CHAPTER III

RESEARCH DESIGN AND METHODOLOGY

Organizations which possess certain competitive strengths will gain an edge over their rivals. Marketing is one of the important forces responsible for the success and growth of industrial process. Lack of marketing orientation, quite often result a good product, however it might be, in not receiving its due market share.

Analysis of several successful companies provides some general success indicators. These companies are very good at deciding where and when to compete. They have developed business systems that enable them to outperform the competition in producing and delivering the product or service. The primary task for entrepreneurs is to become more market driven. To become more market driven, firms must identify rapidly changing customer needs and wants, determine the impact of these changes on customer satisfaction and focus on developing strategies for competitive advantage.

Peters and Waterman(1982) in their study on successful large firms have identified two common traits in each of the companies:

1) a drive to provide superior service and quality to customers and
2) a drive to innovate and to develop new products and service.
In other words every one of these companies is marketing oriented. But Peter and Waterman do not look at small firms; their major concern was and is with how big companies. Their major concern is with how big companies stay alive, well, and innovative.

It is the responsibility of every organization’s strategic management to grow competitive knowledge and ability to meet customer requirements of the future. Large business organizations recognize the importance of marketing. They accordingly employ marketing experts in research departments and development staff to study trends and to improve techniques. The importance of marketing orientation in big business is indicated by large marketing budgets, high salaries for marketing personnel and the high visibility of the marketing department in the company organization. But what can the small firms do? Can it afford to be market driven? Can it choose the right type of product when consumers are becoming increasingly selective?

**Statement of the Problem**

Marketing practices of large companies have been studied extensively from many points of view. But very little information has been gathered on marketing practices and success of small firms partly because of their
diversity and partly because they are large in number. Small firms should stay, as historically they have played an important part; to test new products and process, to supplement the innovative efforts of larger firm, to provide a potential competitive threat to established firms and to maintain an efficient economic system which is flexible and adaptable enough to meet the changing needs of consumers (Bolton p-28).

The ultimate reason for the success of any firm lie not so much in the knowledge of how to handle machines and finance alone, but rather in a knowledge of people, the modes of their behaviour, the concepts the concepts of marketing the goods and services. Much of the research resources have been devoted to search for evidence that viable small firms are actually held back by lack of finance. This evidence in the form of specific instances is of course, difficult to find, since successful marketing oriented firms are obviously solving their financing problems. The vast majority of small business do not fail because of lack of finance as we are commonly told. In fact, lack of money is a symptom of deeper problems, such as their refusal to purchase new equipment or to move to a better location, thus keeping their costs high and limiting their distribution. The traditional concern about financing immediately come to the fore when a business does not do well. Lack of money is then quickly seen as the most important problem to be overcome. "In our experience, however, lack of
money is usually a symptom of poor performance in other critical aspects of the business, not the cause" (Beam and Carey, 1989, p-65).

Although different studies reveal lack of marketing orientation to be the most powerful factor working against the growth of successful small firms, no studies yet has been made in search of distinctive marketing orientation traits to be possessed by small scale industries for its success. Small firms are particularly vulnerable in their early years and their first objective must be survival. Direct experience is often costly and even dangerous for someone starting a business. To learn from the mistakes and successes of other entrepreneurs can reduce the vulnerability of small firms.

According to the census of small scale units, covering SSI units till March 31, 1988, labour problem led to the closure of 6777 units, dispute among owners led to closure of 11023, raw material problem 17010, natural calamity 10255 closures, financial problem to 4668 closures. While marketing problem led to the closure of 43451 units. More than one reason hit 49738 units.

Abraham (1991) has derived a forewarning system to predict potential business failure at the earliest by making use of empirical, financial and statistical computing techniques. There is no doubt that financial
analysis is an important aspect of appraisal but the potential of the market for a product is the overriding factor.

