

**THE RELATIONSHIP BETWEEN MARKETING  
PRACTICES, CAPABILITIES, ORIENTATION AND  
PERFORMANCE OF THE SERVICE SECTOR  
SMALL MEDIUM ENTREPRISES IN PAKISTAN**

**ARSALAN MUJAHID GHOURI**

**UNIVERSITI PENDIDIKAN SULTAN IDRIS**

2014

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**ARSALAN MUJAHID GHOURI**

**Thesis submitted to the Institute of Graduate Studies  
UPSI Malaysia for the Fulfillment of the Requirements  
for the Degree of Doctor of Philosophy**

**UNIVERSITI PENDIDIKAN SULTAN IDRIS**

**2014**

## ACKNOWLEDGEMENT

It set my unfeigned and meek to “Almighty Allah” who favoured and invigorated me with the fortitude and capability to aptly complete my research work. Trembling lips and wet eyes praise for the Holy Prophet Muhammad *peace be upon him*, his all chaste companions and my spiritual father Muhammad Ahmad Khan for the internal and eternal blessings.

I deem it is my utmost pleasure to avail myself to this opportunity to express my heartiest gratitude to my supervisor Dr. Nek Kamal Yeop Yunus, Associate Professor of marketing in the faculty of management and economy, Universiti Pendidikan Sultan Idris. His intellectual counsel, sincere and generous guidances contributed substantially to the current form and content of this dissertation. Thank you, sir.

I cannot go without mention here to gratitude I owe to Dr. Mashood Ahmed Khan, Director, Post Graduation Centre, Liaquat University Medical and Health Sciences, Jamshoro, who so kindly supported and motivated me for this study.

This research would be possible with the support of many professionals, people and departments. I express my appreciation and gratitude to the following personalities and departments for supporting me in completion of this study.

- Dr. Abdul Raheem Mohamad Yusof, Senior Lecturer in faculty of management and economy, Universiti Pendidikan Sultan Idris.
- Naveed Ur Rehman, Assistant Professor, DHA Shifa Univeristy, Karachi.
- Institute of Postgraduate Studies, Universiti Pendidikan Sultan Idris
- Faculty of Management and Economy, Universiti Pendidikan Sultan Idris
- International Affairs Office, Universiti Pendidikan Sultan Idris

Finally, thanks are also due to my father, mother, brothers and friends for bearing with me in my efforts to bring this dissertation to fruitions.

## ABSTRACT

The purpose of this study was to examine the relationship between marketing practices, capabilities, orientation and performance of the service sector Small Medium Enterprises (SMEs) in Pakistan. The data was collected from 240 randomly selected samples of SMEs in Karachi, Lahore and Faisalabad. The three cities were selected because they contributed the highest revenue to the country Gross Domestic Products. The data collected was analyzed using descriptive and inferential statistical analysis. The results showed that marketing practices, marketing capabilities and market orientation together explained 41.4 percent of the variance in the firm performance. Results of the study illustrated that marketing is weakly correlated to service sector SMEs of Pakistan, as marketing decision makers are not fully viable to marketing and its aspects due to their financial limitations. Therefore, it can be concluded that the study provides the idea that marketing practices, marketing capabilities and market orientation can jointly improve the firm performance by effective use of marketing information and trends. The implication of the study is that marketing managers should exploit the opportunities regarding customers, competitors and transform the information to apply marketing practices and build marketing capabilities.

**HUBUNGAN ANTARA AMALAN, KEUPAYAAN, ORIENTASI PEMASARAN DENGAN PRESTASI PERUSAHAAN KECIL DAN SEDERHANA DALAM SEKTOR PERKHIDMATAN DI PAKISTAN**

**ABSTRAK**

Tujuan kajian ini adalah untuk menentukan hubungan amalan, keupayaan dan orientasi pemasaran dengan prestasi firma Perusahaan Kecil dan Sederhana (PKS) dalam sektor perkhidmatan di Pakistan. Data telah dikumpul dengan mengedarkan soalselidik berstruktur kepada 240 orang responden dari Karachi, Lahore dan Faisalabad. Tiga bandaraya ini dipilih kerana mereka penyumbang terbanyak terhadap Keluaran Dalam Negara Kasar Pakistan. Data yang dikumpul telah dianalisis dengan menggunakan statistik deskriptif dan statistik inferensi. Hasil dapatan kajian ini menunjukkan bahawa amalan pemasaran, keupayaan pemasaran dan orientasi pasaran telah berjaya menerangkan sebanyak 41.4 peratus varians di dalam prestasi firma tersebut. Hasil dapatan kajian juga menunjukkan bahawa pemasaran mempunyai hubungan yang lemah dengan prestasi PKS sektor perkhidmatan di Pakistan lantaran kekangan keadaan kewangan mereka. Keputusan keseluruhan kajian ini telah memberi gambaran bahawa amalan pemasaran, keupayaan pemasaran dan orientasi pemasaran secara bersama boleh digembleng untuk meningkatkan prestasi firma dengan menggunakan maklumat pelanggan dan aliran pasaran secara berkesan. Implikasi kajian ini adalah mengeksploitasi peluang pelanggan dan pesaing untuk mentransformasikan maklumat dengan mengaplikasikan amalan pemasaran bagi membina keupayaan pemasaran dalam kalangan firma PKS di Pakistan.

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## CHAPTER ONE

### INTRODUCTION

#### Overview

This chapter prefaces a brief explanation of the research background and purpose, problem statements, objectives of research, research questions, research framework, hypotheses, research significance, definition of the study variables and thesis outline. It provides the basic ideas and objectives of the present thesis, and shows its coverage and exposure regarding its main theme, *i.e.* 'marketing'. Research objectives are also described in detail before the concluding heading of outline of the structure to this thesis.

## 1.1 Background and purpose of the study

It may not be too erroneous to say that every business of the 21<sup>st</sup> century finds itself in an intense competition milieu and is endeavoring relentlessly to find the area where it can flourish successfully. This safe area can be discovered in any or all areas of business provided the firm's performances can be successfully conveyed to the market. The role and influence of marketing departments has received much attention in both the popular press and academic literature in recent years (Dixon, Karniouchina, van der Rhee, Verma, & Victorino, 2014; Gummesson, Kuusela, & Na'rvänen, 2014; Strandvik, Holmlund, & Grönroos, 2014; Wirtz, Tuzovic, & Kuppelwieser, 2014). Verhoef, Leeflang, Reiner, Natter, Baker, Grinstein, Gustafsson, Morrison, & Saunders (2011) addressed that the discussion remains mainly qualitative regarding marketing effectiveness, without strong empirical evidence in multiple countries. Studies have empirically demonstrated that strong marketing departments lead to superior business performance, regardless of a firm's general market orientation (Moorman & Rust, 1999). So, eventually marketing is that one part of business that determines the success or failure of a business; one that strengthens the reputation of the firm in the market. Marketing is the life blood of any business (Ghouri, Khan, Malik, & Razzaq, 2011b) and the reason for customers to flow (Khan, Ghouri, Siddiqui, Shaikh, & Alam, 2010).

Marketing's role within a firm as the impact of the marketing department, relative to that of other departmental functions, on strategic decisions important to the success of the business unit and/or organization (Homburg, Workman, & Krohmer, 1999; Merlo, 2011). These studies also mentioned the importance of marketing unit and its activities in business *i.e.* Moorman and Rust (1999), Wu (2004), Goetz, Hansen, Jo, & Krafft (2009), Verhoef and Leeflang (2009), Urbonavicius and Dikcius (2009), Lee, Naylor, & Chen, (2011), Merlo (2011), Sarkees (2011) and Verhoef *et al.*, (2011) (cited in mentioned in Wirtz, *et al.*, 2014). The marketing activities support the other business units by ensures that customers are getting our goods or services effectively and efficiently. It offers growth to company products, build and maintains brand value and awareness by providing customer value. Marketing also enhance shareholder and other stakeholder value by communicate the information about offering of goods and service.

Needless to say, its effects on the customer are very vital for a business to flourish. Today, marketing is not about the initial transaction but also about retaining one's customers, securing customer satisfaction, loyalty and most importantly maintaining a long term relationship with the customer (Berry, 1995). The key to marketing success has always been the ability to gather the best, most complete information, and then to analyze and act upon it as accurately and as quickly as possible (Le Merle & Minasian, 2011). Blackburn & Stokes (2000) illustrated that small business owners believe that marketing is something that only larger firms can do; the small businessmen face difficulty in dealing with it and ultimately appear to

give marketing a low priority compared to the other areas. But the fact is marketing efforts are vital to any business setup, small or big.

The genuine marketing concept holds that the key to organizational success is through the determination and satisfaction of the needs, wants and aspirations of target markets (Blackson & Cheng, 2005). Hence, if the business is to achieve profitability and/or satisfy its objectives, the entire organization must be oriented towards satisfying consumer needs, wants, and aspirations (Blackson & Cheng, 2005). Möller & Mai (1987) opined on the marketing dilemma of small manufacturing companies, and conjured that the small entrepreneurs perceive marketing from a 'too narrow perspective'. Möller & Mai recommended that even small firms should take marketing as life of business and approach it in a broad perspective. Small and Medium Enterprises' (SMEs) sector development is one of the recent key issues in developing countries (Davidsson, 2004). As instigator and researcher of the thesis, researcher has already conducted several studies on the marketing of small and medium enterprises of Pakistan. This thesis provides points of wider insight rather than the usual marketing environment of SMEs of Pakistan and their practices on marketing.

There are studies that investigated marketing practices (Ghouri *et al.*, 2011b), marketing capabilities (Zhang, Wang, & Xia, 2008; Vorhies & Morgan, 2005) and marketing orientation (Tyc, 2011; Tse, Sin, Yau, Lee, & Chow, 2003) and their impact on firm performances. Some studies even judged the combined effects of

marketing capabilities and marketing orientation (Morgan, Vorhies, & Mason, 2009b) on firm performance. The researcher couldn't find a single previous study (*i.e.* Ebscohost, Proquest, Jastor, Thomson & Reuter, Emerald, Wiley) that intended to discover the combined effects of marketing practices, marketing capabilities and market orientation on the performances of a firm. This particular aspect is the main theme of this research.

There are some limited studies on the SMEs in context of Pakistan. The present study can be considered as premier research on all the related combined topics. This thesis investigates the marketing practices and its five categories *e.g.* [a) advertising, b) sales promotion, c) public relation, d) direct marketing and e) pricing], marketing capabilities and its six sub variables [a) marketing research b) pricing c) service development d) distribution e) communication and f) marketing management] and market orientation and its three sub variables [a) customer orientation b) competitor orientation c) inter-functional coordination] to the effects on firm's performance of the SMEs of Pakistan. Marketing (Kotler, 2003) is the main source for customer (satisfaction) and retention (Khan *et al.*, 2010), product visibility (Abadie, Maghiros, & Pascu, 2008) and revenue generation (Shah, 1998) which participated as high firm performance in emergent small medium enterprises of Pakistan. So this study tests the combination of theories of Morgan *et al.* (2009b) and Ghouri *et al.* (2011b) in the context of Pakistani SMEs.



When a business offers a product or service for the 'need fulfillment', it is inevitable that they face the competitive milieu, and also has to confront indirect competition from outside the industry, which can be local or international. Whatever business offerings or proposals one makes must be attractive to customers, provide enough value for money, offer rationale price and usage, and most of all must be eligible to sustain in market shelves and in customers' mind. Market and its condition never remain static because change of revolution is one of the facts and challenges of the universe, and this truth revolves and affects the business world too, which is tested and proven in assay by business gurus and entrepreneurs. These 'change challenges' can turn into advantages for business, if it is treated as opportunities, and if one reacts in the appropriate manner, with new/revised align strategies. These advantages enhance the firm's performance and eventually will emerge as 'competitive advantage' for business.

Research literatures document the influence of marketing practices (Ghouriet *al.*, 2011b; Palmer, 2009) and its five categories a) advertising (Ghouriet *al.*, 2011b; Nwankwo & Gbadamosi, 2011), b) sales promotion and personal selling (Odunlami, & Ogunsiji, 2011; O'Sullivan, Abela, & Hutchinson, 2009), c) public relation (Ghour, Khan, & Malik, 2011a; Shoemaker & Shaw, 2007), d) direct marketing (Jadhao, 2011; Jobber, 2009) and e) pricing (Nwankwo & Gbadamosi, 2011; Villarejo-Ramos & Sanchez-Franco, 2005), marketing capabilities (Morgan *et al.*, 2009b; Hooley, Fahy, Cox, Beracs, Fonfara, & Snoj, 1999) and marketing orientation (Pitt, Caruanna, & Berthon, 2007; Narver & Slater, 1990) on firm performance. The

purpose of the study is to find the effects of three independent variables marketing practices, marketing capabilities and market orientation on the dependent variable of firm performance.

This study is carried out through the response of top management, which verifies their marketing view, skill, behavior, and strength against their present marketing conditions and competitors. This research suggests the marketing practices (and its five categories), marketing capabilities (and its six categories) and marketing orientation (and its three categories) as the synergies for firm performance which ultimately award edge on competitors and is a source for competitive advantage.

Ghouri *et al.* (2011a) and Ghouri *et al.* (2011b) posited that Pakistani educators/ owners or caretakers of marketing are lacking in the related material of marketing and SMEs. This study is an attempt to propel the understanding of the current marketing situation of SMEs (adding more variables and perspectives of marketing) and explore new ways to researchers/ academicians and students to go further in related topics. Further, the study works as source of value for teaching staff to identify the reason to motivate the students in marketing field to explore the new means of businesses.

This thesis is expected to broaden the horizon of readers about the knowledge of SMEs and marketing and its different aspects. This was the biggest motivation for the author to conduct this research and find new avenues for SMEs' owners and managers to sustain their business longer and firmer than ever.

## **1.2 Introduction to Pakistan**

### *1.2.1 Overview about territory, independence and political milestones of Pakistan*

The official name of Pakistan is Islamic Republic of Pakistan situated in South Asia. The southern boundary of Pakistan is link to Afghanistan, west boundary ties with Iran, east boundary connect with India while the northern boundary associate with China and Tajikistan. Oman shares marine border with Pakistan. It has sea board along with Arabian Sea and Gulf of Oman. Territory of Pakistan was previously occupied by different empires *e.g.* Indian, Persian, Arab, Mongol, Mughal, Afghan, Sikh and British. On the 14<sup>th</sup> of August 1947, Pakistan achieved independence from British Empire. The movement lead by Mohammad Ali Jinnah under the umbrella of Muslim League was the major factor behind Pakistan's independence. The other foremost leaders who supported Mohammad Ali Jinnah in that struggle for independent were, Liaquat Ali Khan and Sardar Abdur RabNishtar. Unfortunately, in 1971, East Pakistan (current Bangladesh) separated from Pakistan as a result of armed conflict. Pakistan is greatly and negatively affected by military rule during many phases, (Marshall Law) as well as political and military conflict with India. Today

Pakistan's problems are further compounded due to illiteracy, corruption, dishonesty of leaders, poverty and terrorism.

Pakistan is a democratic country with Islam as the national religion. Every minority has freedom of expression and they enjoy basic human rights. The constitution of 1956 is the most important document of the country; successive governments of Pakistan consider it as the foundation of their existence. 100 seats of senate and 342 national assembly seats comprise the bicameral legislature. National assembly selects the prime minister, who usually belongs to the leading party of the national assembly. President functions as the commander in chief of the armed forces as well as the head of the state. Every province has similar system of government, largest party elected members select the chief minister and president appoints provincial governor.

On May 28, 1998, in spite of much opposition from many of the developed countries Pakistan became the first Muslim nuclear powered country. Other than this, Pakistan is a member of the United Nation, G20 developing nations, Commonwealth of Nations, Next Eleven economies and founding member of the Organization of the Islamic Conference.

### *1.2.2 Regional details about Pakistan*

The national language of Pakistan is Urdu while Punjabi, Sindhi, Balochi, Siraiki and Pashto are considered as the regional languages. English is being used as the second official language of Pakistan. Currency of Pakistan is Pakistani Rupee – PKR (Rs.) and field Hockey is recognized as the national game of Pakistan. The other details about Pakistan are: The Anthem of Pakistan is known as the Qaumi Tarana; Emblem of Pakistan is Faith, Unity and Discipline; national bird of Pakistan is Chukar; national animal is Markhor and national dress is Shalwar Qameez. Apart from these the provinces of Pakistan have their cultural dresses, food and other things. Pakistan has four provinces and four federal governments (113 districts with several tehsils (sub-districts) and union councils.).

### *1.2.3 Population*

With a population of approximately 180 million people, Pakistan is the sixth most populous nation in the world. It has the second largest Muslim population. The surface area of Pakistan is 796,100 km<sup>2</sup> (Google public data explorer, 2011). According to facts gathered on the basis of 2007 data, World atlas (2010b), posted that Pakistan population consists 2.6% of whole world population and 4.3% of Asia continent population. It is expected that by 2050 Pakistan will become the fourth populous nation (Nizami, 2010). Pakistan has the eighth largest army of the world. According to Population census organization (1998) 56.24% population belongs to

the provinces of Punjab (including the capital Islamabad), 23% to province of Sindh, 15.81% to province of Khyber Pakhtunkhwa and remaining 4.96% to province of Balochistan. Life expectancy rate is 65 years and ratio of girls to boys in primary and secondary education is 81.9% in 2010.

#### *1.2.4 Economy overview of Pakistan*

According to Google public data explorer (2011), Pakistan Gross Domestic Product (GDP) was 174.799 billion in 2010, out of which exports were 12.9% and imports, 19%. Gross Domestic Product (GDP) growth rate is 4.4%, Gross Domestic Product (GDP) per capita is \$1007 which is approximately 87,609 Pakistani Rupee (converted on current exchange rate) and Gross Domestic Product (GDP) deflector change was 10.3% in 2010. Industries value was added in Gross Domestic Product (GDP) by 23.62% and Services value added in Gross Domestic Product (GDP) by 54.59% in 2010. Gross national income per capita in PPP is \$2789 which amounted approximately to 242,643 Pakistani Rupee (converted on current exchange rate). Poverty headcount ratio at national poverty line (% of population) is 22.3% which is taken from the data of 2006. Poverty remains as one of the most prominent problems in the current scenario. External Debt Stocks is 53.71 Billion and Foreign Direct Investment (inflow): was 2.016 Billion in 2010. Foreign Direct Investment soared in 2006-07, but it's drastically declining due to the rampant corruption, incompetence and bad reputation of current Government and security problems. Now, the structure of the economy is gradually changing from agriculture base to service base. Foreign

investment came into the areas of energy, real estate, finance and telecommunications (Khan & Khan, 2011). Textile and apparel (Ghouri *et al.* 2010a), food, (Ghouri *et al.* 2010b), and steel and iron are the other pivotal industries.

### 1.2.5 Education

In 1947, Pakistan had only one University. Now according to Higher Education Commission of Pakistan (2010), there are 102 universities operating in Pakistan, out of which, 60 belong to public sector universities and remaining 42 are private universities. Hence, Higher education commission of Pakistan (2011) explained that these universities shaped 7150 PhD scholars in their tenure and most of the PhD were shaped in 2009, when 779 achieved Doctorate degree. Typical Pakistan education is divided into five grades, a) Primary: class one through five, b) middle: six through eight, c) higher: nine and ten, completion of ten grade leads to secondary school degree, d) intermediate: grade eleven and twelve completion of twelve grade leads to higher secondary school degree, e) university programs in which bachelors, masters and doctorate degrees can be earned. Pakistan Social & Living Standards Measurement, (2011) illustrates that the literacy rate for population of 10 years and above was 58 percent during 2010-11 and it remains much higher in urban areas than in rural areas and much higher in men than in women. Province wise Punjab leads with 60 percent followed by Sindh with 59 percent, Khyber Pakhtunkhwa with 50 percent and Balochistan with 41 percent in which male percentage is quite higher than woman. It is because in the last two provinces mentioned tribal culture still exists.

### 1.3 Small medium enterprises of Pakistan

Small and medium-sized enterprises – SMEs refers here as an entity, ideally not a public limited company, which does not employ more than 250 persons (if it is manufacturing concern) and 50 persons (if it is trading / service concern) and also fulfills the following criteria of either ‘a’ and ‘c’ or ‘b’ and ‘c’ as relevant:

- (a) A trading / service concern with total assets of cost excluding land and buildings up to Rs. 50 million.
- (b) A manufacturing concern with total assets of cost excluding land and building up to Rs. 100 million.
- c) Any concern (trading, service or manufacturing) with net sales not exceeding Rs 300 million as per latest financial statements (Small & Medium Enterprises Development Authority, 2007b; State Bank of Pakistan, n.d.).

In present thesis, the firms will be select on ‘c’ criteria because marketing and sales have direct relationship (Harmon, Brown, Widing, & Hammond, 2002).

Small and medium-sized enterprises – SMEs usually are considered as the base of developed countries’ economic growth and can play a pivotal part in transition economies. United Nation Industrial Development Organization (2002) shared the fact about small and medium enterprises that they provide 50 to 60 percent of worldwide employment and make up over 90 per cent of businesses worldwide. In Pakistan business environment, small medium enterprises are considered as integral tool for economical welfare *e.g.* reduce poverty (Saleem, Lodhi, Malik, &



Ghouri, 2011), create opportunities for employment (Malik, Khan, Ghouri, Khan, Saleem, & Fahim, 2011) and facilitate innovation (Alam, 2010). According to more recent estimates there are approximately 3.2 million business enterprises in Pakistan. Enterprises employing up to 99 persons constitute over 95% of all private enterprises in the industrial sector and employ nearly 78% of the non-agriculture labor force. They contribute over 30% to the GDP, Rs.140 billion to exports, and account for 25% of exports of manufactured goods besides sharing 35% in manufacturing value added (Small & Medium Enterprises Development Authority, 2007b).

The Agriculture sector grew at an estimated 2%, against a target of 3.8% and previous year's growth rate of 4%. While the Crops sub-sector declined 0.4% over the previous year, Livestock posted a healthy rise 4.1%. Industrial output expanded by 4.9%, with Large Scale Manufacturing (LSM) posting a 4.4% rate of growth. The Services sector grew 4.6%, as compared to 1.6% in 2008-09 (Sherani, 2010). According to Nizami (2010), manufacturing sector contributing 13% of all employed labor force in 2008-09, and service sector giving 13.66% employment in all employed labor force.

For a researcher it is of great misfortune that that scientific data for medium and small enterprises is practically non-existent. This is the major reason why there is lack of proper research in this sector. Pakistan is suffering from high cost and low quality in their small and medium enterprises products and services because of stiff competition from neighboring economies like, China, India, Bangladesh and Korea.

Intense competition and WTO regulations required Pakistan to transform fundamentally, and it is high time the government takes this seriously and adopts remedial measures. It will facilitate the Small and Medium enterprises to adopt new technologies, innovative ideas and benchmarking from other countries or companies to compete in international market and provide quality product/ service to domestic consumers too.

#### **1.4 Problem statement**

The SMEs sector is a prime mover of economic undertakings but it's still facing a number of problems in terms of growth performance (Peou, 2009). In order to improve the small medium enterprises sector the care takers of businesses must implement marketing knowledge in real mean. They must consider why some businesses are no longer in business or earn little profit as compared to their competitors? This thesis is an honest attempt to find answers to these problems. Small business owners can make use of the opportunities presented here to enhance the performances of their firms.

It has been mentioned in various studies (Ghouri *et al.*, 2011b; Ministry of Finance, 2006; Berry, 2002) that marketing has not been used in Pakistani firms as the tool for their business enhancement or support or expansion. They have been working on some outdated guidelines that are unsuitable according to the current

position of market/ industry/ customers. According to Ghouri *et al.* (2011b) in SMEs, usually one personnel takes care and makes decisions regarding marketing activities and plan(s). Those decisions regarding marketing consist of some ritual or trendy basis without proper analysis of competition or situation of market/ industry. Sometimes, they hire effective sales persons, who bring business to firm by his/ her skills or personal relations or sometimes vague advertising or promotion works are employed for their business.

With regard to Pakistan's SMEs area, there are at least five studies in the context of marketing. The field of small-medium sized firm appeared to be no closer to understanding the dynamics of small business and its marketing. This is observed in the studies of (Ghouri *et al.*, 2011a) and (Ghouri *et al.*, 2011b) that manufacturing SMEs (textile) and service sector (restaurant and catering) are not implementing marketing practice effectively. Marketing capabilities and market orientation aspects are still open to explore.

McMahon and Holmes (1991) posited that firm survival and well-being of small enterprises depend on the best management practices. This thesis will attempt to address this problem and will try to find reasons for the failures of small businesses, whether it is due to weak or negligent business management (Peou, 2009). Even higher management of small enterprises in Pakistan are not in a position to seize the opportunities exist in the current system. McMahon, (2001) proposed that management of SMEs must understand the relationship between the characteristics,

values and expectations of conducting marketing activities or businesses in the context of their marketing or management practices they choose. Therefore those programs could be developed to improve business performance and reduce the rate of business failure. In vague practices of marketing (Ghouri *et al.*, 2011b) environment, owners/ managers are supposed to know the gaps and fill it out with reasonable strategy to guide them towards better firm performance over their competitors.

Creating good marketing applications with its function, firms can grab the attention of the potential future customers while retaining their existing customers. The entire business community, especially the cooperative sector must be encouraged to create a superior strategy, especially in marketing aspect (Salehudin, 2009).

### **1.5 Objective of the study**

This thesis seeks to fill the gap in existing body of knowledge in the field of marketing of SMEs in Pakistan that influence the firm's performance. The objectives of the study are:

- To determine the relationship of marketing practices on the performance of small and medium enterprises of Pakistan.
- To determine the connection of marketing capabilities on the performance of small and medium enterprises of Pakistan.

- To determine the association of market orientation on the performance of small and medium enterprises of Pakistan.
- To determine the relationship of marketing practices, marketing capabilities and market orientation on the performance of small and medium enterprises of Pakistan.

### **1.6 Research questions**

In relation to the marketing applications, theoretical relevance of the SMEs performance and the objectives that are mentioned above, this thesis will attempt to answer the following questions:

1. Is there any significant relationship between the marketing practices and the firm's performance of small and medium enterprises of Pakistan?
2. Is there any significant connection between the marketing capabilities and the firm's performance of small and medium enterprises of Pakistan?
3. Is there any significance relationship between the market orientation and the firm's performance of small and medium enterprises of Pakistan?
4. How much advertising, sales promotion, public relation, direct marketing, and pricing explain the variance of firm performance of small and medium enterprises of Pakistan?

5. How much marketing research, pricing, service development, distribution/relationship, marketing communication/ promotion, and marketing management explain the variance of firm performance of small and medium enterprises of Pakistan?
6. How much customer orientation, competitor orientation and inter-functional coordination explain the variance of firm's performance of small and medium enterprises of Pakistan?
7. How much the three constructs, marketing practices, marketing capabilities and market orientation explain the variance of firm performance of small and medium enterprises of Pakistan?



### 1.7 Research framework (Model 1)

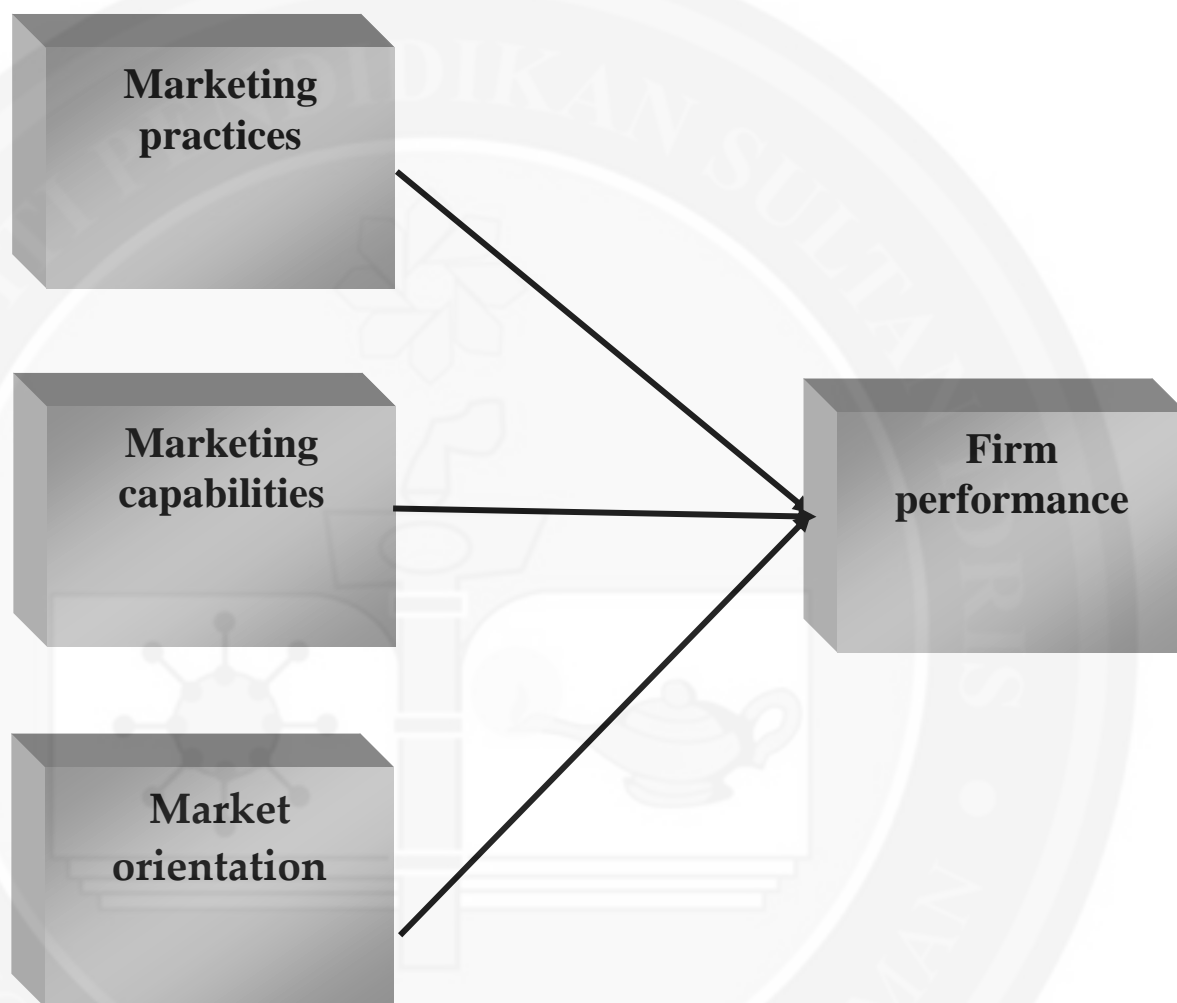


Figure 1.1: Research framework - model 1

### 1.7.1 Marketing practices (Model 1a –H<sub>4</sub>)

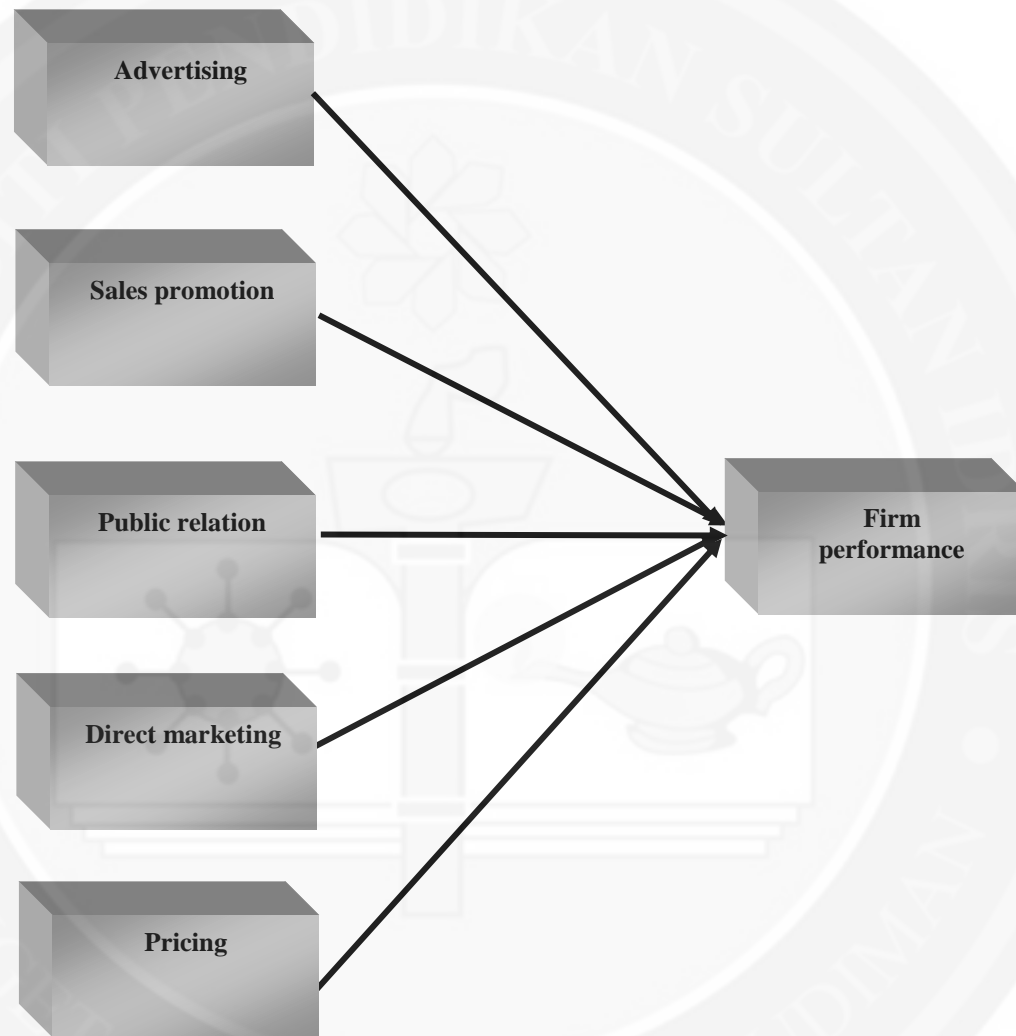


Figure 1.2: Research framework – model 1a (marketing practices)



### 1.7.2 Marketing capabilities (Model 1b – H<sub>5</sub>)

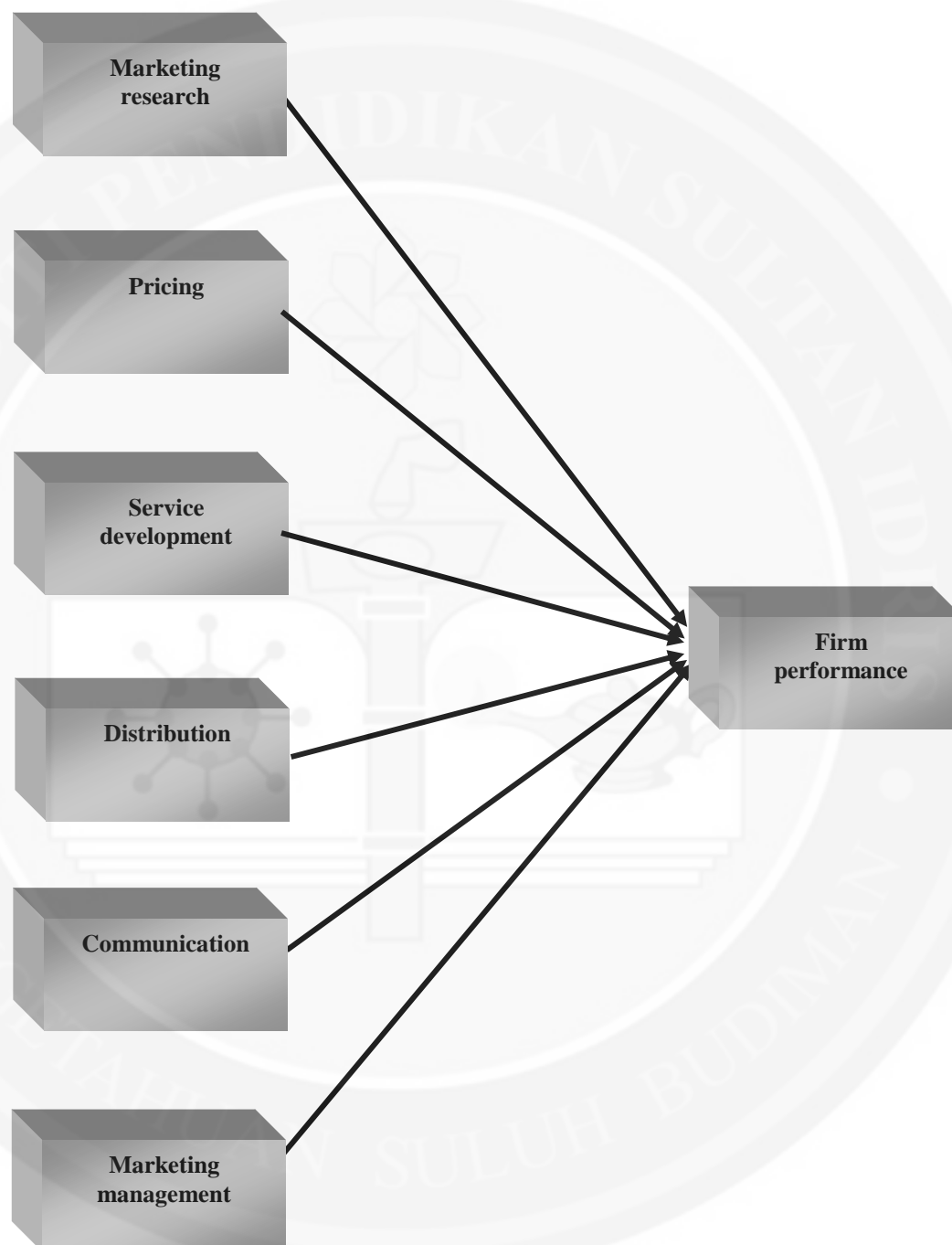


Figure 1.3: Research framework – model 1b (marketing capabilities)

### 1.7.3 Marketing orientation (Model 1c – H<sub>6</sub>)

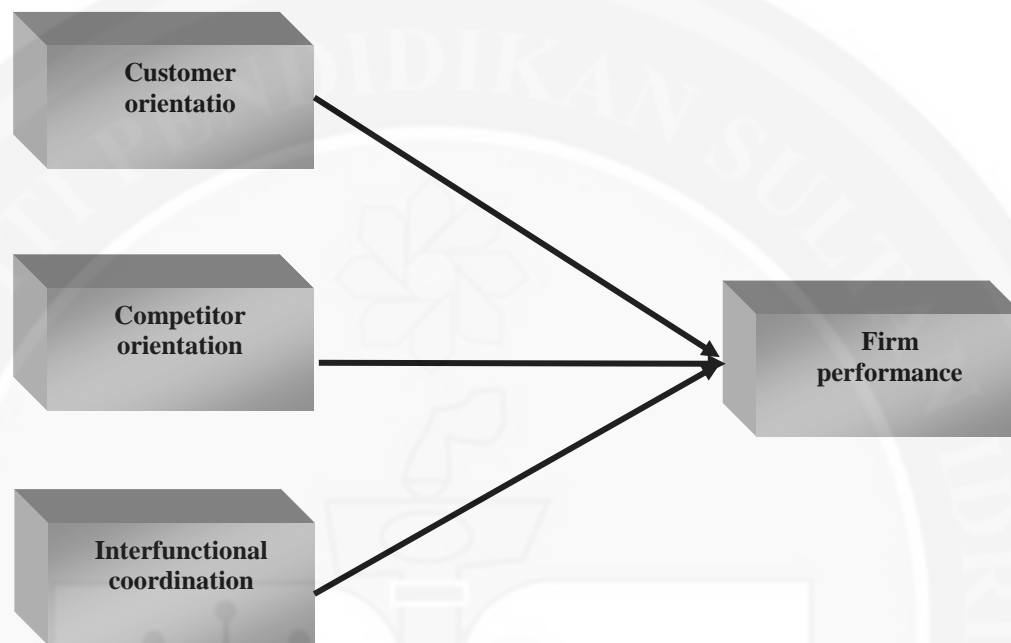


Figure 1.4: Research framework – model 1c (market orientation)

## 1.8 Hypotheses

The following hypotheses will be test in the present thesis:

H<sub>1</sub>: The marketing practices positively related to the firm performance of the SMEs of Pakistan.

