and costs reduced (Dodgson & Rothwell, 1991).

A company's position in the marketplace, implementation of ISO9001, percentage sales from products introduced in the last five years, profitability of new products, performance measurement including net sale of new products, and the rate of Research and Development investments in a given period are some of the critical benchmarking indicators. The DTI and CBI use ten key indicators as an arbitrary measure of innovativeness. These indicators include number of new product ideas a company has in the last five years, percentage of sales from the most recent product introduced, number of product improvement introduced in the last five years number of new product(s) launched in the last five years, innovation prize(s), extent to which major customers provide specification for new product(s), level of

investment in systems, and technology for office, level of investment in systems, technology for shop floor, and new or improved ways of working in the last five years.

According to Hult *et al* (2004) a company's innovativeness is capacity to introduce new process, product or idea in the organization. Innovative firms are keen on successful creation and implementation of novel ideas that lead to the development of innovative products and services in the market place having an edge and anticipating consumer needs adopting a quick response rate eventually gaining competitive advantage.

### **2.5.1 Innovation Strategies**

Innovation is one of the critical factors for the firm's success, sustainable competitive advantage and survival (Jimenez & Sanz-Valle, 2011). Innovation is a complex process involving the development, transformation and application of new amalgamations of concepts, knowledge, technologies, skills and resources with the objective of developing a new idea or behavior with the potential to: increase the profitability of a firm, reduce its production and distribution costs, and/or increasing the willingness of customers to buy and pay for their products (Therrien, Doloreux & Chamberlain, 2011; Jiménez & Sanz-Valle *et al*, 2011). The capability to drive innovation processes depends on various factors including employees' knowledge and skills, R&D, management approaches, firm culture, and internal & external networks (Feeny & Rogers, 2003).

Innovations are a means for firms to differentiate themselves from their competitors. They involve to a varying degree and in varying combinations of scientific, technological, organizational, financial and commercial activities. When implemented they influence the behavior of economic agents who include suppliers, customers and competitors, and lead to the expansion (and contraction) of market segments as well as the introduction of new market segments. Innovative behavior of firms can be explained by the characteristics of the demand of the firm (price elasticity, evolution and homogeneity), the conditions for the appropriation of the benefits of innovation (patents and models to protect innovation, secrecy in innovative activities, innovation in the efficiency of lead times between products and processes), the sources of technological knowledge (consumers, suppliers and society), the market structure

(level of concentration, intensity of technological competition), the characteristics of the firm (size, market share, diversification level, nature of abilities), and the strategy of the firm (Cabagnols & Le Bas, 2002)

## **2.6 Innovation and Firm Performance**

### **2.6.1 The Relation between Innovation and Firm Performance**

Calantone *et al* (1994), observe that the degree of innovation of a firm is directly related to the performance of its new products. Hence, firms seeking to be innovative are more likely to succeed. Though the market orientation construct appears robust across different environmental conditions the link between market orientation and performance in turbulent markets is moderated by additional variables, such as the swiftness of market-oriented actions, strategic flexibility and firm size (Varela & Río, 2003; Grewal & Tansuhaj, 2001). Homburg and Pflesser (2000), however found a significant relationship between market orientation and performance in turbulent markets.

Farrell (2000); Baker and Sinkula (1999) have linked innovation to market orientation and contend that it influences organizational performance by providing the capacity for learning orientation. Furthermore, Jaworski and Kohli *et al* (1993), identified a link between a firm's market orientation and employee attitudes such as Esprit de Corps and organizational commitment. Market orientation phenomenon is culturally robust, as many of these outcomes are replicated, albeit mainly in developed and westernized countries (Lafferty & Hult, 2001; Gray *et al.*, 1998; Greenley, 1995).

Different companies, both large and small scale companies, adopt their market orientation through the success of new innovations. According to Raaij and Stoelhorst (2008); Varadarajan and Jayachandran (1999), market orientation is a prerequisite to the formulation of effective competitive response and innovation. A company's innovativeness is determined by the degree to which the firm generates new, timely and creative product/services introductions, using the accumulated knowledge of customers, competitors and technologies (Grawe *et al.*, 2009). In similar context, Serensen (2009) argues that a market and learning oriented culture promotes the receptivity of new ideas and consequently innovation becomes

part of an organization's culture. Once developed a strong and positive culture contributes to higher retention of employees while at the same time fostering superior firm performance over the long term (Bretz & Judge 1994; Deal & Kennedy, 1999). Within the SMEs setting, MacIntosh and Doherty (2005) established that staff perceptions of organizational culture were significantly associated with their satisfaction with the organization and their intent to stay with or leave their job.

Innovation is a natural outcome of a learning-oriented company, but a firm requires a market-oriented base to build a learning orientation. Though learning orientation provides sustainable competitive advantage, market orientation is an important cultural and behavioral base for a learning orientation which leads naturally to learning interacting with learning orientation (Farrell, 2000). In the business world, innovativeness can be defined as the degree to which a firm uses accumulated knowledge from different customers, technology and competitors to create new products and services (Deshpande *et al.*, 1993). In SMEs, innovations involve the frequent improvements and changes in certain aspects of the products/services provided and which help in attracting new markets, creating new expectations, and interests/ experiences for the clients. These include, training and educational programs, advances in the technology used (digital programmed equipment and methods, program and facility design and architecture) (Sawyer & Smith, 1999). Barczak *et al* (2006) opined that the development process for new programs/products by organizations must be characterized by relevance to the client needs. According to Han et al. (1998), there is a significantly critical gap existing within the contemporary models of market orientation as none incorporates innovation orientated constructs nor service quality constructs.

As regards the impact of market orientation on innovation, various empirical studies posit that market orientation involves continuous progress and effort in innovation (Lukas & Ferrell, 2000; Agarwal *et al.*, 2003; Kurtinaitiene, 2005; Menguc & Auh, 2006; amongst others). Lukas and Ferrell (2000), established that a firm's degree of product innovation proportionally varies with the firm's involvement in market orientation. This implies that more orientation towards the consumer as well as inter-functional coordination increases introduction of new products and services in the SMEs. Leskiewicz and Sandvik (2003), in

studying the hotel businesses concluded that market orientation positively impacts creation of new products for a market. Likewise Atuahene-Gima *et al* (2005), while examining effects of responsive and proactive dimensions of market orientation on new product performance found responsive market orientation positively related to new product performance.

The market orientation-performance has been shown to have a positive relationship in a study by Joaquín *et al*(2005), who sought to determine the extent that companies operating in the textile sector with similar market orientation were similarly concerned about innovation. This was done using a population of 465 textile companies in Spain. Data were gathered from in-depth personalized interviews with 17 company directors operating within the textile sector. In order to verify the hypotheses, groups with similar market orientation were identified using a combination of two techniques: multidimensional scaling analysis; and cluster analysis. One way analysis of variance was then used to characterize each group. Direct relationship between market orientation and innovation could not be statistically proved however the market orientation-performance relationship in this study supported a positive relationship between these two concepts.

Innovativeness has also been presented as an important determinant of products/services quality and in consequence customer value and firm performance. Panayides (2006), examined the relationship between market orientation as an antecedent to innovativeness in logistics product/service quality and firm performance. The study indicated that client relationship leads to higher levels of innovativeness, improvement in the quality of logistics product/service and improved performance for the logistics product/service quality. Further the study indicated that innovativeness is influenced by relationship orientation between two partners in a business-to-business setting. These findings add credence to the relational paradigm, which suggests beneficial performance outcomes of strong innovativeness.