Sickness does not develop all of a sudden. Inefficient and declining firms will first receive punishing signals from the market in the form of low profits or losses. An analysis of unsuccessful and declining firms by Jonathan Bosewell indicated that major changes would be necessary for revival and a complete marketing reorientation. Most of these firms needed to make substantial investments if they were to revive; mostly in new plant and buildings. Potential sickness must be averted at the incipient stage (Bosewell, 1973, p-163).

The question why some new industrial units are winners while others perform poorly must drive ample research. The types of small manufacturing which persist and expand amidst giant corporations must possess a different orientation and certain qualities. A number of studies describe the attributes of marketing orientation. But they do not provide any information on the relationship between marketing orientation and business profitability of small firms.

Thus the study aims at measuring analyzing the extent of market orientation traits of successful and unsuccessful small firm and analyze its effect on business performance.
Earlier Studies

No study on market orientation of small firms could be found from the review of literature. An attempt has been made to collect the elements of market orientation from a review of relevant literature on marketing. Review of the literature is presented in chapter II.

Objective of the Study

The study has the following objectives

1. To measure the extent of marketing orientation possessed by small scale units.
2. To analyze the effect of marketing orientation on business performance.

Research Design

To measure market orientation and analyze its effect on business performance the method followed by Narver and Slater (1990) in their study on the effect of market orientation on business performance has been adopted.

Since the study aims to measure the extent of market orientation traits possessed by different categories of industries and to analyze its effect on business performance, the study is descriptive and analytical in nature.
Methodology

Collection of data

The data for the study is collected from both primary and secondary sources.

Secondary data

Secondary data collected includes published and unpublished data (office records) of Trivandrum District Industries Centre, the Directorate of Industries and Commerce, Bureau of Economics and Statistics and State Planning Board. Besides working papers, books and journals, published reports of both central and State Governments have aided to get necessary information for the study.

Primary data collection

Primary data relating to marketing orientation traits possessed by the units and the business performance of the units have been collected by interview with the owners of small scale units.

Content of market orientation

From a review of relevant literature and discussions with academicians four components of market orientation have been identified. Again multiple variables that categorize each of the components were drawn and classified from the review of literature. The variables identified were
submitted before five academicians and five marketing executives of professionally managed firms for their assessment. The items recommended by all of them were selected for the study.

The four components of market orientation identified and included for the study are

1) Customer orientation
2) Competitor orientation
3) Long term focus
4) Inter functional coordination

i Customer orientation

The variables under customer orientation included market intelligence, market focus, product differentiation and innovation. The extent of market intelligence of a firm is rated from the extent to which they carried out information gathering from primary and secondary sources; and the conduct of marketing research in the following areas.

i. Market size, market potential, market share, market characteristics, sales performances.
ii. Existing product, new product, technical development packaging service;
iii. Forecasting and pricing

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iv. Personal selling, sales promotion, advertising effectiveness, public relations;
v. Distribution channels, middlemen, transportation
vi. Customer feedback, complaints, customer perception of competitive products/services, customer needs, preferences.
vii. International market characteristics, export possibilities and precedes.

Market focus of the unit is measured by rating the following abilities of the owner manager.

i. Ability to define and describe the target market of the unit's products.
ii. Ability to identify the features of the unit's products with maximum appeal.
iii. Ability to identify the benefits the customer gets from each appeal.
iv. Ability to identify the differential benefits which the unit's products possess.
v. Ability to anticipate change in the customer needs.

The innovation of the firms is measured from the ratings on product improvement, quality improvements, style changes, new services and new promotional techniques during the past five years.

The extent of product differentiation is measured from the ratings on the unit's product performance, attribute, price quality advantage, brand image of the product, delivery arrangement and after sales service done by the unit.
The promotional activities of the firm is measured from the rating of the unit's advertising, personal selling, sales promotion, publicity and public relations carried on by the unit.

**Competitor orientation**

The variables identified under competitor orientation include

i. Identification of competitors

ii. Review of competitors

iii. Knowledge of competitor's current and potential strengths and weaknesses

iv. Response to competitor activity

v. Possession of distinctive competitive strengths.