H<sub>2</sub>: The marketing capabilities positively related to the firm performance of the SMEs of Pakistan.

H<sub>3</sub>: The market orientation positively related to the firm performance of the SMEs of Pakistan.

H<sub>4</sub>: Advertising, sales promotion, public relation, direct marketing, and pricing are significant predictor of firm performance of SMEs of Pakistan.

H<sub>5</sub>: Marketing research, pricing, service development, distribution/ relationship, marketing communication/ promotion, and marketing management are significant predictor of firm performance of SMEs of Pakistan.

H<sub>6</sub>: Customer orientation, competitor orientation and inter-functional coordination are significant predictor of firm performance of SMEs of Pakistan.

H<sub>7</sub>: Marketing practices, marketing capabilities and market orientation are significant predictor of firm performance of SMEs of Pakistan.

### **1.9 Significance of the study**

The study aims to refine the understanding of concepts related to the interrelationships among integrative elements of marketing practices, marketing capabilities and market orientation on the performance of SMEs' that are operating in Pakistan. This study seeks to find out whether SMEs businesses exploit their limited internal and external resources in the rapidly changing and uncertain environment, and how these elements working (differently or not) in the context of Pakistan. The other motive of this study is to discover marketing practices (advertising, sales promotions, public relations, direct marketing and pricing), marketing capabilities

(marketing research, pricing, product development, relationship, marketing communication and marketing management) and market orientation (customer orientation, competitor orientation and inter-functional coordination) are all working and resulting at rationale as literature and other studies suggested. If there is any difference in implication, this study can be used as a guide to solve the problem.

This study shows the paucity in existing business situations; hence, these evidences serve the benchmark for other businesses and their CEOs/ Heads/ Owners. This study posits that the marketing practices, marketing capabilities and market orientation should not necessarily be assumed to have equally associated with any particular dependent variable *i.e* firm performance. Each element test shows their unique features significance, and for this principal reason, each independent variable can have its own positive or negative impact on SMEs' performance which can vary between the sectors and among the industries.

This study works as support evidence for SMEs business caretakers on the basis of the findings. On the basis of findings they can analyze their existing marketing approaches and marketing applications. On the practical perspective, this research would benefit the individual SMEs. It would help to create an awareness of the factors of marketing that have influence on the SMEs performance for individual enterprise. It would also help the SME owners to make effective marketing strategies and take appropriate steps for SME growth in particular market, specifically in the case of such SMEs whose performances so far have not been up to the mark.

Moreover this study will also help them to get an advantage from existing opportunities, increase existing market share, generate more revenue and strengthen their image in market.

Another uniqueness of the study is that, the marketing practices, marketing capabilities and market orientation variables not addressed in same research (author go through from Ebscohost, Proquest, Jstor, Thomson & Reuter, Emerald, Wiley reciprocities), with this combination, in the context of Pakistan in general and SMEs in particular. Hence this study will be the premier study in the context of these three marketing applications.

Mostly the studies on firm performance usually occur in the framework of a single industry. But this study analyze the effects of marketing applications on sub industries of service sectors SMEs' firm performance with scientific and empirical research to bridge the gap in theoretical knowledge with regards to the relationship of the marketing factors influencing the firm's performance of SMEs in Pakistan.

This thesis is also an attempt to broaden the horizon of reader's knowledge of SMEs and marketing. This was the biggest motivation for the author to conduct this research and find new ways for SMEs' care takers to sustain their business longer and explore the growth.

### 1.10 Operational definitions of variables

**Advertising:** Money spending on non personal presentation, message and endorsement of goods/ service or ideas from any channel or media by small and medium enterprises in Pakistan.

**Sales promotion:** Offering of sale discount, temporary price deduction, free gifts, face to face selling, arranging demonstration to boost the sales of a product or service by small and medium enterprises in Pakistan.

**Direct marketing:** Selling products or services directly to the public by any medium which includes telephone or internet, by the small and medium enterprises of Pakistan e.g., by email order or telephonic selling.

**Public relation:** Variety of programs that are designed to promote or protect a firm's image or its Individual products/ service into customer's mind.

**Pricing:** A package of benefits presented against the money by the product or services provided by small and medium enterprises of Pakistan.

**Marketing practices:** Major marketing activities performing by small and medium enterprises in Pakistan, to promote their services to their perspective and potential customers.

**Marketing capabilities:** Marketing capabilities will show how to grab the new opportunities and moderate the marketing strategies according to existing situation by small and medium enterprises in Pakistan.

**Market orientation:** Entire small and medium enterprises organization activities carried out to identify and satisfy the existing and potential consumer needs, wants and aspirations.

**Firm performance:** Business unit profitability, return on investment (ROI), customer satisfaction, delivering value to customers, overall marketing effectiveness and profit margin of this year of the small and medium enterprises in Pakistan.

### **1.11 The organization of the thesis**

This thesis consists of five parts in which chapter one provides background and purpose of the study, problem statement, objective of the study, research questions, framework, hypotheses, significance, operational definitions of variables, thesis outline, which will set the tone of remaining parts and background and information regarding Pakistan and SMEs of Pakistan. Chapter 2 presents the history, definitions, insight view and previous theories about the independent (marketing practices, marketing capabilities and marketing orientation) and dependent variable (performance) and their relationships. Chapter 3 discusses the methods, techniques

and ways of conducting the research under the sub- headings of research framework, research design and strategy, sampling, operationalization of concept. Chapter 4 is dedicated to show the results and interpretation of the data which are acquired from the survey. Chapter 5 contributes the conclusion, discussion and implications of the study which state how businesses would benefit from the survey finding of this study.

### *Summary*

This chapter provides the importance of the thesis topic and its importance, introduction to Pakistan (fact and figure about the main economy indicators) and fact, figures and detail regarding SMEs of Pakistan, define the problems which initiated the idea for present research, describes the clear objective of the study, build the research questions, theoretical framework and create hypotheses on the basis of objectives and research questions. The following topics were the significance, contribution of the study, operational definition of independent and dependent variables and organization of the thesis, which show the whole thesis structure.



## CHAPTER TWO

### LITERATURE REVIEW

#### Overview

All fundamental theories involved in marketing practices and its five sub variables, marketing capability and its six sub variables, market orientation and its three sub variables and firm performance are briefly explained in this chapter. It further discusses the relationship of marketing practices, marketing capabilities and market orientation to firm performance. This chapter facilitates in development of theoretical framework for present research. In addition, it also explores the research problems discussed in the first chapter and discovers insight of marketing practices, marketing capabilities, market orientation and firm performance.

## 2.1 Marketing practices

### 2.1.1 Introduction to marketing practices

It is important for business people to be reasonably educated in Marketing. Marketers should have strong understanding of the marketing concepts that lead business towards success (Gunay, 2001). Still many organizations are implying the obsolete strategy of mass marketing, without realizing that today's customer demand is adapted and the customer requires what they want and not what the businesses is offering. It is a fact that Mass Marketing is a strategy of the past and one need to respond to consumer differences with segregation and segmentation strategies (Jamal, 2003). Product and service producers of Pakistan are lacking in applying 4P's in their practices (Ghouri *et al.*, 2011a; Ghouri *et al.*, 2011b). The Four Ps of the marketing mix became an indisputable paradigm in academic research, the validity of which was taken for granted (Gronroos, 1994). However as O'Sullivan *et al.* (2009) mentioned in their study, the challenge faced by marketers is their inability to demonstrate the effectiveness of marketing activities. It is very difficult to anticipate the changes that are likely to be occurred in the marketing situation during the tenure of a firm's marketing plan. It is even more complex to analyze and predict changes for the entire market (Dhanani, O'Shaughnessy, & Louv, 1997).

Marketing practices discuss in the following studies:

#### *Table 2.1*

Literature on marketing practices

Study	Discussion(s)/ Finding(s)
Frazier and Sheth (2011)	Views on marketing practices, marketing role in a contemporary business and marketing mix with product, promotion and place variables.
Ghouri <i>et al.</i> , (2011a)	Marketing practices of textile business and firm's performance in Pakistan perspective. Authors find marketing practices are carrying out and textile firms wasting their time and money on marketing practices and forgone the potential benefits.
Ghouri <i>et al.</i> , (2011b)	Relationship of marketing practices to restaurant and catering firm performance. Author find advertising practice positively associated with firm performance.
Jadhao (2011)	The Internet, E-commerce and E-business change the look of organization. Information Technology is a revolutionary tool available to the business world to cop-up with the change and face competition.
Donovan and Henley (2010)	How to apply the principles and methods of marketing to a broad range of social issues. Provide the theory and practical tp develop and implement public health, social welfare and injury prevention campaigns.
Kerrigan (2010)	Provide holistic view of film marketing practices. As film marketing practices become more innovative and arguably

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		more creative moving further into the digital age. Film marketing is the bridge between the creative practices of film making and the act of film consumption.
Shoemaker and Shaw (2007)		Tourism applications, interviews with industry executives and case studies provide a glimpse at the real-world of hospitality and tourism, while contemporary examples demonstrate how marketing techniques are used to increase the chances of success.
Slater, and (2007)	Chaloupka, and Wakefield	Higher levels of advertising, lower cigarette prices, and greater availability of cigarette promotions were associated with smoking uptake. Advertising increased the likelihood of youth initiating smoking, price increased the likelihood of smoking at most levels of uptake, and availability of promotions increased the likelihood that youth will move from experimentation to regular smoking.
Coviello, Winklhofer, and Hamilton (2006)		Contemporary practices of database marketing, e-marketing, and network marketing are in evidence, but they are not found to influence performance. It is success with customer acquisition rather than customer retention that leads to profitability for tourism accommodation sector firms.
Green (2006)		Boomers seek value in their products and services and their lifestyle choices. Effective marketing communications come

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into play in that we can only market or sell to our targeted customers what they value and hold dear

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Kashani, Jeannet, Markets change constantly, but the discipline often fails to keep pace and takes time to catch up. As change accelerates, Horovitz, Meehan, so the problem worsens, so clear need for a focused on value Ryans, Turpin, and chain marketing, marketing through collaboration with Walsh (2005) customers, and two-way brand building to chart the breaking ground, and to harness the latest developments for frontline marketing managers.

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Applbaum (2003) Map out the organizing principles and cultural logic of marketing, and trace the profession's ascent to global domination. It also emphasize on human needs and wants, in order to understand globalization, transnational corporations, and the spread of consumer culture, one must understand the logic of marketing.

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Dhanani *et al.*, There is an increasing awareness for the need of marketing in (1997) high-tech industries in the UK. In the current competitive environment, executives have realized that their old complacent approach towards marketing, and a reliance on technology alone to push their products, will not work in the face of severe competition. High-tech organizations in the UK are still not as market driven as the low-tech companies.

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Several of the differences in the marketing approaches of UK high-tech and UK low-tech firms and in the promotional tools they use can be explained by the differing nature of the markets in which sales are to be made.

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Welsh and Llanes (1996) The level of marketing sophistication by the international meat industry also will have to increase substantially in order to be successful in the future. It appears that the market will become more specialized than in the past due to more consumer influence and increasing expectations, and a highly segmented market. The production, processing and distribution system must continue to improve, and production, processing, shipping, and retailing costs need to be controlled in order that all parties involved can earn an adequate return on their investment.

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Coviello and Brodie (1994) Results show that while consumer firms are somewhat more transactional in their approach to the market and B2B firms are more relational, overall patterns of marketing practice are similar across firm type.

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Marcus (1991) How to promote and building a professional services practice in 90s decade.

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Levitt (1960) This study believe that effective customer-orientation company involves far more than good intentions or

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promotional tricks; it involves profound matters of human organization and leadership

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McCarthy (1960) Discuss the importance of advertising and other practices of marketing and their importance.

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Marketing practices refer to act of performing marketing activities *e.g.* advertising, public relation *etc.* Hoffman (2005) explained that marketing practices are the life blood of any organization. If these practices are effectively employed business will generate more revenue and can get competitive advantage. Thomas and Housden (2011) explained in their literature that attitude(s) and perspective(s) towards marketing practices make the difference between success and failure of firm or business. Guru of marketing Kotler (2003; 2001; 1999; 1984) stated the benefits of marketing practices, and urged the business practitioners to mold them according to the need of the situation(s) and environment where they are operating. The five marketing practices adopted in this study, the four variables are the ‘communication platform’ for businesses mentioned by Kotler (2001): advertising, sales promotion and personal selling, public relation, and direct marketing. The fifth variable is pricing, which is the most essential variable Theodoridis and Chatzipanagiotou, 2009) for attracting price sensitive customers of Pakistan, as majority in Pakistan are suffering from inflation due to low salaries and steeping price rise.

It is important that in the beginning companies need to adopt aggressive marketing strategies to make awareness in customers' mind and throw message to its competitors, suppliers and stakeholders about the intensions of their business, but as time goes by the marketing plans are altered to suit various aspects of the business. It would be foolish to employ initial marketing practices throughout the tenure of a business just as it'd be absurd to employ winter marketing practices in summer. Marketing practices change from time to time depending on the situation and tenure of the business (Dhanani *et al.*, 1997). These changes will invariably lead the company to success and highly productive firm performances. It is the faith in the understanding of marketing concept that leads business to the successful implementation of the marketing concept (Gunay, 2001). But every company needs to adopt the policy about their marketing practices according to their environment, industry and region, and it entirely depends on the marketing decision makers in business. According to research conducted by Dhanani *et al.*, (2007) 75.76 percent of respondents choose the definition that is read "marketing is a critical aspect..." and there seems to be a global trend towards aggressive marketing practices. Companies will need to not only develop new products and services, but also differentiate their products by branding and extensive promotion, and also patent new processes that are developed (Welsh & Llanes, 1996).

In Pakistan, small firms are not generous and strategically sound about marketing as it should be (Ghouri *et al.*, 2011a; Ghouri *et al.*, 2011b). Some companies' owners perceive that marketing is a big expense with lower returns



(Ghouri *et al.*, 2011b). But the fact line which (Kotler & Levy, 1969) posited almost 45 years ago that “no organization can avoid marketing; the choice is on decision makers that whether to do it well or poorly”. Pakistan has a major problem in literacy so this is the reason that these problems arise regarding some basics of business (Ghouri *et al.*, 2011b). Hankinson (2000) mentioned education and skills are two of the major factors in organization success.

Performance of SMEs has been extensively studied in the developed economies (Hankinson, 2000), but little research exists on developing economies (Schlogl, 2004). SME's are not giving real importance to their marketing as big companies do, and corporations adopting in Pakistan, especially in Karachi (Ghouri *et al.*, 2011b), do not realize the value of marketing for long term benefits. Big companies and corporations avail more benefits from top to bottom at different phases of marketing practices. Even some big advertising firms are reluctant to involve in business with small firms.

As Jack Welch, the famous American businessman, author and chemical Engineer said, a marketing strategy is something like, an innovative new product; globalization, taking your products around the world; be the low-cost producer. A strategy is something you can touch; you can motivate people with; be number one and number two in every business. You can energize people around the message.

### ***2.1.2 Significance of marketing practices***

Different approaches of marketing planning and practices are used at different phases of the company's life (Abratt & Higgs, 1994). But things are not working as mentioned or planned for small and medium enterprises of Pakistan. This is one of the reasons why "Most companies have not arrived at full marketing maturity. They think that they have marketing because..." (Kolter, 1991) they are spending money (in some cases they don't) in the name of marketing, and some firms have marketing departments and marketing personnel on high compensation. It's a fast changing marketing world; customer has crossed boundaries and it is possible to make purchase in Africa from Asia, and vice versa, and take delivery in a very short time. Customers can do window shopping while resting from jogging in park or gym from their cellular device or gadget. It appears that the market will become more specialized than in the past due to more consumer influence and increasing expectations, and a highly segmented market (Welsh & Llanes, 1996).

Nowadays every customer knows what they want and from where they can find best products or services. In Pakistan's environment almost every commercial market's wall presents some business offering to pedestrians and others. Customers have lots of choices and personalized offers (on cell phones and emails now) from giant companies and corporations. Sound marketing oriented strategy could be good for customers (Barutcu, 2008). So, there is a growing awareness that marketing can potentially provide advantages to new and established firms alike; executives are

concerned with using the appropriate marketing tools for their organization (Dhanani *et al.*, 1997). Responsible personnel should recognize which marketing approaches challenge and increase pressure on all competitor firms to effectively apply different approaches as the firm and managers will have to be sensitive to the knowledge, resources, and systems underlying each approach (Coviello & Brodie, 1994). In the current competitive environment, executives have realized that their old complacent approach towards marketing, and a reliance on technology alone to push their products, will not work in the face of severe competition and recession (Dhanani *et al.*, 1997). Successful product differentiation will allow companies to be competitive and often charge a higher price for their quality products, and the brands will enable consumers to have confidence in the quality, consistency, and reliability of the product. It is imperative that companies meet the specifications of the different buying group segments throughout the world if they are to continue their success (Welsh & Llanes, 1996).

As Simon Mainwaring, the award-winning branding consultant, advertising creative director and social media specialist opined transforming a brand into a socially responsible leader doesn't happen overnight by simply writing new marketing and advertising strategies. It takes effort to identify a vision that your customers will find credible and aligned with their values.

### ***2.1.3 Marketing practices' association to firm performance***

The small-scale crop farmers are struggling because of little knowledge of markets, particularly the marketing mix (4P's) (Mburu & Massimo, 2005). As Becker and Murphy (1993) developed the model and treated advertising as a complementary good, and proved that consumers may simply derive more utility from consuming a more advertised good. Effective marketing should be backed by an efficient infrastructure (Welsh & Llanes, 1996). People often purchase just meat, but with proper advertising what they will be purchasing is attractively packaged, easy to prepare, nutritious, generally low in fat, environmentally natural, "feel-good meals" (Welsh & Llanes, 1996).

To a truly customer-centric organization, customer service excellence means simply the execution of business in the right ways which customer require or get the right perception about the business. This is imperative, especially to those organizations that are striving to improve their service levels. (Dumitrescu, 2007). Exceeding customer expectations of service (Welsh & Llanes, 1996) is a stress point in service marketing.

Groove Communication, the business entity of high-value print and electronic marketing materials operates and serves clients in Canada, the United States and the Caribbean (Groove, 2006) mentioned some case studies about some companies'

problems regarding their marketing activities transforming to successful solution stories.

Erth Coverings, the designers of stones, walls, floor and ceiling successfully built their brand name and identity as well as a North American marketing plan for the new product line with the services of Groove Inc. They use direct mail, magazine and newspapers advertising campaign for brand awareness among architects, interior designers, builders and consumers (Groove, 2004b).

Emerald Financial Group of Bermuda desire to revise its corporate identity and to effectively create a single brand that represents its diverse range of services. Groove worked collaboratively with Emerald to identify the key business objectives and value offerings. These included, increasing customer awareness, loyalty, and creating a sense of the firm's approach and authority. The exploration enabled Groove to create the knowledge base of an enhanced marketing plan, beyond the branding effort, to help Emerald meet their business objectives. Groove updated the corporate website and created a variety of advertising and promotional deliverables including magazine advertisements and direct mail pieces. They packaged all of the firm's sales and informational materials in a customized presentation folder (Groove, 2004a).

In other case, Kitchen Solutions.ca, the kitchen decorator from Canada wanted to set up a free kitchen design giveaway utilizing a select group of kitchen product suppliers as sponsors. For this purpose Groove made logo and identity of Kitchen solution and then designed the website implementing a database with automated ballot entry tracking. To complete the launch Groove made newspaper advertising and created a magazine print ad campaign with direct mail support material (Groove, 2005).

Militaru and Serbanica (2008) mentioned the case of Mobexpert - a big furniture maker in Romania changed the firm's marketing practices, and shaped them according to customer needs and got competitive advantage. Same is the case with Ford, mentioned in the Kotler and Armstrong (2003) that Ford made drastic changes in their marketing practices and enhanced the firm's performances. They further added that changes trimmed inventory carrying cost by \$ 125 million approximately 1087 million Pakistani rupees and decreased delivery time to dealers by four day, or 26 percent.

Foster's Seafood and American Bistro sales substantially increased their marketing activities from 46% and 30% respectively in summer 2002 (Robertson, 2003). Space solutions.ca the home storage retail service company decided to modernize their identity and takes Space Age Shelving from local retail into regional market from new company's online presence. For their marketing purpose they built the website to present the broad range of custom services that space provided and an

identity brochure was produced for distribution via trade show and direct mail and then enjoyed the greatest rate of growth in their history (Groove, 2004c).

FedEx created even deeper relationships. Its customers can use mobile devices to track packages or to locate the nearest spots to drop them off. Soon it will be possible for customers anywhere in the world to use a mobile phone to create a shipping label or a digital tracking record for a package (Kenny & Marshall, 2001). Yusuf and Saffu (2005) researched on the developing SME sector in Ghana. They took 297 firms sample largely in the manufacturing sector. They concluded that marketing planning sophistication played a significant role in the success of a firm. However, in Bulgarian study, the largest sample of managers was 63% which was 'production-driven'. They placed little emphasis on building relationships with customers or analyzing and adapting to the market. The second largest group of managers (31%) was 'sales supporters', where marketing is confined to sales and promotional support. Only 3% were guided by a comprehensive marketing philosophy (Zaharieva, Gorton, & Lingard, 2004). Akimova (2000) identified two dominant clusters of businesses in Ukraine with developed market and sales orientations. However, from an analysis of private industrial firms in the Czech Republic, Savitt (2001) argues that market-oriented strategies and marketing programs are yet to be developed. The Bulgarian wine industry is still characterized by a persistent production orientation rather than a market focus and the degree of continuity in marketing problems is striking nature (Zeithaml, Parasuraman, & Berry, 1985).

The literature suggests that word-of-mouth communications are critical because services are intangible and heterogeneous in nature (Zeithaml *et al.*, 1985). Welsh & Llanes (1996) posited that the marketing system of the firms must continue to improve, and that should lead to earn an adequate return on their investment. Kolodinsky & Reynolds (2009) proposed that adequate marketing practice allows reaching specific audience with special message which relates to their life style and their need. The use of electronic networks and associated technologies helps to enable, improve, enhance, transform or invent a business process or business system to create superior value for current or potential customers (Militaru & Serbanica, 2008).

According to Ghouri (2009) and Karayanni and Avlonitis (2005) the use of internet and cell phones is spreading all over the world including Pakistan and it should be used extensively to promote the business (giant companies) and to get the competitive advantage in formulating strategies. The Internet and related technologies and applications have changed the way business are operated and people work, and how information systems support business processes, decision making, and competitive advantage. Thus, many businesses today are using internet technologies to web-enable business processes and to create innovative e-business applications (Militaru & Serbanica, 2008). The internet has created many ways for a new entrant to enter the marketplace quickly and with relatively low cost of entry. In the Internet world, a firm's biggest potential competitors may be one that is not yet in the marketplace but could emerge almost overnight (Schoenherr & Mabert, 2006),



offering new marketing channels to interact with customers that is crucial to increase sales of the company (Barutcu, 2008). The marketing literature suggests that competitive pricing policy, product quality, the company's reputation and the adoption of appropriate marketing practices play important roles (Zaharieva *et al.*, 2004). Furthermore, they added that, many service firms apparently do not reduce prices to increase business during slow periods (Zeithaml *et al.*, 1985). Relationship marketing programs directed towards high relational customers should focus on maintaining and building trust and commitments (Welsh & Llanes, 1996). If a company is working for minority consumer groups, they must modify the marketing mix accordingly (Jamal, 2003) that will give them edge and would be reason to attraction more business. It is very interesting to note the emergence of this factor that reflects individual attention given to customers (Patrício, Leal, & Pereira, 2006).

Smaller firms require a different approach to that of larger professional firms. (Abratt & Higgs, 1994). Small business enterprises' marketing practices aren't the best in Pakistan (Ghouri *et al.*, 2011a; Ghouri *et al.*, 2011b). They don't seem to be doing much about it; instead they still prefer to follow the same old, ineffective and expensive ways to market themselves. Yellow Pages is one classic example of this (Riesco, 2001). According to Linn (2004), in 2000 alone, McDonalds spent over \$1.3 billion on advertising in the United States alone, making Burger King's \$650 million, but this kind of huge investment isn't the case in Pakistan. Kraft Foods, maker of Kraft Macaroni and Cheese, Oreos, and Kool-Aid, spent about \$465 million in 2001 (Linn, 2004). In 2000, Burger King spent \$80 million on advertising aimed at

children alone. (Cebrynski & Zuber, 2001). Food companies also market to children through toys. Barbie dolls work at both Pizza Hut and McDonald's, Burger King, and the latter partners with Play Doh and Easy Bake. Moreover, McDonald's food products were embedded in the hit children's film *Spy Kids* (Linn, 2004). The above examples show the seriousness of some known companies' expenditure on marketing practices and its benefits are not unseen by the global business personnel.

According to Kamal *et al.* (2005) the one SME of Pakistan, 'Hanif Rajput's philosophy is "To stay on top in our business line". One of the reasons behind the success of 'Hanif Rajput' is that customer satisfaction has been their priority throughout. Prospective customers never left without a deal. Owner's interpersonal skills, friendly communicative style and quick decision making always make huge impacts. Owner's emphasis on word of mouth advertisement is one of the main reasons for the company's fortunes. The core competencies of 'Hanif Rajput' caterers revolve around loyal customer base, efficient logistic management and quality service. 'Hanif Rajput' offers special customer respect offering, large discounts and innovative menus. They had no proper market segmentation initially; customers with varied profile were entertained and it was assured that all segments received the same kind of service. However in the 1990's the strategy became more specific and customers were segmented according to their tastes, status and budgets; nevertheless low cost remained the cardinal principle. In order to increase control, the company resorted to forward integration. It heavily invested in developing infrastructure and

ordered shamianas (tents), designer crockery, furniture and illumination lights. The business from its inception began to build a stable supply chain management.

The marketing activities that are going on in a firm must be scrutinized periodically. Some check points should be made on ongoing activity(ies) and evaluate the results and effects after completion of marketing activities. Greater marketing accountability enhances firm performance and marketing's stature (O'Sullivan *et al.*, 2009). The dairy industry, for example has engaged in proper marketing practices according to the need of situation. It was an effort to increase sales of dairy products based on research that links the consumption of dairy foods to weight loss (Zemel & Gottlieb, 2003). One study to date (O'Sullivan & Abela, 2007) has demonstrated a positive relationship between internal marketing performance and its positive impact on profitability, stock return and marketing's stature and overall performance of the firm. In another study, O'Sullivan, *et al.* (2009) found actual firm performance studies also provide empirical evidence of a relationship between the formalization of the marketing planning process and the attainment of improved performance.

Hence on the above discussion  $H_1$  proposed as:

*H<sub>1</sub>: The marketing practices positively related to the firm performance of the SMEs of Pakistan.*

Any firm, if they want to make an impact in the highly competitive business field must see their customers as invited guests to a party, and they, the hosts. It's their job every day to make every important aspect of the customer experience a little bit better.

### 2.1.3.1 Significance of advertising

Advertising significance discussed in the following studies:

*Table 2.2*

Literature on advertising

Study	Discussion(s)/ Finding(s)
Ghouri <i>et al.</i> , (2011a)	There is the positive relationship of advertising to firm performance.
Nwankwo and Gbadamosi (2011)	Their role in the business world is difficult to overstate and it can sustain by advertising.
Kundu, and Murthy (2010)	Moreover, interest is rising in quantifying the impact of marketing activities on firm's profitability and value providing the framework for linkages between marketing, finance and strategy. This study focuses on studying the relationships of the impact of marketing activities on firm's profitability and value providing by seeking to measure the impact of advertisement spending by firms on firm

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profitability and value as measured by the Q-ratio. A total of 172 firms are taken as the sample size and we find evidence that while the impact is significant in statistical terms, increased advertising has not been able to contribute conclusively in enhancing firm value.

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Phelps, Lewis, Implications for target selection and message creation are discussed for advertising practitioners interested in implementing viral efforts, and suggestions for future research relating to computer-mediated consumer-to-consumer interactions.

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Kotler and Armstrong (2003) Advertising is the key to create vibrant, interactive communities of consumers who make products and brands a part of their daily lives. Present fundamental marketing information within an innovative customer-value framework.

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Cannon (1998) Marketing principles as like advertising provides a set of challenging specimen questions to fulfill the requirement of businesses, and this book explains advertising techniques with an international perspective.

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Aaker and Carman (1982) Effective advertising is the key for business success, and businesses supposed to be very careful in advertising contents.

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McCarthy (1960)	Managers of businesses can use advertising as the message of awareness and create loyal customer through it.
Felton (1959)	How entities can initiate advertising as its effective manner.

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SethuRaman, Tellis, and Briesch (2011) posited that advertising is one of the most important elements of the marketing mix. Advertising participates to encourage the idea of sale to customers on bigger coverage mediums (*e.g.* TV, newspaper). Srinivasan & Lilien (2009) mentioned advertising as conserve scarce cash resources. Advertising is used primarily to inform the potential customer of (1) the availability of products or services, (2) when they are in season, (3) where they are located and (4) anything special about the product (Dunn, 1995). Frankenberger and Graham (2003) proposed that advertising is used to gain market share by influencing awareness of a firm and its products. They added that since, advertising increases are expected to boost the number of potential customers that know about a product, such increases are expected to create additional sales. Advertising must have positive influential and convincing message for customers, which would lead to consider or initiate the purchasing. Advertising has been a creative way to influence consumers into thinking they want or need a certain product. The basic foundation of advertising is its creatively persuasive nature (Sullivan, 2007). Sunday and Bayode (2011) illustrated the usage of advertisement:

- a) To introduce a new product or service
- b) To expand the market to new buyers
- c) To announce modification

- d) To announce a price change
- e) To introduce a new packaging
- f) To stimulate sales promotion
- g) To educate consumers
- h) To maintain and boost sales
- i) To challenge competition

Kotler and Armstrong (2003) illustrated that advertising convey diverse meaning to diverse and different group because of their different family and educational background. It is generally believed that advertising contributes to the creation of brand value (Chaudhuri, 2002; Sheinin & Biehal, 1999). Continuity of appearance in medium(s) by particular product or service imposes its image in the customer's mind. Advertising influences value creation in a firm by acting as an appropriate mechanism to build brand names and erect market barriers deterring competitor entry (Eng & Keh, 2007). Advertising would require that the message is clearly designed, the channel or media is selected, and budget is set aside for advertising (Mburu & Massimo, 2005). If business is required to spread out of its region (country/ continent) and make its own identity across, advertising is the best marketing practices that should be adopted. Even researcher observed that youth of today take lot of inspirations from advertisements specially TV ads, if they find their favorite celebrity (Aisam ul Haq – Tennis Player) or feel something which suit their nature (*e.g.* mountain dew advertisement).