Kumaret *al* (2009), observes that increasingly innovative and aggressive environment, coupled with deregulation, creates fierce competition among enterprises, hence, it is vital for firms not just to ride on technology as to offer more products/services channels but also to improve on products and services quality. Further, Kumaret *al* (2009), notes that provision of high quality of products and services will result in higher customer satisfaction and enhance

customer loyalty. Firms that excel in quality service can have a distinct marketing edge since improved levels of service quality are related to higher revenues, increased cross-sell ratios, higher customer retention and expanded market shares. This is because satisfied customers, lead to customer loyalty and in return translate into higher profit.

In order to achieve superior service, management must create an overall strategy with a strategic vision that identifies the target market, understands the customer's point of view, understands the abilities of the organization, and provides a strong service delivery system (Metters *et al* 2003). Organizations must ensure reliability, responsiveness, assurance, and empathy in order to exceed expectations and when the customer expectations are met, customer knowledge grows and loyalty is created. These expectations create the need for a customer first mentality which is often difficult when employees lack a willingness to fix problems. In service industries, customer satisfaction is influenced by quality of interactions between the customers and personnel involved in the delivery of services Natalisa *et al.*, (2003), and this is developed through the difference in perceived and actual quality during the service experience. Satisfaction is created by an excellent staff, efficient operations, convenience, competitive costs, and excellent image which often lead to a repeat purchase (Laroche *et al.*, 2004; Jones, 2004).

The goal of each business transaction is to gain customers and retain them through trust and commitment (Anderson & Narus, 1998). Hence the creation of value and trust must be upheld. Marketing strategies which influences the lifetime value of each customer and directly impacts current and future sales must then be attuned to fit the service (Rust *et al.*, 2002). Service quality as measured in this study uses the (service performance) SERVPERF scale developed by Cronin and Taylor (1992), as an attempt to replace the SERVQUAL (service quality) scale. The new scale contains 22 items that focus on performance and the service quality is determined by the sum of all the performance items, the higher the score the greater the service quality. This is more applicable due to empirical evidence in various industries. Jain and Gupta (2004) tested both scales to determine greater validity and measurement power though subjects at a fast food restaurant in Delhi, India and determined SERVPERF outperformed SERVQUAL in both areas.

The customers of today expect a higher level of product/service quality than ever before because they have more choices and possess better knowledge about the product/service offerings. The challenge for any business in seeking to remain competitive is to determine what its customers want, which is the philosophy behind marketing. The marketing concept suggests that the long-term purpose of a firm is to satisfy customer needs for the purpose of maximizing corporate profits (Kohli & Jaworski, 1990). This requires that firms take a proactive attitude to doing business and be responsive to customer needs and market changes. It is believed that firms that are better equipped to respond to market requirements and to anticipate changing conditions will enjoy long-run competitive advantage and superior profitability (Day, 1994).

A firm must be market oriented to gain long-term competitiveness, and the actions of market oriented firms must be consistent with the marketing concept: placing customers at the very heart of business operations. With increasing competitive pressure to be responsive to the needs of customers, the term market orientation has gained importance and popularity among business practitioners and researchers, eventually becoming the cornerstone of the marketing concept.

### **2.7 Definition of Small and Medium-sized Enterprises (SMEs)**

There is no specific definition for Small and Medium-sized Enterprises. In fact, different organizations use different definitions according to the enormous variety of criteria such as profits, invested capital, balance sheet total, earnings, total capital, production and sales volume, number of employees and turnover. A number of researchers have provided both financial and/or non-financial (for example number of employees) categorization criteria for the MSMEs sector Meredith (1994), for example, views the enterprises in terms of both their financial and non-financial profiles. In the United States, firms employing less than 500 employees fall in the MSMEs categorization (Montasemi, 1988). In contrast, the Government of Kenya (GOK) under session Paper no.2 (1992) indicates that firms employing 1 to 9 employees are micro enterprises, those with 10 to 49 employees are considered small, and those employing 50 to 250 workers are medium enterprises.

**Table 2.1: Categorization of Micro, Small and Medium Enterprises**

<b>Firm Size</b>	<b>Number of Employees</b>
Medium	Less than 250
Small	Less than 50
Micro	Less than 10

Source: GOK, Session paper no.2 (1992)

The MSMEs sector accounts for 60-70 per cent of jobs in most developed and developing countries, and for most of the new jobs created, several countries in Africa have prioritized their investment in MSMEs (Iddris, 2012). The MSMEs account for about 85 per cent of jobs in the manufacturing sector in Ghana, and are said to be a characteristic feature of the production landscape in that country (Iddris, 2012). In Kenya, MSMEs constitute over 75 per cent of the informal sector jobs (Mwangi *et al.*, 2012). The major advantage of the MSME sector is its employment potential at low capital cost. The labor intensity of the MSME sector is much higher than that of the large enterprises. According to UNCTAD (2004), MSMEs constitute more than 90 per cent of total enterprises in most economies and are credited with generating the highest rates of employment growth as well as accounting for a major

The SME sector forms the backbone of private sector development contributing to 90 percent of enterprises worldwide (UNIDO, 1999). The Organization for Economic Co-operation and Development (OECD, 1996) points out that SMEs provide the largest proportion of jobs - over two-thirds in the EU to over 50 percent in the United States. In Kenya, employment within the sector accounts for 87 percent of all the new jobs created and it employs 77 percent of the total number of employees in the country (GOK, 2005). In addition, the sector accounted for 85 per cent of the total number of employees in the manufacturing sector and 47 per cent of the manufacturing firms in 2005. Further, the micro and small enterprises



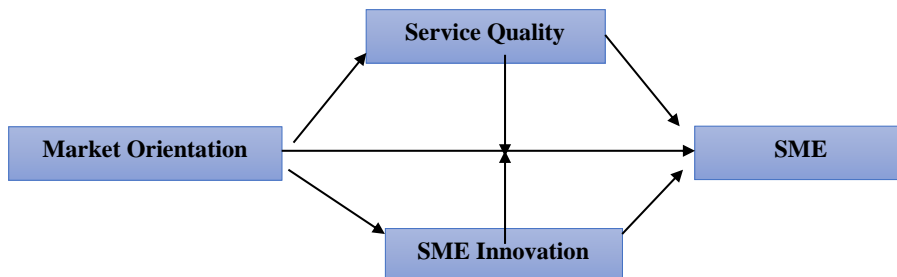
(SMEs) sector contributes about 18 per cent of GDP in Kenya (KIPPRA, 2009). According to the Private Sector Development Strategy 2006– 2010 (GOK, 2006), the MSME sector comprised of the following estimated enterprises: 1,679,858 micro and small enterprises and 34,000 medium enterprises (GOK, 2006).

While marketing and market orientation are well developed in terms of their definitions (Kotler, 1991), measurements (Kohli & Jaworski, 1990) and empirical tests of the concepts (Slater & Narver, 1994) few comparative studies about the role of market orientation on business performance specifically on SMEs in Kenya has have been conducted in this regard.

## **2.8 Conceptual Framework**

Market orientation focus in a firm requires an understanding of market needs, customer wants/demands, and the relevance of acting in response to market opportunities (Rodri' guez-Cano *et al.*, 2004). SMEs are required to be more oriented to their markets and more knowledgeable of their customers' value chains so that they structure their services based on customers' needs and preferences. Most commonly, the nature of this product/service quality and satisfaction link is viewed as linear, indicating that higher levels of product/service quality lead to higher levels of customer satisfaction.