The identification of competitors is based on the extent to which the owner had a knowledge of the number of firms offering similar product/service/substitutes and the number of firms offering a similar product/service/substitutes to the same set of customers whom the firm serves. The firms' review of competition is assessed from the extent of the owner-manager's knowledge of competitors' marketing practices, marketing strengths, reactive pattern and the assessment of the competitors' likely moves in the future.

The owner-manager's knowledge of the competitor's current / potential strengths and weakness is based on the extent of the respondents
knowledge of the competitor's key data viz sales, market share, profit margin, return on investment, capacity utilization; key success factors viz quality image, organization image, technical competence, product differentiation, scale economy, after sales service and from the extent of the owner's assessment of competitor's potential success factors. Response to competitor activity is assessed from the extent of product changes, product modification, price changes, promotional changes, distribution changes made in response to competitor activity.

The distinctive competitive advantages possessed by the firm is measured from the extent of competitive advantages possessed by the firm viz. (i) limited total demand for the product resulting in no competition from large scale industry (ii) efficiency in production, (iii) optimum plant size, (iv) modern technology, (v) nearness to market and raw materials, (vi) growing market, (vii) flexible manufacturing system, (viii) brand image and (ix) organizational image.

**Long Term Focus**

The unit's long term focus is measured from its long term objectives and the extent of its long term perspective of customer satisfaction and growth. The following items are rated to measure the units formulation of long term objectives.
(i) unit's assessment of long term sale and profit

(ii) unit's assessment of the industry's position after five years.

To measure the unit's long term perspective of customer satisfaction and growth, the following factors are considered by the owner-manager in selecting the line of business/product, market, location and machinery/technology have been rated.

i. Competition

ii. Demand for the product

iii. Marketing/product idea

iv. Entrepreneur's/unit's strengths and capability

v. Cost advantage over competitors

vi. Scale economy/operating cost

vii. Customer needs

viii. Long term profit and growth

The following items are rated to measure the unit's co-ordination of marketing functions

i. Collective formulation of marketing goals/plans by persons involved in different marketing functions

ii. Feed back to all persons in marketing functions by the owner-manager
iii. Active involvement of persons in marketing functions in modifying, designing or conceptualizing a new product

To measure the units co-ordination of marketing functions with other functions, the following items have been rated.

i. Extent of knowledge possessed by persons in different functions regarding customer needs

ii. Extent of knowledge possessed by persons in different functions regarding the unit's competence and limitations in satisfying customer needs

iii. The practice of appreciation/rewards by owner-manager to persons in different functional area for contributing to create superior value to customers

iv. Extent of involvement of persons in different functions in modifying, designing or conceptualizing a new product

v. Extent of communication of owner manager to persons in different functions

vi. The importance of marketing functions as rated by the owner manager.

**Period of study**

Primary data is collected from the owner managers of small scale units during 1996-1997. Units registered up to 1990 only, have been included in
the study, to provide a minimum of five years to show symptoms of failure or success.

**Area of study**

To avoid the extreme effects of industrialisation and industrial backwardness Eranakulam District which tops in the number of industrial units; and industrially backward districts like Kasragod and Wayanad have been avoided.

Based on the nature of production and services small scale industries in Kerala are classified into 41 categories by the Directorate of industries and commerce, Trivandrum. Trivandrum District which has units registered in 25 out of the 41 industrial classification has been selected for the study. Besides Trivandrum District stands first with regard to the extent of sickness as on 1990 (Source: State Planning Board).

**Units Covered**

The study covered all the industrial units in Trivandrum district and registered with the Directorate of Industries and Commerce, as on March 1990 and existing at the time of primary data collection, providing a period of five years time for the youngest firms with a tendency for failure to exhibit symptoms of failure. Literature survey indicated that most of
the small scale units with a tendency to become sick, fall sick within a period of 5 years from their inception.