Becker and Murphy (1993) treated advertising as a complementary good from which consumers may simply derive more advantage of consuming a more advertised good. Attractive advertisement impact on audience differently as compared to other marketers and motivate them to buy the particular product or service. Public can be motivated to try or buy the product just because of the urge of the attractive and perfect advertisement. According to Zeithaml *et al.*, (1985) word-of-mouth advertising is critical because services are intangible and heterogeneous in nature. In service industry, word of mouth is really important to boost the service business sell. The nature of service is more dependent on those people's perceptions who have already encountered the service. In the case of Pakistan's catering firm 'Hanif Rajput', Kamal *et al.* (2005) proposed that verbal news from mouth to mouth played critical role in boosting the image and change the fate of the company. Salehudin (2009) stated that a company should put advertising and effective strategy in arranging a good message delivering. This is important as the message may tell the customers what they really want to sell. Failure to create a meaningful message can make the customers mystified and pay no attention about the existence of the product.

Every advertisement should be thought of as a contribution to the complex symbol which is the brand image.



### 2.1.3.2 Views and definitions about advertising

a) "Any paid form non personal presentation and promotion of ideas, goods or services by an identified sponsor" (Kotler & Armstrong, 2003).

b) In the same sense, advertising defines as "Advertising, where the main goal is to influence the needs or desires of a consumer with persuasive images" (Sullivan, 2007). The author added further about the advertising that "Consequently, the end result of stimulating a desire in the consumer for a certain product justifies the means of advertisers using creativity to essentially "sell" their idea to the consumer.

c) Advertising is the process of communication, persuasive information about a product to the markets by means of the written and spoken word (Sunday & Bayode, 2011).

d) Describe or draw attention to (a product, service or event) in a public medium in order to promote sales or attendance (Oxford Dictionary, 2010a).

e) Advertise is any public notice, as a printed display in the newspaper, short film on television, announcement on radio, design to sell goods, publicize an event (Collin English Dictionary, n.d a)

f) Written statement calling attention to "something" public notice of anything, but often for a sale (Online Etymology Dictionary, n.d).

g) According to Diwan (1999), inform, remind and persuade the potential customer of the product is called advertising.

### 2.1.3.3 Advertising and firm performance

There is the wide literature about the advertising's positive relation with the firm performance in different means. Advertising has been extensively studied for its effectiveness in building brand identity and creating favorable attitudes toward the products and companies (Margolis, 1963). Frankenberger & Graham (2003) found that increases in advertising spending improve performance of the firm in both during and after recessions. Empirical research does document positive relations between advertising increases and current and future sales which enhance the firm's performance (Erickson, 1995; Clarke, 1976). The research of Golder & Tellis (1993) demonstrated significant performance rewards to advertising, including lower marketing costs, distribution costs, higher price realizations and late mover advantages which eventually lead to better profits. According to Lilien (1994), change in advertising expenditure can predict the change in sales figures. In perspective to stimulate the sales, advertising also played an effective role which proved by the study of Naik, Mantrala, and Sawyer (1988) in which they posited that effective advertising always has capability to stimulate or main sales. Empirical study of Kundu *et al.* (2010) showed that advertisements have an influence on the purchase behavior of consumers and that leads to retain them. This is universal fact that loyal customers share the major portion of sales, and advertising helps to support it. Advertising creates an asset by positively influencing the firm's future cash flows through its contribution to future sales (Frankenberger & Graham, 2003). Abraham and Lodish (1990) considered that advertisement can't be considered effective if it is

not capturing the additional sale of product or service that did not happen in the absence of advertising.

Emerald Financial Group of Bermuda desire to revise its corporate identity and to effectively create a single brand that represents its diverse range of services. For this purpose they created a variety of advertising with other marketing practices and found success in their intentions (Groove, 2004a).

Pechmann and Stewart (1988) suggested that repetitive advertising effects can be classified as: a current effect on behavior, a carryover effect on behavior and a non-behavioral effect on attitude and memory. The findings confirmed that retail advertising can impact future demand, but surprisingly, the sign of the impact varies across customers (Simester, Hu, Brynjolfsson, & Anderson, 2009). Some empirical evidence suggests that in the long term, advertising has a positive effect on differentiation and brand equity, while this is not the case for promotion (Jedidi, Mela, & Gupta, 1999). Advertising effect on brand sale on the basis of field data analyze by Sethuraman and Tellis (1991) and they concluded that advertising effect are significantly greater than zero but do vary by market and product characteristics.

Jones (1995) argued that advertising has a long term utility irrespective of the nature of contribution of advertisement; it will work as a consistent message towards product or service use. This is still an issue for the researcher to prove whether long run advertisement or short run advertisement is beneficial for the firm. In marketing,

any practice could not work in the same situation every time. Marketing always confront to vary situations and often need insight view, research and intuition. The author's point of view on this aspect is that, it entirely depends on product or service type, society and economic situation and environment of country/ city and product or service cycle. In short, firm strategies must be matched to the current situation and environment where it is operating.

Eechambadi (1994) presented an interesting view on the investment on advertising: he stated that size of advertising budget does not matter but the return on allocated budget is a matter for care takers of marketing. This shows the effectiveness of advertisement. The current trend is to treat advertising like an investment, with pay offs in the form of increased earnings and market value (Frankenberger & Graham, 2003). Joshi & Hasnssens (2009) study suggested that firm's advertising effect is directly on stock return with increase and sales revenue and profit. Mathur and Mathur (1995) showed an interesting finding about the advertisement investment that investors react positively to announcements regarding the advertisement budget changes leading to higher market value for the firms. Eng & Keh (2007) posited that advertising expense is positively correlated with return on assets (ROA). Early research in assessing advertising performance focused on advertising ROI (return on investment) (Dhalla, 1978), efficiency of advertising spending measured by the advertising cost/sales ratio (Smith & Park, 1992), and the effect of advertising on sales measured by econometric models (Assmus, Farley, & Lehmann, 1984).

Advertising is in a way the most delicate and difficult part to manage of the entire marketing mix: This is because despite all the science available, it is still difficult to establish a direct link between sales and most forms of national/international advertising. But what we do know is that advertising has to have everything going for it to pay off.

#### 2.1.3.4 Significance of sales promotion

Sale promotions, one of the main marketing components, have grown a great deal in modern years and enormous sums of capital being spent on it. This aspect is discussed in the following studies:

*Table 2.3*

#### Literature on sales promotion

Study	Discussion(s)/ Finding(s)
Nwankwo and Gbadamosi (2011)	Fundamentals of marketing (sales promotion) within the SME context, providing a more value-added learning experience than your standard marketing run-through.
Lindholm (2008)	The purpose of the research was to study how sales promotion influence consumer behavior in the marketing of financial services. Results in the context of opening promotion showed statistically significant variation between promotion and behavior and results concerning birthday promotion did not

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	reveal statistically significant differences between promotion and credit card transactions.
O'Sullivan and Abela (2007)	Results show that marketing performance (sales promotion) measurement ability positively impacts firm performance and that reporting frequency mediates this relationship.
Shoemaker and Shaw (2007)	Shared functional strategies of promotion that can be used to increase competitive advantage.
Belch and Belch (2001)	This book suggests that best communicate with consumers, advertisers must utilize a myriad of tools (advertising, public relations, direct marketing, interactive/Internet marketing, sales promotion, and personal selling) and sales promotion is essential for integrated marketing communications strategy.
Gupta, (1988)	A sales promotion can affect at least three different decisions: (1) when consumers buy, (2) what brand is bought, and (3) how much is bought. The results show that promotional variables (feature, display, price cut) play a strong role in consumer brand choice decisions. Results indicate that promotions are very effective in drawing consumers from competitive brands.
Dunn, (1995)	This guide is designed to help farm and ranch operators (and other individuals who grow or process food products) market their products and services directly to the consumer which

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	ultimately support the performance of the businesses.
Abratt and Higgs (1994)	Sound marketing planning (sales promotion) has been regarded as essential for the survival of local companies.
Marcus (1991)	This book chapters show how to establish clear marketing objectives and how to apply the individual selling tools that will help develop an environment conducive to the marketing of their services.
Porter (1985)	This book describes how a firm actually gains an advantage over its rivals by marketing activities. Porter's concept of "clusters," or groups of interconnected firms, suppliers, related industries, and institutions that arise in particular locations, has become a new way for companies and governments to think about economies, and assess the competitive advantage of locations.
Lazer and Culley (1983)	This book promoted the strength of sales promotion for sustain of business in competitive enviroment.

Promotions are temporary offers toward consumers that are designed to achieve a specific sales objective and represent an important fraction of the marketing budgets of both manufacturers and retailers (Freo, 2005). Promotion is one of the techniques to attract consumers to purchase more or try a product or service and substantial outcomes of promotion include increased sales, quantify of stock used and attract new consumers (Osman, Fah, & Foon, 2011). They further added that a large

percentage of marketers' sales are made on promotion. This situation was very apparent during the financial crisis and economic downturn of 2008. Belch and Belch (1995) illustrated that promotion coordinate all seller-initiated endeavor to set up flow of information and message of persuasion to sell goods and services or promote an idea.

Sales promotion consists of a wide variety of short term tactical promotional tools aimed at generating a desired response from consumers (Gilbert & Jackaria, 2002). One of the advantages of promotions is that they can stimulate consumers to think and evaluate brands and purchase possibilities when they otherwise may not have (Osman *et al.*, 2011). Vipul (2010) also said that sales promotion stimulates customers to purchase goods or services by providing an incentive, which can be in the form of cash rebate, discount or complementary items. It is very important for every product to be promoted, that is to say it needs to be drawn to the attention of the market place and it's benefit be identified (Sunday & Bayode, 2011). Moreover they added, the aim of an organization's promotional strategy is to bring existing and potential customers to a state of relative awareness of the organization's product and also to a state of adoption.

Promotion covers many separate activities, the more significant of which are showing gains in usage (Margolis, 1963). Jones (1991) posited that main strategic role of promotion is to pull customers by edifice awareness and give them basis to purchase. Burnett (1993) demonstrated that promotion as the marketing function for



target audiences is to persuade them with effective communicating as part of marketing program in order to assist exchange between the marketer and the consumer and to facilitate to achieve the objectives. Sales promotions intend to establish a relationship with customers and prospects, and sustain the condition under which they can buy the brand, with the specific promotional objectives being to inform, convince and remind (Salehudin, 2009). Burnett (1993) proposed that promotion is necessary to create customers awareness of a product and its characteristic.

Jarod Kintz, in his book, 'This Book Has No title' famously stated, 'I want to drum up interest for musical instruments that are played by beating them with sticks.'

#### 2.1.3.5 Views and definitions about sales promotion

- a) Sales promotion as a diverse collection of incentive tools, mostly, short-term, designed to stimulate quicker and/or greater purchase of particular products/ services by consumers (Kotler & Keller, 2006).
- b) Short-term incentive to encourage the purchase or sale of a product or service (Kotler & Armstrong, 2003).
- c) Marketing activities usually specific to a time period, place or customer group, which encourage a direct response from consumer or marketing intermediaries, through the offer of additional benefits (Peattie & Peattie, 1994a).

d) Two conditions involve in personal selling, 1) a direct interaction between the two parties, the buyer and the seller, and 2) an effort on part of the seller to exert some influence on the buyer (Jacoby & Craig, 1984).

e) Sales promotion as the coordination of all seller initiated efforts to set up channels of information and persuasion to sell goods and services or promoting the ideas (George & Michael, 1998).

f) Activities or techniques intended to create customer demand for a product or service (Collin English Dictionary, n.d e).

g) Stimulation of sales achieved through contests, demonstrations, discounts, exhibitions or trade shows, games give away, point of sale displays, and merchandising, special offers and similar activities (Business Directory.com, n.d d).

#### 2.1.3.6 Sales promotion and firm performance

Sales promotion is a key tool for managers to increase sales (Vipul, 2010).

Promotions have significant effects on short-term regular sales (Freo, 2005). They have a remarkable impact on consumers' purchase decisions, they help in increasing the promoted-brand sales during the period of promotions (promotional bump); they may also induce a sales change after the promotion has finished due to stockpiling or brand switching (Freo, 2005). Cuizon (2009) confirmed that sales promotion is cost effective, in the same time it also increase the short-term sales. A sudden increase in sales would be experienced by retailers because of the price-conscious of consumers

(Banks & Moorthy, 1999) who are swayed by promotional campaign. Ailawadi, Neslin, and Karen (2001) said sales promotions make impact on the long term sales perspective of the firm as promotions convince clients to change brands and to buy in larger capacity. The impact of promotional strategies to attract customers, measured by means of a time series intervention analysis, has been found to increase sales (Mulhern & Leone, 1990). Sales promotions has traditionally been about creating new customers, but it is equally important to remind existing customers of the benefits that companies have to offer. Relationship marketing programs that are directed towards high relational customers should focus on maintaining and building trust and commitments (Welsh & Llanes, 1996).

Marketers and retailers utilize different kinds of promotion tools and strategies in order to understand the preference of consumers and boost their sales (Osman *et al.* 2011). Other than price reductions, coupon or rebate given by the retailer and other promotional tools like free sample, bonus pack and "buy one get one free" were found to be inducing consumer to buy more than they expected (Gilbert, 1999). We have captured the usage rate mechanism by which promotion can increase category demand (Ailawadi & Neslin, 1998). Loyalty of devoted customers can also be strengthened by sales promotions (Peattie & Peattie, 1994b). Consumers' buying behavior were motivated by multiple types of factors, including socio-demography, promotional tools such as price discounts, coupons, free samples and "buy-one-get-one-free" (Osman *et al.*, 2011). Sales promotions involve some type of inducement that provides an extra incentive to buy, and by offering this extra incentive,

consumers can be motivated to buy more (Vipul, 2010). Promotions can induce consumers to buy promoted products while they are in the store that they would otherwise buy in the grocery store or at a mass merchant and we find that, on average, the net unit impact is positive (Freo, 2005). According to Blackwell *et al.* (2001), price discounts played considerable part in influencing consumer product experiment behavior that indirectly exerts a pull on new consumer. Pelham's (2002a, 2002b) studies confirmed the significant relationship between sales person behavior and attitude in promotion and firm growth and product/service value for the customer.

Ramsey and Sohi (1997) established the link among salesperson listening and the customer's trust in the salesperson and future intent to make more business with that salesperson. Naimah and Tan (1999) stated that high purchasing power, sales person and sales circumstances was among three key factors which influenced impulsive clothes buying practice among women consumer (as cited in Osman *et al.*, 2011). Promotion has a relationship to arrangement for attainment of the customers' awareness (Salehudin, 2009).

Emerald Financial Group of Bermuda desire to revise its corporate identity and to effectively create a single brand that represents its diverse range of services. They created promotional deliverables including magazine advertisements and direct mail pieces (Groove, 2004a). Kamal *et al.* (2005) explained the success factors of 'Hanif Rajput' and illustrated the special customer respect offering, large discounts and innovative menus as the main sources. Other effects of promotions on consumer are,

brand switching (Nijs, Dekimpe, Steenkamps, & Hanssens, 2001), brand loyalty (Guadagni & Little, 1983), purchase time and quantity (Gupta, 1988) and brand choice (Bemmar & Mouchoux, 1991) which make effects on return on investment and profit margins. .

David Foster Wallace once opined partly in jest that Magazine ads do what all ads are supposed to do: create an anxiety relievable by purchase.

#### 2.1.3.7 Significance of public relation

Public relations are considered as the main tool to get close to the stake holders. It is briefly explained below.

*Table 2.4*

Literature on public relations

Study	Discussion
Hanzaee and Farsani (2011)	The study results show that perceived public relation has a positive relationship with customer loyalty and that this relation is moderated by brand image. When brand image is favorable, the positive effect of perceived public relation on customer loyalty is significant.
Bhargava (2010)	This study explores the trends in the application of various

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Internet tools in the public relations practice of New Zealand and the impact these have on certain key aspects of the practice such as skills, encroachment, gender balance and ethics. The findings revealed that there are considerable variations in the use and application of the different online tools in the New Zealand public relations practice.

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Eyrich, Padman, and Sweester (2008) This study surveyed working public relations practitioners about their adoption of 18 social media tools and their perception on the growth of social media trends in public relations practice. Results provide an overview of the adoption of social media, as a whole, in the industry.

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Riesco (2008) In this book you will discover the public relation as the most effective methods for getting more people into your restaurant. The most important way to keep your customers happy.

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Green (2006) This book shows that how to plan and organize "bandwagon" Boomer events and promotions -- Exceptional opportunities for reaching Boomers through the Internet. Author suggests that companies that honestly engage and earn Boomers' trust and respect will build a connected, long-lasting relationship producing loyalty and huge economic rewards.

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Ayish (2005) This paper analyzes the use of the Internet as a public

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relations tool by 20 government and private organizations in the United Arab Emirates. It concludes that, among other findings, UAE public relations staff members continue to play their traditional role in real world situations but when it comes to online communications, they do not seem to have a big say in controlling the flow of information to the public.

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Grunig and Hunt  
(1984)

This book outlines the four models of public relations (PR): press agency/publicist; public information; two-way asymmetric and two-way symmetric. Drawing on systems theory, Grunig and Hunt's four models are based on their understanding of organizational and management practice. This approach is demonstrated in their definition of PR, which states: "public relations activities are part of the management of communication between an organisation and its publics". This book attempt to teach you not only the knowledge and technical skills now available to the practitioner, but also social responsibility and professional ethics.

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Winnigham-Floden  
(n.a)

Public relations influences the behavior of society and anyone who has an effect on the organization's performance. Organizations must learn how to correctly deal with the public which is important for a company's overall longevity.

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Relationship with stake holders, especially customers are pivotal in the field of marketing. Public relation is to handle the reputation and perception about the organization and create fine associations with key stakeholders. Its potency is to play a key function in educating stakeholders and further change the awareness of stakeholders into the understanding and acceptance which help into the brand building and customer loyalty. Mogel (2002) showed the importance of public relation as quoted “twenty-first-century PR is on a roll”. The effort of public relations communication create an important bond between the organization’s strategy and personality, identity, culture, image and reputation; that is why various instruments are used for conveying identity and subsequently, assessment instruments to make sure that identity is properly communicated (Florina-Maria, 2010). The Public Relations Student Society of America (2000) defined public relation as a twentieth century phenomenon. Clark (2000) affirmed that public relation is actually an attempt to reinstate and sustain a sense of community. public relations is essentially about communicating effectively in order to build valuable relationships and therefore the Internet being a medium for communication is bound to have implications for the practice (Bhargava, 2010). Council of Public Relations Firms (2005) pointed out the effectiveness of the public relations programs which designed to persuade customers in purchasing process.

- a) Increasing awareness of, or familiarity with, products and services;
- b) Influencing perceptions of key benefits or differentiators;
- c) Increasing willingness to consider products and services;



- d) Increasing intent to try a product and make a first time purchase;
- e) Assuring a positive experience with a purchase; and
- f) Building ongoing preference for a product or service.

Lindermann and Lapetina (1981) stated the following characteristics and responsibilities of public relations:

- a) Communicating the action(s) to the public.
- b) Defending the management's action(s) to the public.
- c) Keeping updates the management about public reactions to what the organization does.
- d) Identifying the social and political problems, and needs and issues which should resolve, communicated to top management.
- e) Helping top management to answer the challenges and develop and implement a constructive response(s) to key issues affecting the organization.
- f) Setting goals and priorities in deciding what communications programs to recommend to senior management.

Valackiene (2010) argued that public relation is essential when a firm has to build the corporate image, enhance name awareness, sustain marketing plans, deal with issues raising at the time of calamity and activating the business. Research has stressed that the quality of the relationship between an organization and its public is an indication of public relations effectiveness (Dozier, Grunig, & Grunig, 1995). Continuous purchases and cross-sales opportunities follow from well-managed

relationships, thus seeing relationships as the most important concept in marketing (Hasouneh & Alqeed, 2010). Hanzaee and Farsani (2011) wrote that various managers, practitioners and academic scholars considered that effective press relations which lead to goodwill, positively influence key public members and stakeholder to be auspiciously predisposed toward the organization, inferring that enhanced organizational image is linked to key public members' behavior. The ultimate goal of a public relations program should be to build a mutually beneficial relationship with key public members (Hanzaee & Farsani, 2011). Zeithaml, Berry, and Parasuraman (1996) demonstrated the significance of preserving and enhancing the customer loyalty in extremely aggressive and swiftly varying environment through public relations.

Fortunato (2000) accounted that public relations plays a high-flying role in selecting and framing mass media substance that may well sway public opinion and behavior. Intuitively, public relations efforts designed to enhance an organization's visibility should translate into a stronger corporate reputation among key stakeholder groups (Kiouisis, Popescu, & Mitrook, 2007). Prutianu (2008) posited that public relations are a filter of communication; they allow through and amplify the circulation of favorable messages, at the same time stopping or buffering the impact of unfavorable ones.

Public relations are a key constituent of any operation in this day of instant communications and rightly inquisitive citizens.

#### 2.1.3.8 Views and definitions about public relation

a) Public relations (PR) involve a variety of programs that are designed to promote or protect a company's image or its individual products (Kolter, 2002).

b) Building good relationships with the company's public by obtaining favorable publicity, building a good corporate image and handling or heading off unfavorable rumors, stories and events (Armstrong & Kotler, 1999).

c) Relationship marketing programs directed towards high relational customers should focus on maintaining and building trust and commitments (Welsh & Llanes, 1996).

d) Public relations is a distinctive management function which helps establish and maintain lines of communication, understanding, acceptance and co-operation between an organization and its public; involves the management of problems or issues; helps management to keep informed on, and responsive to, public opinion; defines and emphasizes the responsibility of management to serve the public interest; helps management keep abreast of, and effectively utilize, change; serving as an early warning system to help anticipate trends; and uses research and ethical communication techniques as its principal tool (Cutlip, Center, & Broom, 2000).

e) Public relations is management of communication between an organization and its public (Grunig & Hunt, 1984).

f) The management function that establishes and maintains mutually beneficial relationships between an organization and the public's on whom its success or failure depends (Broom, 2009, as cited in Bhargava, 2010).

g) Practice of creating, promoting, or maintaining goodwill and a favorable image among the public towards an institution, public body, *etc* (Collin English Dictionary, n.d).

h) The profession or practice of creating and maintaining goodwill of an organization's various publics (customers, employees, investors, suppliers etc.), usually through publicity and other nonpaid forms of communication. These efforts may also include support of arts, charitable causes, education, sporting events, and other civic engagements (Business Directory.com, n.d b).

i) It is the planned and sustained effort to establish and maintain goodwill and mutual understanding between an organization and its publics (London School of Public Relation, n.d).

#### 2.1.3.9 Public relation and firm performance

People who work in top management believe that public relation contributes most to the reputation of the management (Public Relations Society of America and Bacon's, 2006). PR Week (online magazine) and Millward Brown (brand company) were asked to compare the effectiveness of public relations: they found public relations is the most effective marketing discipline for launching a new product or service (55%), building awareness (52%), generating word of mouth (51%) and building brand

reputation (50%) (as cited in Council of Public Relations Firms, 2005). Long-term success of the company and growth of competitiveness nowadays cannot be envisaged without public relations. (Kazokiene & Stravinskiene, 2011). Bruning and Ledingham (2000) concluded that effective press relations to manage internal and external issues and problems create a sense of goodwill and enhance organizational image among the public.

Van Bentum and Stone (2005) found that those firms that were classified as high in performance and customer orientation which have a propensity to have senior managers who have regular get in touch with key customers, senior managers who consistently reinforce good customer management behavior, and tended to be classified as high is solidarity. Companies benefit from the relationship marketing approach through increased customer retention and marketing productivity, and the customers receive added value through more customized service and products (Hasouneh & Alqeed, 2010). Grönroos (1997) proposed public relations as builder of relationships, networks and interaction between suppliers, customers, competitors and others which create value for organization guide towards the firm performance. Williams and Attaway (1998) explained the significant link between relationship with customers and customer orientation which lead towards better firm performance. Public relation has a positive relationship with customer loyalty; this relation will be influenced by brand image (Hanzaee & Farsani, 2011). Hsieh & Kai Li (2008) pointed out that company's dedication to the public relation practice is valuable because public relation (PR) can definitely enhance customer loyalty (Zeithaml *et al.*,

1996) which expends the firm performance. Fortunato (2000) suggested that public relations participated as top function in selecting and framing mass media ingredients that could sway public judgment, view and behavior which is very effective for firm performance.

IMS Health (2007) mentioned the two cases of Johnson and Johnson and Procter and Gamble. In Johnson and Johnson case they illustrated that, Johnson and Johnson launched the huge public relations movement, and emphasized that public safety was more important than the company's profit. They sold the 31 million bottles of Tylenol whose retail value was more than \$100 million. In second case, the study was conducted in Procter and Gamble and it revealed that public relation positively influence sales and has a much higher rate of return on sales. Public relations activities are crucial to managing corporate reputation (Carroll & McCombs, 2003). Cravan and Oliver (2006) explained the importance of corporate reputation management and argued that corporate reputation can improve a company's financial performance. Recent research detects a link among public relations expenditures, reputation, and financial performance (Kim, 2001). Council of Public Relations Firms (2005) confirmed that public relation can widen the return on investment and sales of the firm. IMS (2007) also showed the positive impact of public relation on return on investment. All relationship marketing activities are ultimately evaluated on the basis of the company's overall profitability as a firm's profitability is influenced by a number of variables largely independent of relationship marketing activities (Ismail, 2009).

At the same time it is important to note that Public Relations is not always about truth, fairness or rationality, but about mobilizing deeper and more primitive layers of the human mind.

#### 2.1.3.10 Significance of direct marketing

Effective relationship marketing dialogue should not be focused only on trying to make a sale with each contact. Importance and disciplines of direct marketing determinations are discussed by the researchers in the following studies:

*Table 2.5*

Literature on direct marketing

Study	Discussion
Millward Brown (2010)	The primary purpose of direct marketing is the achievement of an immediate and specific response (such as trial, purchase, or inquiry), large-scale direct marketing can have other positive effects as well. The research strongly suggested that greater emotional processing is facilitated by physical material than by virtual, which should help to develop more positive brand associations. The real experience is also internalized, which means the materials have a more personal effect, and hence should aid motivation.

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Ismail (2009)	This empirical study findings confirmed positive relationships between relationship marketing, enterprises performance and increasing its market share in the target industry as an organizational outcomes.
Quenqua (2007)	Direct marketing as a positive perception creator and the gap between consumer perception and reality is understandably troubling to industry professionals.
Shoemaker and Shaw (2007)	Discuss direct marketing part into strategic marketing and the marketplace, and ends with functional strategies that can be used to increase competitive advantage.
Christ (2005)	This study explores the effects the Internet has had on the field of public relations, particularly the ways it is transforming how organizational stakeholders. The author suggests there are ramifications for PR professionals who do not adapt to the identified changes.
Karayanni and Avlonitis (2005)	Internet assists companies to put marketing orientation into practice. Companies utilize Internet in all their activities pertaining to the successful commercialization of their products. However, while the companies with simple or relative simple products are more inclined to set the strategic goal of market share increase through the use of Internet, companies marketing complex products are more likely to use

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	Internet in order to facilitate their collaboration with other actors in developing new products.
Applbaum (2003)	Author argues that marketing can be seen as a particular set of cultural practices that surfaced in reaction. In order to understand globalization, transnational corporations, and the spread of consumer culture, one must understand the logic of marketing.
Dhanani, <i>et al.</i> (1997)	There is increasing awareness of the salience of marketing (direct marketing is one of the aspect) by UK high technology companies, though they are still not as market oriented as low-tech ones.
Abratt and Higgs (1994)	The results of this study indicate that marketing planning plays an important role in the larger South African companies. Global players wanting to deal with large South African companies find the importance of direct marketing by the opening of international markets, competition from foreign producers, especially firms in Japan and Western Europe.
Porter (1985)	Author underpinnings of competitive advantage in the individual firm by the marketing activities i.e. direct marketing. He produce groundbreaking concept of the value chain disaggregates a company into "activities," or the discrete functions or processes that represent the elemental

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building blocks of competitive advantage.

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Roberts and Berger (1989) showed the direct marketing importance in their study as they said that in direct marketing company and prospective customer engage in a two-way personalized communication. Communication and response (transaction) can take place at any location, and it is measurable and accountable. Hasouneh and Alqeed (2010) illustrated the key advantages of direct media (*e.g.* e-mail) as, it is cost effective, easy method to communicate with people, allow easy interaction, can be customized according to customer(s) and interaction can be tracked and the effects measured. Direct marketing messages often include an invitation for the customer to respond to the message (Hasouneh & Alqeed, 2010).

One such marketing strategy that has gained significant importance as a management tool for managers is direct marketing. The primary goal of implementing a direct marketing strategy is to capture a larger share of the consumers' dollar (Detre, Mark, & Mishra, 2010). Tapp (2000) explained the reason for customer income share retaining that, the direct marketing is the capture of individual customer particulars at the first encounter, so that the marketer can begin a relationship with that customer, subsequently treating them differently over time in order to generate repeated business (Peppers & Rogers, 1993).

Ilieva, Baron, & Healey (2002) explained the categories of direct marketing and how their benefits like direct mailing, web survey, telephone contacts and face to face interviews are superior because they are easy to take and manage and can include other responses that give high level of information and interactivity that can help in future decisions of marketing. As markets break down into heterogeneous segments a more precisely targeted marketing technique is required which creates a dialogue with smaller groups of customers, and addresses individual needs. This situation, coupled with changing demographics and lifestyles, decreasing data processing costs and escalating media and sales force costs, has contributed to the growth of direct marketing (Holder & Owen-Jones, 1992). Continuous purchases and cross-sales opportunities follow from well-managed relationships, thus seeing relationships as the most important concept in marketing (Hasouneh & Alqeed, 2010). Having an interesting conversation consisting of more than pure sales talk with the customer can deepen the relationship and reap benefits over time through increased loyalty (Peppers & Rogers, 1993).

According to Govindasamy and Nayga (1997) two key factors that can increase the execution of direct marketing are: 1) producers can receive a better price directly from consumers and 2) consumers receive a fresher product compared to that provided by traditional sources. Direct marketing communications can transcend geographic boundaries and appeal to organizations seeking to expand into new locations (Thwaites & Lee, 1994).

Avon invented the concept of direct marketing and direct selling beauty. And that's still very valid to us. As Peggy Noona said a good speech is poetry; tempo, rhythm, imagery, sweep! A speech reminds us that words, like children, have the power to make dance the dullest beanbag of a heart

#### 2.1.3.11 Views and definitions about direct marketing

- a) The US Direct Marketing Association describes direct marketing as "an interactive system of marketing which uses one or more advertising media to effect a measurable response and/or transaction at any location"(as cited in Rubio & Laughlin, 2002).
- b) Cutlip *et al.* (2000) explained direct marketing as "The management function that establishes and maintains mutually beneficial relationships between an organization and the public on whom its success or failure depends".
- c) Direct marketing working efficiently and show the great and accurate response from target customers (Millward Brown, 2009).
- d) The business of selling products or services directly to the public, *e.g.* by mail order or telephone selling rather through retailers (Oxford Dictionary, 2010b).
- e) Selling goods directly to consumers rather than through retailers, usually by email order, mail order, direct mail shot, telephone selling, the internet or television home-shopping channels (Collin English Dictionary, n.d b).
- f) The business attempting to sell goods, and services directly to customers either through mail order or telephone sales rather than in a retail establishment (Dictionary.com, n.d).

g) Direct marketing is a way of acquiring and keeping customers by providing a framework for three activities: analysis of individual customer information, strategy formation, and implementation such that customers respond directly (Tapp, 2000).

#### 2.1.3.12 Direct marketing and firm performance

Direct marketing can create and reinforce brand awareness, maintain customer loyalty and sell goods and services directly (Thwaites & Lee, 1994) and these things have a direct effect on the firm's periodic sales performances. McCort (1994) posited that direct marketing help to gain and maintain competitive advantage that essential to a successful relationship marketing approach. Schibrowsky (1995) found that US fundraisers' marketing approach made emphasize on direct marketing and consider it as a vital strategic and tactical component.

The use of electronic networks and associated technologies helps to enable, improve, enhance, transform or invent a business process or business system to create superior value for current or potential customers (Militaru & Serbanica, 2008). FedEx customers can use mobile devices to track packages or to locate the nearest spots to drop them off. So it is possible for customers anywhere in the world to use a mobile phone to create a shipping label or a digital tracking record for a package (Kenny & Marshall, 2001) which added the customer satisfaction.

Erth Coverings, the designers of stones, walls, floor and ceiling successfully built their brand name and identity as well as a North American marketing plan for the new product line. They use direct mail, magazine and newspapers advertising campaign for brand awareness among architects, interior designers, builders and consumers (Groove, 2004b) and their firm performance has been better than before after these new product line. Emerald Financial Group of Bermuda desire to revise its corporate identity and to effectively create a single brand that represents its diverse range of services. In this process they updates the corporate website and create a variety of advertising and promotional deliverables including magazine advertisements and direct mail pieces for increasing customer awareness, loyalty, and creating a sense of the firm's approach and authority (Groove, 2004a).

Kitchen Solutions, the kitchen decorator from Canada wanted to set up a free kitchen design giveaway utilizing a select group of kitchen product suppliers as sponsors. Direct mail support material was integral part of restructuring effort (Groove, 2005), and helped to boost the corporate sale. Space solutions.ca the home storage retail service company decided to modernize their identity and takes Space Age Shelving from local retail into regional market from new company's online presence. The website was built to present the broad range of custom services that space provided and an identity brochure was produced for distribution via trade show and direct mail and then enjoyed the greatest rate of growth in their history (Groove, 2004c).

Foster's Seafood and American Bistro sales grew up by their marketing activities from 46% and 30% respectively in 2002. They adopted the email marketing strategy (Robertson, 2003). According to Ghouri (2009) and Karayanni & Avlonitis (2005) the use of internet and cell phones is spreading all over the world especially in Pakistan and it is used extensively to promote the business and getting the competitive advantage and formulating strategies. The internet and related technologies and applications have changed the way businesses are operated, work style of people, how information systems support business processes, decision making, and competitive advantage. Thus, many businesses today are using Internet technologies to Web-enable business processes and to create innovative e-business applications (Militaru & Serbanica, 2008). The Internet has created many ways for a new entrant to enter the marketplace quickly and with relatively low cost of entry. In the Internet world, a firm's biggest potential competitors may be one that is not yet in the marketplace but could emerge almost overnight (Schoenherr & Mabert, 2006). Offering new marketing channels to interact with customers is crucial to increase sales for company (Barutcu, 2008). The marketing literature suggests that competitive pricing policy, product quality, a company's reputation and the adoption of appropriate marketing practices play important roles (Zaharieva *et al.*, 2004). A surprising finding which researcher wants to share is that, many service firms apparently do not reduce prices to increase business during slow periods (Zeithaml *et al.*, 1985).

Relationship marketing programs directed towards high relational customers should focus on maintaining and building trust and commitments (Welsh & Llanes, 1996). If a company working for minority consumer groups, it should modify the marketing mix accordingly (Jamal, 2003). It will give a competitive edge and will be reason to attract more business. It is very interesting to note the emergence of a factor that reflects individual attention given to customers (Patricio *et al.*, 2006).