In particular, this study aimed at examining empirically the relationships and impacts between market orientation, product/service quality, firm innovation and firm performance. It is conceptualized that market orientation may affect firm performance directly or through mediation effects of product/service quality and/or firm innovation. The study's model is illustrated in figure 2.2



**Figure 2.2- The Relationship between Market Orientation, Innovation and Product and Service Quality with Firm Performance as Outcome Variable.**

Source:- Developed from Kohli and Jaworski, 1990; Zeithaml and Bitner, 1996; Parasuraman et al., 1985)

### 2.9 Summary of Reviewed Literature

From the reviewed literature it is observed that researchers note synergies between market orientation and learning orientation (Varela & Rfo, 2003; Grewal & Tansuhaj, 2001). Literature highlights lack of clarity in explaining a market orientation but considers it a key strategic orientation. These studies, however, negate examination of the interaction with mediation variables such as innovativeness and service quality. Market orientation reflects innovation and dynamism through increased information acquisition and dissemination as a stimulus for new ideas, learning and market reaction. The following chapter of the study focuses on the methodology the researcher adopted to achieve the research objectives and they include the research design, target population, sample and sampling procedures, instrumentation, data collection methods, data analysis and data presentation and lastly the chapter summary.

## CHAPTER THREE

### 3.0 RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter describes the procedures that were used in conducting the research and the techniques that were used in obtaining the research data. The chapter is organized into nine sections: research design, target population, sample and sampling procedures, instrumentation, data collection methods, data analysis and data presentation and finally a presentation of the chapter summary.

#### 3.2 Research Design

The study conducted a descriptive research design. To achieve the study objectives, an analytical cross sectional survey design was used to capture the categorical description of attitudes of the study population (Sekaran, 2003). According to Bryman (2012), a descriptive/survey research places a high importance to describing the characteristics of a particular individual, or of a group. Descriptive research is therefore concerned with specific predictions, with narration of facts and characteristics concerned with individuals, group or situations.

According to Mugenda, A., et al (2003), descriptive research design includes surveys and fact finding enquiries of different kinds. Descriptive research aims at describing the state of affairs. The researcher must be able to define clearly, what is to be measured and adequate measures of finding it along with a clear cut definition of population he wants to study. A mixture of methodology was employed using quantitative and qualitative design which is grounded in the Social Sciences literature (Sekaran, 2003). Data was collected using a combination of methods with the aim of facilitating triangulation of the findings for creating richer and deeper appreciation of the study phenomenon as well as giving validity to the research findings. The study was used to evaluate the relevance of marketing orientation on business performance of the Kenyan SMEs.

#### 3.3 Population and Sampling Design

The target population of the study is 1600 SMEs employees in Nairobi County In relations to the author Kothari (2001), target population is a universal set of the study of all members of a

set of people, events or objects to which an investigator wishes to generalize the result. However, due to the large sizes of populations, researchers often cannot test every individual in the population because it is too expensive and time-consuming, as such all individuals or objects within a certain population usually have a common, binding characteristic or trait. Usually, the description of the population and the common binding characteristic of its members are the same

### 3.3.1 Population

The target population in this study was managers and executives or decision makers of Small and Medium size businesses in Nairobi County. A population is an assembly of several elements which we wish to make inferences (Cooper and Schindler, 2002). This research was based in Nairobi County because the county is believed to have the majority SMEs in the country.

The total population of the study comprised of 1,600 employees. The target population is 10% of the total population. Stratified sampling was used for ease of classifying the sample into the three categories with the sample comprising of 10% from each strata of the target population

**Table 3.1: Target Population**

<b>Category</b>	<b>f</b>
Senior Level	160
Middle level	400
Lower level	1040
<b>Totals</b>	<b>1600</b>

Source: Author (2016)

**Table 3.2: Sample size**

<b>Category</b>	<b>Population</b>	<b>%</b>	<b>Sample size</b>
Senior Level	160	10%	16
Middle level	400	10%	40
Lower level	1040	10%	104
<b>Totals</b>	<b>1600</b>	<b>3%</b>	<b>160</b>

Source: Author (2016)

### **3.3.2 Sampling Technique**

A purposive and stratified random sampling technique was used in the study. In the purposive sampling the researcher selected the respondents on the basis of their knowledge, commendable experience and vital information presumed important to the study (Trochim, 2006). The justification for using the purposive sampling method was because not every employee in the SMEs industry possessed the requisite experience and knowledge about market orientation in the SME industry, exposure and management of the company.

Stratified random sampling was used because the sampling frame was not homogeneous and the sample contained sub-groups (Senior Level Management, Middle level management, Lower level management) thus warranting a fair representation of these sub-groups in the sample size (Ahuja, 2005).

### **3.4 Data Collection Methods**

This study collected primary and secondary data. A semi-structured questionnaire was used to collect primary data from SMEs employees. The use of a semi-structured questionnaire allows the researcher to collect both quantitative and qualitative data (MuatheetaI, 2010). The questionnaire method was used because it's a low cost method even when the population is large and is widely spread geographically. The method was also appropriate for the study since the respondents had adequate time to give well thought out answers.

Structured interviews were used to administer the questionnaire. The respondents were asked a set of predetermined questions. The researcher preferred the method because; more detailed information was obtained, the interviewer overcame the resistance of the respondents in addition to having greater flexibility particularly as the researcher had an opportunity to restructure questions. The observation method was similarly applied to record verbal answers to various questions and personal information.

Questionnaires were distributed to SMEs employees' four Departments; Administration and Human Resource, Finance, Operations and Corporate Affairs. Data was collected from senior management, middle level management and low level management staff.

### **3.5 Research Procedures**

The process of collecting data from the field involved two activities mainly collection of data and presenting data. The researcher used questionnaires and interviews for data collection. Questionnaires were preferred by the researcher because they are inexpensive to administer, the researcher is able to solicit information from several respondents within a very short time (Gupta, 2000).

Logistical and ethical considerations were upheld during the data collection exercise. For example respondents completed the filling-in process of the questionnaires truthfully leaving out their names. The information gathered was handled with confidentiality and was used for study purposes only. Findings were published for public consumption and for use by all interested scholars.

### **3.5.1 Pre-testing the Instruments**

A pilot study was conducted to pre-test the research instruments. According to Amin (2005), a pilot study is done in order to test the psychometric properties of the instruments, identify any ambiguities, misunderstandings or inadequacies so that they can be improved.

### **3.6 Data Analysis**

Quantitative data collected through questionnaires was analyzed using descriptive statistics and inferential statistics. Descriptive statistics including the mean, frequencies and percentages was used to establish spread and variation of scores. Inferential statistics was used to establish the number of principal components which account for most of the variance within the performance management practices, and employee performance. Pearson chi-square test was used to establish the effect of performance management practices on employee performance. The data obtained was summarized and presented in the form of tables and figures.

### **3.7 Chapter Summary**

Quantitative research approach was selected for this study, and then measurements of constructs were developed according to prior studies. The pilot test was conducted and target population defined. A sample of 160 SMEs employees were identified by using stratified sampling. The following chapter presents the findings and results of the research. Both descriptive and inferential statistics presented as per the objectives of the study.

## CHAPTER FOUR

### 4.0 RESULTS AND FINDINGS

#### 4.1 Introduction

This chapter presents the findings of the research on effect of market orientation on business performance of SMEs in Kenya. The chapter begins by giving the response rate of both the firms and the respondents, followed by their profiles and then the findings on the performance of these firms. Descriptive and inferential statistics are then presented according to the objectives of the study followed by descriptive and inferential statistics of the organizational characteristic and a summary of the contributions of the study. The results are presented using tables, charts and graphs with the intention of developing a pattern.

#### 4.2 Response Rate

The response rate in the study is explained first by the number of organizations in the study and then by the respondents in each firm.

##### 4.2.1 Response Rate for Organizations

Organizations in the study were arranged into five groups according to their general location as shown in Table 4.1.