As registration of small scale industries is optional, many industrial units operate without registration. No information could be collected regarding their location and operation. The study has therefore been confined to those industrial units in Trivandrum Districts that are registered with the Directorate of Industries and Commerce, Trivandrum as on March 1990. The records maintained by the District Industries Centre (DIC) and the Directorate of Industries & Commerce, Trivandrum were used for preparing the list of units as on March 1990.

Pilot study revealed much difficulty in contacting owner/managers of closed units. Such units have been excluded from the study.

To eliminate the units which are traditional and do not use ideas of organization and management; (Staley and Morse, 1965, P 4) and to limit the study to manageable proportion tiny units as on 1990 have been excluded from the study. Pilot study revealed that the owner/managers of tiny units were not able to respond to most of the items on marketing orientation.
For the pilot study 30 units in Trivandrum district have been selected in random from the list of universe. Out of this, 14 units (46.67%) could not be located, while owner/managers of six units (20%) were reluctant to respond and give information, mainly on financial performance over the past five years. So, in order to get adequate number of response for the study, the whole population in Trivandrum district as on March 1990 was selected for the study. Sampling procedure was therefore not adopted.

As on 1990, 5455 units have been registered in Trivandrum district. (Source: Directorate of Industries and Commerce, Trivandrum). Out of this 5077 units (93.07%) belonged to tiny units with an investment of upto Rs.2 lakhs and 378 units have an investment of above Rupees 2 lakhs. Among the 378 units in the framelist, 69 units could not be traced or have been closed down, while owner-managers of 51 units were reluctant to furnish informations eventhough they were assured of their anonymity. The remaining 232 units were finally selected for the study. Stratification of the units based on sickness also could not be done as the concept of industrial sickness lacks unanimity and only a negligible portion of the sick units have been identified under the new definition of sick units by the Reserve Bank of India. In order to identify sickness, it is necessary to refer back to the balance sheet and profit and loss account for a period of 5 years, which the pilot study revealed as not easily accessible as most of
the units were reluctant to disclose and/or most of the units do not maintain proper financial statements over the years.

Table 3-1
Shows the List of Units in Trivandrum District Excluding Tiny Units (as on 1990) and the Units Subjected for Study

<table>
<thead>
<tr>
<th>Category</th>
<th>No.of Units in Trivandrum District as on 1990 (excluding tiny)</th>
<th>Data collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food A</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Food B</td>
<td>48</td>
<td>29</td>
</tr>
<tr>
<td>Beverages, tobacco and tobacco products</td>
<td>2</td>
<td>Nil</td>
</tr>
<tr>
<td>Wool silk and Synthetic fibre</td>
<td>1</td>
<td>Nil</td>
</tr>
<tr>
<td>Hosiery and Garment</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Wood products</td>
<td>62</td>
<td>35</td>
</tr>
<tr>
<td>Paper product and printing</td>
<td>57</td>
<td>35</td>
</tr>
<tr>
<td>Leather and leather products</td>
<td>3</td>
<td>Nil</td>
</tr>
<tr>
<td>Rubber and plastic products</td>
<td>42</td>
<td>22</td>
</tr>
<tr>
<td>Chemical and chemical products</td>
<td>19</td>
<td>12</td>
</tr>
<tr>
<td>Non metallic mineral products</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>Basic metal industries</td>
<td>3</td>
<td>Nil</td>
</tr>
<tr>
<td>Metal products</td>
<td>34</td>
<td>27</td>
</tr>
<tr>
<td>Machinery and parts except electrical parts</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>Electrical machinery apparatus</td>
<td>25</td>
<td>21</td>
</tr>
<tr>
<td>Transport equipments and parts</td>
<td>2</td>
<td>Nil</td>
</tr>
<tr>
<td>Miscellaneous manufacturing industries</td>
<td>3</td>
<td>Nil</td>
</tr>
<tr>
<td>Real estate and business sources</td>
<td>7</td>
<td>Nil</td>
</tr>
<tr>
<td>Education scientific and research</td>
<td>1</td>
<td>Nil</td>
</tr>
<tr>
<td>Repairing services</td>
<td>25</td>
<td>16</td>
</tr>
</tbody>
</table>
Construction of Tools and Pretest

The final interview schedule was designed after the draft was tested in the pilot study. Responses were recorded in a 5 point scale with a 1 indicating that the unit does not engage in the practice at all or do not agree to the idea/concept or do not possess any knowledge at all and 5 indicating that the unit engages in the practice to great extent or fully agrees to the idea/concept or is highly knowledgeable on the area of interest or possess the specific strengths to a great extent. Additional informations have been collected in multiple choice or dichotomised structure format.