Peltier and Schibrowsky (1995) gathered data on direct marketing methods and stated in their findings that direct marketing has been effective in achieving organizational objectives. Darby, Ernst, and Roe (2008) affirmed that increasing business income from the implementation of direct marketing can have indirect impacts on the communities because as a business income rises it stimulates the local economy and rural development.

Direct Marketing is evolving every day; in some cases, it seems that we have come full circle. A few years ago, there was the rush to telemarketing, and then came the rush to the Internet. Now marketers are starting to understand that all of these - telephone, mail, internet, e-mail, so-called 'new media' - are simply alternative channels that enable direct contact with a customer.



### 2.1.3.13 Significance of pricing

Price is one of the key elements in original marketing mix (4p's) and pricing practice of marketing has been discussed in these studies:

Table 2.6

#### Literature on pricing

Study	Related Discussion
Ghouri <i>et al.</i> (2011b)	Pricing is the pivotal factor in SMEs of Pakistan perspective.
Riesco (2008)	This book illustrates that how to optimize the prices on your menu to make sure you're getting the profit you need while still keeping your customers happy. Easy ways to get more customers coming to your restaurant and to keep them coming back.
Ning and Bo-Qin (2006)	Use of pricing for customer-driven requirement-refining scheme of business process reengineering.
Mburu and Massimo (2005)	This research paper suggests that any business aims at offering consumers needed products that are competitive, available, well packaged and distributed according to consumer preferences. Pricing, distribution and promotion issues should also be incorporated in order to boost sales of locally produced products in preference to imported goods.

Villarejo-Ramos and Sanchez-Franco (2005)	This paper establishes a theoretical and empirical basis that shows the impact of marketing communications and price promotion on brand equity.
Akhter (1995)	This book emphasizes on the coverage of financial environment of international marketing and ethical dimensions of global marketing.
Markides and Williamson (1994)	This paper discusses the importance of pricing in diversification, core competencies and corporate performance.
Grosby and Stephens, (1987)	Relationship of pricing to satisfaction and retention in life insurance industry.
Milgrom and Roberts (1986)	Pricing is important factor for product quality perception.
Lazer and Culley (1983)	This book discuss about practices and importance of pricing in business environment
Levitt (1960)	This paper suggests that businesses will do better in the end if they concentrate on meeting customers' needs rather than on selling products. This expectation can meet by offering product at reasonable price which match with quality.

Pricing is the only element in the marketing mix, which directly generates revenue from sales of products or services. Pricing is the influential and important component of marketing strategy, because it influences customer, company and

economy. Price is the bundle of benefits presented by the product or services that must be traded off against the bundle of costs associated with using it (Mburu & Massimo, 2005). Present customers have wide knowledge of market including the price information, so they are price sensitive in any mean. It is prominent tactic which can break the customer loyalty to existing brand, and on the other hand retain the customer. It is also considered as the key indicator of quality for customer and it has a huge influence on the purchasing decision making process. Olson (1997) research posited that when customer is uncertain about the quality, they are likely to use price as signal of quality. Vice versa, price can effect indirectly on perceived quality of product or service. When consumers make purchase decisions, price has an impact on their decision process (Li & Hitt, 2010).

Sometimes pricing policy of the firm work negatively rather than positively; it happens when competitor react and battle by the pricing strategy or customers do not find the perceived value of product or service for which they paid. Some customers often judge product or service on their price, or sometime that behavior mislead them, and they miss the main feature/ specialty which they wanted in that experience. Needham and Dransfield (1992) affirmed that meaning of price is based on different groups of people. Every group of society has some common different attributes and features, which set the parameter of their purchasing behavior.

Li and Hitt (2010) suggested that firms should account for price effects in their overall marketing strategy. Briety, Reeder and Eckles (1998) said that price is a key element in overall business strategy and to make strategic pricing decisions one should know what objectives are being served. Consumers form price expectations and use them to evaluate price information when making purchase decisions (Yuan & Han, 2011; Kalwani, Yim, Rinne, & Sujita, 1990). Determining the right price is a complex process, requiring rigorous analysis on a company's cost structure, changing market supply and demand situation, competitors' pricing schemes and products' perceived value by customers (Davidson & Simonetto, 2005). Stigler (1987) proposed that price system gives innumerable message on the state of supply and demand for each commodity or services at each place where it is bought or produced. Hwanga, Tsaib, Yua, and Chang (2011) stated that pricing objective is the ultimate pricing goal that a company intends to achieve: it is established to guide a company's overall pricing strategy. Some typical pricing objectives are to attain targeted gross margin, market share, sales volume, to project a certain image, to maintain price-leadership and so on (Avlonitis & Indounas, 2005).

Hwang *et al.* (2011) explained the details of pricing program. According to him it is a set of action items to achieve pricing objectives; for example, it may include a promotional program for a select product to a targeted customer segment, for a specific time period. Companies can customize their price based on customers' locations, purchased volume quantity, product features and product life cycle. A pricing program might also consist of price guidelines. Sample guidelines include list

prices, floor prices, pricing parity among product generations, discount rules for different customer segments and pricing authority (Dolan & Simon, 1996).

Salehudin (2009) explained that price involves forfeit of the next best alternative that could be bought, so it is used to measure the value of an exacting item/ service. He added, and proposed that price is a key element in the marketing mix (as Briety *et al.* (1998) claimed in previous paragraph); it is a key selling point and getting the 'price right' is an important strategic decision and as such it is a key factor influencing revenue and profit.

Yacob, Jaafar, and Bakar (1992) illustrated the two factors which influence the price decision of the firm:

- a) Internal Factors: Marketing objectives, marketing mix strategy and cost.
- b) External factors: Marketing environment and demand, competition and other environment factors (Salehudin, 2009).

As it is pricing is actually a pretty uncomplicated and straight forward thing. All one has to remember is that, customers will not pay literally a paisa more than the true value of the product.

#### 2.1.3.14 Views and definitions about pricing

- a) Price is the value usually in monetary term (Bovee & Thill, 1992).
- b) The amount of money expected, required, or given in payment for something or decide the amount required as payment something offered for sale (Oxford Dictionary, 2010d).
- c) A value that will purchase a definite quantity, weight or other measure of a good or service (Business Directory.com, n.d c).
- d) The sum in money or goods for which anything is or may be bought or sold (Collin English Dictionary, n.d d).

#### 2.1.3.15 Pricing and firm performance

For any profit oriented business, the price is a major base at which a product or service is sold for the sole purpose of recovery of costs and making a profit (Salehuddin, 2009). Pricing and products are found to be the key determinants of customer satisfaction, followed by personnel (Theodoridis & Chatzipanagiotou, 2009). Customer satisfaction always leads to better firm performance by economical and financial measures. Khan *et al.* (2010) stated it as the basic practice that influences customer satisfaction and firm performance. Clarke (2002) confirmed that prices have an effect on buying behavior and profit margins. Li and Hitt (2010) mentioned that price has been shown to be a major influence on customer satisfaction

in the manufacturing industry as a whole (Tsai, 2007), as well as in service industries such as rental cars (McGregor, Jespersen, Tucker, & Foust, 2007).

Kirmani and Rao (2000) research posited that when customer is uncertain about the quality, they are likely to use price as signal of quality. By adjusting the threshold price to individual prospective buyers' willingness-to-pay, sellers can extract greater profit: Low threshold prices can realize sales to low valuation consumers that are otherwise lost, whereas high threshold prices can extract surplus from high valuation consumers that is otherwise forgone when compared to a non-discriminating fixed threshold price (Hinz, Hann, & Spann, 2011). Pricing is the most sensitive economic lever of a business, directly affecting a company's revenue and margin. Despite the high return, few companies pursue revenue enhancement through pricing management (Hwanga *et al.*, 2011). In a well-functioning mutual fund firm, mutual fund fees (price) should be positively correlated with expected before-fee risk-adjusted returns (Gil-Bazo & Ruiz-Verdú, 2009). Pricing affects the performance of mutual fund companies as they can hire good fund managers that would lead to good firm performance and reputation. Abad and Kadir (1991) concluded that price is the main factor that determines the development of company's revenue balance (as cited in Salehudin, 2009). According to Ab. Raub and Othman, (1991) company can get two main objectives in setting the proper price. There are:

- a) Increase total sale and market size.
- b) Increase level of profit.

Henry David opined that price of a product is the amount of quality the company exchange for it. Smith (1987) showed relationship between pricing and return on investment (ROI). As it is visibly the fact that if price charging on for the product or service is match with the value the given offer then customer must buy that product or service by repetitive time which increase the customer loyalty and the return on investment (ROI).

Price is what the customer pays; it's imperative that they get value for it. Value formation or perception is vary according to social status.

On the above discussion of six variables,  $H_4$  proposed as:

*H<sub>4</sub>: Advertising, sales promotion, public relation, direct marketing, and pricing are significant predictor of firm performance of SMEs of Pakistan.*

## **2.2 Marketing Capabilities**

### **2.2.1 Significance of marketing capabilities**

There has been considerable interest in the management literature concerning the development of core competences in order to enhance corporate competitiveness and performance (Wernerfelt, 1984). Marketing capabilities' importance and application are discussed in the following literatures:



*Table 2.7*

## Literature on marketing capabilities

Study	Discussion
Le Merle and Minasian (2011)	This book discusses about Internet, as it has given marketers a glimpse of how each element of that cycle can be dramatically transformed by new technologies that allow direct customer interactions, the ability to test and modify value propositions on the fly, and the opportunity to present the communication that best fits the customer at any point in the process—while constantly iterating the process as the marketing cycle collapses toward real time.
Qureshi and Mian (2010)	Entrepreneurial firms carry out marketing in an innovative, opportunistic, proactive and risk assumptive way. Over a period of time the marketing practices i.e. combination of knowledge and skills develop in to capabilities. These marketing capabilities have been identified as one of the important ways firms can achieve a competitive advantage. These marketing capabilities are not built in a vacuum and are influenced by various antecedents i.e. Entrepreneurial orientation, market orientation and strategic orientation. The results show that entrepreneurial orientation, market orientation and strategic orientation of the firm are influenced by the external environment and significantly impact on the

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marketing capabilities.

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Banterle, Cavaliere, Stranieri, and Carraesi (2009) The purpose of this paper is to evaluate the marketing and management capabilities of SMEs producing traditional food products, in order to analyse the market orientation of SMEs in the food industry. The methodology refers to a survey developed through a questionnaire published on the web, and a sample of 371 firms based in Belgium, Italy, Spain, the Czech Republic and Hungary was used in the analysis. The results revealed a certain lack of appropriate skills in marketing management in the firms of the sample, confirming the evidence found in economic literature concerning SMEs. The most problematic areas planning and implementation, and control and evaluation, highlighting the difficulties SMEs encounter in carrying out coordinated marketing; which appears to be generally characterized by poor organizational capacity.

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Morgan, Slotegraaf, and Vorhies (2009a) Profit growth is one of the primary drivers of a firm's stock price and therefore is a clear priority for managers. In this study, data from a cross-industry sample of 114 firms use to investigate how market sensing, brand management, and customer relationship management (CRM) capabilities determine firms' revenue growth and margin growth—the two components of profit growth. Results reveal that these

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marketing capabilities have direct and complementary effects on both revenue and margin growth rates.

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Morgan *et al.* (2009b) Drawing on traditional resource-based theory and its recent dynamic capabilities theory extensions findings indicate that market orientation and marketing capabilities are complementary assets that contribute to superior firm performance. Marketing capabilities directly impact both ROA and perceived firm performance.

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Hartsfield, Johansen, and Knight (2008) This paper highlights the roles of knowledge and capabilities for early internationalization and success in international markets. Results from a survey-based study suggest born global firms have a distinctive mix of orientations and strategies that allow them to succeed in international markets. Specifically, research revealed that possession of an international entrepreneurial orientation, a focus and/or differentiation strategy, and marketing capabilities are important antecedent factors in the international performance of born global firms.

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Krasnikov and Jayachandran (2008) In this study, effect of marketing capability on firm performance, compared with that of other capabilities, such as research and development and operations, is an issue of importance to managers. Authors conduct a meta-analysis of

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the firm capability–performance relationship using a mixed-effects model. The results show that, in general, marketing capability has a stronger impact on firm performance than research-and-development and operations capabilities.

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Zhang *et al.* (2008) This paper analyzed theories of market knowledge competence and summarized the structure of the market knowledge competence firstly. It puts forward that market knowledge competence is made up of three aspects: customer knowledge management capability, competitor knowledge management capability, and interior knowledge integration capability. Secondly, this study analyzed the relationship between market knowledge competence and organizational performance. The result shows, customer knowledge management capability and competitor knowledge management capability are positively related to interior knowledge integration capability, and the market knowledge competence has a positive effect on marketing capabilities. As a result, marketing capabilities plays a moderate role in the relationship between market knowledge competence and organizational performance.

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Vorhies and Morgan (2005) This paper finds market-based organizational learning has been identified as an important source of sustainable competitive advantage. The authors empirically examine the

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potential business performance benefits available from benchmarking the marketing capabilities of top-performing firms. The results suggest that benchmarking has the potential to become a key learning mechanism for identifying, building, and enhancing marketing capabilities to deliver sustainable competitive advantage.

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Knight and Cavusgil (2004) This paper highlights the critical role of innovative culture, as well as knowledge and capabilities, in this unique breed of international, entrepreneurial firm. Findings reveal that born-global firms leverage a distinctive mix of orientations and strategies that allow them to succeed in diverse international markets. Findings have important implications for the internationalization of contemporary firms.

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Slotegraaf and Dickson (2004) This paper based on the resource-based view of the firm to illustrate a paradox firms may face. In particular, a strong marketing planning capability may not only reduce the incidence of postplan improvisation but also contain inherent process rigidity. Since both of these can also increase performance, results illustrate a performance paradox in marketing planning.

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Tsai and Shih (2004) This study applied structural equation modeling to examine the relationships among marketing knowledge management,

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marketing capabilities and business performance for a firm.

Survey data of marketing managers from Taiwanese service firms and consumer goods manufacturers was used to test the relationships between the constructs used in this study. The result demonstrates that marketing knowledge generation, dissemination and storage can enhance the marketing capabilities of distribution channels, marketing research and product/service development, promotions and pricing. Analysis also indicates that firms with superior marketing capabilities significantly outperform their rivals in terms of business performance.

Managers should develop superior marketing capabilities through their marketing knowledge management to improve their business performance.

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Moore and Fairhurst (2003) This study reveals that it is vital for participants to develop and leverage core marketing capabilities. This study examines the effectiveness of different marketing capability factors in a cross-section of the US specialty apparel and footwear retailing sector (n = 60 retail firms). A two-stage structural equation model is used to test the study's hypotheses. Results suggest that the most effective marketing capabilities, in terms of performance, are image differentiation and promotional capability.

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Cadogan, Hooley, Douglas, Matear, and Greenley (2002) The paper reports preliminary findings from research conducted in the U.K and New Zealand to develop a cross-nationally valid measure of marketing capabilities in service industries.

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Kotabe, Srinivasan, and Aulakh (2002) This article contributes to incorporating firm heterogeneity in examining the multinationality-performance relationship. The findings, based on a time series cross-sectional analysis of firms from 12 different industries over a seven-year period, indicate that the impact of multinationality on both financial and operational performance is moderated by firm's R&D and marketing capabilities.

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Fahy, Hooley, Cox, Beracs, Fonfara, and Snaj (2000) This paper examines the nature of marketing capabilities across a range of firm types in Hungary, Poland and Slovenia. A number of key strategic capabilities are examined including market orientation, the time horizon of strategic decision making and positioning capability. The study finds that firms with foreign participation have been able to develop a sophisticated level of marketing capability with a resulting positive impact on financial and market performance. Wholly-owned subsidiaries and international joint ventures emerge as equally effective mechanisms for the transfer of marketing capability.

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Dutta, Om, and This paper contributes to the RBV literature by proposing the

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- Surendra (1999) input-output perspective to conceptualize the notion of capabilities. Specifically, this approach entails modeling a firm's functional activities-viz., marketing, R&D and operations-as transformation functions that relate the productive factors/resources to its functional objectives, if the firm were to deploy these resources most efficiently. Marketing capability has its greatest impact on the (quality-adjusted) innovative output for firms that have a strong technological base. In other words, firms with a strong R&D base are the ones with the most to gain from a strong marketing capability. Marketing capability strongly influences the width of applicability of innovations, i.e., a firm's marketing capability enhances its ability to generate innovative technologies that have applications across a range of industries. This finding offers further evidence on the importance of coordination between R&D and marketing, as suggested in the extant marketing literature. The firm can spend more money on those capabilities where it most lags the competition, or on those capabilities that are shown to have the maximum impact on firm performance.
- Hooley *et al.* (1999) In this paper, resource based theory of the firm (RBV) is briefly reviewed together with its recent application in the marketing literature. Significant contributions by Webster
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(1992) and Day (1994) are identified and an integration of the two presented as a hierarchical model of marketing capabilities. Three research propositions concerning the relationships between marketing capabilities and performance are developed and tested empirically in the transition economies of central and eastern Europe. In line with expectations from the theory of the RBV, higher order marketing capabilities are seen to be more important than operational capabilities in explaining superior competitive performance.

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Vorhies (1998) To achieve a competitive advantage, businesses are often advised to develop capabilities in key functional areas. This study investigates the factors that influence marketing capabilities development and what effect these capabilities have on organizational effectiveness. In this study of the largest strategic business units (SBUs) of Fortune 500 companies, business strategy, organizational structure and market information processing capabilities were found to influence marketing capabilities development. Of equal importance, the SBUs with the highest degree of marketing capabilities development outperformed SBUs with less-developed marketing capabilities.

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Hunt and Morgan The authors explicate the foundations of this new theory, the

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(1995) "comparative advantage theory of competition," and contrast them with the neoclassical theory of perfect competition. They argue that the new theory of competition explains key macro and micro phenomena better than neoclassical perfect competition theory. Finally, they further explicate the theory of comparative advantage by evaluating a market orientation as a potential resource for comparative advantage

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Day (1994) This paper suggests that the emerging capabilities approach to strategic management, when coupled with total quality management, offers a rich array of ways to design change programs that will enhance a market orientation. The most distinctive features of market-driven organizations are their mastery of the market sensing and customer linking capabilities. A comprehensive change program aimed at enhancing these capabilities includes: (1) the diagnosis of current capabilities, (2) anticipation of future needs for capabilities, (3) bottom-up redesign of underlying processes, (4) top-down direction and commitment, (5) creative use of information technology, and (6) continuous monitoring of progress.

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Conant, Mokwa, and Varadarajan (1990) Results of analysis suggest that while the marketing competencies of prospector organizations are superior to those of analyzer, defender, and reactor organizations, all

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three stable archetypes perform equally well in terms of profitability and outperform reactors. The newly developed strategic types scale performs well and appears to possess significant managerial and research potential. It is theoretically anchored, easily administered, and possesses diagnostic value to both strategists and their organizations.

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Snow and Hrebiniak (1980) This study examines relationships among strategy, distinctive competence, and organizational performance. The analysis focuses on the perceptions of top managers in four industries (plastics, semiconductors, automotives, and air transportation). Findings indicate that these managers perceive four strategy types, Defender, Prospector, Analyzer, and Reactor.

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The concept of capability development and its impact on performance has been an important focus within the marketing field in recent years (Vorhies, 1998). Marketing capability has a scope in both the external and internal fields of management (Qureshi, 2009). Capabilities are dynamic when they enable the firm to implement new strategies to reflect changing market conditions by combining and transforming available resources in new and different ways (Teece, Pisano, & Shuen, 1997). Capabilities should be rare because competitors must find them difficult to emulate; they are complex because they are explained by a number of linked factors as in the creation of superior customer value, and they are tacit because they are

inextricably embedded in organizational experience and practice (Johnson & Scholes, 1999). The capability to build a defensible market position is seen as a key element of a firm's marketing activity (Hooley & Saunders, 1993). Marketing capability is needed in assessing a company's position within its environment, in evaluating customer and competitor behavior, as well as in managing the company's relationship with its customers, competitors, suppliers, and distributors (Qureshi, 2009).

Marketing capabilities are skills relevant to, first to identify the need(s) of customers and then to respond and fulfill more effectively than competitors (Wong 2010; Ellis & Davies 2006; Kotabe *et al.*, 2002; Chang, 1996). Day (1994) stated that marketing capabilities facilitates the relationship with customers, anticipate the changes in customer taste/ preferences, respond to those changes, enable firms to compete at any level and manage durable relationships with customers, and channel members. He extended his discussion that, firms with weak marketing capabilities will be less responsive to market changes, long term existence will be in danger and their products/ services may not satisfy customer needs as effectively as rivals. Wong (2010) argued that marketing capabilities are the organizational processes that are involved in the deployment of an organization's resources and skills relating to developing superior goods and services, adapting to market conditions and meeting competitive demands (Morgan, *et al.* 2009b; Tsai & Shih, 2004; Vorhies, 1998; Vorhies & Harker, 2000; Weerawardena, 2003).

If the desire of the firm is to gain competitive edge in market and enjoy better financial performance or any other measures, it must adapt and find ways to get marketing capabilities. Marketing capability development is an essential investment and not a discretionary cost for any business, and even more so in an economic climate where customers are becoming ever more demanding and competitors ever more creative in their search for competitive edge. In this search for competitive edge, investments in marketing capability development offer a proven, substantial and sustainable return (Lacovara, 2009).

The marketing management capabilities derive from a well-performed marketing management process that consists of analyzing market opportunities, formulating clear marketing objectives, and developing a marketing strategy that should be implemented and controlled (Kotler, 2004). According to Day (1994) marketing capabilities is the complex bundles of skills and collective learning, exercised through organizational processes that ensure coordination of functional activities. Marketing capabilities can be thought of as integrative processes by which knowledge based resources and tangible resources come together to create valuable outputs (Vorhies & Harker, 2000).

Marketing capabilities are developed via learning processes when the firm's employees repeatedly apply their knowledge to solving the firm's marketing problems (Vorhies & Harker, 2000). Day and Wensley (1998) concluded that competitive advantage can be gained by the identification and development of

marketing capabilities. To develop marketing capabilities, firms must develop processes that allow them to collect information about market opportunities, develop goods and services to meet the needs of targeted customers in selected markets, price these products according to market information, communicate product advantages to potential customers and distribute products to customers (Day, 1993; 1994). For the development aspect of capabilities, Amit and Schoemaker (1993) broadened that, capabilities to gain advantage in the firm, developed either in functional areas or in combination of physical, humans or technological resources. When value adding, functional level capabilities are integrated across functional lines and are deployed across multiple product-markets to deliver competitive advantage, then a core capability is developed (Grant, 1996).

In the employees' perspective, Grant (1991, 1996) elaborated that capabilities come about through integration of knowledge and skills of employees. Qureshi & Mian (2010) further exemplified the same point of view that marketing capabilities can't be built until marketing employees repeatedly apply their skills and knowledge to fulfill the market related needs and opportunities for business. Same view point was shared by Day (1994) that marketing capabilities are developed via learning processes while the firm's employees repeatedly relate their knowledge to solving the firm's marketing problems. Prahalad and Hamel (1990) confirmed the last point regarding repetition of skill and knowledge that, one of the salient features of capabilities development is learning through repetition. Grant (1996) expended the view point of marketing capabilities that, it be built by integrative processes,

commence by application of tangible resources with knowledge-based resources to create valuable and adaptable outputs.

Day (1994) proposed three natures of marketing capabilities; outside-in; inside-out; and spanning capabilities. Outside-in capabilities refers to those skills and competencies of the firm that help it to understand changes taking place in its markets, and to operate more effectively in that market place such as customer relationship management (Cadogan *et al.*, 2002). Inside-out processes defined by (Day, 1994), as focus on the firm's internal resources and capabilities. Spanning capabilities explained as those skills and competencies that serve to integrate inside-out and outside-in capabilities, such as information-sharing, and new product/service development and networking capabilities that include the ability to create mutual trust and commitment between partners, as well as enabling access to and the sharing of expertise (*e.g.* technology) and more tangible assets (Cadogan *et al.*, 2002). The literature suggests that marketing capabilities in particular may be immobile (Capron & Hulland, 1999), inimitable (*e.g.* Bharadwaj, Varadarajan, & Fahy, 1993), and largely non-substitutable value-creation mechanisms (Moorman & Rust, 1999) which serve the firm for a long time (as cited in Morgan *et al.*, 2009a)

This environment becomes more market-led, increasingly competitive and more open to global influences, the building and deployment of marketing capabilities will be critically important (Fahy *et al.*, 2000). Atuahene-Gima (1993)

suggested some processes that can build marketing capability which firms can use to reach their existing and potential customers with value-added products and services:

- a) Customer service, which can be defined as deeds, processes and performances (Zeithaml & Bitner, 1996).
- b) Effectiveness of promotional activities to gain the share in market and growth in sales.
- c) Quality of sales people, which affect the revenue and reflect the extent of sales generating skills.
- d) Strength of distribution networks that shows how effectively product or service can reach target customer(s)/ segment(s).
- e) Commitment for advertising, as the allocation of resources which is operationalized as advertising expenditure (*e.g.* percentage of sales).
- d) Marketing research, in-depth knowledge about the customer needs, choices and preferences with comparison and monitoring of competitor's product and services offer and their strategies.
- f) Differentiate products/ service, adding the new and innovative attributes which attract customers and are appreciated by them.
- g) Speed of product/ service introduction, while offering new product/ service to retain existing customers and attract new customers, and keep challenging the competitor(s).



Vorhies and Morgan (2005) proposed six marketing areas for evidence of capabilities:

- a) Marketing research is defined as the set of processes needed to discover broad based market information to get in-depth look and to develop information about specific market and its customer needs, and to design marketing programs to meet these needs and market conditions.
- b) Pricing is another area, that emphasizes on competitive and attractive pricing of (product/ service) and monitor prices in the market.
- c) Product/ service development accentuate on design product/ service which make challenge to competitor, meet the customer requirement, urge new need(s) and can meet company goals and hurdles.
- d) Firm's channels of distribution must be strong. Firm must have a capability to manage the channels, build relationships with distributors which are formal/ informal and effectively managed.
- e) Promotion is another important capability for many firms. Advertising, sales promotions, and personal selling activities are the forms of promotions which firms use to communicate with the market and customers to sell the product/ service.
- f) Marketing management area are focused on customer acquisition management, the management of marketing programs, and the ability to coordinate action among the diverse elements in the firm needed to implement a marketing program.

According to Qureshi (2009), dimension of marketing capability are related to assessment and monitoring of the task environment, industry environment, and macro environment of the company and business mission and strategy development, integration of the company functions, managing of the marketing function, and finally to the management system of the firm .Marketing capability is thus developed when the firms marketing employees repeatedly apply their knowledge and skills to fulfill the market related needs of the business.

As William Bernbach said, "Forget words like 'hard sell' and 'soft sell.' That will only confuse you. Just be sure your advertising is saying something with substance, something that will inform and serve the consumer, and be sure you're saying it like it's never been said before."

### ***2.2.2 Views and definitions about marketing capabilities***

- a) Integrative processes designed to apply the collective knowledge, skills, and resources of the firm to the market related needs of the business, enabling the business to add value to its goods and services and meet competitive demands (Day, 1994).
- b) The integrative processes designed to apply the collective knowledge, skills and resources of the firm to the market related needs of the business (Vorhies, 1998).

- c) The process of product development and management, pricing, selling, marketing communication, channel management and marketing strategy development execution (Morgan *et al.*, 2009a).
- d) Marketing capabilities as specific skills relevant to identifying and responding to customer needs more effectively than competitors (Chang, 1996).
- e) Ability to address customer needs and wants effectively (Greenley & Oktemgil, 1997).
- f) Abilities relating to market sensing, market targeting and positioning, customer relationship management, customer access, product management, new product development and implementation of marketing activities (Hooley, Broderick, & Möller, 1998).
- g) Abilities relating to market sensing, market targeting and positioning, customer relationship management, customer accessed skills in product differentiation and branding (Kotabe *et al.*, 2002).
- h) Skills in segmentation, targeting, pricing and advertising (Benedetto & Song, 2003).
- i) Ability to perform common marketing work routines (Vorhies & Morgan, 2003).
- j) Ability to predict customer preference and market changes, and maintain durable relationships with customers and channel members (Song, Droge, Hanvanich, & Calantone, 2005).
- k) Ability to interpret market signals and respond with products that meet evolving customer needs (Ellis & Davies, 2006).

l) Knowledge of the competitors and customers, and the skills in segmentation, targeting, advertising, pricing, and integrating marketing activities (Song, Benedetto, & Nason, 2007)

m) Skills in market sensing and customer linking (Krasnikov & Jayachandran, 2008).

n) Marketing capabilities are the ways of using marketing resources (Hooley *et al.*, 1996).

o) Marketing capabilities as complex bundles of skills and collective learning, exercised through organizational processes that ensure coordination of functional activities (Day, 1994).

### ***2.2.3 Marketing capabilities and firm performance***

The general strategic management and marketing literatures suggest that firm's capabilities in a number of functional areas can lead to positive performance (Hunt & Morgan, 1996). Higher levels of marketing capabilities are expected to affect both the financial and non-financial outcomes (Narver & Slater, 1990; Jaworski & Kohli, 1993). Weerawardena (2003) concluded that marketing capabilities influence both the innovation intensity (lead to customer satisfaction) and sustained competitive advantage of the firms. Weerawardena (2003) further added about the initiation of the research about marketing capabilities and firm's performance on small and medium enterprises and proved the positive relationship between the two. Gu, Hung, & Tse (2008) pointed out that marketing-related capabilities affect various performance indicators such as market performance.

Day (1994) stated that marketing capabilities facilitates the relationship with customers, anticipate the changes in customer taste/ preferences, respond to those changes, enable firms to compete at any level and manage durable relationships with customers, and channel members. He extended his discussion by stating that firms with weak marketing capabilities will be less responsive to market changes, long term existence will be in danger and their products/ services may not satisfy customer needs as effectively as rivals.

Fahy *et al.* (2000) study established the importance of marketing capabilities in ensuring a firm's future prosperity in the region of central Europe. Krasnikov & Jayachandran (2008) explained that when business entity building, maintaining, and leveraging marketing capabilities, it links with greatly enhanced knowledge which ultimately enhances the firm's performances. According to Day & Wensley (1988), marketing capabilities fit the firm with market changes and hence, positively relate to firm's performance.

In financial terms, Marketing capabilities are connected with firm's growth rates and investigation of the link between marketing capabilities and profit growth rate illustrates that there is indeed a significant relationship which affect the market performance (Morgan *et al.*, 2009a). Sophisticated level of marketing capability has positive resulting impact on financial and market performance (Fahy, 2000). Marketing capabilities enable firms to achieve positions of sustainable competitive advantage, ultimately resulting in superior financial performance (Day, 1994).

Marketing capabilities give competitive edge, investments in marketing capability development offer a proven, substantial and sustainable return (Lacovara, 2009). Dutta (1999) implicated the empirical study on high technology markets and posited that operations, research and development and marketing capabilities have strong relationship with financial performance. Marketing capability development creates tangible value for organizations through increased customer satisfaction (loyalty) and ultimately shareholder return (Lacovara, 2009). Moore & Fairhurst (2003) conducted the empirical study in fashion retailing about marketing capabilities and firm performance in perspective of financial performance; they found that customer service capability and market level knowledge have a significant impact on firm performance.

Marketing capabilities found the positive relation with product performance (Eng & Spickett-Jones, 2009), financial performance (Zou, Fang, & Zhao, 2003), market performance (Song, *et al.* 2005), sustained competitive advantage (Weerawardena & O’Cass, 2004), and overall performance (Ruiz-Ortega & García-Villaverde, (2009); Ellis & Davies, 2006; Hooley *et al.*, 1999).

As someone correctly opined as we travel down business’s highway, whatever be our goals and intentions, we cannot sell a doughnut without acknowledging the hole.

On the basis of above literature H<sub>2</sub>.and H<sub>5</sub> proposed as:

*H<sub>2</sub>: The marketing capabilities positively related to the firm performance of the SMEs of Pakistan.*

*H<sub>5</sub>: Marketing research, pricing, service development, distribution/ relationship, marketing communication/ promotion, and marketing management are significant predictor of firm performance of SMEs of Pakistan.*

## 2.3 Market Orientation

### 2.3.1 Significance of market orientation

Market orientation aspect gets attention of professional and academic researchers; it is explained in the following studies:

*Table 2.8*

Literature on Market Orientation

Study	Discussion
Ahmad (2011)	The results of the study not support hypothesis statement that “The Practice of marketing orientation has a positive impact on the performance of successful companies in Pakistan”.
Merlo and Auh (2009)	The study investigates how an organization’s entrepreneurial orientation moderates the interplay between market orientation and marketing subunit influence on firm

performance. The hypothesized model predicts that the positive interaction between market orientation and marketing subunit influence has a weaker effect on firm performance under conditions of high entrepreneurial orientation. Higher levels of entrepreneurial orientation, the positive moderating effect of marketing subunit influence on the market orientation–business performance relationship are reduced.

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Grinstein (2008)

The purpose of this paper is to deal with these discrepancies in the marketing literature. It highlights the importance of the study of the relationship between market orientation and alternative strategic orientations, examines the effect of market orientation on different orientations, and identifies the orientations that are more likely to be combined with market orientation.

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Pitt *et al.*, (2007)

This study utilises a framework of strategic archetypes in South African firms and then compares these firms in terms of measures of their levels of market orientation. It is found that Isolate firms exhibit markedly lower levels of information generation, information dissemination, responsiveness and overall market orientation than do the other archetypes. Somewhat surprisingly, however, the differences between Follower firms (those that supposedly follow the marketing concept most closely) are not nearly as dramatic as the

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literature would have one expect.

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Blackson and Cheng (2005) This paper results reveal four dimensions/factors/strategies underpinning market orientation in the study setting. The paper concludes that the size of the business does not moderate the importance ascribed to, and the application of, the marketing concept (*i.e.* market orientation).

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Kara, Spillan and DeShields (2005) In this study researchers have explored the relationship between market orientation and business performance in different organizations, such studies in small-sized service retailers are scarce. This study investigates potential influences of market orientation on small-sized service retailer performance. Results indicated that Kohli, Jaworski, and Kumar's market orientation scale provided a good measure of market orientation in this setting. Also, the results of analyses indicated a significant link between market orientation and small-sized service retailer performance.

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Kirca, Jayachandran, and Bearden (2005) The authors conduct a meta-analysis that aggregates empirical findings from the market orientation literature. First, the study provides a quantitative summary of the bivariate findings regarding the antecedents and the consequences of market orientation. Second, the authors use multivariate analyses of aggregate study effects to identify significant antecedents of

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market orientation and the process variables that mediate the relationship between market orientation and performance. In addition, using regression analysis, the authors find that the market orientation–performance relationship is stronger in samples of manufacturing firms, in low power-distance and uncertainty-avoidance cultures, and in studies that use subjective measures of performance. The authors also find that the market orientation–performance correlation is stronger for both cost-based and revenue-based performance measures in manufacturing firms than in service firms.

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Matsuno, Mentzer and Rentz (2005) The authors attempt to improve market orientation conceptualization and measurement by conceptually and empirically comparing three different scales of market orientation, the scales of Kohli and Jaworski, Narver and Slater and a newly developed extended market orientation (EMO) scale.

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Dobni and Luffman (2003) This paper suggests that market orientation is the collective of employee behaviors that affects strategy implementation, how an organization interacts with its environment and adjusts to changes within that context. This study identifies ideal behavioral profiles for organizations seeking to maximize performance by considering the scope and impact of market orientation on strategy implementation. This is accomplished

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by considering market orientation and strategy profiles in relation to performance in a holistic coalignment perspective, corresponding to competitive contexts characterized by varying degrees of market turbulence and competitive intensity.