**Table 4.1: Response Rate for Organizations**

Location	Targeted Firms	Actual	Percentage
CBD	39	29	74.3
Westland's	6	3	50.0
Ng'ong Road	5	4	80.0
Nairobi West	7	6	85.7
Industrial Area	3	3	100
<b>Total</b>	<b>60</b>	<b>45</b>	

Source: Survey data 2016



The study targeted a total of 160 SMEs in Nairobi County, where 45 SMEs responded. Table 4.1 presents the response rate in for the organizations represented in the study. The SMEs in the study were distributed in five regions of the Nairobi County as shown in the table. Central Business District had the majority, with 39 targeted firms of which 29 responded which translate to 74.3%. Industrial Area had 100% response rate while Westland's and Ng'ong Road had a response rate of 50.0% and 80.0% respectively. Nairobi West had 85.7% response rate.

#### 4.2.2 Response Rate for Respondents

The respondents comprised of 16 senior level, 40 middle level and 104 lower level staff. Overall, the response rate was high as shown in Table 4.2

**Table 4.2: Response Rate for Respondents**

Sample Category	<u>Target sample</u>	<u>Actual Response</u>	
	f	f	%
Senior Level	16	11	68.6
Middle Level	40	30	75
Lower Level	104	85	81.7
<b>Total</b>	<b>160</b>	<b>126</b>	<b>78.8</b>

Source: Survey data 2016

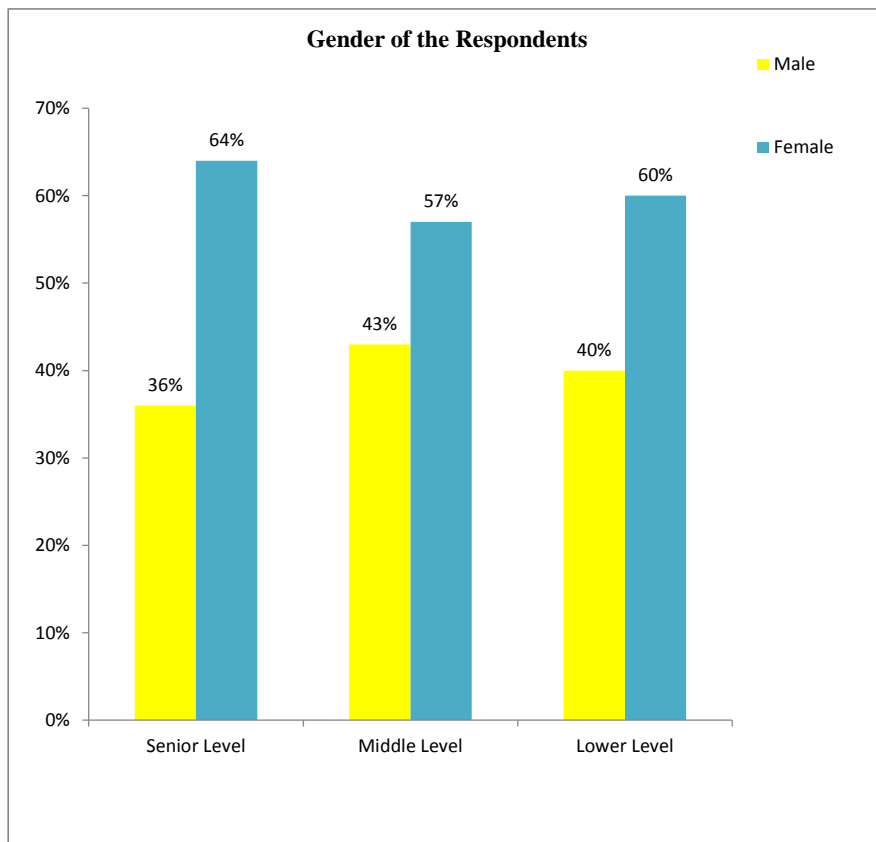
### 4.3 Profile of the Respondents

To generate the profiles of the respondents in the study, information on gender of the respondents, their age, education level, job titles and the length of working period in their respective enterprises were collected.

#### 4.3.1 Gender of the Respondents

The gender distribution of the respondents is shown in Fig. 4.1

**Figure 4.1: Gender of the Respondents**



Source: Survey data 2016

The male respondents constituted 60% of the total respondents with the remaining 40% being female as presented. This would probably explain the predominance of the male gender in small and micro enterprises in Kenya. The results further indicate that 64% of the senior level staff were male while only 36% were female an indication that this is a male dominated sector. Among the middle staff, 57% were male while 43% were female and this may indicate the existence of glass ceiling in the management of SMEs in Kenya. Additionally, 60% of the lower level staff was male while 40% were female.

#### 4.3.2 Age of the Respondents

The age of the respondents was grouped into categories as presented in Table 4.3 and the respondents were required to tick appropriately.

**Table 4.3: Age of the Respondents**

Age		Senior Level	Middle Level	Lower Level	Total
18-35	f	7	17	43	67
	%	27	23	44	39
36-50	f	6	17	31	54
	%	36	43	32	35
51 and above	f	5	13	21	39
	%	36	33	22	26
<b>Total</b>		<b>18</b>	<b>47</b>	<b>95</b>	<b>160</b>

Source: Survey data 2016

The results in Table 4.3 indicate that most of the respondents were aged between 18 and 35 years representing 39% of the population, 35% of the respondents were aged between 36 and

50 years old and the respondents that with the age range of 51 and above constituted 26% of the population. Among the senior level category 27% were aged between 18 and 35 years, 36% were aged between 36 and 50 years and 51 years and above respectively. This shows that majority of the senior level category were aged 36 years and above. However, most of the middle level employees (43%) were aged between 36 and 50 years and this could mean that entrepreneurs hired managers with years of experience. Majority of the lower staff employees were aged between 18 and 35 years. According to Grund (2005), younger employees have advantages concerning ability and willingness to learn and also physical resilience as a career requires such. This explains why young people are attracted in the SMEs interest with the intention of learning and employing market orientation in the firm's product and services delivery. This helps SMEs to remain competitive in the market.

#### 4.3.3 Education Level

Respondents' were asked to indicate the level of education attained and the results are represented in Table 4.4

**Table 4.4: Education Level of the Respondents**

Level of education	Senior Level	Middle Level	Lower Level	Total	Percent
Secondary	6	17	34	57	31
College	8	19	49	76	52
University	4	8	15	27	17
<b>Total</b>	<b>18</b>	<b>44</b>	<b>98</b>	<b>160</b>	<b>100</b>

Source: Survey data 2016

The results indicate that majority of the respondents (52%) have attained college education while 31% had attained secondary. 17% of the respondents have attained university education. This probably explains the requirement of most organizations in which education is emphasized when it comes to placement. Recent empirical studies (Agiomirgianakis *et al.*, 2012,) verify the positive relationship between education and firm performance. Employees with specialized knowledge possess particular capabilities such as communication and decision making, problem solving and team working skills, as well as the ability to adapt to continuously changing environments, thus tending to behave more professionally in their daily tasks.

#### **4.3.4 Length of Working Period in the Enterprise**

Respondents were also required to give details of how long they had worked in their respective firms. The results show that 3% of the respondents had worked in their organization for less than one year, 70% had worked for between 2 and 11 years, 25% had worked between 12 and 23 years, and 0.8% had worked for over 23 years. This shows that most of the entrepreneurs in the study had substantial experience and there is also a considerable measure of staff retention in these SMEs.

#### **4.3.5 Legal Ownership**

SME sector like any other have the option to run their businesses as private companies, have group ownership, in partnership or as sole traders and the responses were varied as shown in figure 4.2.