Analysis

The units score of market orientation is the sum of the four components of market orientation ie (i) customer orientation (ii) competitor orientation (iii) Long term focus and (iv) interfunctional coordination. The measure of performance was based on the unit's average return on investment. Units with return on investment in between six to twelve percent were classified as moderate performers, taking into consideration the prevailing interest rates in banks during the period of study. The units below six percent return on investment are classified as low performers and those units above twelve percent return on investment are classified as high performers. The relationship between market
orientation and performance of the units was determined by using 't'-test and correlation technique.

Significance of the study

The importance of small firms in job creation, technological innovation and in general economic rejuvenation, is accepted by most economists, management theorists and policy makers. The government has been following a policy of promotion as well as protection to small scale sector. Marketing is primarily an entrepreneurial responsibility and small scale units have been undertaking marketing operations of their own, although Government agencies provide indirect support to the marketing efforts of the small scale units.

As part of the new liberalisation policy it is understood that the union Government will soon bid good-bye to the policy of reservation of items for exclusive manufacture in the small scale industrial sector. This will effectively deserve over 830 items again. To prevent sickness and remain competitive, has become the primary task of the small firms in the changed economic scenario. The owner-manager should know more about any advantages he would face, the requirements for success and how to avoid the many failures in small business. The challenge to owner managers is to select the product and market areas where opportunities
for the small firm are most promising and to sustain competitive advantage in the targeted areas.

Though prediction of industrial sickness based on financial ratios is useful to predict business failure, sickness originates from the conception of the product. It is meaningless to predict business failure after investing much in plant and machinery. As studies suggest declining firms often needed to make substantial investments in new plant and machinery, if they were to revive. Identification of the significant characteristics of successful firms could yield valuable information to the entrepreneurs, government as well as to the lending organizations like banks financial institutions; and among entrepreneurs, whose marketing opportunities are much restricted due to lack of access to economies in large scale marketing.

The finding of the study will have implications for the would be entrepreneurs as well as for the practicing entrepreneurs. The findings would help them to understand the significance of market orientation, examine its characteristics and develop appropriate skills for improving their market orientation. For the would be entrepreneurs, the study would enable them to identify the marketing skills and attributes required for success.
Scheme of the dissertation

The thesis is presented in six chapters. Chapter I highlights the importance of small scale industries and the necessity of developing market orientation among them. Chapter II is the summary of a detailed review of the relevant literature. In Chapter III methodology and design of the study is explained.

Chapter IV depicts the analysis of the market orientation of the small firms on the basis of the field data. In Chapter V a detailed analysis of the different elements and their sub elements are presented. Chapter VI presents the summary, conclusions and recommendations of the study.

Limitations of the study

(1) The main limitation arises from the nature of the study. The information collected may be partially subjective as much of the informations collected are converted to quantitative terms using 5 point scale (Boyd, Ralph and Statsch, 1990, p-35)
(2) The sick units that are closed down and not operating were dropped from the study due to difficulties in contacting owner-manager of such units.

(3) A number of units could not be traced as per the addresses recorded in the Directorate of Industries and Commerce.

(4) Owner-managers of some units are reluctant to furnish necessary information and such units are excluded from the study.

(5) The performance of the firm is analyzed on the basis of the reports furnished by the owner managers of SSI units which may also be partially subjective.

(6) The study could not cover units registered after 1990 as a period of five years have been provided for the youngest firms to show symptoms of success or failure.