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Langerak (2003) This study conducts to know (1) how the components of market orientation (i.e., customer orientation, competitor orientation and interfunctional coordination) affect the positional advantage of a firm in terms of differentiation or low cost advantage vis-à-vis competitors; and (2) how the firm's differentiation or low cost advantage influences the firm's organizational performance. The results from a sample of 122 manufacturing firms in The Netherlands reveal that both customer orientation and competitor orientation have a positive effect on differentiation advantage, while interfunctional coordination has a positive effect on low cost advantage. The findings also show that differentiation advantage has a positive effect on organizational performance. A low cost position has, however, no effect on organizational performance. Another interesting finding is that the linkages between the components of market orientation and positional advantage are moderated by strategy type, but not by the characteristics of the market environment

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Qu and Ennew (2003) This paper provides further evidence on the nature of the links between market orientation, the environment and performance through a comparative analysis of two business sectors in China with distinctively different competitive environments. The results indicate that market orientation's impact on business performance is positive regardless of environmental conditions. However, the environment is found to moderate the relationship between market orientation and customer satisfaction. Finally, the study provides evidence that market orientation also has positive impacts on power in distribution channels and corporate social responsibility.

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Matsuno, Mentzer and Ozsomer (2002) The authors investigate structural influences (both direct and indirect) of entrepreneurial proclivity and market orientation on business performance. The results indicate that entrepreneurial proclivity has not only a positive and direct relationship on market orientation but also an indirect and positive effect on market orientation through the reduction of departmentalization. The results also suggest that entrepreneurial proclivity's performance influence is positive when mediated by market orientation but negative or nonsignificant when not mediated by market orientation.

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Hult and Ketchen (2001) This paper posits that market orientation can enhance success, but that its potential value should not be considered in

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isolation. The data used are drawn from 181 large multinational corporations (MNC). The results indicate that positional advantages arising from the confluence of market orientation, entrepreneurship, innovativeness, and organizational learning have a positive effect on MNC performance (five-year average change in ROI, income, and stock price). Overall, the results support the contention that market orientation can enhance success, albeit within the context of other important phenomena.

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Shoham and Rose  
(2001)

In this study, a four dimensional framework for business performance, theoretically integrate the findings from past studies within this framework, empirically establish a relation between market orientation and business performance in a non-North American context: Israel, and discuss potential similarities and differences across nations.

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Slater and Narver  
(2000)

Narver and Slater's (1990) finding of a positive relationship between market orientation and business profitability is retested in a broad sample of product and service businesses operating in a variety of industries. The assessment of the extent of market orientation is provided by the chief marketing officer, and profitability is assessed by the general manager, thus avoiding the problem of common respondent bias. The analysis of the influence of culture on business

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	performance is extended by including a measure of entrepreneurial orientation in the study.
Deshpande and Farley (1998)	This paper reports on an integrative, cross-national study which synthesizes and retests work of three separate groups of researchers who in the late 1980's developed measurements of a firm's Market Orientation. The projects resulted in three different but syntactically similar Market Orientation scales which, along with other measures, were used to support substantive conclusions, particularly those involving firm performance.
Jaworski and Kohli (1996)	This paper critically reviews the "state-of-the-art" and offers a roadmap for future work in the area. The review primarily focuses on (1) the meaning of market orientation, (2) its relationship with several emerging topics/themes in the literature (e.g., market information processing, organizational learning, knowledge use, industry foresight and driving markets), (3) the quality of market-oriented behaviors, (4) impact of market orientation, and (5) issues in enhancing market orientation.
Jaworski and Kohli (1993)	This paper conducted research on market orientation in the environment of Brazilian meta-analysis, aggregating a sample size of 4,537 in 27 papers. The findings suggest that the

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relationship between market orientation and business performance is positive and strong. Authors also conducted an international mega-analysis, aggregating a sample size of seven meta-analyses on market orientation. The results show that there is a positive, strong and consistent international relationship between market orientation and performance across countries.

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Kohli and Jaworski (1990) The authors synthesize extant knowledge on the subject and provide a foundation for future research by clarifying the construct's domain, developing research propositions, and constructing an integrating framework that includes antecedents and consequences of a market orientation. They draw on the occasional writings on the subject over the last 35 years in the marketing literature, work in related disciplines, and 62 field interviews with managers in diverse functions and organizations.

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Narver and Slater (1990) The authors report the development of a valid measure of market orientation and analyze its effect on business profitability. Using a sample of 140 business units consisting of commodity products businesses and non-commodity businesses, they find a substantial positive effect of a market orientation on the profitability of both types of businesses.

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Webster (1988) This paper emphasizes on complete understanding of the marketing concept. The inherent conflict between short term and long term sales and profit goals and an over emphasis on short term, financially oriented measures of management performance and top management own values and priorities concerning the relative importance of customers and the firm's other constituencies.

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Felton (1959) Author outline the essential ingredients of marketing function

- 1) state of mind;
- 2) integration and co-ordination of marketing function and
- 3) professional and executive skills of a directors and vice presidents

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Harris (2001) explained that, over the years, research scholars from the pasture management and marketing, highlighted the importance of developing market orientations in organizations. Market orientation has been heralded by academics and practitioners for decades as a central tenet of modern marketing science (Kotler, 1984; Webster, 1988). Mavondo *et al.*, (2005) opined about the market orientation that a set of norms and values affect a set of behaviors and activities. Market orientation is a concept that is believed to have far reaching effects on organizations as it influences how employees think and act (Javalgi, Martin, & Young, 2006). Market orientation is the very heart of modern marketing management and strategy (Narver & Slater, 1990). A market-oriented firm is one, which successfully applies the marketing concept (Kohli & Jaworski, 1990). It is concerned with fulfilling the



customer needs and want, while delivering the best to satisfy or attract new customers. Market oriented firms require employees to tailor products and services to meet customer needs (Baroom, Goolsby, & Ramsey, 1998).

Cadogan *et al.* (2002) suggested that the market orientation can be employed more effectively and more usefully in the face of high degrees of uncertainty, which recently is the condition in Pakistan. Market orientation emphasizes competitiveness and profit based on identifying consumer needs, wants and aspirations and delivering compatible offerings which are competitively better than that of competitors (Blackson & Cheng, 2005).

Market orientation organization always place weight on the market place and their maneuver are directed to satisfy and retain their customers. Jaworski and Kohli (1993) also stated that market orientation emerge to offer an amalgamate focus for the efforts and projects of individuals and departments within the organization, leading to better-quality performance. SMEs often lacking resources and information find suitable tool(s) to face the intense market competition, especially in marketing activities, making it tricky for the SMEs not to adopt market orientation program. Vorhies and Herker (2000) posited that market orientation is a fundamental approach to understanding markets with strategic dimension. The difference between marketing orientation and non/ low market orientated company showed by Jaworski and Kohli (1993) that market oriented organization possesses the ability to generate, disseminate, and respond to information about market forces and market conditions

better than less market orientated rivals. Pelham (2009) explained that a strong market oriented culture would be related to organization effectiveness if employees shared values of open functional communication, commitment and enhanced customer satisfaction by the management's information generation/ dissemination and response actions, which influence norms of behavior such as frequent customer contact, enquiry about problems and efforts to solve those problems

Market oriented organization looks beyond current customer needs to develop future products that will tap latent needs, thus serving to strengthen the firms market position over time (Slater & Narver, 1998). Customer focus confirmed by the Javalgi *et al.* (2006) shows that when business is market oriented its culture is supposed to be systematically and entirely committed to the continuous creation of superior customer value. Slater and Narver (1994) emphasized on customer focus, that the heart of a market orientation is a firm's customer focus. Mavondo *et al.* (2005) contemplated that market orientation is a combination of exploration of information by the organization for learning about its customers, competitors, markets, *etc.*, and this exploitation will lead them to secure advantage for its welfare. They further added that market orientation is an important antecedent to product innovation, process innovation and administrative innovation. A market orientation is valuable because it focuses on the organization first, continuously collecting information about target customers' needs and competitors' capabilities and also using this information they can create continuously superior customer value (Slater & Narver, 1995). But Dunn,

Norburn, and Birley (1994) affirmed that companies find it difficult to become market oriented but it is not impossible.

Kohli and Jaworski (1990) proposed the three components of market orientation which cover the horizon of business. First they argued that in order to create market intelligence program pertaining to current and future customer needs, the program should initiate on whole organization basis, and not just on one department. Secondly they emphasized on the need for propagation of the intelligence across departments and finally they suggested that response of whole organization is necessary for this market intelligence. The same concept was proposed by the Narver and Slater (1990); they also recommended three components,

- a) Customer orientation: a sufficient understanding of target customers, so that organization can create continuous superior value for them.
- b) Competitor orientation: understanding the short-term strengths and weaknesses of both current and potential customers along with long-term capabilities that can create hurdles for the company in future. .
- c) Inter-functional coordination: Utilization of companywide resources for creating superior value for current and future customers in coordinated and synchronized manner.

In Pakistani environment this issue has not been famous, especially for small and medium enterprises. As McLarty (1998) illustrated in their study, there was little research on market orientation within the small business sector. But nonetheless,

there is also evidence of some successful cases regarding SMEs applying a market oriented strategy (Kara *et al.* 2005). Blackson and Cheng (2005) confirmed the lack of appreciation of market orientation in the small business sector.

In short Market Orientation is a business approach or viewpoint that focuses on identifying and meeting the acknowledged or concealed needs or wants of customers.

### **2.3.2 Views and definitions about market orientation**

a) “The organization wide generation of market intelligence pertaining to current and future needs of the customers, dissemination of intelligence horizontally and vertically within the organization, and organization wide action or responsiveness to it” (Jaworski & Kohli, 1993).

b) Deshpande *et al.* (1993) study illustrated the market orientation as “the set of beliefs that puts the customer’s interest, competitor information and interfunctional coordination effort first, while not excluding those of other stakeholders such as owners, managers, and employees, in order to develop a long-term profitable enterprise”.

c) “The organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business” (Narver & Slater 1990).

- d) Day (1994) definition proposed that “simply says that market orientation represents superior skills in understanding and satisfying customers”.
- e) A business approach or philosophy that focuses on identifying and meeting the stated or hidden needs or wants of customers. (Business Directory.com, n.d).
- f) A company philosophy focused on discovering and meeting the needs and desires of its customers through its product mix (Tutor2u, n.d).
- g) Market orientation is the generation, distribution, and use of market intelligence in response to customer and competitor influences (Kohli & Jaworski, 1990; Kohli, Jaworski, & Kumar, 1993).
- h) Market orientation is the capabilities that an organization possesses to attract, serve, satisfy, and retain customers (Grace, 2006).

### **2.3.3 Market orientation and firm performance**

Market orientation is found to be significantly positive for firm’s performance in many literatures, in which many are confirmed by the empirical results and analyses. Morgan *et al.* (2009a) found the market orientation as the source of competitive advantage. Narver and Slater (1990), the pioneers of market orientation study, used the sample of 140 business units in the forests products division (non-commodity and commodity businesses) of a major US corporation; they found the market orientation was positively linked with business profitability. They further added that when business increases its market orientation it will improve its market performance (Narver & Slater, 1990). Market orientation helps to retain customers, which is the

vital point to gain firm performance. As Qu & Ennew (2003) also confirmed the positive relationship between market orientation and customer satisfaction. Profitability is viewed as a component of market orientation (Kohli & Jaworski, 1990).

Pulendran, Speed, and Widing (2000) illustrated the positive relationship between market orientation and business performance, regardless of the market conditions. In the environment of Saudi Arabia, Bhuian (1998), for India, Subramanian & Gopalakrishna (2001), and for Eastern Europe Hooley, Fahy, Greenley, Beracs, Fonfara, and Snoj (2003) and Hooley, Cox, Fahy, Shipley, Baracs, Fonfara, and Snoj (2000) posited the similar findings that marketing orientation is positively related to firm performance. In China's perspective, Qu and Ennew (2003) conducted study for hotels and travel services, and they found positive relationship between market orientation and business performance. Pelhan (2000) study reported the positive effects of market orientation on growth/ share, marketing/ sales effectiveness and gross profit in small and medium enterprises firms.

Pelham's (1997) study found that market orientation leads to customer satisfaction which has the most significant influence on firm performance. Siguaw, Brown, and Widing (1994) concluded that clearly communicated strong market oriented culture builds or sustains the customer satisfaction norms and value, which lead to customer loyalty and firm's performance. Webb, Webster, and Kreppa (2000) linked the firm's performance to marketing market orientation as it had a

strong effect on customer satisfaction. Tyagi (1985) research reflected the market orientation effect on sales: if a firm is market oriented, it would enhance the customer value strategies, policies and structure of the firm, ultimately leading to greater salesperson role accuracy, which, in turn, increases the sales of the firm. Pelham and Wilson (1996) proposed that market orientation had a more momentous relation to firm's performance than firm strategy or firm structure. Kirca *et al.* (2005), meta-analysis sustained the positive and significant link between market orientation and firm performance. Greenley (1995) empirical studies also confirmed the link between market orientation and corporate performance. Same sort of confirmation by the studies of Jaworski and Kohli (1993) and Diamantopoulos & Hart (1993) in which they proved the market orientation supports a positive collision on firm performance. Grace (2006) cited the relationship of product durability (Wright, Pearce, & Busbin, 1997), on-time delivery of product and service, sales growth (Tansujaj *et al.*, 1995), market share (Liu, 1995), profitability (Liu, 1995) to efficient market orientation.

Cano *et al.* (2004) carried out the study on manufacturing and service firms and scrutinized the effect of market orientation and firm performance, whose results indicated that there is a strong relationship between marketing orientation and firm performance. They further elaborated market orientation effect on firm performance stronger in a service setting than in a manufacturing setting. He further argues that a market oriented firm requires employees to tailor products and services to meet customer needs and solve their problems (Baroom *et al.*, 1998) which lead to firm's performance. As Pelham (2009) illustrated market orientation integrated in firm's

culture and management emphasis on information generation/dissemination, response actions, which achieve the firm performance through the behaviors of the firm's employees charged with delivering value to the customer. It becomes clearer and easier how a firm's market orientation leads to superior firm performance.

Agarwal *et al.* (2003) confirmed the effects of market orientation on measures of performance, as occupancy rate, gross operating profit, and market share. Sin *et al.* (2005) explained the market orientation status on performance in the hotel industry and verified that market orientation is positively and significantly associated with the marketing performance and financial performance. Market orientation is positively related to sales growth and ROI (Galbun, 2008). MO directly supported performance in terms of ROA (Morgan *et al.*, 2009b). Narver and Slater (1990) maintained the positive relationship between market orientation and business profitability which is measured by the return on investment.

In short a company using market orientation invests time researching current trends in a given market. The company then develops a product strategy that caters to the wants and needs of its clientele. Upon deployment, the company advertises the products as items that consumers already want rather than convincing them that the products are something they should want. For example, if a car company engages in market orientation, it will research what consumers most want and need in a car rather than produce models meant to follow the trends of other manufacturers.

Previous literature of market orientation suggested the H<sub>3</sub> and H<sub>6</sub> as:



*H<sub>3</sub>: The market orientation positively related to the firm performance of the SMEs of Pakistan.*

*H<sub>6</sub>: Customer orientation, competitor orientation and inter-functional coordination are significant predictor of firm performance of SMEs of Pakistan.*

On the basis of all above literature of marketing practices, marketing capabilities and market orientation, H<sub>7</sub> tested as:

*H<sub>7</sub>: Marketing practices, marketing capabilities and market orientation are significant predictor of firm performance of SMEs of Pakistan.*

## **2.4 Firm Performance**

The results of activities of an organization or investment over a given period of time, which judge on the combination of a) business unit profitability, b) return on investment (ROI), c) customer satisfaction and retention, d) delivering value to your customers, and e) overall marketing effectiveness.

The reason to start or invest in any business is to get benefit from its performance. The performance can be judge from many aspects which illustrated in above paragraph. For present study the firm performance is the dependent variable which judge on five (5) aspects.

### ***2.4.1 Views and definitions about firm performance***

#### **2.4.1.1 Performance**

The results of activities of an organization and its investment over a given period of time, judge by the combination of five variables. The further description of performance is given below:

- a) According to Oxford (2010e), the action or process of performing a task or function.
- b) The accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. In a contract, performance is deemed to be the fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract (Business Directory.com, n.d e).
- c) The act, process, or art of performing or manner or quality of functioning or any accomplishment (Collin English Dictionary, n.d f)
- d) Corporate management, conscious of the size of the marketing depend, is focusing more attention on the return on investment in marketing services (Council of Public Relations Firms, 2005)
- e) Growth in sales and market share are importance to business to ensure long term viability and resource availability (Varadarajan, 1983)
- f) Growth reflects increases in sales and is often reflected in market share gain (Kaplan, 1996)
- g) Profitability primarily reflects current performance (Venkatraman, 1989).

h) Customer satisfaction represents the effectiveness of the organization in delivering value to its customers and is often viewed as an antecedent to profitability (Vorhies & Harker, 2000).

#### 2.4.1.2 Return on Investment

Book income as a proportion of net book value (Reis, n.d).

#### 2.4.1.3 Sale/ Revenue

Money/ currency generated by business operations.

#### 2.4.1.4 Goodwill

Company's good reputation with existing customers (Mascull, 2002).

#### 2.4.1.5 Employee turnover/ satisfaction

What employee feels about the company and his desire to work in the company for long?

#### 2.4.1.6 Quality

Customer perception about the service of the company.

### ***Summary***

This chapter provides the importance of the thesis main variables, their definitions and impact on firm performance. The core of this chapter and study is to show that all variables picked are sufficiently making impact on firm's performances. This chapter also shares the different viewpoints about the same concept which are used in business practices.



## CHAPTER THREE

### RESEARCH METHODOLOGY

#### Overview

This chapter illustrates the research techniques and concepts that are employed to find the objectives of the study and ultimately the relationship between the three main independent variables and the dependent variable. Chapter three starts with the research design, which shows the data collection process and schedule, instrument (questionnaire) development and its operationalization, items' detail, pilot testing, reliability testing. The title, 'Data Analysis' shows the employed statistical tools to analyze the variables and their relationships.

### **3.1 Research design**

#### ***3.1.1 Data collection***

The research was designed for field/ survey base with cross-sectional (Hair, Celsi, Money, Samouel, and Page, 2011) approach. Target population of the study was small and medium enterprises of Pakistan. According to Sekaran (2003), sample statistics need to be reliable and represent the population parameters as closely as possible with a narrow margin of error. In the present survey, 267 small and medium enterprises firms of Pakistan were selected on nonprobability Convenience sampling, and the researcher has taken all care to cover every targeted sub-industry. Due to the unavailability of the reliable information about the service sector statistics, it is assumed that service sector SMEs are more than 100,000, so according to Yamane (1967) and Hair (2008) on  $\pm 6.30\%$ , precision levels where confidence level is 93.7% and  $p=.5$ , sample size would be 241. But on the other hand Hair, Black, Babin, Anderson, and Tatham, (2006) suggested that in multiple regression analyses the desired level is between 15 to 20 observations for each predictor variable. Due to internal situation (election time and security situation) the data collection company collected only 267 SMEs responses collected.

Out of the 267 responses, 240 usable responses were selected for data analysis based on the selection criteria of the firm size and type, as 18 out of 27 responses were blank and the remaining nine provided only minimum information. Only firms with less than 300 million sales volume employees were selected for the study. Thus,

the firms participated in this survey were service sector SMEs with less than 300 million sales volume. According to the Census of Establishments (1988), there are 72 geographic districts in Pakistan and more than 50 percent of SMEs in the country are located in the ten districts, namely; Karachi, Lahore, Faisalabad, Multan, Hyderabad, Sialkot, Gujrat, Shiekhpura, Gujranwala and Quetta. Furthermore, 25 percent of SMEs in the country are in Karachi, Lahore and Faisalabad districts (Bhutta, Rana, & Asad, 2007).

### SMEDA and Economic Survey of Pakistan (2010)

3.2 million establishments are operating

SMEs represent 90% of all the enterprise (*i.e.* 2.88 million SMEs)

Contributes 30% to GDP

25% to total exports

78% to value addition

Employ 80% of the non-agricultural labour force.

According to Economic Survey Report (2008) 3.2 million organizations are operating in Pakistan out of which 2.88 million (90 percent) are SMEs. The basic contentions to select these three cities for research are:

- Karachi contributed 18.1 percent, Lahore contributed 9.32 percent and Faisalabad contributed 3.26 percent in the total GDP of Pakistan (PricewaterhouseCooper report, 2009).

- Out of 72 districts of Pakistan 25 percent SMEs are present and operating in these districts (Bhutta, Rana, & Asad, 2008), which comprises the population of 0.72 million. These three cities are the most revenue generated cities of the two states of Pakistan, namely Sindh and Punjab.

The survey started in the first week of January 2013 and was completed by the beginning of March 2013. The services of a company were availed for collecting the data, because that company had resources to collect data from Karachi, Lahore and Faisalabad. Data was collected from the main industrial areas of Karachi, Lahore, and Faisalabad. The questionnaire was self-administrated, and it was quantified in the survey that respondents must be in key positions and in a position to answer the relevant questions accurately. The owner/ CEO/ COO/ manager, who are decision makers or looking after the marketing activities of the respective firm were the main participants of the study.

### ***3.1.2 Instrumentation & its Operationalization***

A structured questionnaire instrument was used in the field survey to gather the primary data from small and medium enterprises of Pakistan. The questionnaire was in English language as most of the owners/ CEOs/ COOs/ manager can understand and response in English language. Data was collected from the main industrial areas of Karachi, Lahore and Faisalabad, because these three cities are the main contributors to Pakistan's gross domestic product (GDP) and they represents 25% of



all small medium enterprises of Pakistan. Moreover, they are the largest revenue generators of Sindh (Karachi) and Punjab (Lahore and Faisalabad) provinces. Pricewater house Cooper (2009) illustrated that Karachi contributed 18.1%, Lahore contributed 9.32% and Faisalabad contributed 3.26% of the total GDP of Pakistan, and together they contribute 30.68% of total gross domestic product (GDP) of Pakistan. The manufacturing and service sectors of Pakistan jointly contribute 78.8% in total gross domestic product (GDP), in which manufacturing sector has 25.4% and service sector has 53.4% share. In this study ten sub sectors (five each from manufacturing and service sector) were included: textile, pharmaceutical, sports goods, leather goods and garments/apparel in manufacturing sector and education, financial institution, hospitals/health institution, restaurants and hotel, and IT/media in service sector.

Despite the fact that the Ministry of Finance (2009) has mentioned 3.2 million organizations are operating in Pakistan, the fact is that out of which 2.88 million (90%) are SMEs. Likewise, 0.72 million (25%) of SMEs are located in Karachi, Lahore and Faisalabad. It is almost difficult to find the exact population size of the manufacturing and services firms separately because of the unavailability of authentic data from government or private sources (Bhutta *et al.*, 2008). For the researcher it is not an easy thing to get reliable information about the exact target physical area of research. The available options from the old researches are SMEDA informative report on SME sector of Pakistan, Jamal's yellow pages database (Bhutta *et al.*, 2007) and Phonebook online database (Ghouri *et al.*, 2011a) of firms operating in Pakistan,

and those data are used for this study. As the researcher found the Phonebook data, which is managed by a private organization under the umbrella of famous media group more appropriate, it, along with SMEDA was used for updated listing.

The criteria for selecting the target of small medium enterprise (SME), or any concern (trading, service or manufacturing) with net sales not exceeding Rs. 300 million has been as per the latest financial statements (SMEDA, 2007; State Bank of Pakistan, n.d.). SMEs are more than 100,000, therefore according to Yamane (1967) and Hair (2008) on  $\pm 6.30\%$ , precision levels where confidence level is 93.7% and  $p=.5$ , sample size would be 241. But on the other hand Hair, Black, Babin, Anderson, and Tatham, (2006) suggested that in multiple regression analyses the desired level is between 15 to 20 observations for each predictor variable. Due to internal situation (election time and security situation) the data collection company collected only 267 SMEs responses collected.

Introductory letter developed on behalf of the researcher, and company facilitator(s) showed their representative letter as well on the time of data collection/meeting. The introductory letter comprises of the introduction and profile of the researcher, reason for research and declaration about secrecy of the respondent's private information with complete confidence.

The survey questionnaire was composed of five sections; first part consists of demographic information of firms and respondents. Remaining four parts were developed as the main survey instruments (marketing practices, marketing capabilities, market orientation and firm performance). All variables were also divided into sub variables and all questions were asked in four specific categories namely: marketing practices, marketing capabilities, market orientation and firm performance.

The marketing practice variables' had twenty (20) items adopted from the study of Ghouri *et al.* (2011b) which was conducted on a sector of small and medium enterprises. These items were measured at the 5 point Likert scale range: 'Strongly Agree', 'Agree', 'Neutral', 'Disagree', 'Strongly Disagree'. The twenty (20) items of marketing practices *e.g.* advertising (4 items), public relation (4 items), sales promotion (4 items), direct marketing (4 items), and pricing (4 items) adopted from Ghouri *et al.* (2011b). These items captured the respondent's attitude about each marketing practice and shared the insight about the current marketing effectiveness of the business. All these five factors effect assumed as marketing practices, as it discussed in literature review chapter 2 that these are the main practices which SMEs should adopted. The importance of items took in marketing practices are: Ali & Narjes (2011) posited that pricing is the most important part for business to survive and earn profit, as compare to other marketing practices, and advertising, sales promotion, public relation and direct marketing considered as 'communication platform' for businesses mentioned by Kotler (2001).

Marketing capabilities' twenty three (23) items adopted from the study of Vorhies & Harker, (2000), four (4) items were related to marketing research, four (4) linked to pricing, four (4) associated to product development, four (4) coupled with relationships/distribution, three (3) tied with marketing communications/ promotions and four (4) connected to marketing management. These items considered at the 5 point Likert scale ranged: 'Strongly Agree', 'Agree', 'Neutral', 'Disagree', 'Strongly Disagree', and showed the proceedings of business for building or secure the distinct position in their respective scenario/ industry.

Marketing orientation's fourteen (14) items were employed from Narver and Slater (1990) research contribution. It is divided into further three categories, in which, customer orientation had six (6) items, and competitor orientation and inter-functional coordination had four (4) items for each category. These items illustrated the small medium enterprises internal care takers and functions blood's behaviors for the creation of superior value for their customer for the future benefit of the business. These items tested at the 5 point Likert scale ranged: 'Strongly Agree', 'Agree', 'Neutral', 'Disagree', 'Strongly Disagree'.

It is enviable for any performance measured research that results should be interpreted on objective measures, such as sales or profits, but it is very difficult to obtain objective measures of Pakistani small medium enterprises firms, as most of the firms are not registered with the official government bodies. Due to this it was not possible to balance the facts (McClelland, 1995) regarding Pakistani small medium

enterprises performances. Weinstein, Nicholls, & Seaton (1992) suggested the use of subjective measure in such circumstances where objective measures are not available. Therefore, in the present study subjective measure were used to examine the firm's performance measures. Five (5) items of firm's performances were derived from two studies: Vorhies & Harker, (2000) and Vorhies, (1998). The items that were derived are as under: one (1) item of business unit profitability (Vorhies & Harker, 2000), one (1) item of return on Investment (Vorhies & Harker, 2000), one (1) item of customer satisfaction (Vorhies & Harker, 2000), one (1) item of delivering value to your customers (Vorhies & Harker, 2000), and one (1) item of overall marketing effectiveness (Vorhies, 1998). All items experimented at the 5 point Likert scale ranged from 'Much worse than competitors' to 'Much better than competitors'. Outline of instrument is mentioned in next heading (table 3.1).

### 3.1.3 Outline of instrument

Table 3.1

Outline of Questionnaire

Variables	Item	Section	Source
<u>Demographic</u>			
Respondent background	4	1	Self made
Firm background	23	1	Self made
<u>Marketing Practices-20 items</u>			
Advertising (2011b)	4	2	Ghouri, <i>et al.</i>
Sales promotion (2011b)	4	2	Ghouri, <i>et al.</i>
Public relation (2011b)	4	2	Ghouri, <i>et al.</i>
Direct marketing (2011b)	4	2	Ghouri, <i>et al.</i>

Pricing (2011b)	4	2	Ghouri, <i>et al.</i>
<u>Marketing capabilities-23 items</u>			
Marketing research (2000)	4	3	Vorhies&Harker,
Pricing (2000)	4	3	Vorhies&Harker,
Product development (2000)	4	3	Vorhies&Harker,
Relationship/ distribution (2000)	4	3	Vorhies&Harker,
Marketing communication/ Promotion (2000)	3	3	Vorhies&Harker,
Marketing management (2000)	4	3	Vorhies&Harker,
<u>Marketing orientation-14 items</u>			
Customer orientation (1990)	6	4	Narver& Slater
Competitor orientation (1990)	4	4	Narver& Slater
Interfunctional coordination (1990)	4	4	Narver& Slater
<u>Firm performance-5items</u>			
Business unit profitability (2000)	1	5	Vorhies&Harker,
Return on Investment (ROI) (2000)	1	5	Vorhies&Harker,
Customer satisfaction (2000)	1	5	Vorhies&Harker,
Delivering value to your customers (2000)	1	5	Vorhies&Harker,
Overall marketing effectiveness	1	5	Vorhies, (1998)

### **3.1.4 Pilot test**

Before collecting the data a pilot testing was conducted to detect the weaknesses and problems in design and development of instrument/ measures (Manel & Salah, 2011).

For this purpose, pilot group of thirty six (36) small and medium enterprises owners/ managers were prepared. They provided their responses in self-administrated questionnaires in all items. Validity and reliability were checked by this process.

### 3.1.5 Reliability testing

Reliability is the consistency of scores or answers from one administration of an instrument to another, and from one set of items to another (Fraenkel, Wallen, & Hyun, 2012). It is supposed in every valid research project that each critical factor of the research constructs should be assessed by Cronbach alpha reliability tests which are known as the factor examining measurement instrument (Sekaran, 2003). Churchill (1979) suggested that coefficient or Cronbach alphas should be the first measure used to evaluate the quality and excellence of an instrument. Cronbach's alpha observed as estimator of the internal reliability. Hence, as George and Mallery (2003) said the following rules of thumb are provided.

Table 3.2

Reliability Detail

Reliability	Figure
Excellent	> .9
Good	> .8
Acceptable	> .7
Questionable	> .6
Poor and unacceptable	> .5

Sekaran (2005) argued that if the Cronbach's alpha reliability test result is less than 0.7, it means that the instrument used has low reliability and therefore gives room for some errors but if the alpha value is within 0.7, the instrument is reliable. Therefore, all four constructs reliability is appropriate.

All items of the study were not newly constructed, and pilot test was conducted to assess the internal reliability of marketing practices and its five categories, marketing capabilities and its six categories, market orientation and its three categories, and firm performances. The Cronbach's alpha for all items of the study were well above the level of 0.7, which is an acceptable measure for exploratory studies (Sekaran, 2003). For the validity the purpose Carmines and Zeller (1979) recommendations were followed for all items to ensure the accuracy of the instrument.

Table 3.3 which is given below shows the reliability results of all constructs/variables. The marketing practices consist of five variables: advertising, sales promotion, public relation, direct marketing and pricing. The results of reliability are:

- 1) The advertising variable had 4 items; item no. 3 showed the low reliability score therefore it was deleted. The Cronbach's alpha reliability of the 3-item measure of advertising with 240 cases (scoring the appropriate items) was 8.85.
- 2) Sales promotion variable had four items, As item no. 1 explained the low reliability score it was discarded from further analysis. The Cronbach's alpha reliability of the 3-item measure of sales promotion was with 240 cases (scoring the appropriate items) was 6.22.



- 3) Public relation variable had four items and all items showed the appropriate measures of reliability scores. The Cronbach's alpha reliability of the 4-item measure of public relation with 239 cases (scoring the appropriate items) was 9.28.
- 4) Direct marketing variable consisted of four items and all items posited the appropriate measures of reliability scores. The Cronbach's alpha reliability of the 4-item measure of direct marketing with 238 cases (scoring the appropriate items) was 7.96.
- 5) Pricing variable had four items and all items demonstrated the appropriate measures of reliability scores. The Cronbach's alpha reliability of the 4-item measure of pricing with 240 cases (scoring the appropriate items) was 8.19.

The marketing capabilities consist of six variables: marketing research, pricing, service development, relationship/ distribution, marketing communication/ promotion and marketing management. The results of reliability are:

- 1) The reliability results of marketing research variable consist of four items and all items exemplified the appropriate measures of reliability scores. The Cronbach's alpha reliability of the 4-item measure of marketing research with 240 cases (scoring the appropriate items) was 6.98.
- 2) Pricing variable of marketing capabilities had four items and item no. 1 was deleted as it yielded the low reliability scores. The Cronbach's alpha reliability of the 3-item measure of pricing with 239 cases (scoring the appropriate items) was 6.89.

- 3) Service development variable had four items and all items yielded the appropriate reliability scores. The Cronbach's alpha reliability of the 4-item measure of service development with 240 cases (scoring the appropriate items) was 8.88.
- 4) Relationship/ distribution variable consisted of four items and item no. 4 was discarded as it yielded low reliability scores. The Cronbach's alpha reliability of the 3-item measure of relationship/ distribution with 240 cases (scoring the appropriate items) was 8.08.
- 5) Marketing communication/ promotion variable had three items and all items demonstrated the appropriate reliability scores. The Cronbach's alpha reliability of the 3-item measure of marketing communication/ promotion with 240 cases (scoring the appropriate items) was 7.30.
- 6) Marketing management variable consisted of four items and all item showed the appropriate reliability scores. The Cronbach's alpha reliability of the 4-item measure of marketing management with 239 cases (scoring the appropriate items) was 7.55.

The market orientation construct had three variables: customer orientation, competitor orientation and Inter-functional coordination. The reliability results are:

- 1) Customer orientation variable consisted of six items and all items demonstrated the appropriate reliability scores. The Cronbach's alpha reliability of the 6-item measure of customer orientation with 240 cases (scoring the appropriate items) was 6.96.

- 2) Competitor orientation variable consisted of four items and all items showed appropriate reliability scores. The Cronbach's alpha reliability of the 4-item measure of customer orientation with 239 cases (scoring the appropriate items) was 7.02.
- 3) Inter-functional coordination variable consisted of four items and item no. 2 showed the low reliability score; hence it was discarded from further analysis. The Cronbach's alpha reliability of the 3-item measure of interfunctional coordination with 239 cases (scoring the appropriate items) was 6.90.

Firm performance variable consisted of five items and all items demonstrated the appropriate reliability scores. The Cronbach's alpha reliability of the 5-item measure of firm performance with 234 cases (scoring the appropriate items) was 8.15.

*Table 3.3*

Reliability Results

Variable	No	No	of	Reliability
<i>Marketing Practices</i>				.753
Advertising	3	240		.885
Sales promotion	3	240		.692
Public relation	4	239		.928
Direct marketing	4	238		.796
Pricing	4	240		.819
<i>Marketing Capabilities</i>				.766
Marketing research	4	240		.698
Pricing	3	240		.689
Service development	4	240		.888
Distribution/relationship	3	240		.808
Marketing comm/ promotion	3	240		.730
Marketing management	4	239		.755
<i>Market Orientation</i>				.742
Customer orientation	6	240		.696
Competitor orientation	4	239		.702

Inter-functional coordin	3	239	.690
Firm performance	5	234	.815

### 3.1.6 Validity test

Validity of instrument is essential for reliability test. Validity of instrument shows the appropriateness, meaningfulness, and usefulness of the inferences research makes and explains the degree to which evidence supports any inferences a researcher makes based on the data he or she collects using a particular instrument (Fraenkel *et al.*, 2012). Before starting to collect the data, and after reliability test, validity test provides the information regarding the instrument, whether it serves purpose(s) or not.