The study established that 30% of the SMEs were limited companies, 17% were group owned, 31% were partnerships and 17% were sole traders. This shows that SMEs in Kenya have different legal ownership but the majority preferred the partnership mode of ownership. This could probably be because of the advantage of pooling resources together.

**Source: Survey data 2016**

#### **4.4 Descriptive Statistics**

This section gives the descriptive results of the study. The respondents were asked to give information concerning the five dimensions of market orientation (innovation, information sharing, pro-activeness and competitive aggressiveness). The study used the measure of central tendency of the mean and that of dispersion of standard deviation to summarize the characteristics of the variables investigated. The responses are presented in a table followed by discussions.

##### **4.4.1 Scope and Nature of Market Orientation**

The first objective was to examine the scope and nature of market orientation. This section also answers objective three on market orientation in Kenya. The respondents were asked to rate the extent to which they agreed with statements in order to boost performance on a scale of 1 to 5, where 1 is strongly disagree and 5 strongly agree. Table 4.5 presents the mean score of the responses of each attribute and the respective standard deviation.

**Table 4.5: Scope and Nature of Market Orientation in SMEs**

<b>Activities</b>	<b>Mean</b>	<b>Standard deviation</b>
Customers & employees meet yearly regarding programs /services needed in future	4.4809	0.7976
Employees interact freely with customers to learn how to serve their needs better	4.2901	0.8725
Firms conduct a lot of market research	4.4885	0.7881
Firms slowly detect changes in customer preferences	4.5115	0.7782
Process evaluations done to assess quality of products/services	4.0763	1.161

industry information collected informally	4.2704	0.7678
Firms conduct market research on competitors	4.4064	0.7436
Firms rarely detect shifts/ new trends in SMEs industry	4.4956	0.7779
Firms periodically review possible effects of changes in business environment	4.4045	0.7786
<b>Aggregate</b>	<b>4.3805</b>	<b>0.8295</b>

**Source: Survey data 2016**

The results indicate that the SMEs explore various market orientation activities such as customers and employees hold meeting yearly to find out the programs /services they will need in the future as supported by a mean response of 4.4809. The respondents also confirmed that Employees interact freely and directly with customers to learn how to serve their needs better (4.2901).

It is clear from the findings that among the above attributes, slowly detecting changes in customer preferences were the most emphasized. This shows that SMEs engaged in the process of detecting changes in customer preferences that were later adopted to boost the performance of the enterprises. The standard deviation ranged from 0.7436 to 1.16102. A standard deviation of 0.77823 indicates that the responses were not dispersed from the mean while that of 1.16102 shows that the responses were slightly scattered around the mean. This means that there was a slight variability among the SMEs regarding the assessment of the quality of the products/services; implying a few firms did not undertake assessment of the quality of their products/services.

The respondents were also asked questions regarding information sharing. The results are presented in Table 4.6 below. The study results in Table 4.6 indicate that SMEs are strongly

inclined to sharing information as shown by the mean (3.8933). A lot of informal talk in the firm concerns politics and life not the competitors tactics and strategies (3.6565) and all employees regularly to discuss future SMEs market trends (3.4962). Further the results show that employees spend time prior to a day's schedule discussing customers' needs/interests (3.4198).

There was a slightly high variability with regards to existence of minimal communication between the manager/owner and employees concerning market developments as shown by the standard deviation of 4.4885 (highest). A standard deviation of 3.4198 (lowest) indicate that the responses were slightly scattered around the mean (3.8933). Generally, most SMEs engaged in information sharing and at all levels. Table 4.6 presents the mean score of the responses of the application of information sharing and the respective standard deviation.

**Table 4.6: Information sharing in the SME sector**

<b>Application of Information sharing</b>	<b>Mean</b>	<b>Standard deviation</b>
Informal talk in the firm concerns politics	3.6565	2.7728
Employees regularly meet to discuss future SMEs market trends	3.4962	2.8242
Employees spend time discussing customers' needs/interests	3.4198	0.9841
The firm periodically circulates information on our customers, products/ services	3.4504	0.9704
Regular circulation of client satisfaction info to all employees	4.4515	0.7782



Minimal communication regarding market developments	4.4885	0.788
Management slow in informing employees on competitors information	4.2901	0.8725
<b>Aggregate</b>	<b>3.8933</b>	<b>1.4274</b>

Source: Survey data 2016

#### 4.4.2 The Effects of Market Orientation on Innovation, NPD and Marketing Performance

The second objective sought to find out how market orientation affects SMEs innovation rate, new product development and overall marketing performance. The respondents were asked to rate the extent to which they agreed with statements regarding application of pro-activeness in order to boost performance on a scale of 1 to 5, where 1 is strongly disagree and 5 strongly agree. The descriptive results are given in Table 4.7.

**Table 4.7: Impact of Market Orientation on Innovation, New Product Development and Marketing Performance**

Attribute	Mean	Standard deviation
Firm among the first to introduce new products and new methods of production	4.6412	4.55238
The firm leads in changing production procedures	4.2824	0.95495
The firm monitors the market and responds more rapidly to the changes	4.3588	0.95328

The firm has leading titles in the market	4.4809	0.7976
<b>Aggregate</b>	<b>4.4408</b>	<b>1.81455</b>

**Source: Survey Data, 2016**

The results in Table 4.7 indicate that most SMEs compared to other businesses in the same field were usually among the first to introduce new products and new methods of production in the market as indicated by the mean of 4.6412. The standard deviation (4.55238) is high implying that there was a high variability in the responses and thus some SMEs were not among the first to introduce some products and methods. Some firms also monitored the market and responded more rapidly to the changes than their competitors (4.3588). Most of the firms always tried to be among the leading in the market place to change procedures of production and other activities (4.2824).

However, majority of the firms ensures that they have a number of leading titles in the market (4.4809). The standard deviation of 0.95495, 0.95328 and 0.79760 indicate that there was no high variation in responses from the means. The mean score ranged from 4.2824 to 4.6412, a confirmation that the entrepreneurs in these SMEs were proactive. Thus introduction of new products was the most emphasized attribute among the entrepreneurial pro activeness attribute.

#### **4.4.3: The Effect of Market Orientation on business performance on SMEs in Kenya**

The determination of the effect of market orientation on business performance of SMEs was the fourth objective. The results are shown in Table 13. The respondents rated the extent to which they agreed with statements regarding effect of market orientation on business performance on a scale of 1 to 5, where 1 is strongly disagree and 5 strongly agree.

**Table 4.8: Effect of Market Orientation on the performance of SMEs**

<b>Attribute</b>	<b>Mean</b>	<b>Standard deviation</b>
The firm often among the first business to introduce new products, processes and technologies	4.1846	1.04016
The firm seldom among the first business to introduce new products, processes and technologies	3.8846	1.30375
The firm applies price manipulation to counter competition	3.8538	1.40382
The firms scouts the market to understand market competition	4.6107	4.56841
Aggregate	4.1334	2.0790

**Source: Survey Data, 2016**

According to results in Table 4.8, SMEs under study were very often among the first business to introduce new products, processes and operating technologies ahead of competitors (4.1846). They were very seldom among the first businesses to introduce new products or/and processes and operating technologies (3.8846). The firms usually applied price manipulation tactics in order to counter the competition in the market (3.8538) and always scouted the market to know what the competition was offering (4.6107). The standard deviations ranged from 1.04016 (which indicates a slightly higher departure from the mean) to 4.56841 which show a high dispersion from the mean.