Three tests of validity were conducted for the present research. 1) Kaiser-Meyer-Olkin test, 2) Bartlett's Test of Sphericity, and 3) variance inflation factor (VIF). According to Pett, Lackey, & Sullivan (2003) Kaiser-Meyer-Olkin test shows the strength of the relationship among items with partial correlation coefficient, which represents correlations between each pair of items after removing the linear effects of all other items. This shows the sampling adequacy that compares the magnitudes of the calculated correlation coefficients to the magnitudes of the partial correlation coefficients. Large value of KMO is considered good, because it shows the higher correlation between pairs/ items. KMO should not be below .05 (Leech, Barrett, & Morgan, 2011).

Bartlett's test of Sphericity was used to examine assumptions relating to the appropriateness of the factor analysis. It tests whether the correlations among the items are sufficiently high to indicate the existence of factors (Ntoumanis, 2001). Hinton, Brownlow, McMurray, & Cozens (2004) posited that Bartlett's test of Sphericity lets us know whether there is a relationship between the items. According to Munro (2004) significance value should be near to .000. Hinton *et al.* (2004) suggested that  $p$  value  $<0.05$  of Bartlett's test of Sphericity indicates that it makes sense to continue analysis.

Variance inflation factor (VIF) measures the effect of correlation with the other items in increasing the standard error of a regression coefficient (Maindonald & Braun, 2007). VIF helps to determine which variables may be correlated or collinear, in other words VIF statistics show how collinearity has increased the instability of the coefficient estimates (Freund, Littell, & Creighton, 2003). In VIF, communalities are the sum of square factor loadings for a given indicator across all factors (Brown, 2006). This shows the proportion of each variable's variance explained by the factors. If the results of communality illustrate high values, it means the extracted factors account for a big proportion of the variable's or item's variance. This value should not be low proportion to factor and reflect well via the extracted factors.

Initial eigenvalues in VIF results are measures of the variance in all the variables that are accounted for by a given factor. According to Strichartz (2006) ratio of eigenvalues shows the importance of the factors with respect to the variables. Same

author added that if any factor explains low eigenvalues as less than 1, it should be ignored. Gerber and Finn (2005) exhibited that extraction sums of squared loadings variance illustrates the total variance explained by each factor and cumulative percentage explained the cumulative percentage of variance accounted for by the current and all preceding factors. Gerber and Finn (2005) defined that rotation sums of squared loadings explains the maximize values (%) of variance of each of the factor (if available) with total variance accounted by factor, total variance explained by each factor and cumulative percentage explained the cumulative percentage of variance accounted for by the current and all preceding factors after rotation.

#### 3.1.6.1 Marketing practices

Validity test of the marketing practices construct are divided into five parts (variables): advertising, sales promotion, public relation, direct marketing and pricing. The Kaiser-Meyor-Olkon (KMO) test and Sphericity test in table 3.4, communality correlation in table 3.5 and total variance explained of factor in table 3.6(mentioned below) were carried out to find the validity of the data.

##### Advertising

Three items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of advertising variable explain the appropriate results for further data analysis as KMO test has are higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4.

Table 3.5 illustrates well-defined communality values by rotated items/ factor solutions, with all variables exceeding .69. Table 3.6 shows the total variance accounted for by the three items was 81.898%.

#### Sales promotion

Three items/ factors were extracted on Varimax rotation, and item no. 3 had low communalities of 2.56, hence was discarded from further analysis. So, two items/ factors were extracted on one component in Varimax rotation. The KMO test and Bartlett's test of Sphericity of sales promotion variable posit the satisfactory results for further data analysis as KMO test has a value .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4. Table 3.5 demonstrates well-defined communality values by rotated items/ factor solutions .806. Table 3.6 explains the total variance accounted for by the two items was 80.565%.

#### Public relations

Four items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of public relations variable elucidate the appropriate results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4. Table 3.5 shows well-defined communality values by rotated items/ factor solutions, with

all variables exceeding .699. Table 3.6 provides the total variance accounted for by the four items was 82.656%.

#### Direct marketing

Four items/ factors were extracted on Varimax rotation, and item no. 4 had low communalities of 2.64, hence was dropped from further analysis. So, three items/ factors were extracted on one component in Varimax rotation. The KMO test and Bartlett's test of Sphericity of direct marketing variable illustrates the satisfactory results for further data analysis as KMO test has the value .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4. Table 3.5 explains communitary values of these items/ factor solutions are more than .7. Table 3.6 shows the total variance accounted for by the three items was 83.951%.

#### Pricing

Four items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of pricing variable provide appropriate results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4. Table 3.5 demonstrates well-defined communitary values by rotated items/ factor solutions, with all variables exceeding .699. Table 3.6 elucidates the total variance accounted for by the four items was 66.037%.



## Marketing practices

Four factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of marketing practices variable shows appropriate results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4. Table 3.5 demonstrates well-defined communality values by rotated items/ factor solutions, with all variables exceeding .79 except pricing, which has the acceptable value of .426. Table 3.6 explains the total variance accounted for by the four items was 71.853%.

### 3.1.6.2 Marketing capabilities

Validity test of the marketing capabilities construct divided into six parts (variables): marketing research, pricing, service development, relationship/ distribution, marketing communication/ promotion and marketing management. The Kaiser-Meyor-Olkon (KMO) test, Sphericity test, communality correlation and total variance explained of factor were carried out to find the validity of data.

### Marketing research

Four items/ factors were extracted on two components/ variables in Varimax rotation. All these items were employed as one variable in previous studies which is illustrated in the literature review chapter of the present thesis. So for this study all items of this variable were adopted as one variable. The possible reasons of deviation in validity of this variable can be: i) The items in present study applied in different economic conditions, ii) respondents have less education level, iii) data collected from different service industries. The KMO test and Bartlett's test of Sphericity of marketing research variable illustrates the appropriate results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4. Table 3.5 exhibits well-defined communality values by rotated items/ factor solutions. Table 3.6 expounds the total variance accounted for by the four items as 79.206%.

### Pricing

Three items/ factors were extracted on Varimax rotation, and item no. 2 showed low communalities of 1.76, and hence was discarded for further analysis. So, two items/ factors were extracted on one component in Varimax rotation. The KMO test and Bartlett's test of Sphericity of pricing variable illustrates the satisfactory results for further data analysis as KMO test has the value .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4. Table 3.5 explicates communality values

of these items/ factor solutions are more than .854. Table 3.6 illustrates the total variance accounted for by the two items was 85.541%.

#### Service development

Four items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of service development variable suggest the appropriate results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4. Table 3.5 shows communality values were well-defined by rotated items/ factor solutions. Table 3.6 illustrates the total variance accounted for by the four items was 75.492%.

#### Relationship/ distribution

Three items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of relationship/ distribution variable exemplify satisfactory results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4. Table 3.5 explains communality values were well-defined by rotated items/ factor solutions. Table 3.6 illustrates the total variance accounted for by the three items was 72.460%.

### Marketing communication/ promotion

Three items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of marketing communication/ promotion variable demonstrate the acceptable results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4. Table 3.5 illustrates communality values were well-defined by rotated items/ factor solutions. Table 3.6 shows the total variance accounted for by the three items was 67.017%.

### Marketing management

Four items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of marketing management variable explain the satisfactory results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4. Table 3.5 exemplifies communality values were well-defined by rotated items/ factor solutions. Table 3.6 illustrates the total variance accounted for by the four items was 57.708%.

### Marketing capabilities

Six factors were extracted on two components/ variables in Varimax rotation. All these items were employed as one variable in previous studies which is illustrated in literature review chapter of present thesis, so for this study all items of this variable were adopted as one variable. The possible reasons of deviation in validity of this variable can be: i) The items in present study applied to different economical conditions, ii) respondents have less education level, iii) data collected from different service industries. The KMO test and Bartlett's test of Sphericity of marketing capabilities variable explain the appropriate results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4. Table 3.5 exhibits well-defined communality values by rotated items/ factor in which pricing is lowest .402. Table 3.6 expounds the total variance accounted for by the four items was 59.857%.

#### 3.1.6.3 Market orientation

Validity test of the market orientation construct was divided into three parts (variables): customer orientation, competitor orientation and inter-functional orientation. The Kaiser-Meyor-Olkon (KMO) test, Sphericity test, communality correlation and total variance explained of factor were carried out to find the validity of data.

### Customer orientation

Six items/ factors were extracted on three components/ variables in Varimax rotation. All these items were employed as one variable in previous studies which is illustrated in literature review chapter of present thesis, so for this study all items of this variable were adopted as one variable. The possible reasons of deviation in validity of this variable can be: i) for the purpose of the present study this item was applied in different economic conditions, ii) respondents have less education level, iii) data collected from different service industries.

The KMO test and Bartlett's test of Sphericity of customer orientation variable provides the appropriate results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4. Table 3.5 explains communality values were well-defined by rotated items/ factor solutions, which all above from .627. Table 3.6 shows the total variance accounted for by the six items was 76.606%.

### Competitor orientation

Four items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of competitor orientation variable show the satisfactory results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4. Table 3.5 exemplifies communality values were well-defined by rotated items/ factor

solutions. Table 3.6 explains the total variance accounted for by the four items was 52.937%.

#### Inter-functional coordination

Three items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of competitor orientation variable explain the satisfactory results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4. Table 3.5 illustrates that communality values were well-defined by rotated items/ factor solutions. Table 3.6 shows the total variance accounted for by the three items was 56.935%.

#### Market orientation

Three factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of competitor orientation variable show the satisfactory results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4. Table 3.5 exemplifies communality values were well-defined by rotated items/ factor solutions. Table 3.6 explains the total variance accounted for by the four items was 73.953%.

### 3.1.6.4 Firm performance

Five items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of competitor orientation variable illustrate the acceptable results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.4. Table 3.5 explains communality values were well-defined by rotated items/ factor solutions. Table 3.6 exemplifies the total variance accounted for by the three items was 61.490%.

*Table 3.4*

#### Kaiser-Meyer-Olkin and Bartlett's Test of Sphericity

Variable	Kaiser-Meyer-Olkin	Bartlett's Test of Sphericity		
	Measure of Sampling	Approx. Chi-Square	Df	Sig.
Advertising	.657	515.564	3	.000
Sales promotion	.500	111.130	1	.000
Public relations	.833	838.969	6	.000
Direct marketing	.679	.626.563	3	.000
Pricing	.715	405.376	6	.000
<i>Marketing</i>	.778	<i>1176.045</i>	<i>10</i>	<i>.000</i>
Marketing research	.608	280.913	6	.000
Pricing	.500	167.132	1	.000
Service	.803	623.637	6	.000
Relationship/	.547	345.499	3	.000
Marketing	.626	206.597	3	.000
Marketing	.740	221.014	6	.000
<i>Marketing</i>	.625	<i>475.424</i>	<i>15</i>	<i>.000</i>
Customer	.557	297.487	15	.000
Competitor	.712	166.127	6	.000
Interfunctional	.540	103.643	3	.000
<i>Market Orientation</i>	.561	<i>490.408</i>	<i>3</i>	<i>.000</i>
Firm Performance	.614	256.445	10	.000



Table 3.5

## Communalities

Variables	Item	Communalities	
		Initial	Extraction
Advertising	One of our focuses in marketing planning is advertising	1.000	.694
	When dealing with business related market(s), our focus is on advertising	1.000	.851
	Major lacking in marketing practice by our company isn't advertising	1.000	9.12
Sales promotion	When dealing with business related market(s), our focus is on sales	1.000	.806
	Major lacking in marketing practice by our company isn't sales promotion	1.000	.806
Public relation	One of our focuses in marketing planning is public relation	1.000	.862
	When dealing with business related market(s), our focus is on public relation	1.000	.867
	In our organization, one of marketing activity is carried out by public relation	1.000	.877
	Major lacking in marketing practice by our company isn't public relation	1.000	.700
Direct marketing	One of our focuses in marketing planning is direct marketing	1.000	.911
	When dealing with business related market(s), our focus is on direct	1.000	.907
	In our organization, one of marketing activity is carried out by direct	1.000	.701
Pricing	One of our focuses in marketing planning is pricing	1.000	.537
	When dealing with business related market(s), our focus is on pricing	1.000	.712
	In our organization, one of marketing activity is carried out by pricing	1.000	.709
	Major lacking in marketing practice by our company isn't pricing	1.000	.683
<i>Marketing practices</i>	<i>Advertising</i>	<i>1.000</i>	<i>.874</i>
	<i>Sales promotion</i>	<i>1.000</i>	<i>.780</i>
	<i>Public relation</i>	<i>1.000</i>	<i>.947</i>

	<i>Direct marketing</i>	1.000	.866
	<i>Pricing</i>	1.000	.426
Marketing research	Our market research ability help us find more new customers then do our	1.000	.552
	Market research skills help us develop effective marketing program	1.000	.797
	We use our marketing research information more effectively than our	1.000	.991
	Our market research expertise helps us develop better marketing programs than	1.000	.828
Pricing	Our pricing approach is more effective than our competitor's	1.000	.855
	Our prices are more competitive than our competition's price	1.000	.855
Service development	We do a better job of developing new services than our competition	1.000	.853
	Our service development often falls short of its goals	1.000	.813
	Our service development gives us an edge in the market	1.000	.798
	Our service development efforts are more responsive to customer needs than	1.000	.557
Relationship/distribution	We have better relationships with distributors than do our competitors	1.000	.748
	Our distribution system is more efficient than our competitors	1.000	.894
	We work more closely with distributors and retailers than do our competitors	1.000	.531
Marketing communication/promotion	Our advertising programs are more effective than those of our competitors	1.000	.579
	Our abilities to segment and target market help us compete	1.000	.781
	Our advertising programs are more effective than those of our competitors	1.000	.751
Marketing management	Our abilities to segment and target market help us compete	1.000	.543
	We manage our marketing programs better than our competitors	1.000	.650
	Our marketing management skills give us a competitive edge	1.000	.538
	Our ability to coordinate various departments and groups in this business	1.000	.577

<i>Marketing capabilities</i>	<i>Marketing research</i>	1.000	.722
	<i>Pricing</i>	1.000	.402
	<i>Service development</i>	1.000	.893
	<i>Distribution</i>	1.000	.816
	<i>Communication</i>	1.000	.614
	<i>Marketing management</i>	1.000	.445
Customer orientation	We have strong commitment to our customers	1.000	.811
	We look for ways to create value in our products	1.000	.628
	We closely monitor and assess our level of commitment in serving customers'	1.000	.806
	Our business objectives are driven by customer satisfaction	1.000	.867
	We frequently measure customer satisfaction	1.000	.772
	We pay close attention to after sale service	1.000	.712
Competitor orientation	In our organization, our sale people share information about competitor	1.000	.604
	If a major competitor were to launch an intensive campaign targeted at our	1.000	.559
	Customers are targeted when we have an opportunity for competitive advantage	1.000	.610
	Top managers usually discuss competitor's strategies	1.000	.444
Interfunctional coordination	Information on customers, marketing success, marketing failures is	1.000	.419
	Our managers understand how employees can contribute to the value of	1.000	.748
	We share resources with other business units	1.000	.542
<i>Market orientation</i>	<i>Customer orientation</i>	1.000	.914
	<i>Competitor orientation</i>	1.000	.858
	<i>Interfunctional orientation</i>	1.000	.446

<i>Firm performance</i>	<i>Business unit profitability</i>	1.000	.690
	<i>Return on Investment (ROI)</i>	1.000	.621
	<i>Customer satisfaction &amp; retention</i>	1.000	.408
	<i>Delivering value to your customers</i>	1.000	.616
	<i>Overall marketing effectiveness</i>	1.000	.961

Extraction Method: Principal Component Analysis.

Table 3.6

Total variance explained

Variable	Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
Advertising	1	2.457	81.898	81.898	2.457	2.457	81.898			
	2	.437	14.573	96.470						
	3	.106	3.530	100.00						
Sales promotion	1	1.611	80.565	80.565	1.611	1.611	80.565			
	2	.389	19.435	100.00						
Public Relation	1	3.306	82.656	82.656	3.306	3.306	82.656			
	2	.396	9.908	92.564						
	3	.168	4.192	96.756						
	4	.130	3.244	100.00						
Direct marketing	1	2.519	83.951	83.951	2.519	2.519	83.951			
	2	.415	13.826	97.778						

	3	.067	2.222	100.00						
<i>Pricing</i>	1	2.641	66.037	66.037	2.641	2.641	66.037			
	2	.732	18.299	84.336						
	3	.382	9.556	93.891						
	4	.244	6.109	100.00						
<i>Marketing Practices</i>	1	3.593	71.853	71.853	3.593	3.593	71.853			
	2	.913	18.258	90.111						
	3	.277	5.531	95.641						
	4	.174	3.481	99.123						
	5	.044	.877	100.00						
<i>Marketing Research</i>	1	2.150	53.760	53.760	2.150	53.760	53.760	2.149	53.727	53.727
	2	1.018	25.446	79.206	1.018	25.446	79.206	1.019	25.478	79.206
	3	.608	15.202	94.408						
	4	.224	5.592	100.00						
<i>Pricing</i>	1	1.711	85.541	85.541	1.711	85.541	85.541			
	2	.289	14.459	100.00						
<i>Service development</i>	1	3.020	75.492	75.492	3.020	75.492	75.492			
	2	.554	13.848	89.340						
	3	.263	6.581	95.921						
	4	.163	4.079	100.00						
<i>Relationship/distribution</i>	1	2.174	72.460	72.460	2.174	72.460	72.460			
	2	.665	22.167	94.628						

	3	.161	5.372	100.00						
Marketing communica tion/ promotion	1	2.011	67.017	67.017	2.011	67.017	67.017			
	2	.686	22.871	89.888						
	3	.303	10.112	100.00						
Marketing managemen	1	2.308	57.708	57.708	2.308	57.708	57.708			
	2	.697	17.429	75.137						
	3	.559	13.982	89.119						
	4	.435	10.881	100.00						
<i>Marketing capabilities</i>	1	2.501	41.681	41.681	2.501	41.681	41.681	2.476	41.274	41.274
	2	1.091	18.175	59.857	1.091	18.175	59.857	1.115	18.582	59.857
	3	.999	16.642	76.499						
	4	.873	14.555	91.054						
	5	.394	6.572	97.626						
	6	.142	2.374	100.00						
Customer orientation	1	2.221	37.022	37.022	2.221	37.022	37.022	1.913	31.885	31.885
	2	1.375	22.912	59.934	1.375	22.912	59.934	1.342	22.361	54.247
	3	1.000	16.671	76.606	1.000	16.671	76.606	1.342	22.359	76.606
	4	.580	9.673	86.278						
	5	.509	8.476	94.754						
	6	.315	5.246	100.00						
Competitor orientation	1	2.117	52.937	52.937	2.117	52.937	52.937			
	2	.741	18.525	71.461						

	3	.674	16.854	88.315			
	4	.467	11.685	100.00			
<i>Interfunctional coordination</i>	1	1.708	56.935	56.935	1.708	56.935	56.935
	2	.845	28.182	85.117			
	3	.446	14.883	100.00			
<i>Market orientation</i>	1	2.219	73.953	73.953	2.219	73.953	73.953
	2	.700	23.332	97.285			
	3	.081	2.715	100.00			
<i>Firm performance</i>	1	3.187	61.490	61.490	3.187	61.490	61.490
	2	.840	16.800	78.290			
	3	.562	11.234	89.524			
	4	.301	6.025	95.549			
	5	.110	4.451	100.00			

Extraction Method: Principal Component Analysis.

### 3.2 Data analysis

SPSS 19 for Windows 7 was employed to analyze the data after completing the field survey. Data analyses of the study includes: descriptive analysis, factor analysis, correlation analysis and multiple regression analysis with all standards and professional measures.

### ***3.2.1 Descriptive analysis***

Descriptive studies refer to frequencies, mean, standard deviations and median. This analysis was conducted for all variables to obtain general profile of the distribution of responses. This analysis shows the identity and characteristic of all items.

### ***3.2.2 Correlation analysis***

To inspect the relationship between five marketing categories, advertising, sales promotion, public relation, direct marketing and pricing on firm performance of small medium enterprises of Pakistan, Pearson correlation analysis (Dalgaard, 2008) was used. Pearson correlation examined the nature of the relationship that exists between independent variable(s) (IV) and dependent variable(s) (DV) and determines the relationships amongst the variables. The intensity of relationship or strength of the association between the DV and IV suggested by Hair, Babin, Money and Samouel (2003) was used for the present study. The analysis of hypotheses H<sub>1</sub>, H<sub>2</sub>, and H<sub>3</sub> were verified by correlation technique. The level of significance was set at 0.05 or less.



Table 3.7

## Pearson's r Indices of Correlation

Pearson's r	Indication
Between $\pm 0.80$ to $\pm 1.00$	High correlation
Between $\pm 0.60$ to $\pm 0.79$	Moderately high correlation
Between $\pm 0.40$ to $\pm 0.59$	Moderate correlation
Between $\pm 0.20$ to $\pm 0.39$	Low correlation
Between $\pm 0.01$ to $\pm 0.19$	Negligible correlation

Hair *et al.* (2003)

*This analysis is used to test the hypothesis. The level of significance is set at .05 or less.*

### 3.2.3 Multiple regression analysis

Measure of degree of multiple correlation: positive square root of the proportion of variance accounted for in a multiple regression analysis: it represents overall correlation between the dependent variable and all the independent variables (Fraenkel *et al.*, 2012; Aron, Coups, & Aron, 2011). The multiple regression model (Aiken, West, & Reno, 1991) estimates the relationship between the multiple predictor variables and the dependent variable. In multiple regressions, the proportion of variance in the dependent variable accounted for by all the independent variables taken together is the multiple correlation coefficient squared (Aron *et al.*, 2011). Regression analysis used to describe the relationship between the dependent variables

(firm performance) and independent variables (marketing practices, marketing capabilities and market orientation) in hypotheses are  $H_4, H_5, H_6$ , and  $H_7$ .

### 3.2.3.1 Assumptions for multiple regression analysis

Assumption(s) is anything that is taken for granted rather than tested or checked (Fraenkel *et al.*, 2012). In other words, according to Aron *et al.*, (2011) assumption(s) is the requirement(s) within logic and mathematics to test and confirm. The four pivotal assumptions of multiple regression are: 1) Normality of data, 2) Linearity relationship between variables, 3) Heteroscedasticity, 4) Multicollinearity of data, and one optional which is removal of outliers, if that presented in data. The discussion about these five is discussed below:

#### Normality of data

The assumption under the planned analysis (*e.g.* simple and multiple regressions etc) of this study was based on the normal distribution of the data. Bell shaped histogram or frequency polygons approximate a precise and important distribution called the normal distribution (Aron *et al.*, 2011). Researchers often compare the actual distribution of the variables they study to the normal curve (Aron *et al.*, 2011). If sample data is not normally distributed then purposed statistical tool(s) can't be applied *e.g.* simple regression, multiple regressions, ANOVA. As a general rule when the sample size is at least 30, the sampling distribution of the mean will be assumed

approximately normal (Berenson, Levine, & Krehbiel, 2004). The respondents of the study were 240, so it was assumed that data was normally distributed and appropriate for further analyses. Results of normality test are shown in the table 3.8.

The table below (Table3.8) shows the normality test result of variables and constructs which are the prerequisite for regression analysis as discussed in chapter 4.

*Table 3.8*

Normality Test

Variable/ Construct	Std. Error of		Std. Error of	
	Skewness	Skewness	Kurtosis	Kurtosis
Advertising	.697	.157	-.723	.313
Sales promotion	-.072	.157	-1.243	.313
Public relation	.470	.157	-.951	.313
Direct marketing	.452	.157	-1.129	.313
Pricing	-.077	.157	-.513	.313
Marketing research	-.008	.157	-.674	.313
<i>Marketing practices</i>	.640	.157	-.754	.313
Pricing	.493	.157	.043	.313
Service development	.110	.157	-.796	.313
Distribution	.442	.157	-.649	.313
Communication	-.106	.157	-1.021	.313
Marketing management	.037	.157	-.542	.313
<i>Marketing capabilities</i>	.240	.157	-.270	.313
Customer orientation	-.275	.157	-.196	.313

Competitor orientation	.336	.157	.328	.313
Interfunctional co-ordination	-.683	.157	-.046	.313
<i>Market orientation</i>	-.007	.157	-.010	.313
<i>Firm performance</i>	.461	.157	.981	.313

The above table (Table 3.8) explains all variables and constructs Skewness and Kurtosis scores and it has revealed that all variables and constructs scores are appropriate for further analysis.

#### Linearity relationship between variables

Linearity relationship can be judged by scatter diagram (appendix c, pp. 317) which shows the true pattern of is curvilinear association (Aron *et al.*, 2011). Scatter diagram is a good visual means to understand the pattern of bivariate numerical data (Arulmozhi & Muthulakshmi, 2009). The scatter diagram gives us a visual means of seeing relationship between the two variables, but this diagram gives you an idea about the possible relationship as Meisenheimer (1992) posited that mathematically, there can be problems and therefore a risk of misinterpretation exists.

#### Heteroscedasticity

Heteroscedasticity means a situation in which the variance of the dependent variable varies across the data. Heteroscedasticity complicates analysis because many methods in regression analysis are based on an assumption of equal variance (Statistics.com,

n.a).The condition of the error variance not being constant over all observations is called heteroscedasticity (Yan & Su, 2009). Parameter estimates in linear regression model of the conditional mean estimated by least square methods retain their consistency in the presence of heteroscedasticity. There are a couple of methods to test heteroskedasticity statistically, the Breusch-Pagan test and the Koenker test. Breusch and Pagan (1980) test can be computed as the number of observations multiplied by the R square of an auxiliary regression (Verbeek, 2012). Koenker test (1981) is the improved version of Breusch-Pagan test and it can be applied on small samples as well. The significance level of both tests must be less than .05, and data is appropriate for multiple regressions.

Table 3.9 below explains the both heteroscedasticity test results of variables and constructs which are the prerequisite for regression analysis as discussed in chapter 4.

*Table 3.9*

Heteroscedasticity Test

Variable	Breusch-Pagan Heteroscedasticity	Sig.	Koenker Heteroscedasticity	Sig.
Marketing practices	14.818	.0051	12.295	.0153
Marketing capabilities	14.818	.0217	12.295	.0557
Market orientation	14.818	.0006	12.295	.0021
Marketing practices, Marketing capabilities and	14.818	.0020	12.295	.0064

$p < .05$

## Multicollinearity

Multicollinearity exists in a predictive model when two or more independent variables in the model are related to each other, which lead to inability in analyzing the importance of input variables in the model based in their invalid test statistics (Matignon, 2005). Matignon, (2005) further added that the presence of multicollinearity can increase the instability in the coefficient estimates and the standard errors and can cause some related independent variables to appear less important than they actually are. Multicollinearity checked by variance inflation factors (VIF), and high VIF (more than 10) items are dropped from data analysis. Hence, public relation and customer orientation deleted for further analysis from data.

Table 3.10, given below illustrates the multi-co linearity results of variables and constructs which are the prerequisite for regression analysis as discussed in chapter 4.

*Table 3.10*

### Multicollinearity

Variables	Colinearity Statistics (VIF)
Advertising	3.909
Sales promotion	2.927
Public relation	15.214
Pricing	1.065
Direct marketing	3.386

<i>Marketing practices</i>	0.0937
Marketing research	2.108
Pricing	1.120
Service development	4.325
Distribution	3.145
Communication	1.111
Marketing management	1.012
<i>Marketing capabilities</i>	0.0954
<i>Market orientation</i>	0.9780
Customer orientation	6.749
Competitor orientation	1.173
Inter-functional coordination	1.173

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#### Outlier

Hawkin (1980) suggested that outliers are the observations of the data that could be somewhat different from, or inconsistent with, the remainder of a data set. Outliers are those observations that lie outside of some interval centered at the sample mean and bounded by multiplies of the sample standard deviation(Lutz & Mittiehammer, 1991). So the inconsistent data omit (case no. 104, 120, 139 and 140) by the help of SPSS 19, is discussed in chapter 4.

### 3.3 Pilot study

The pilot study was initiated in the end of the November 2012 and was finished by the end of December 2012 (23 days). The results of pilot study (reliability and validity) are presented under sub headings.

#### 3.3.1 Reliability results

In table 3.11 below, all variables and constructs contain the reliability score around .7. According to Sekaran (2003) the reliability score should be more than .7. Hence all data has explained the appropriate results of reliability. The highest reliability in variables is .916 of public relation and inter-functional coordination has the lowest with .690.

Table 3.11

Reliability Scores

Variable	No of items	No of respondents	Reliability statistics
Marketing Practices			8.01
Advertising	4	36	.882
Sales promotion	4	36	.732
Public relation	4	36	.916
Direct marketing	4	36	.794
Pricing	4	36	.865
Marketing Capabilities			.726



Marketing research	4	36	.712
Pricing	4	36	.734
Service development	4	36	.885
Distribution/ relationship	4	36	.831
Marketing communication/ promotion	3	36	.754
Marketing management	4	36	.758
Market Orientation			.698
Customer orientation	6	36	.693
Competitor orientation	4	36	.703
Interfunctional coordination	4	36	.690
Firm performance	5	36	.790

### 3.3.2 Validity results

#### 3.3.2.1 Marketing practices

##### Advertising

Four items/ factors were extracted on one component/ variable in Varimax rotation.

The KMO test and Bartlett's test of Sphericity of advertising variable explain the appropriate results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.12. Table 3.13 shows the total variance accounted for by the four items was 79.098%.

### Sales promotion

Four items/ factors were extracted on Varimax rotation, The KMO test and Bartlett's test of Sphericity of sales promotion variable posit the satisfactory results for further data analysis as KMO test has a the value .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.12. Table 3.13 explains the total variance accounted for by the two items was 85.235%.

### Public relations

Four items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of public relations variable elucidate the appropriate results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.12. Table 3.13 provides the total variance accounted for by the four items was 82.013%.

### Direct marketing

Four items/ factors were extracted on one component in Varimax rotation. The KMO test and Bartlett's test of Sphericity of direct marketing variable illustrate the satisfactory results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.12. Table 3.13 showed the total variance accounted for by the three items was 83.983%.

## Pricing

Four items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of pricing variable provides the appropriate results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.12. Table 3.13 elucidates the total variance accounted for by the four items was 69.271%.

### 3.3.2.2 Marketing capabilities

#### Marketing research

Four items/ factors were extracted on two components/ variables in Varimax rotation. The possible reasons of deviation in validity of this variable can be: i) for the purpose of present study this item was applied in different economic conditions, ii) respondents have less education level, iii) data collected from different service industries. The KMO test and Bartlett's test of Sphericity of marketing research variable provides the appropriate results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.12. Table 3.13 expounds the total variance accounted for by the four items was 76.565%.

### Pricing

Four items/ factors were extracted on one component in Varimax rotation. The KMO test and Bartlett's test of Sphericity of pricing variable illustrate the satisfactory results for further data analysis as KMO test has a value .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.12. Table 3.13 exemplifies the total variance accounted for by the two items was 83.319%.

### Service development

Four items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of product development variable demonstrate the appropriate results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.12. Table 3.13 illustrates the total variance accounted for by the four items was 73.976%.

### Relationship/ distribution

Four items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of relationship/ distribution variable exemplify the satisfactory results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in

table 3.12. Table 3.13 illustrates the total variance accounted for by the three items was 73.367%.

#### Marketing communication/ promotion

Three items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of marketing communication/ promotion variable demonstrate the acceptable results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.12. Table 3.13 shows the total variance accounted for by the three items was 69.235%.

#### Marketing management

Four items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of marketing management variable explain the satisfactory results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.12. Table 3.13 illustrates the total variance accounted for by the four items was 55.071%.

### 3.3.2.3 Market orientation

#### Customer orientation

Six items/ factors were extracted on two components/ variables in Varimax rotation. All these items were related as one variable in previous studies which is illustrated in the literature review chapter of the present thesis, so for this study all items of this variable adopted are considered as one variable. The possible reasons of deviation in validity of this variable can be: i) for the purpose of present study this item was applied in different economic conditions, ii) respondents have less education level iii) data collected from different service industries. The KMO test and Bartlett's test of Sphericity of customer orientation variable provides the appropriate results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.12. Table 3.13 shows the total variance accounted for by the six items was 77.071%.

#### Competitor orientation

Four items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of competitor orientation variable show the satisfactory results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.12. Table 3.13 explains the total variance accounted for by the four items was 52.921%.

### Inter-functional coordination

Four items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of competitor orientation variable explain the satisfactory results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.12. Table 3.13 shows the total variance accounted for by the three items was 57.315%.

#### 3.3.2.4 Firm performance

Five items/ factors were extracted on one component/ variable in Varimax rotation. The KMO test and Bartlett's test of Sphericity of competitor orientation variable illustrate the acceptable results for further data analysis as KMO test has a higher value than .5 and Bartlett's test of Sphericity has the significance value of  $< .05$  in table 3.12. Table 3.13 exemplifies the total variance accounted for by the three items was 67.085%.

Table 3.12

## Kaiser-Meyer-Olkin and Bartlett's Test of Sphericity

Variable	Kaiser-Meyer-Olkin		Bartlett's Test of Sphericity		
	Measure of Adequacy	Sampling	Approx. Chi-Square	Df	Sig.
Advertising	.721		512.345	1	.000
Sales promotion	.643		123.320	1	.000
Public relations	.831		826.359	1	.000
Direct marketing	.621		.673.224	1	.000
Pricing	.845		421.221	1	.000
Marketing Practices	.791		1109.422	1	.000
Marketing research	.627		310.233	1	.000
Pricing	.632		199.288	1	.000
Service development	.711		543.994	1	.000
Relationship/distribution	.632		394.489	1	.000
Marketing communication/	.694		245.677	3	.000
Marketing management	.711		212.996	1	.000
Marketing capabilities	.639		462.553	1	.000
Customer orientation	.632		299.124	1	.000
Competitor orientation	.810		226.572	1	.000
Inter-functional coordination	.630		125.057	1	.000
Market Orientation	.601		501.109	1	.000
Firm Performance	.689		244.480	1	.000



Table 3.13

## Total Variance Explained

Variable	Component	Initial Eigen values			Extraction Sums of Squared		
		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
Advertising	1	2.217	79.098	79.098			
Sales pro.	1	1.271	85.235	85.235			
Public rel.	1	2.965	82.013	82.013			
Direct mkt.	1	2.743	83.983	83.983			
Pricing	1	2.443	69.21	69.271			
Marketing practices	1	3.723	73.378	73.378			
Marketing research	1	2.084	50.378	50.378	2.082	50.365	50.365
	2	1.211	26.446	76.824	1.198	26.200	76.565
Pricing	1	1.833	83.319	83.319			
Service develop.	1	2.889	73.976	73.976			
Relationship	1	2.056	73.367	73.367			
Marketing comm.	1	2.234	69.235	69.235			
Marketing management	1	2.082	55.071	55.071			
Marketing capabilities	1	2.945	72.214	72.214			
Customer orientation	1	2.547	53.621	53.621	2.011	52.452	52.452

	2	1.134	25.810	79.431	1.011	24.565	77.017
Competitor orientation	1	2.089	53.921	53.921			
Inter-function	1	1.787	57.31	57.315			
Market orientation	1	2.93	73.789	73.789			
Firm performance	1	3.002	67.085	67.085			

---

Extraction Method: Principal Component Analysis.

### *Summary*

This chapter discusses the details of research design (data collection, instrumentation & its operationalization, pilot study, reliability testing, validity test of all variables. Data analysis techniques (correlation and multiple regressions) are delineated briefly. Assumptions for correlation and multiple regression and their results are exemplified in detail to support further analysis in the subsequent chapters. Pilot Study results are mentioned at the end of the chapter.

## CHAPTER FOUR

### DATA INTERPRETATION AND RESULTS

#### Overview

This chapter presents the quantitative analysis of the data and interpretation, collected from 240 owner/managers of SMEs located in the city of Karachi, Lahore and Faisalabad. This chapter consist on (i) descriptive analysis of the variables ii) demographic profile of organizations and respondents (iii) testing of assumption(s) for correlation and regression iv) result of hypotheses testing.

#### **4.1 Descriptive statistics of items, variables and constructs**

Table 4.1 illustrates the descriptive statistics of items, variables and constructs, which consists of question text (item), total available number of respondents (N), minimum value responded by respondent (Minimum), maximum value responded by respondent (Maximum), mean of item/ variable/ construct and standard deviation.

##### ***4.1.1 Marketing practices***

As the table 4.1 below shows the mean of all items lie between  $M = 2.31$  to  $M = 3.36$ . The mean of four constructs remain between  $M = 2.756$  to  $M = 2.805$ . The highest mean of construct related to marketing capabilities with  $M = 2.8055$  ( $SD = .48852$ ) and lowest append with marketing practices  $M = 2.7567$  ( $SD = .83849$ ). The description of sixteen items which included for further analyses of the marketing practices construct's variables is: Item no. 3 contained the highest mean,  $M = 2.60$  ( $SD = 1.48296$ ) and item no.1 comprised the lowest mean,  $M = 2.4125$  ( $SD = 1.04734$ ) in advertising variable. Sales promotion only had two items with the mean,  $M = 2.8708$  ( $SD = .92160$ ) and  $M = 2.9042$  ( $SD = 1.35189$ ). Public relation variable item no. 4 illustrated the highest mean,  $M = 2.8458$  ( $SD = .98375$ ) and item no. 7 showed the lowest mean  $M = 2.533$  ( $SD = 1.18168$ ). Direct marketing item no. 12 demonstrated the highest mean,  $M = 3.3180$  ( $SD = .69763$ ) and item no. 10 had lowest mean,  $M = 2.5083$  ( $SD = 1.12034$ ). Pricing variable's item no. 13 enclosed the highest mean,  $M = 3.2250$  ( $SD = .69019$ ) and item no. 16 explained lowest mean,  $M$

= 2.4986 (SD = .84395). So marketing practices construct's highest mean remain  $M = 3.3180$  (SD = .69763) and lowest mean stay at  $M = 2.4125$  (SD = 1.04734). Variable wise, pricing had the highest mean  $M = 2.8886$  (SD = .67442) and advertising had the lowest mean with,  $M = 2.4931$  (SD = 1.21204). Also notice that overall mean of marketing practices was  $M = 2.7567$  (SD = .83849).

#### ***4.1.2 Marketing capabilities***

The description of twenty items showed below in table 4.1, which included for further analyses of the marketing capabilities construct's variables is: marketing research item no. 19 had the highest mean,  $M = 2.8782$  (SD = 1.06630) and item no.18 explained the lowest mean,  $M = 2.3151$  (SD = 1.04612). Pricing variable consisted on two items with the mean,  $M = 2.9083$  (SD = .85321) and  $M = 3.0042$  (SD = 1.18038). Service development variable item no. 26 demonstrated the highest mean,  $M = 2.8500$  (SD = .91157) and item no. 24 explained the lowest mean  $M = 2.4250$  (SD = .86457). Relationship/ distribution item no. 29 exemplified the highest mean,  $M = 3.3542$  (SD = .83063) and item no. 27 had lowest mean,  $M = 2.5833$  (SD = 1.00279). Communication/ promotion variable's item no. 30 explicated the highest mean,  $M = 3.1417$  (SD = .53019) and item no. 31 explained lowest mean,  $M = 2.6125$  (SD = 1.12960). The last variable of marketing capabilities, marketing management item no. 35 demonstrated the highest mean,  $M = 3.3180$  (SD = .93448) and item no. 34 had the lowest mean,  $M = 3.0667$  (SD = 1.01646). This is the only variable of data which explained all mean of more than 3. Hence, marketing capabilities construct's highest

mean remain  $M = 3.3180$  ( $SD = .93448$ ) and lowest mean stay at  $M = 2.3151$  ( $SD = 1.04612$ ). Variable wise, marketing management had the highest mean  $M = 3.1896$  ( $SD = .73360$ ) and marketing research had the lowest mean with,  $M = 2.5153$  ( $SD = .71463$ ). Also notice that overall mean of marketing capabilities was  $M = 2.8055$  ( $SD = .48855$ ).

#### ***4.1.3 Market orientation***

The description of thirteen items which included for further analyses of the market orientation items which illustrated in table 4.1 (below) is: Customer orientation item no. 41 demonstrated the highest mean,  $M = 2.9417$  ( $SD = .91291$ ) and item no.40 explained the lowest mean,  $M = 2.3500$  ( $SD = .81462$ ). Competitor orientation variable item no. 45 demonstrated the highest mean,  $M = 2.9417$  ( $SD = .91291$ ) and item no. 44 explained the lowest mean  $M = 2.6485$  ( $SD = .83635$ ). Interfunctional coordination item no. 49 had the highest mean,  $M = 3.0333$  ( $SD = .92328$ ) and item no. 48 had lowest mean,  $M = 2.7500$  ( $SD = .84586$ ). Consequently, market orientation construct's highest mean remain  $M = 3.0333$  ( $SD = .92328$ ) and lowest mean stay at  $M = 2.3500$  ( $SD = .81462$ ). Variable wise, interfunctional coordination had the highest mean  $M = 2.8708$  ( $SD = .66140$ ) and customer orientation had the lowest mean with,  $M = 2.6403$  ( $SD = .53644$ ). Also notice that overall mean of market orientation was  $M = 2.7637$  ( $SD = .52928$ ).

#### 4.1.4 Firm performance

The description of five items which included for further analyses of dependent construct is: Firm performance variable's item no. 53 showed the highest mean,  $M = 2.9707$  ( $SD = 1.03061$ ) and item no. 54 explained lowest mean,  $M = 2.4726$  ( $SD = 1.02319$ ). Therefore, above discuss items remain highest and lowest mean respectively for firm performance. Also notice that overall mean of firm performance was  $M = 2.7994$  ( $SD = .60302$ ).

Table 4.1

Descriptive statistics (items, variables and constructs)

No	Items	N	Minimum	Maximum	Mean	Std. Deviation
<i>Marketing practices: Advertising</i>						
1	One of our focuses in marketing planning is advertising	240	1.00	5.00	2.4125	1.04734
2	When dealing with business related market(s), our focus is on	240	1.00	5.00	2.4667	1.45753
3	Major lacking in marketing practice by our company isn't	240	1.00	5.00	2.6000	1.48296
	<i>Overall</i>	240	1.00	5.00	2.4931	1.21204
<i>Marketing practices: Sales promotion</i>						
4	When dealing with business related market(s), our focus is on	240	1.00	4.00	2.8708	.92160
5	Major lacking in marketing practice by our company isn't	240	1.00	5.00	2.9042	1.35189
	<i>Overall</i>	240	1.00	4.50	2.8875	1.02472
<i>Marketing practices: Public relation</i>						

6	One of our focuses in marketing planning is public relation	239	1.00	5.00	2.6736	1.30697
7	When dealing with business related market(s), our focus is on	240	1.00	5.00	2.5333	1.18168
8	In our organization, one of marketing activity is carried out by	240	1.00	5.00	2.6208	1.30736
9	Major lacking in marketing practice by our company isn't	240	1.00	4.00	2.8458	.98375
	<i>Overall</i>	240	1.25	4.75	2.6681	1.08984
<hr/>						
<i>Marketing practices: Direct marketing</i>						
10	One of our focuses in marketing planning is direct marketing	240	1.00	4.00	2.5083	1.12034
11	When dealing with business related market(s), our focus is on	239	1.00	5.00	2.7113	1.11348
12	In our organization, one of marketing activity is carried out by	239	2.00	5.00	3.3180	.69763
	<i>Overall</i>	240	1.67	4.50	2.8465	.90876
<hr/>						
<i>Marketing practices: Pricing</i>						
13	One of our focuses in marketing planning is pricing	240	1.00	5.00	3.2250	.69019
14	When dealing with business related market(s), our focus is on	240	1.00	5.00	2.8292	1.09391
15	In our organization, one of marketing activity is carried out by	240	1.00	5.00	3.0292	1.28850
16	Major lacking in marketing practice by our company isn't	240	1.00	5.00	2.4686	.84395
	<i>Overall</i>	240	1.50	4.25	2.8886	.67442
<hr/>						
	Marketing Practices	240	1.73	4.37	2.7567	.83849
<hr/>						
<i>Marketing capabilities: Marketing research</i>						
17	Our market research ability help us find more new customers then do	239	1.00	5.00	2.4686	.84395
18	Market research skills help us develop effective marketing	238	1.00	5.00	2.3151	1.04612



19	We use our marketing research information more effectively than our competitors uses their	238	1.00	5.00	2.8782	1.06630
20	Our market research expertise helps us develop better marketing programs than our competitors	240	1.00	5.00	2.4000	1.19553
	<i>Overall</i>	240	1.00	5.00	2.5153	.71463
<hr/>						
<i>Marketing capabilities: Pricing</i>						
21	Our pricing approach is more effective than our competitor's	240	1.00	5.00	2.9083	.85321
22	Our prices are more competitive than our competition's price	240	1.00	5.00	3.0042	1.18038
	<i>Overall</i>	240	1.00	5.00	2.8688	.66161
<hr/>						
<i>Marketing capabilities: Service development</i>						
23	We do a better job of developing new services than our competition	240	1.00	5.00	2.7458	1.10438
24	Our service development often falls short of its goals	240	1.00	5.00	2.4250	.86457
25	Our service development gives us an edge in the market	240	1.00	5.00	2.6750	1.10277
26	Our service development efforts are more responsive to customer needs than those of our	240	1.00	4.00	2.8500	.91157
	<i>Overall</i>	240	1.25	4.75	2.6740	.86645
<hr/>						
<i>Marketing capabilities: Relationship/ distribution</i>						
27	We have better relationships with distributors than do our	240	1.00	5.00	2.5833	1.00279
28	Our distribution system is more efficient than our competitors	240	1.00	5.00	2.7917	.95852
29	We work more closely with distributors and retailers than do	240	1.00	5.00	3.3542	.83063
	<i>Overall</i>	240	1.67	4.67	2.9097	.79322
<hr/>						
<i>Marketing capabilities: Communication/ promotion</i>						

30	Our advertising programs are more effective than those of our	240	1.00	5.00	3.1417	.53019
31	Our abilities to segment and target market help us compete	240	1.00	4.00	2.6125	1.12960
32	Our advertising programs are more effective than those of our	240	1.00	5.00	2.6667	1.27960
	<i>Overall</i>	240	1.33	4.67	2.8069	.83131
<i>Marketing capabilities: Marketing management</i>						
33	Our abilities to segment and target market help us compete	240	1.00	5.00	3.0958	.89348
34	We manage our marketing programs better than our	240	1.00	5.00	3.0667	1.01646
35	Our marketing management skills give us a competitive edge	239	1.00	5.00	3.3180	.93448
36	Our ability to coordinate various departments and groups in this business helps us to respond to	240	1.00	5.00	3.2833	1.00362
	<i>Overall</i>	240	1.25	5.00	3.1896	.73360
	Marketing Capabilities	240	1.80	4.18	2.8055	.48852
<i>Market orientation: Customer orientation</i>						
37	We have strong commitment to our customers	240	1.00	5.00	2.3667	.88155
38	We look for ways to create value in our products	240	1.00	5.00	2.8625	1.06771
39	We closely monitor and assess our level of commitment in serving	240	1.00	4.00	2.6500	.83491
40	Our business objectives are driven by customer satisfaction	240	1.00	5.00	2.3500	.81462
41	We frequently measure customer satisfaction	240	1.00	5.00	2.9417	.91291
42	We pay close attention to after sale service	240	1.00	4.00	2.6708	.87023
	<i>Overall</i>	240	1.17	4.00	2.6403	.53644
<i>Market orientation: Competitor orientation</i>						

43	In our organization, our sale people share information about	240	1.00	5.00	2.8625	1.06771
44	If a major competitor were to launch an intensive campaign targeted at our customers, we	239	1.00	4.00	2.6485	.83635
45	Customers are targeted when we have an opportunity for	240	1.00	5.00	2.9417	.91291
46	Top managers usually discuss competitor's strategies	240	1.00	4.00	2.6708	.87023
	<i>Overall</i>	240	1.25	4.50	2.7799	.67385
<i>Market orientation:</i>						
<i>Interfunctional coordination</i>						
47	Information on customers, marketing success, marketing	239	1.00	4.00	2.8243	.87115
48	Our managers understand how employees can contribute to the	240	1.00	4.00	2.7500	.84586
49	We share resources with other business units	240	1.00	5.00	3.0333	.92328
	<i>Overall</i>	240	1.33	4.00	2.8708	.66140
	Market Orientation	240	1.56	3.89	2.7637	.52928
<i>Firm performance</i>						
50	Business unit profitability	239	1.00	5.00	2.7029	.84493
51	Return on Investment (ROI)	240	1.00	5.00	2.9583	1.04217
52	Customer satisfaction & retention	239	1.00	5.00	2.8870	.78309
53	Delivering value to your	239	1.00	5.00	2.9707	1.03061
54	Overall marketing effectiveness	237	1.00	5.00	2.4726	1.02319
	Firm Performance	240	1.60	5.00	2.7994	.60302

#### 4.2 Descriptive statistics of demographic

Table 4.2 below illustrated the demographic descriptive statistics which consist of valid responses from respondents (Valid), missing values (Missing) and mean of the data. Table 4.3 explained the frequency of the data. It consists on category of data

(Items), number of respondents obtain by each category (Frequency), percentage of results (Percent), actual percentage which base on the recorded data (Valid percent), and cumulative percent (Cumulative percent).

#### ***4.2.1 Firms' characteristics***

As the table 4.2 below showed the mean of sales volume  $M = 3.5500$ , showed that average sales of businesses who participate in this survey 120-130 million.  $M = .7917$  illustrated that most of the businesses were independently owned. Furthermore, Mean of  $M = .3205$  explained the less subsidiary/branch/department of respondent businesses. Most of the companies belongs to Karachi, with  $M = 1.2991$ . Most of the firms only had one partner  $M = .9792$ . About half o the firms belong to family owned business with  $M = .5093$ . Same is the case in family members of directors as previous finding,  $M = .4848$ . Most of the organization established responded before 10 years with,  $M = 4.1830$ . Sector from which firm's belong mean was  $M = 4.1830$ . Depth of operations and organization has a marketing department mean were,  $M = .7546$  and  $M = .8036$  respectively, which demonstrated that most of the firms had marketing department at the time of the study.

### 4.2.2 Individuals' characteristics

Table 4.2 below demonstrated individuals' characteristics, M = .2773 for owned the company and your current position item mean, M = 1.4182. Most of the respondents not the owner or partner in the company with mean, M = 2857. The mean of tenure in present company M = 2.7427, education mean, M = 1.0673, age of the respondents were about 35-40 with M = 1.3842, and gender mean, M = .1713 showed that most of the respondents were males.

Table 4.2

#### Descriptive Statistics of Demographic Data

Item	Valid	Missing	Mean
<b><i>Firm characteristics</i></b>			
Sales Volume	237	3	3.5500
Independently owned	240	0	.7917
Subsidiary/branch/department	234	6	.3205
Current location	238	2	1.2991
Number of owner(s)/ partners	140	0	.9792
Family owned business	214	26	.5093
Family members director(s)	198	42	.4848
Organization established	224	16	4.1830
Organization has marketing	224	16	3.1964
Sector	225	15	.8500
Depth of operations	216	24	1.0833
Marketing manager in this	215	24	.7546
<b><i>Individual characteristics</i></b>			
Are you owner or partner in	224	16	.2773
Your current working	224	16	1.4182
Your current working	224	16	2.7427
Your education	212	28	1.0673
Your age	207	33	1.3842
Gender	220	20	.1713

#### ***4.2.3 Firms' characteristic frequency distribution***

In description of frequency distribution table 4.3 below illustrated that 83 firms (34.6%) had the sales volume of 11 million - 50 million, on the other hand, 64 firms (26.7%) earning less than 10 million, 55 firms (22.9%) getting 51 million - 100 million, 18 respondents firms (7.5%) sales volume 101 million - 150 million, 11 firms had (4.6%) sales volume of 151 million - 200 million, 5 firms earning was (2.1%) 201 million - 250 million and remain 1 firm (0.4%) belongs to the frame of 251 million - 300 million sales volume. Three respondents didn't reply to this question. Therefore, the question about firms owned status, 190 (79.2%) claimed that they are independently owned business and remaining 50 (20.8%) said no. 159 (66.3%) businesses stated that they were not working as subsidiary/ branch/ department of a company, 75 (31.3%) replied positively and six didn't give response of regarding this. Consequently, Majority of sample, 178 (74.6) were took from Karachi, 48 (19.5%) responses took from Lahore, 12 responses (5.1%) took from Faisalabad and two responses were missing. According to data, 126 (52.5%) businesses belonged to one owner, 53 (22.1%) had two owners/ partners, 30 (12.5%) claimed that they had four owners/ partners, 16 (6.7%) declared that their business running by three partners, and remaining 15 (6.3%) had 5-10 owners/ partners.

Almost same number of businesses belongs to family 109 (45.4%) or run privately 105 (43.8%), and 26 didn't responded this question. 102 (42.5%) businesses not manage by family director(s), 96 (40.0%) had family director(s) in business, and

42 didn't answer this question. On the other hand, 96 (40.0%) firms established 10 years before, 86 (35.8%) in operations since 5-10 years, 32 (13.3%) aged 3-5 years, 7 (2.9%) established 2 to 3 years ago and 3 just started operations since 1-2 years ago, and 16 answers missing for this questions. Furthermore, 180 (75.0%) businesses asserted that they have marketing department, 44 (18.3%) stated negative about to have marketing department and 16 not replied this question. Most of the respondents businesses were hotel or restaurants 73 (30.4%), than second most respondents were from education institutions 52 (21.7%), remaining 37 (15.4%) financial institutions, 32 (13.3%) health institutions, 30 (12.5%) IT/ media firms, and 16 didn't mention their sector. 118 (49.2%) operated national wide, 65 (27.1%) functioned locally (in Karachi or Lahore), 33 (13.8%) managed in region (Sindh or Punjab) at the time of response, 24 responses were missing.

According to responses, 122 (50.8%) firms claimed that they hired the marketing manager, 51 (21.3%) said they didn't hire specialist manager for marketing, remaining firms 12 (5.0%) had sales manager, 12 (5.0%) public relation manager, 12 (5.0%) customer care manager and six (2.5%) other manager. On the other hand, 25 respondents didn't tick any of the option in reply for this question. Meanwhile, 160 (66.7%) of respondents were employed in the company and 64 (26.7%) were owner or partner of the firm, and 16 (6.7%) were missing values. During data collection, 78 (32.5%) respondents were managers who reporting to CEO of the firm, 75 (31.3%) claimed to serving the firm as CEO, remaining 40 (16.7%), 17

(7.1%), 14 (5.8%) were stated themselves as 'others', middle managers and supervisor of the company, and 16 responses were missing.

#### ***4.2.4 Individual' characteristic frequency distribution***

Consequently, table 4.3 below showed that 94 (39.2%) respondents serving the present firm more than 5 years, 45 (18.8%) tenure were 3-5 years long, 27 (11.3%) were newly joined and working less than 1 year, 24 (10.0%) were attached with present company by 2-3 years, least 20 respondents worked 1-2 years with the present firm, and 30 respondent didn't replied this question.

Therefore, 93 (38.8%) of the respondents had the undergraduate level of education, 64 (26.7%) had only secondary school certificate, 33 (13.8%) completed postgraduate diploma or certificate and remaining 22 had postgraduate degree. Meanwhile, 65 (27.1%) respondents age were less than 30 years, 54 (22.5%) were 31-45 years old, 39 (16.3%) were in 46-55 years age frame, 38 (15.8%) belonged to 56-65 age level and 11 (4.6%) were more than 65 years old and 33 respondents not shared their age information. Descriptive analysis showed that, male was the prominent gender is respondents by 183 (76.3%) and 37 (15.4%) were female, and 20 were missing responses.



Table 4.3

## Demographic Frequency Distribution

Item	Frequency	Percent	Valid	Cumulative
<b>Firm characteristics</b>				
<i>Sales Volume</i>				
Less than 10 million	64	26.7	27.0	27.0
11 million - 50 million	83	34.6	35.0	62.0
51 million - 100 million	55	22.9	23.2	85.2
101 million - 150 million	18	7.5	7.6	92.8
151 million - 200 million	11	4.6	4.6	97.5
201 million - 250 million	5	2.1	2.1	99.6
251 million - 300 million	1	.4	.4	100.0
Total	237	98.8	100.0	
Missing system	3	1.3		
Total	240	100.0		
<i>Independently owned business</i>				
No	50	20.8	20.8	20.8
Yes	190	79.2	79.2	100
Total	240	100.0	100.0	
<i>Subsidiary/branch/department</i>				
No	159	66.3	67.9	67.9
Yes	75	31.3	32.1	100.0
Total	234	97.5	100.0	
Missing system	6	2.5		
Total	240	100.0		
<i>Current location</i>				
Karachi	178	74.6	79.4	79.4
Lahore	48	19.5	19.2	94.9
Faisalabad	12	5.1	5.1	100.0
Total	238	99.2	100.0	
Missing system	2	.8		
Total	240	100.0		
<i>Number of owner(s)/ partners</i>				
1	126	52.2	52.2	52.2
2	53	22.1	22.1	74.6
3	16	6.7	6.7	81.3
4	30	12.5	12.5	93.8
5-10	15	6.3	6.3	100.0
Total	240	100.0	100.0	
<i>Family owned business</i>				
No	103	43.8	49.1	49.1
Yes	109	45.4	50.9	100.0

Total	214	89.2	100.0	
Missing system	26	10.8		
Total	240	100.0		
<i>Family members director(s)</i>				
No	102	42.5	51.5	51.5
Yes	96	40.0	48.5	100.0
Total	198	82.5	100.0	
Missing system	42	17.5		
Total	240	100.0		
<i>Organization established</i>				
1 to 2 years ago	3	1.3	1.3	1.3
2 to 3 years ago	7	2.9	3.1	4.5
3 to 5 years ago	32	13.3	14.3	18.8
5 to 10 years ago	86	35.8	38.4	57.1
More than 10 years ago	96	40.0	42.9	100.0
Total	224	93.3	100.0	
Missing system	16	6.7		
Total	240	100.0		
<i>Organization has marketing</i>				
No	44	18.3	19.6	19.6
Yes	180	75.0	80.4	100.0
Total	224	93.3	100.0	
Missing system	16	6.7		
Total	240	100.0		
<i>Sector</i>				
Education	52	21.7	23.2	23.2
IT/ Media	30	12.5	13.4	36.6
Financial	37	15.4	16.5	53.1
Health	32	13.3	14.3	67.4
Restaurant/ Hotel	74	30.4	32.6	100.0
Total	225	93.3	100.0	
Missing system	15	16.5		
Total	240	100.0		
<i>Depth of operations</i>				
National	118	49.2	54.6	54.6
Regional (within province)	33	13.8	15.3	69.9
Local (within city)	65	27.1	30.1	100.0
Total	216	90.0	100.0	
Missing system	24	10.0		
Total	240	100.0		
<i>Marketing manager in this</i>				
No specific manager for	51	50.	23.7	23.7
Sales manager	12	5.0	5.6	29.3
Public relation manager	12	5.0	5.6	34.9

Marketing manager	122	50.8	56.7	91.6
Customer care manager	12	5.0	5.6	97.2
Other	6	2.5	2.8	100.0
Total	215	89.6	100.0	
Missing system	25	10.4		
Total	240	100.0		
<hr/>				
<i>Individual characteristics</i>				
<i>Are you owner or partner in</i>				
No	160	66.7	71.4	71.4
Yes	64	26.7	28.6	100.0
Total	224	93.3	100.0	
Missing system	16	6.7		
Total	240	100.0		
<hr/>				
<i>Your current working position</i>				
Chief executive officer (CEO)	75	31.3	33.5	33.5
Manager reporting to CEO	78	32.5	34.8	68.3
Middle manager	17	7.1	7.6	75.9
Supervisor	14	5.8	6.3	82.1
Other	40	16.7	17.9	100.0
Total	224	93.3	100.0	
Missing system	16	6.7		
Total	240	100.0		
<hr/>				
<i>How long have you been</i>				
Less than 1 year	27	11.3	12.9	12.9
More than 1 and less than 2	20	8.3	9.5	22.4
More than 12 and less than 3	24	10.0	11.4	33.8
More than 3 and less than 5	45	18.8	21.4	55.2
More than 5 years	94	39.2	44.8	100.0
Total	224	87.5	100.0	
Missing system	16	6.7		
Total	240	100.0		
<hr/>				
<i>Your education</i>				
Secondary school certificate	64	26.7	30.2	30.2
An undergraduate degree	93	38.8	43.9	74.1
Post graduate diploma or	33	13.8	15.6	89.6
Post graduate degree	22	9.2	10.4	100.0
Total	212	88.3	100.0	
Missing system	28	11.7		
Total	240	100.0		
<hr/>				
<i>Your age</i>				
Under 30 years	65	27.1	31.4	31.4
31-45 years	54	22.5	26.1	57.5
46-65 years	39	16.3	18.8	76.3
56-65 years	38	15.8	18.4	94.7

More than 65 years	11	4.6	5.3	100.0
Total	207	86.3	100.0	
Missing system	33	13.8		
Total	240	100.0		
<i>Gender</i>				
Male	183	76.3	83.2	83.2
Female	37	15.4	16.8	100.0
Total	220	91.7	100.0	
Missing system	20	8.3		
Total	240	100.0		

#### 4.3 Research question one, two and three (hypotheses 1, 2 and 3)

Research question one two and three developed to know the relationship of marketing practices, marketing capabilities and market orientation to the firm performances of SMEs of Pakistan.

On the basis of the research questions, hypotheses were:

H<sub>1</sub>: The marketing practices positively related to the firm performance of the SMEs of Pakistan.

H<sub>2</sub>: The marketing capabilities positively related to the firm performance of the SMEs of Pakistan.

H<sub>3</sub>: The market orientation positively related to the firm performance of the SMEs of Pakistan.

### ***4.3.1 Assumptions test of correlation for $H_1$ , $H_2$ and $H_3$***

There are four two main assumptions to apply correlation, 1) Normality of data, Linearity relationship between variables.

#### **4.3.1.1 Normality test**

Skewness and Kurdosis results of all variables are reported in normality testing of  $H_1$ ,  $H_2$  and  $H_3$  (marketing practices, marketing capabilities and market orientation) in table 3.8 (in chap. 3, pg.145) which were satisfactory. The overall normality curve is illustrated in figure 5.1 (in appendix B, pg. 326), showed the satisfactory results as all observations are covered by curve line.

#### **4.3.1.2 Linearity test**

Linear curve denoted and modeled the relationship between dependent variable and independent variable(s). Most Y axis denote dependent variable and X axis indicate independent variable. In this analysis the figure 5.5 (in appendix C, pg. 331) normal P-P plot illustrated the relationship between marketing practices and firm performance, marketing capabilities and firm performance, and market orientation and firm performance. Figure 5.5 showed the acceptable results of linearity.

### ***4.3.2 Correlation analysis***

A Pearson correlation coefficient was computed to assess the relationship between the marketing practices and firm performance. Table 4.4 illustrated the all relationship results. There was a positive low correlation between the two variables,  $r = 0.343$ ,  $n = 240$ ,  $p = 0.000$ . This shows that an increase in marketing practices is correlated with increases in firm performance. Hence,  $H_1$  is supported.

A Pearson correlation coefficient was computed to assess the relationship between the marketing capabilities and firm performance. There was a positive low correlation between the two variables,  $r = 0.256$ ,  $n = 240$ ,  $p = 0.000$ . This shows that an increase in marketing capabilities is correlated with increases in firm performance. Therefore,  $H_2$  is supported.

A Pearson correlation coefficient was computed to assess the relationship between the marketing orientation and firm performance. There was a positive negligible correlation between the two variables,  $r = 0.198$ ,  $n = 240$ ,  $p = 0.002$ . This shows that an increase in market orientation is correlated with increases in firm performance. Thus,  $H_3$  is supported.

*Table 4.4*

Correlations

---

		Marketing Practices	Marketing Capabilities	Market Orientation	Firm Performance
Marketing Practices	Pearson Correlation	1	-.251**	.167**	.343**
	Sig. (2-tailed)		.000	.009	.000
	N	240	240	240	240
Marketing Capabilities	Pearson Correlation	-.251**	1	-.048	.256**
	Sig. (2-tailed)	.000		.457	.000
	N	240	240	240	240
Market Orientation	Pearson Correlation	.167**	-.048	1	.198**
	Sig. (2-tailed)	.009	.457		.002
	N	240	240	240	240
Firm Performance	Pearson Correlation	.343**	.256**	.198**	1
	Sig. (2-tailed)	.000	.000	.002	
	N	240	240	240	240

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

#### 4.4 Research question four (hypothesis 4 testing)

Research question four developed to know the impact of marketing practices (advertising, sales promotion, public relation, direct marketing, pricing) on the firm performances of SMEs of Pakistan.

On the basis of the research question, hypothesis was:

H<sub>4</sub>: Advertising, sales promotion, public relation, direct marketing, and pricing are significant predictor of firm performance of SMEs of Pakistan.

#### ***4.4.1 Assumptions test of multiple regression for $H_4$***

There are four main assumptions to apply multiple regression, 1) Normality of data, Linearity relationship between variables, Heteroscedasticity, Multicollinearity of data, and removal of outliers (if present in data). These all assumptions discussed in detail in chapter 3. In next section all assumptions tested on marketing practices variables and firm performance.

##### **4.4.1.1 Normality test**

Skewness and Kurdosis results of all variables are reported in normality testing in table 3.8 (chap 3, pg. 145), which were satisfactory. The overall normality curve is illustrated in figure 5.1 (in appendix B, pg. 327), showed the satisfactory results as all observations are covered by curve line.

##### **4.4.1.2 Linearity test**

Linear curve denoted and modeled the relationship between dependent variable and independent variable(s). Most Y axis denote dependent variable and X axis indicate independent variable. In this analysis the figure 5.5 (in appendix C, pg. 332) normal P-P plot illustrated the relationship between marketing practices variables and firm performance. This plot not expressed the perfect linear relationship, as correspondent values of x to y (data) are spread bit from the regress line, even though, these visual results are showed linear relationship between multiple variables, and show small



amount of deviation between observed response and response surface. The further results will reveal that how strong or weak relationship between these variables.

Figure 5.5 showed the acceptable results of linearity.

#### 4.4.1.3 Heteroscedasticity

Table 3.9 (in chap 3, pg. 147) showed the results of Breusch-Pagan test which estimated variance of the residuals from a regression is dependent on the values of the independent variables are significant .0051. Koenker test which usually use for small samples also illustrated the significant results. These results explained that present data didn't have the same pattern of relationship or constant error variance.

#### 4.4.1.4 Multicollinearity

The use of the variance inflation factors (VIF) is the most reliable way to examine multicollinearity. In table 3.10 (in chap 3, pg. 148), public relation variable had high VIF = 15.214, hence it discarded from further data analyses. After discarded one variable, VIF tests for multicollinearity indicated that two variables touching the low level of multicollinearity (VIF = 1.085 for pricing and 2.927 for sales promotion) and remaining two demonstrated acceptable level (VIF = 3.386 for direct marketing and 3.909 for advertising). Hence, these results were appropriate for further analysis.

#### 4.4.1.5 Outliers

By the analysis of data, four outliers were found and deleted from data sheet. The outlier case numbers were, 104, 120, 139 and 140. After deleted these cases, the normality, linearity, heteroscedasticity and multicollinearity results figures were more suitable for multiple regression analysis.

#### 4.4.2 Multiple regressions

Table 4.5, 4.6 and 4.7 showing the results of multiple regression. To test the hypothesis that firm performance is a function of four variables, advertising, sales promotion, direct marketing and pricing, multiple regression analysis was performed. Results of the regression analysis provided confirmation for the research hypothesis. Beta coefficients for the four predictors were advertising (positively related to firm performance),  $\beta = .241$ ,  $t = 2.792$ ,  $p < .05$ ; sales promotion (positively related to firm performance),  $\beta = .154$ ,  $t = 2.061$ ,  $p < .05$ ; direct marketing (negatively related to firm performance),  $\beta = -2.837$ ,  $t = -2.837$ ,  $p < .05$ ; and pricing (positively related to firm performance),  $\beta = .673$ ,  $t = 14.950$ ,  $p < .001$ . This model for predicting the firm performance by advertising, sales promotion, direct marketing and pricing ( $R = .749$ ,  $R^2 = .561$ ,  $F(4, 231) = 73.848$ ,  $p < .001$ ).

Advertising, sales promotion, direct marketing and pricing can account for 56.1 percent of the variance in firm performance. Hence, H<sub>4</sub> hypothesis is supported. The results of multiple regression of advertising, sales promotion, direct marketing and pricing on firm performance are listed below:

Table 4.5

## Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.749 <sup>a</sup>	.561	.554	.37887
a. Predictors: (Constant), MP_Advertising, MP_SalesPromotion, MP_DirectMarketing, MP_Pricing				

Table 4.6

ANOVA<sup>b</sup>

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	42.401	4	10.600	73.848	.000 <sup>a</sup>
	Residual	33.158	231	.144		
	Total	75.559	235			
a. Predictors: (Constant), MP_Advertising, MP_SalesPromotion, MP_DirectMarketing, MP_Pricing						

b. Dependent Variable: FirmPerformance

Table 4.7

Coefficients<sup>a</sup>

Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig.
-------	-----------------------------	---------------------------	---	------

		B	Std. Error	Beta		
1	(Constant)	.623	.130		4.793	.000
	MP_Advertising	.112	.040	.241	2.792	.006
	MP_SalesPromotion	.085	.041	.154	2.061	.040
	MP_DirectMarketing	-.141	.050	-.228	-2.837	.005
	MP_Pricing	.562	.038	.673	14.950	.000

a. Dependent Variable: Firm Performance

#### 4.5 Research question five (hypothesis 5 testing)

Research question five rose to identify the impact of marketing capabilities (marketing research, pricing, service development, distribution/ relationship, communication/ promotion, and marketing management) on the firm performances of SMEs of Pakistan.

On the basis of the research question hypothesis and sub hypotheses were:

H<sub>5</sub>: Marketing research, pricing, service development, distribution/ relationship, marketing communication/ promotion, and marketing management are significant predictor of firm performance of SMEs of Pakistan.