#### **4.5 Test of Hypotheses**

This section gives the inferential statistics on the effect of the dimensions of market orientation on performance of SMEs in the Kenya. The first test is on whether there is no impact of market orientation on SMEs innovation rate, new product development and overall marketing performance. The results in Table 4.10 below show an F value of 28.898 with a

significance level of 0.000 which is far lower than the confidence level of 0.001, hence establishing a significant relationship.

The implication is that the independent variable (market orientation) contributes significantly to changes in the dependent variables (performance of SMEs). This shows that our model estimating the effect of market orientation on the performance of SMEs thus accounts for significantly more variance in the dependent variable than would be expected by chance.

#### 4.5.1 ANOVA Test

**Table 4.9: Model summary**

Model R	R Square	Adjusted R	Square Estimate
1 0.732a	0.536	0.518	0.7121

Predictors: (Constant) innovation, new product development, overall marketing performance

Source: Survey Data, 2016

The second test is on whether there is no significant relationship between market orientation and business performance among Kenyan SMEs. Below are the results of the ANOVA tests:

**Table 4.10: ANOVA Results**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	73.27	5	14.654	28.898	.000a
Residual	63.387	125	0.507		
<b>Total</b>	<b>136.656</b>	<b>130</b>			

Predictors: (Constant) innovation, new product development, overall marketing

Dependent Variable: performance of SMEs

The regression analysis results in Table 4.9 above indicate that 51.8 % increase in performance of SMEs is explained by the increase in innovation, new product development and overall marketing. All independent variables have a positive contribution towards the dependent variable. The beta coefficients are positive (the sign indicates the nature of the

relationship). This means that the market orientation and performance of the SMEs move together in the same directions meaning that an increase in the market orientation leads to an increase in the performance of the SMEs in Kenya. This confirms the previous studies by Hossein and Eskandari (2013); Chen *et al.* (2011). The study findings indicate that increasing market orientation leads to an increase in the performance of the SMEs in Kenya. SMEs should give market orientation more focus as it contributes significantly to the performance of SMEs. Innovation, new product development and overall marketing performance are key ingredients in market orientation.

#### **4.6 Chapter Summary**

This chapter presented the results of the study which were summarized in tables and figures and also by the researcher's own interpretation. The next chapter of the study presents discussion, recommendations and conclusions of the study.

## **CHAPTER FIVE**

### **5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the discussion, conclusion and recommendations of the study which are presented according to the research questions of the study. Based on the findings of the study, recommendations are made to owners, operators of SMEs and suggestions for other researchers and policy makers are given.

#### **5.2 Summary**

The purpose of this research was to critically assess the effect of market orientation on the performance of SME's in Kenya with a focus on Nairobi County where the highest populations of SME's are based. The following specific objectives were used to guide the study: to determine the scope and nature of market orientation, to find out how market orientation impact SME's innovation rate, new product development and overall marketing performance, to examine the characteristics of underlying factors of market orientation in

Kenyan SMEs, to determine the effect of market orientation on business performance on SME's in Kenya.

A descriptive research design was adopted for the study. A descriptive research design is a scientific method of research that involves observing and describing the behavior of a subject without influencing the subject in any way. The target population in this study was managers and executives or decision makers of Small and Medium size businesses in Nairobi County. The total population of the study comprised of 1,600 employees. The target population is 10% of the total population. Stratified sampling was used for ease of classifying the sample into the three categories with the sample comprising of 10% from each strata of the target population.

The respondents included senior, middle and low level employees. Out of 160 questionnaires distributed, 126 were filled and returned and this translates into a response rate of 79%. The male respondents constituted 60% of the total with the remaining 40% being females in which most of the respondents (39%) were aged between 18 and 35 years. Most of the respondents (52%) had attained college level of education where majority (70%) of the respondents had worked for between 2 and 11 years.

The study used descriptive statistics to analyze the data by using the mean, frequencies and percentages to establish spread and variation of scores. The study also adopted inferential statistics to establish the number of principal components which account for most of the variance within the performance management practices, and employee performance. Pearson chi-square test was used to establish the effect of performance management practices on employee performance. The data collected was summarized and presented in the form of tables and figures and accompanied by the researcher's own interpretation.

Generally the performance of SMEs was found to be relatively high. The results also indicate that sales growth (4.0840) was the best among the performance aspects. The results further indicate that 54% of the variation in performance can be explained by the independent variables. The regression analysis results indicate that an increase in innovation, information

sharing, competitive aggressiveness, pro-activeness and autonomy would result in increase of performance of the SMEs.

### **5.3 Discussion**

#### **5.3.1 Scope and nature of market orientation**

The study established that there is a positive relationship between innovation and performance of the SMEs with a correlation coefficient of 0.456. SMEs prefer to find out from their customers and employees to find out the programs /services they will need in the future in addition to conduct market research within their firms. The findings indicate that innovation is crucial in determining the overall performance of SMEs.

The study findings indicate that among the market orientation undertaken by SMEs includes customers and employees hold meetings annual with the aim of establishing the products and services needed in the future. Similarly, employees interact directly with customers to learn how to serve their needs better. SMEs engage in the process of detecting changes in customer preferences to be later adopted in order to boost the performance of the enterprises.

SMEs are strongly inclined to sharing information. Employees also spend time prior to their day's schedule discussing the customers' needs and interests. Generally, most SMEs engaged in information sharing and at all levels.

SMEs that are very competitive are strongly inclined to sharing information within their organization especially in discussing the future SMEs market trends and market developments. Information sharing as a dimension of entrepreneurial orientation was positively correlated with the performance of SMEs. This implies that for SMEs to improve their performance, employees and customers need to work closely. The customers are the end product users and they understand their needs more than anyone else while the SMEs have the expertise of meeting the customer's needs.

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their performance, employees and customers need to work closely. The customers are the end product users and they understand their needs more than anyone else while the SMEs have the expertise of meeting the customer's needs.

### **5.3.2 Effect of Market Orientation on Innovation, NPD and Marketing Performance**

Study findings show that most SMEs are usually among the first firms to introduce new products and new methods of production in the market. Some firms also monitor the market and responded more rapidly to the changes as compared to their competitors. Most of the firms always tried to be among the leading in the market place to change procedures of production and other activities. This explains the reason for SMEs always being very competitive and a confirmation that entrepreneurs in the SMEs industry are proactive. Thus introduction of new products is the most emphasized attribute among the entrepreneurial proactiveness attribute.

The results of this study suggested a positive correlation between performance of SMEs and new product development. Launching new products ahead of competitors, venturing into new market, having leading titles and monitoring the market changes and responding accordingly are key ingredients in improving the business performance of SMEs. The results show that most SMEs strived to be first to introduce new products and new methods of production in the market as indicated by the mean of 4.6412. The introduction of new products was the most emphasized attribute among the entrepreneurial pro-activeness attributes and there is need for SMEs to give it priority.

### **5.3.3 Characteristics of underlying factors of market orientation in Kenyan SMEs**

Competitive aggressiveness as a dimension of market orientation involves putting into place those strategies that will enable a firm to outperform industry rivals. The study has shown that SMEs usually applied price manipulation tactics in order to counter the competition in the market and always scouted the market to know what the competition was offering. The results have also indicated that, there is a significant positive correlation between competitive aggressiveness and performance of SMEs with a correlation coefficient of 0.618.



#### **5.3.4 Effect of Market Orientation on business performance on SMEs in Kenya**

According to study results, are very often among the first business to introduce new products, processes and operating technologies ahead of competitors. Similarly, SMEs are among the first businesses to introduce new products or/and processes and operating technologies.

The findings also indicate that there is a significant relationship between market orientation and SMEs innovation rate, new product development and overall marketing performance. This implies that market orientation contributes significantly to the performance of SMEs. The regression analysis results show that an increase in innovation, new product development and overall marketing results in increased performance of SMEs in Kenya. This means that market orientation and performance of the SMEs move together in the same directions meaning that an increase in the market orientation leads to an increase in the performance of the SMEs in Kenya. This confirms the previous studies by Hossein and Eskandari, (2013); Boohene *et al.* (2012); Chen *et al.* (2011).

The study findings indicate that increasing market orientation leads to an increase in the performance of the SMEs in Kenya. SMEs should give market orientation more focus as it contributes significantly to the performance of SMEs. Innovation, new product development and overall marketing performance are key ingredients in market orientation.

#### **5.4 Conclusions**

This study has noted that, market orientation dimensions namely; innovation, new product development and overall marketing have a positive influence on the performance of the enterprises. All the three dimensions of market orientation were positively related to performance and the regression analysis indicated that increase in each of them would result into increase in performance. It is, therefore, imperative for these firms to integrate entrepreneurial orientation posture into their strategic behavior so as to be more competitive and improve their performance.

Objective one sought to determine the scope and nature of market orientation. The study recognized that there is a significant relationship between performance of SMEs in Kenya

and market orientation. The study also sought to establish the relationship between innovation and the performance of SMEs. The findings indicate that there is a significant relationship. Thus, increase information sharing behavior in the firm results in increased performance. In seeking to establish the relationship between new product development rate and performance in SMEs, the study established that there is a significant relationship, and that information sharing has a positive relationship with firm performance. Increase information sharing will lead to increased performance.

Overall marketing was also found to have a positive relationship with performance though not significant while autonomy showed a significant positive relationship which means that increase in autonomous strategies will lead to increase in firm performance.

These findings are of importance to policy makers who can come up with different strategies that can help improve the competitiveness of these SMEs through creativity, experimentation and new development of a wholesome market orientated culture. To be more innovative, these firms should encourage creativity, venture into new markets and support new production methods and processes.

Firms should always monitor the market to identify emerging needs and have leading titles. It is also important for these firms to encourage their employees to come up with viable ideas and develop mechanism for rewarding them. To develop a competitive posture that can help them overcome competition, they should always scout the market to know what the competitor is offering and if need be, apply price manipulation tactics.

### **5.5 Recommendations**

The study findings have direct implications on market orientation development policy. The findings have established that an increase in market orientation could lead to improved performance of SMEs. It is therefore important for the government and policy makers to come up with programs that could be tailored to helping these firms integrate market orientation strategies in their management practices.

SMEs should encourage innovative behavior, develop new products and undertake proactive marketing. This will empower them to excel and be competitive as well as result in improved firm performance.

To improve their innovativeness, SMEs should encourage creativity, experimentation and also research and development. They should invest in new technology and always strive on continuous improvement of their processes and products. They should also develop a competitive posture by scouting the market to know what the competitors are doing, apply price manipulation and bid for competitive tenders. Through pro-activeness, these SMEs will be able to continually monitor the market so as to identify emerging needs and be first movers in such markets. Information sharing in these firms can be facilitated by SMEs researching on market trends and customers' needs/interests and client satisfaction. The organization also needs to circulate information/ documents like newsletters that provide information about their customers, their products/ services to all employees.

The findings have also shown that women are underrepresented in these SMEs sector and policy makers should come up with incentives so as to attract this group to this sector. It is also important to establish whether there exists a glass ceiling in these SMEs at this day and age when equal opportunity for men and women is being emphasized.

#### **5.6 Suggestions for Further Research**

The study mainly focused on the five dimensions (innovation, information sharing, competitive aggressiveness and pro activeness) of market orientation that affect the performance of SMEs in Nairobi County. The SMEs sector as a whole would benefit tremendously if studies like this one could be done in other counties in Kenya.

The firms in this study included those that were 3 years and above and therefore it would be useful for the SMEs sector if studies focusing on the effect of each dimensions of market orientation were done at different stages of firm age.

This study concentrated on privately owned SMEs in Nairobi County. The study recommends further research on importance and need of market orientation in other organizations like public and government owned organizations.

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## **APPENDICES**

### **APPENDIX I: Letter of Introduction & Consent to SMEs**

Wanjiru Kimani Hannah,

P.O. Box 5468-00506,

Nairobi, Kenya.

15<sup>th</sup> February, 2016

Dear Sir/ Madam,

I am a Masters student at United States International University (USIU) undertaking a Master of Science degree in Organization Development for Executives (MODE). As part of partial fulfillment of the degree requirements, I am undertaking a study on “Effect of market orientation on Business performance of SMEs in Kenya”. Your enterprise has been selected

to be part of the study sample. To this end I wish to request for your consent to use your enterprise as a center for this study.

It will be greatly appreciate if you could complete fully the attached questionnaire. Your input is very valuable. Information gathered from your responses will be kept confidential & used for academic research purposes only. Even though the questionnaire will take no more than thirty minutes to complete, the potential impact of your response will last much longer. The research outcomes may be made available to you upon written request.

Kindly assist me in getting your clients/ customers to also fill the second questionnaire. Your responses shall help in accomplishing the objectives of this study & shall be kept confidential. Your assistance shall be greatly appreciated. By accepting to participate & to help in this study, we take that you have given permission to be interviewed & to allow us to interview employees in your organization.

Thank you in advance for your co-operation.

Yours sincerely,  
Wanjiru Kimani Hannah.

MODE Student

## **APPENDIX II**

### **Questionnaire for Key Informants (SMEs Managers/ Supervisors/ Owners)**

#### **SECTION A**

This section seeks some background information about you. It is important to obtain this information as it will have a bearing on the results of the survey. This information will be used for comparative purpose only. Please indicate your answer by filing in your most appropriate answer.

1. Enterprise name \_\_\_\_\_

Location \_\_\_\_\_

2. Personal details of respondent

(a) Gender \_\_\_\_\_ (b) Nationality \_\_\_\_\_

(c) Age \_\_\_\_\_

<b>Highest education level</b> ( <i>Tick appropriately</i> )	<b>Type of employment /status</b> ( <i>Tick appropriately</i> )
Primary	Part time
Secondary	Full time
Vocational school	Temporary/contract
Diploma/certificate	Owner manager
University degree	Permanent
Other ( indicate)	Self employed

3. What products or services are produced at your enterprise? Please indicate

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.....

4. How can you classify your enterprise?

Sole proprietorship \_\_\_\_\_ Partnership \_\_\_\_\_ Limited company \_\_\_\_\_

Other (specify) \_\_\_\_\_

5. Do you have any formal marketing qualifications or training?

Yes \_\_\_\_\_ No \_\_\_\_\_

6. Which enterprises are your major competitors?

1. \_\_\_\_\_

2. \_\_\_\_\_

**SECTION B: Please tick the response that best describes how your firm performs each of the following activities**

Part One		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
1.	Customers & employees hold meeting yearly to find out the programs /services they will need in the future					
2.	Employees interact freely & directly with customers to learn how to serve their needs better					
3.	We conduct a lot of market research within the firm					
4.	We slowly detect changes in customer preferences					
5.	To assess the quality of our programs we conduct process control evaluations					
6.	We collect industry information informally (Like over lunch, with industry friends & experts)					
7.	We conduct market research on our competitors independently through external firms/ individuals					
8.	We do not always detect shifts/ new trends in SMEs industry (like competition, technology)					
9.	We periodically review the possible effects of changes in our business environment, such as					

	regulations & technology on customers					
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Please tick the response that best describes how your firm performs each of the following activities

Part Two		Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
10.	A lot of informal talk in the firm concerns politics & life not the competitors tactics & strategies					
11.	We meet with all employees regularly to discuss future SMEs market trends					
12.	Employees spend time prior to a day's schedule discussing customers' needs/interests					
13.	The firm periodically circulates information/ documents that provide information on our customers, our products/ services & SMEs related information					
14.	Information on client satisfaction is circulated to all employees regularly					
15.	There is minimal communication between the manager/owner & employees concerning market developments					
16.	When the firm manager/owner finds out something important about competitors, they are slow to inform/ alert employees					

Please tick the response that best describes how your firm performs each of the following activities

Part Three	Strongly	Agree	Uncertain	Disagree	Strongly
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		<b>Agree</b>				<b>Disagree</b>
17.	It takes us long to decide how to respond to our competitors' price changes					
18.	In our firm, the principles of market segmentation guide any new product/service development					
19.	Due to varied reasons we ignore changes in customers' product/service needs					
20.	We periodically review our product/service offerings to ensure they meet customers wants					
21.	Our business plans are guided more by technological advances than market research					
22.	Employees get together to plan for responses to changes occurring in the business environment					
23.	The products/services we market depend more on internal preferences than real market needs					
24.	If a competitor were to launch an intense campaign targeting at our customers, we would launch a response immediately					
25.	The different products/services of the firm are well coordinated					
26.	Customer complaints are not considered seriously					

27.	Even if we develop a good marketing plan we might not be able to implement it in a timely manner					
28.	We are quick to respond to significant changes in our competitors' pricing methods & structures					
29.	When we find out that customers are unhappy with our quality of product/service we take corrective action immediately					
30.	When we find that customers would like us to modify or change a product/service the sections involved make concerted efforts to do so					

**SECTION D**

**Please tick the response that best describes how your firm performs each of the following activities**

		Always	Often	Occasionally	Rarely	Never
1.	Competitors force us to change our products/services					
2.	Competitors often force us to change/ purchase our Machines/ equipment					
3.	Competitors force us to change work methods / product/service delivery styles					

4.	Employees at all levels participate in decision making					
5.	Employees at all levels participate in bringing change to the firm					
6.	Employees at all levels are aware of changes to be undertaken in the firm					
7.	Change decisions are made by the managers alone					
8.	Rules & procedures set must be followed strictly					
9.	Employees are allowed to vary product/service delivery procedures					
10.	Employee creativity is encouraged					
11.	The firm provides resources for changes like addition/ new requirements like benches					
12.	Employees suggestions are supported					
13.	Some funds are set aside for modifications in equipment, design & layout					
14.	Employees are sponsored / allowed time off to take higher educational or professional courses					
15.	We introduce new equipment in enterprise					
16.	We introduce new services in our enterprise					
17.	Our products/services are the newest in the market					
18.	Our equipment is modern (bought in the last two years)					
19.	We avoid late entry in some products/services					
20.	We have the most current technology					



21.	We have changed our operational procedures in the last one year					
22.	Our enterprise emphasizes growth through developing new ideas/ programs					
23.	Employees pay attention to procedures to get things done					
24.	Our enterprise emphasizes outcomes & achievement very much					
25.	Our enterprise creates wholly new products/ services for its clients					
26.	Our enterprise converts existing products/services into new forms/ formats					
27.	Our enterprise extends services to new clients previously not served by us					
28.	Our enterprise incorporates new methods into existing products/services					
29.	Our enterprise creates new organizational structures for the management of employees					
30.	Our enterprise introduces new procedures for management of products/services					
31.	Our enterprise creates links with other firms in the industry					
32.	Our enterprise seeks to copy styles/ products/services of our competitors					
33.	Our pricing strategies change					
34.	We advertise our products/services					

35.	Our sales have increased in the last six months					
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**SECTION E:**

Please rate the firm's performance on the following attributes by ticking the appropriate response

Particular item	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
The level of customer satisfaction in this firm is low					
The level of customer retention in this firm is low					
The level of customer acquisition in this firm is low					
The revenue/sales performance of this firm is low					
The growth of the business market share of this firm is low					
The growth of the business sales in the last year was low					
The level of return on this SMEs enterprise investment was poor in the last three years					
This firm's profitability is lower than anticipated					
This firm's return on assets/ investment is low					

**SECTION F**

Please indicate what kind of results you think/ perceive your SMEs has for the moment by ticking the appropriate response

Particular item	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
1. During the past three years, our market share has increased					
2. During the past three years, customer satisfaction has increased					

3.	Over the past three years, our financial performance has exceeded our competitors					
4.	During the past three years, customer complaints have decreased					
5.	During the past three years, our new products/ services have been less attractive than those of competitors					
6.	During the past three years, customer loyalty has increased					
7.	Our sales volume has declined gradually in the past three years					
8.	We have a shrinking market share					
9.	Our clients keep moving to other SMEs					
10.	We have not achieved our set profit margins in the last three years					
11.	We collect information on what customers want & expect in terms of service quality					
12.	We collect information on what customers want & expect in terms of program prices					
13.	We keep accurate data on customer & complaints					
14.	We keep accurate data on customer/ client progress in business					
15.	I am satisfied with my salary					
16.	I receive continuous on job training					

17.	I have a secure job					
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***THANK YOU FOR YOUR TIME & EFFORT ON THIS SURVEY.***

**APPENDIX III: QUESTIONNAIRE FOR CLIENTS**

**Dear client**

This survey is academic & aims at establishing the extent of SMEs. We kindly request you to consent & to fill this questionnaire. Your input is very valuable & information gathered from your responses remains confidential & shall be for research purposes only.

**Please indicate your answer by filing in your most appropriate & correct answer**

1. Personal details of the respondent

(a) Gender \_\_\_\_\_ (b) Nationality: \_\_\_\_\_

(c) Age \_\_\_\_\_

2. How many times per month do you purchase our products/services?

\_\_\_\_\_

3. I am likely to look for a new enterprise in the next six months.

Yes \_\_\_\_\_ No \_\_\_\_\_

<b>Highest education level</b> <i>(Tick appropriately)</i>	<b>Type of employment /status</b> <i>(Tick appropriately)</i>
Primary	Part time
Secondary	Full time
Vocational school	Temporary/contract
Diploma/certificate	Owner manager
University degree	Permanent
Other ( indicate)	Self employed

4. How do you feel about this center as a client? Circle the number which you most agree with in each statement for instance.....1,2, 3, ( 4), 5 indicating “agree”

<b>Particular item</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Uncertain</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
1. When the enterprise promises to do something by a certain time it does so					
2. When I have a problem, the enterprise shows sincere interest in solving it					
3. The enterprise provides its products/services at the time it promises to do so					
4. I am informed about when certain products/services will be introduced					
5. Employees in the enterprise give me prompt customer service					
6. Employees in the enterprise are always willing to help me					

7.	Employees in the enterprise are never too busy to respond to my requests					
8.	The behavior of employees in the enterprise instills confidence in me					
9.	I feel safe in my transactions with the enterprise					
10.	Employees in the enterprise are consistently courteous with me					
11.	Employees answer my questions with a lot of knowledge					
12.	The enterprise gives me individualized attention					
13.	The enterprise has employees who give me personal attention					
14.	The enterprise has my best interests at heart					
15.	Employees of the enterprise understands my specific needs & preferences					
16.	The enterprise has modern-looking facilities					
17.	The enterprise's physical facilities are visually appealing					
18.	The enterprise's employees appear neat					
19.	Display of products is visually appealing at the enterprise					
20.	I am satisfied with the hours the this firm operates/ opens					

21.	Overall I am satisfied with the enterprise' services					
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**THANK YOU FOR YOUR TIME & EFFORT ON THIS SURVEY**