##### 4.5.1. Assumptions test of multiple regression for H<sub>5</sub>

###### 4.5.1.1 Normality test

Skewness and Kurdosis results of all variables are reported in table 3.8 (in chap. 3, pg. 145) normality testing which were satisfactory. The overall normality curve

illustrated in figure 5.2 (in appendix B, pg. 328) showed the satisfactory results as all observations are covered by curve line.

#### 4.5.1.2 Linearity test

Linear curve denoted and modeled the relationship between dependent variable and independent variable(s). In most cases, Y axis denote dependent variable and X axis indicate independent variable. In this analysis the figure 5.6 (in appendix C, pg. 333) normal P-P plot illustrated the relationship between marketing capabilities variables and firm performance. This plot not expressed the perfect linear relationship, but most of the data showing linear relationship between multiple variables, and show bit deviation at lowers and upper side of curve between observed response and response surface. The further results will reveal that how strong or weak relationship between these variables. Figure 5.6 showed the tolerable results of linearity.

#### 4.5.1.3 Heteroscedasticity

Table 3.9 (in chap 3, pg. 147) showed the results of Breusche-Pagan test which estimated variance of the residuals from a regression is dependent on the values of the independent variables are significant .0271. Koenker test which usually use for small samples also illustrated the significant results. These results explained that present data didn't have the same pattern of relationship or constant error variance.

#### 4.5.1.4 Multicollinearity

The use of the variance inflation factors (VIF) is the most reliable way to examine multicollinearity. Table 3.10 (in chap 3, pg. 148) exemplified the VIF tests for multicollinearity specified that four variables touching the low level of multicollinearity (VIF = 1.012 for marketing management, 1.111 for communication, 1.120 for pricing, and 2.108 for marketing) and remaining two verified acceptable level (VIF = 3.145 for distribution and 4.325 for service development). Hence, these results were apt for further analysis.

#### 4.5.2 Multiple regressions

Table 4.8, 4.9 and 4.10 showing the results of multiple regression. To test the hypothesis that firm performance is a function of six variables, marketing research, pricing, service development, distribution, communication and marketing management, multiple regression analysis was exhibited. Results of the regression analysis provided confirmation for the research hypothesis. Beta coefficients for the six predictors were marketing research (positively related to firm performance),  $\beta = .321$ ,  $t = 3.740$ ,  $p < .05$ ; pricing (non-significant result),  $\beta = -.014$ ,  $t = -.230$ ,  $p = .819$ ; (negatively related to firm performance) service development,  $\beta = -.256$ ,  $t = -2.082$ ,  $p < .05$ ; distribution (non-significant result),  $\beta = .171$ ,  $t = 1.634$ ,  $p = .104$ ; communication (positively related to firm performance),  $\beta = .383$ ,  $t = 6.163$ ,  $p < .05$

and marketing management (non significant result),  $\beta = .046$ ,  $t = .774$ ,  $p = .440$ . This model for predicting the firm performance by marketing research, pricing, service development, distribution, communication and marketing management ( $R = .450$ ,  $R^2 = .202$ ,  $F(6, 229) = 9.675$ ,  $p < .001$ ). Marketing research, pricing, service development, distribution, communication, and marketing management can account for 20.2 percent of the variance in firm performance. Thus,  $H_5$  is supported.

The results of multiple regression of marketing research, pricing, service development, distribution, communication and marketing management on firm performance are listed below:

Table 4.8

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.450 <sup>a</sup>	.202	.181	.51306

a. Predictors: (Constant), MC\_MarketingResearch, MC\_Pricing, MC\_ServiceDevelopment, MC\_Distribution, MC\_Communication, MC\_MarketingManagement

Table 4.9

ANOVA<sup>b</sup>

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	15.280	6	2.547	9.675	.000 <sup>a</sup>
Residual	60.279	229	.263		

Total 75.559 235

a. Predictors: (Constant), MC\_MarketingResearch, MC\_Pricing, MC\_ServiceDevelopment, MC\_Distribution, MC\_Communication, MC\_MarketingManagement

b. Dependent Variable: FirmPerformance

Table 4.10

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.018	.289		3.522	.001
	MC_MarketingResearch	.253	.068	.321	3.740	.000
	MC_Pricing	-.012	.054	-.014	-.230	.819
	MC_ServiceDevelopment	-.169	.081	-.256	-2.082	.038
	MC_Distribution	.123	.075	.171	1.634	.104
	MC_Communication	.263	.043	.383	6.163	.000
	MC_MarketingManagement	.035	.046	.046	.774	.440

a. Dependent Variable: FirmPerformance

#### 4.6 Research question six (hypothesis 6 testing)

Research question three elevated to identify the impact of market orientation (customer orientation, competitor orientation and interfunctional coordination) on the firm performances of SMEs of Pakistan.

On the basis of the research question hypothesis was:

H<sub>6</sub>: Customer orientation, competitor orientation and interfunctional coordination are significant predictor of firm performance of SMEs of Pakistan.



#### ***4.6.1 Assumptions test of multiple regression for $H_6$***

##### **4.6.1.1 Normality test**

Skewness and Kurdosis results of all variables are reported in table 3.8 (chap 3, pg. 145), and normality testing were satisfactory. The overall normality curve illustrated in figure 5.3 (in appendix B, pg. 329) showed the adequate results as almost all observations are covered by curve line.

##### **4.6.1.2 Linearity test**

Linear curve denoted and modeled the relationship between dependent variable and independent variable(s). In most cases, Y axis denote dependent variable and X axis indicate independent variable. In this analysis the figure 5.7 (in appendix C, pg. 334) normal P-P plot illustrated the relationship between market orientation variables and firm performance. This plot not showed the perfect linear relationship, most of the data showing linear relationship, except middle of the curve line which bit deviation between observed response and response surface. The further results will reveal that how strong or weak relationship between these variables. Figure 5.7 showed the supportable results of linearity.

#### 4.6.1.3 Heteroscedasticity

Table 3.9 (in chap 3, pg. 147) illustrated the results of Breusch-Pagan test which estimated variance of the residuals from a regression is dependent on the values of the independent variables are significant .0006. Koenker test which usually use for small samples also illustrated the significant results. These results clarified that present data didn't have the same pattern of relationship or constant error variance.

#### 4.6.1.4 Multicollinearity

The use of the variance inflation factors (VIF) is the most reliable way to examine multicollinearity. Table 3.10 (in chap 3, pg. 148) showed customer orientation variable had high VIF = 6.749, hence it deleted from further data analyses. VIF tests for multicollinearity specified that two variables showed the low level of multicollinearity (VIF = 1.173 for competitor orientation and 1.173 for intrafunctional coordination). Hence, these results were suitable for further analysis.

#### **4.6.2 Multiple regressions**

Table 4.11, 4.12 and 4.13 showing the results of multiple regression. To test the hypothesis that firm performance is a function of two variables customer orientation and intrafunctional coordination, multiple regression analysis was demonstrated.

Results of the regression analysis presented verification for the research hypothesis. Beta coefficients for the two predictors were competitor orientation (negatively related to firm performance),  $\beta = -.119$ ,  $t = -1.930$ ,  $p < .05$  and intrafunctional coordination (positively related to firm performance),  $\beta = .528$ ,  $t = 8.565$ ,  $p < .05$ . This model for predicting the firm performance by customer orientation and intrafunctional coordination ( $R = .495$ ,  $R^2 = .245$ ,  $F(2, 233) = 37.728$ ,  $p < .001$ ). Customer orientation and intrafunctional coordination can account for 24.5 percent of the variance in firm performance. Therefore,  $H_6$  hypothesis is supported.

The results of multiple regression of customer orientation and interfunctional coordination on firm performance are listed below:

Table 4.11

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.495 <sup>a</sup>	.245	.238	.49493

a. Predictors: (Constant), MO\_CompetitorOrientation, MO\_InterfunctionalCoordination

Table 4.12

ANOVA<sup>b</sup>

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18.484	2	9.242	37.728	.000 <sup>a</sup>

Residual	57.075	233	.245
Total	75.559	235	

a. Predictors: (Constant), MO\_CompeterOrientation, MO\_InterfunctionalCoordination

b. Dependent Variable: FirmPerformance

Table 4.13

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.352	.169		7.992	.000
	MO_CompeterOrienta tion	-.101	.052	-.119	-1.930	.049
	MO_InterfunctionalCoo rdination	.453	.053	.528	8.565	.000

a. Dependent Variable: Firm Performance

#### 4.7 Research question seven and (hypothesis 7 testing)

Research question four is identify the impact of all three constructs 1) marketing practices, 2) marketing capabilities, and 3) market orientation on firm performance of SMEs of Pakistan.

On the basis of the research question, hypothesis was:

H<sub>7</sub>: Marketing practices, marketing capabilities and market orientation are significant predictor of firm performance of SMEs of Pakistan.

#### ***4.7.1 Assumptions test of multiple regression of H<sub>7</sub>***

##### ***4.7.1.1 Normality test***

Skewness and Kurtosis figures mentioned in table 3.8 (chap 3, pg. 145) explained that normality of data of marketing practices and marketing capabilities constructs showed Skewness .640 and .240 (standard error .157) respectively right skewed distribution which meaning stated by Frank and Althoen, (1994) that more values are concentrated on left of the mean, with extreme values to the right, on the other hand the market orientation construct's Skewness -.007 left skewed distribution which meaning described by Frank and Althoen, (1994) that more values are concentrated on right of the mean, with extreme values to the left. Furthermore, Kurtosis of marketing practices, marketing capabilities and market orientation constructs showed -.754, -.270 and -.010 (standard error .313) respectively which defined by Reinard, (2006) as platykurtic distribution, flatter than a normal distribution with a wider peak. These figures demonstrated the appropriate results for normality of data of marketing practices, marketing capabilities and market orientation. Firm performance also showed reasonable results of normality test in table 3.8 with Skewness .461 (standard error .157) right skewed distribution which meaning explained by Frank and Althoen, (1994) that values are concentrated on left of the mean, with extreme values to the right and Kurtosis -.981 (standard error .313) which explained by Reinard, (2006) as platykurtic distribution, flatter than a normal distribution with a wider peak. Hence, these results allow to proceed for multiple regression analysis of marketing practices, marketing orientation and market orientation to firm performance.

The overall normality curve illustrated in figure 5.4 (in appendix B, pg. 315) showed the adequate results as almost all observations are covered by curve line.

#### 4.7.1.2 Linearity test

Linear curve denoted and modeled the relationship between dependent variable and independent variable(s). In most cases, Y axis denote dependent variable and X axis indicate independent variable. In this analysis the figure 5.8 (in appendix C, pg. 320) normal P-P plot illustrated the relationship between market orientation variables and firm performance. P-P Plot not showed the perfect linear relationship, but most of the data showing linear relationship, except just down to the centre of the curve line which bit deviation between observed response and response surface. The further results will reveal that how strong or weak relationship between these variables. Figure 5.8 showed the supportable results of linearity.

#### 4.7.1.3 Heteroscedasticity

Table 3.9 (in chap 3, pg. 147) showed the results of hetroscedasticity. Results of Breusche-Pagan test which estimated variance of the residuals from a regression is dependent on the values of the independent variables are significant .0020. Koenker test which usually use for small samples also illustrated the significant results. These results clarified that present data didn't have the same pattern of relationship or constant error variance.

#### 4.7.1.4 Multicollinearity

Table 3.10 (in chap 3, pg. 148) explained the results of multicollinearity. The use of the variance inflation factors (VIF) is the most reliable way to examine multicollinearity. All three constructs, marketing practices, marketing capabilities, and market orientation had low level of multicollinearity (VIF = .0937 for marketing practices, 0.954 for marketing capabilities and 0.978 for market orientation). Hence, these results were suitable for further analysis.

#### 4.7.2 Multiple regressions

Table 4.14, 4.15 and 4.16 showing the results of multiple regression. To test the hypothesis that firm performance is a function of three constructs, marketing practices, marketing capabilities and market orientation, multiple regression analysis was exhibited. Results of the regression analysis presented verification for the research hypothesis. Beta coefficients for the three predictors were marketing practices (positively related to firm performance),  $\beta = .493$ ,  $t = 9.497$ ,  $p < .001$ , marketing capabilities (positively related to firm performance),  $\beta = .371$ ,  $t = 7.198$ ,  $p < .001$ , and market orientation (positively related to firm performance),  $\beta = .260$ ,  $t = 5.119$ ,  $p < .001$ . This model for predicting the firm performance by marketing practices, marketing capabilities and market orientation ( $R = .643$ ,  $R^2 = .414$ ,  $F(3, 232) = 54.545$ ,  $p < .001$ ). Marketing practices, marketing capabilities and market

orientation can account for 41.4 percent of the variance in firm performance. Hence, H<sub>7</sub> hypothesis is supported.

The results of multiple regression of marketing practices, marketing capabilities and market orientation on firm performance are listed below:

Table 4.14

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.643 <sup>a</sup>	.414	.406	.43701

a. Predictors: (Constant), MarketingPractices, MarketingCapabilities, MarketOrientation

Table 4.15

ANOVA<sup>b</sup>

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	31.251	3	10.417	54.545	.000 <sup>a</sup>
	Residual	44.308	232	.191		
	Total	75.559	235			

a. Predictors: (Constant), MarketingPractices, MarketingCapabilities, MarketOrientation

b. Dependent Variable: Firm Performance

Table 4.16

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.739	.265		-2.792	.006
	MarketingPractices	.353	.037	.493	9.497	.000



MarketingCapabilities	.484	.067	.371	7.198	.000
MarketOrientation	.267	.052	.260	5.119	.000

a. Dependent Variable: Firm Performance

### *Summary*

This chapter illustrates the descriptive statistics of all items, firm and individual characteristics, variables and constructs. These descriptive statistics gives the initial idea about the data collected in survey. The research questions 1, 2 and 3 and related hypotheses testing done through by the correlation method and research question 4, 5, 6 and 7 and its related hypotheses testing finish through multiple regression methods.



## CHAPTER FIVE

### CONCLUSION AND RECOMMENDATIONS

#### Overview

In this fifth and final chapter, research objective, questions and the discussion of the findings are summarized. The discussion is based on regression results which are briefly discussed and reviewed, findings and results compare to old study verdicts. Based on that results and findings further provide detail remarks based upon the analysis of the research data. Finally managerial implications and directions for future research are presented.

## 5.1 Conclusion

The study results concluded with insight findings which study intended to explore. It verifies and rejects old studies claims. The conclusions below discuss in detail:

### 5.1.1 *Marketing practices*

The results of research questions regarding marketing practices suggest that except pricing practice, all other practices are very low related to firm performance. As advertising is not preferable mode of marketing for SMEs. The making of TV, radio or newspaper commercial for SMEs is considered costly and rare, and high expense rate to employ these channels can consider a hurdle as well. SethuRaman *et al.*, (2011) considered advertising as one of the most important elements of the marketing mix and give the bigger coverage to potential customers. But Pakistan SMEs usually cover small areas or parts customers, therefore, this can be reason that SMEs are not choosing this as the main practice of marketing even though, advertising is considered as the cash resource (Srinivasan & Lilien, 2009).

On the other hand, sales promotion illustrates the weaker positive result with firm performance as compared to advertising. Promotions are temporary offers to consumers, which are designed to achieve a specific sales objective and represent an important fraction of the marketing budgets of both manufacturers and retailers (Freo, 2005) *e.g.* cash rebate, discount or complementary item. Sales promotion has grown a

great deal in modern years and enormous sum of capital is being spent on sales promotion. In all over the world promotion is one of the techniques to attract consumers to purchase more or try a product or service and severe outcomes of promotion included sales increased, quantify of stock used and attract new consumers (Osman *et al.*, 2011). But in Pakistan context, low profit margin, is the result of inflation or purchasing power, SMEs not considering this as the viable tool for marketing. Sales promotion also requires the creative thinking and customer participation to attract more customers, which are lacking in SMEs structure.

Third variable of marketing practices direct marketing shows the negative relationship in all marketing practices variables. Direct marketing messages often include an invitation for the customer to respond to the message (Hasouneh & Alqeed, 2010). Hasouneh & Alqeed, (2010) illustrated the key advantages of direct media (e.g. e-mail) as, it is cost effective, easy method to communicate with people, human medium often use directly often, allow easy interaction, can be customize according to customer(s) and interaction can be tracked and the effects measured. Detre, *et al.* (2010) explained the direct marketing benefit is to capture a large share of the customers' dollar. This study focus on service sector and service is difficult to sell in direct marketing, as this is not a mature concept in Pakistani environment. A very few service firms use to sell their offering by direct marketing, as population of Pakistan not usually consider on salesmen claims regarding his/ her offering, until they experience it.

Pricing remains the strongest (positive) relationship with performance of SMEs in Pakistan in all marketing practices variables. Pricing is the influential and important component of marketing strategy, because it makes influence on customer, company and economy. Price is the bundle of benefits presented by the product or services that must be traded off against the bundle of costs associated with using it (Mburu & Massimo, 2005). Present customers have wide knowledge of market including the price information, therefore they used to be price sensitive in any mean, and inflation also makes Pakistan customers more price sensitive. It is the main reason that SMEs are more tends towards pricing, which attract customer and build image. Consumers form price expectations and use them to evaluate price information when making purchase decisions (Yuan & Han, 2011; Kalwani *et al.*, 1990).

The result of marketing practices constructs shows the significance positive impact on firm performance of SMEs of Pakistan. All variables perform significant contribution of overall results. Hoffman (2005) explained that marketing practices are the life blood of any organization. The Four Ps of the marketing mix became an indisputable paradigm in academic research, the validity of which was taken for granted (Gronroos, 1994). O'Sullivan *et al.*, (2009) mentioned in their study, that the challenge faced by marketers is their inability to demonstrate the effectiveness of marketing activities. It's a fast changing marketing world, customer has crossed boundaries and it is possible to make purchase in Africa from Asia, and take delivery in as soon as possible. Responsible personal should recognize which marketing approaches challenge and increase and increase pressure on all firms to effectively

apply different approaches as the firm and managers will have to be sensitive to the knowledge, resources, and systems underlying each approach (Coviella & Brodie, 1994). The findings about positivity of marketing practices to firm performance are aligned with studies mentioned below in table 5.1 tested empirically or descriptively before:

*Table 5.1*

Marketing practices' relationship

Study	Discussion
1) Ghouri et al., (2011a)	Relationship of marketing practices to firm performance
2) Ghoni et al., (2011b)	Relationship of marketing practices to firm performance
3) Jadhwa, (2011)	Relationship of marketing practices to IT & e-commerce businesses
4) Nwankwo and Gbadamosi, (2011)	Importance of marketing practices for SMEs
5) Coviello et al., (2006)	Relationship of marketing practices to performance of small service firms of tourism business
6) Brookes and Brodie, (2003)	IT impact on marketing practices
7) Dhanani et al., (1997)	Marketing practices UK high technology firms
8) Welsh and Llanes, (1996)	Marketing practices in USA and Newzealand meat industry

### ***5.1.2 Marketing capabilities***

Research questions of marketing capabilities results' outcome explains that marketing research, service development, distribution and communication positively related with firm performance. On the other hand pricing capability and marketing management capability negatively associate with firm performance.

In in-depth look, marketing research capability illustrates low positive relationship with firm performance. Marketing research mean in-depth knowledge about the customer needs, choices and preferences with comparison and monitoring of competitor's product and services offer and their strategies (Atuahene-Gima, 1993). Vorhies & Morgan (2005) illustrated marketing research as the set of processes needed to discover broad based market information to get in-depth look and to develop information about specific market and its customer needs, and to design marketing programs to meet these needs and market conditions. Marketing research functions the link between consumers to marketer through information. This information can be transform and reveal new opportunity, competitive advantage, new segment(s), and improve the function of marketing/ operations etc. Business focus supposes to be on to fulfill the customer need efficiently and effectively, this marketing research can give idea about unattainable measures which other firms didn't practicing. The results demonstrate that SME firms not using the marketing research tool to build marketing strategies and programs. It is also observed by author that expertise in marketing research area are lacking in Pakistan environment.

Meanwhile, pricing capability negatively related to firm performance, and this capability isn't more effective and competitive than competitors. Day (1994) suggested that price the products/ services according to market information, communicate product advantages to potential customers and distribute products to customers. Vorhies & Morgan (2005) mentioned pricing is another area, which emphasize on competitive and attractive pricing of offering (product/service) and monitor prices in the market.

Service development result also exemplifies negative relationship with firm performance. Vorhies & Morgan (2005) posited that service development accentuate on design service which make challenge to competitor, meet the customer requirement, urge new need(s) and can meet internal company goals and hurdles. Development of service requires innovation and creativity with observation and research. These aspects require special skills and interest, which visibly lacking in SMEs top management. Almost all sectors offering same level and types of service, and adaption of competitor's way of service is quite common.

Distribution capability associate with firm performance at low extend. Vorhies & Morgan (2005) defined the distribution networks, which how effectively product or service reach to target customer(s)/ segment and firm's channels of distribution must be strong. They added further that firm must have a capability to manage the channels, build relationship with distributors which formal/ informal and effectively managed. Distribution/ relationship adjoin the availability of service/ product on time



and attain the demand. Effective distribution enforces the long term relationship with the key stake holders. Responses explain that SMEs are suffering to make relationship with distributors.

Communication capability demonstrates the low positive relationship with firm performance. Vorhies & Morgan (2005) explained that communication/production is another important capability for many firms. Advertising, sales promotions, and personal selling activities are the forms of promotions which firm uses to communicate with the market, customers to sell the product/ service. Atuahene-Gima (1993) posited that effectiveness of promotional activities to gain the share in market and growth in sales. Communication capability refer here is messages and related media used to communicate with a market and consumers. Results exemplifies that it is not strongly pushing the firm performance, but if we analyze the business marketing practices, they use to adopt marketing tools, but as it discuss earlier that SMEs adopting vague practices, or just follow the footstep of their competitor or mentor. This communication need clean and clear message about the offering to existing and potential customers which can promise to give back the value of money of spending with particular business.

Marketing management capability remains the second negative outcome in all marketing capability variables. Vorhies & Morgan (2005) classified marketing management area are focused on customer acquisition management, the management of marketing programs, and the ability to coordinate action among the diverse

elements in the firm needed to implement a marketing program. The marketing management capabilities derive from a well-performed marketing management process that consists of analyzing market opportunities, formulating clear marketing objectives, and developing a marketing strategy that should be implemented and controlled (Kotler, 2004). Marketing management capability requires link between the service offerings to the market requirement, create marketing plans and strategy which should monitor and align according to requirement, which is lacking in SMEs. Marketing is distinct subject which need specific knowledge, understanding and money to spend as investment.

Marketing capabilities shows weak impact on firm performance as it need special capability of firm to adopt the marketing. According to Teece *et al.*, (1997) marketing capabilities are dynamic when they enable the firm to implement new marketing strategies to reflect changing market conditions by combining and transforming available resources in new and different ways to attain marketing efficiency. These capabilities should be rare because competitors must find them difficult to emulate; they are complex because they are explained by a number of linked factors as in the creation of superior customer value, and they are tacit because they are inextricably embedded in organizational experience and practice (Johnson & Scholes, 1999).

Marketing capability development is, therefore, an essential investment not a discretionary cost for any business, and even more so in an economic climate where customers are becoming ever more demanding and competitors ever more creative in their search for competitive edge. In this search for competitive edge, investments in marketing capability development offer a proven, substantial and sustainable return (Lacovara, 2009). But unfortunately SMEs unable to attain the expertise in marketing capabilities, which reasons can be the discuss earlier that marketing is distinct subject which should be understand, learn and implement by exclusive approach which should attain the market and customer need(s) with value to money which can enable word of mouth from existing customers and competitive advantage. This regression result confirms the results of studies regarding marketing capabilities which are mentioned in table 5.2.

*Table 5.2*

Marketing capabilities' relationship

Study	Discussion
1) Qureshi and Mian, (2010)	Antecedents and outcomes of marketing capabilities
2) Morgan <i>et al.</i> , (2009a)	Relationship of marketing capabilities to profit growth
3) Morgan <i>et al.</i> , (2009b)	Relationship of marketing capabilities to organizations' performance

- 4) Hartsfield *et al.*, (2008) Relationship of marketing capabilities to firm performance
- 5) Krasnikov and Jayachandran, (2008) Relationship of marketing capabilities to performance
- 6) Zhang *et al.*, (2008) Relationship of marketing capabilities to organizations' performance
- 7) Vorhies and Morgan, (2005) Marketing capabilities for competitive advantage
- 8) Knight and Cavusgil, (2004) Relationship of marketing capabilities to global firms
- 9) Slotegraaf and Dickson, (2004) Relationship of marketing capabilities to profit growth
- 10) Tsai and Shih, (2004) Relationship of marketing capabilities to business performance
- 11) Moore and Fairhurst, (2003) Relationship of marketing capabilities to firm performance
- 12) Weerawardena, (2003) Role of marketing capabilities in competitive strategy
- 13) Hooley *et al.* (2002) Scale development and importance of marketing capabilities
- 14) Kotabe *et al.* (2000) Marketing capabilities as moderator in multinational firms' performance

- |                                   |  |
|-----------------------------------|--|
| 15) Fahy <i>et al.</i> (2000)     | Development of marketing capabilities in central Europe                |
| 16) Hooley <i>et al.</i> (1999)   | Relationship of marketing capabilities to firm performance             |
| 17) Vorhies, (1998)               | Development of marketing capabilities and organizational effectiveness |
| 18) Hunt and Morgan, (1995)       | Importance of marketing capabilities for competitive advantage         |
| 19) Hall, (1993)                  | Importance of marketing capabilities to sustain competitive advantage  |
| 20) Conant <i>et al.</i> , (1990) | Relationship of marketing capabilities to organization performance     |
| 21) Moller and Anttila, (1987)    | Marketing capabilities as key in SMEs as key in SMEs success           |
| 22) Snow and Hrebiniak, (1980)    | Relationship of capabilities to firm performance                       |

### **5.1.3 Market orientation**

Market orientation research questions' outcomes are positive to firm performance. Customer orientation shows weak positive relationship to firm performance. Narver & Slater (1990) defined customer orientation as a sufficient understanding of target customers, so that organization can create continuous superior value for them. They

further added that customer focus is the heart of a market orientation. In customer orientation firm focus on customer need(s) and create the value service which urge customer to feel less/ zero sacrifice for service encounter. Customers' interest remains first, and prefers their taste and preference business operations to attain their satisfaction. In Pakistan SMEs perspective, full or rational attainment of customer orientation isn't the visible as lack of innovation and research in perspective of customers. Even customers' needs can be modify by innovation but SMEs not applying that strategy. The question about considering customer satisfaction as business objective shows the low result, which is alarming but an opportunity for SMEs.

Competitor orientation also illustrates negative relationship with firm performance. Narver & Slater (1990) affirmed that competitor orientation understands of the short-term strengths and weakness of both current and potential customers along with long-term capabilities which can be problem for you in future. Mavondo, *et al.* (2005) contemplated about competitor orientation that it is exploitation, which leading to secure advantage to advance its own welfare and Blackson and Cheng (2005) illustrated as compatible offerings which are competitively better than that of competitors. This capability also relate to customer but in perspective of competition, that how to counter competitor to gain or regain the customers. It is about to gain a small/ big opportunity which not fulfilled or weakness of opponent, which preserve the advantage over competition between rivals. As discuss in customer orientation that missing point of innovation and research in SMEs, otherwise this orientation that

missing point of innovation and research in SMEs, otherwise this orientation can facilitates the SMEs to propel more and gain more monetary advantage over competitor.

Interfunctional coordination positively related to firm performance. Narver and Slater (1990) concluded that interfunctional coordination is the utilization companywide resources for creating superior value for current and current and future customers in coordinated and synchronized manner. Jaworski and Kohli (1993) stated that market orientation emerge to offer an amalgamate focus for the efforts and projects of individuals and departments within the organization, by this means leading to better-quality performance. Kohli and Jaworski (1990) proposed the three components of market orientation which cover the horizon of business. First they argue to create the market intelligence program which pertaining the current and future customer need, and this program should initiate on whole organization basis, not just for one department. Second they said about the propagation of the intelligence across departments and last they suggested that response of whole organization to this market intelligence. Deshpande, Farley, and Webster (1993) explained that interfunctional coordination effort develops long-term profitable enterprise by integrated work by owners, manager, and employees. This orientation urges organization to operate on same clear path to achieve certain overall goal. Author believes that if interfunctional coordination achieved well, the other two parts of market orientation operate well and fit for organization. As interfunctional coordination urges to operate the manpower, functions and departments of the

organization in one direction (current market situation), hence if that direction is achieved well than customers suppose to be serve well and also face stiff rivalry from particular firm. Most of the SMEs are owner directed firms, which mostly depend on the gut feeling of head of particular business or following of current trend, no research or observation decisions use in it. But as compare to other orientation, this orientation serves Pakistan SMEs well.

Market orientation Mavondo *et al.*, (2005) stated about the market orientation that a set of norms and values which effect the set of behaviors and activities. Market orientation is a concept that is believed to have far reaching effects on organizations as it influences how employees think and act (Javalgi *et al.* 2006). Market orientation is the very heart of modern marketing management and strategy (Narver & Slater, 1990). A market-oriented firm is one, which successfully applies the marketing concept (Kohli & Jaworski, 1990). Market orientation advocates the firm to serve the customer by sound service by integration of manpower and its functions. Jaworski and Kohli (1993) stated that market orientation emerge to offer an amalgamate focus for the efforts and projects of individuals and departments within the organization, by this means leading to better quality performance. SMEs often lacking into find the suitable tool(s) to face the intense market competition, especially in marketing activities, making it tricky for the SMEs to adopt market orientation program. This construct varies the firm performance but not at high extend, as discuss earlier that most of the firm are owner or single brain driven, and lack of use technology and techniques (MIS, CRM. etc.) to explore deep about customer's competitors. This



result authenticates the findings about studies of market orientation are mentioned in table 5.3 below.

*Table 5.3*

Market orientation relationship

Study	Discussion
1) Merlo and Auh, (2009)	Relationship of market orientation to firm performance
2) Grinstein, (2008)	Relationship of market orientation to alternative strategic orientations
3) Pitt <i>et al.</i> (2007)	Market orientation and mode of focus of South African firms
4) Blackson and Cheng, (2005)	Market orientation in small business in Michigan
5) Kara <i>et al.</i> (2005)	Relationship of market orientation to business performance of small-sized service retailers
6) Kirca <i>et al.</i> (2005)	Antecedents of market orientation and its relationship to performance
7) Matsuno <i>et al.</i> (2005)	Empirical comparisons of the three market orientation scales
8) Zhou <i>et al.</i> (2005)	Relationship of market orientation on performance
9) Dobni and Luffman,	Relationship of market orientation to strategy

- (2003) implementation and performance
- 10) Langerak, (2003) Relationship of market orientation to positional advantage and organizational performance
- 11) Qu and Ennew, (2003) Consequences of marketing orientation in China
- 12) Matsuno et al. (2002) Relationship of market orientation to business performance
- 13) Hult and Ketchen, (2001) Relationship of market orientation to positional advantage and performance
- 14) Slater and Narver, (2000) Relationship of market orientation to business profitability
- 15) Caruanna, Pitt, & Berthon, (1999) Impact of market orientation on small business
- 16) Kohli and Jaworski (1990) Construct, research propositions and managerial implications of market orientation
- 17) Narver and Slater, (1990) Relationship of market orientation to business profitability
- 

All three construct a) marketing practices, b) marketing capabilities and c) market orientation well defining the impact on firm performance. This effect is lower than the marketing practices construct, but higher than marketing capabilities and market orientation constructs. This shows that when SMEs employ all three marketing construct together, so it make impact on firm performance. These constructs has interrelated link as market orientation gathered the information (by

some parts of marketing capabilities) from market about trends/ opportunities/ events, and work as integrated unit to gain up from it, so on these basic, marketing practices buildup and applied, by successfully applied these marketing practices, firm gain customer orientation and competitor orientation.

## **5.2 Study Implications**

In conducting scientific research, the credibility and novelty of the results of a study can be considered the most important signs of the quality of the study (Lukka & Kasanen 1993). This study confirms the positive relationships of each construct (marketing practices, marketing capabilities and market orientation) to firm performance, and their overall impact on firm performance is also prominent. The managerial implications of the study are:

### ***5.2.1 Managerial implications***

Establishing marketing competency is critical which should be on priority with effective use of limited resources. Owners/ managers must adopt the new innovative ways of advertisement, which supposed to manageable by SMEs (Radio advertisement etc.). As persistent advertising consider as long term investment for firm if that firm continue offer the value to consumer, as it initiate the word of mouth. Public relationship is the tactic to build long term relationship with consumers. So owners/ managers should design a program or adopt the technology which can

facilitate the firm to keep in touch with consumers. Direct marketing practice can be improved by cell phone text messaging, interactive consumer websites, online display ads etc.

Marketing research is solemn topic to consult by owners or managers. Market research can help to find new consumers, develop effective market program, to gain market share or improve revenue from competitors. Even this market research can help to develop new innovative and improved service offerings. Owners/ managers should build strong relationship with distributors or suppliers. They are integrated part of service and help firm to fulfill the demand of service. This relationship to distributor or supplier helps to minimize the cost and effective service delivery.

Customer need fulfilment should be the first preference of business, which can show by strong commitment to our consumers and business objectives should driven by customer satisfaction. Future strategies should be made by reading the market situation and competitor offering. Those strategies and planning spirit should the goal/ mission of all organization, and all department and employee work together to achieve that.

### ***5.2.2 Theoretical implications***

Based on theory of market orientation and marketing capabilities Morgan *et al.* (2009b) and Ghouri *et al.*, (2011b) the research model was developed. The theoretical contribution of present study is the re-examination of the marketing concept and its link with firm performance literature. These results not challenge the legitimacy and efficacy of the three concepts (marketing practices, marketing capabilities and market orientation) with firm performance. Marketing practices produce acceptable drive to firm performance, activities with advertising, sales promotion, public relation, direct marketing, pricing. Pricing remain the major contributor to firm performance. Marketing capabilities also have positive link with firm performance, but two of its capabilities (pricing and marketing management) remain negative. Market orientation relationship also remains positive with firm performance with its entire three construct shows positive relationship with firm performance as well.

The overall result of three construct of three construct added new dimension in Pakistan environment as author of the study didn't find any research on this topic. This research provides the idea that marketing practices, marketing capabilities and market orientation can jointly improve the firm performance by effective use of market information trends or opportunities regarding customers and competitors and transform the information to apply marketing practices and build capabilities.

### 5.3 Limitations of the study

This investigation involves five main limitations, which are scrutinized below:

First limitation is, respondents' selection is based on random sampling technique which limiting to the six sub-sectors of service industry. Due to time and money constrains, six prominent sectors are selected for data collection.

The second limitation remain with sampling ratio, as Lahore and Faisalabad respondents proportion is less than of Karachi respondents (data collection from these Lahore and Faisalabad cities ask more time and money and security conditions were not suitable as well).

The third limitation is also related to the selected sample population of this study. The respondents of the study are 240, which gathered from education institutions, IT/ media firms, financial firms, health institutions and restaurants/ hotels in Karachi, Lahore and Faisalabad, therefore participated firms were considered from the six specific service sub-sectors and two geographic (states) location. Caution must therefore be taken when generalizing the results of this study in any other SMEs in other industrial areas such as service sub-sector of Pakistan. However this study can be generalized in education institutions, IT/ media firms, financial firms, health institutions and restaurants/ hotels SMEs with higher confidence level.

Forth limitation is regarding environment of Pakistan as data were collected in an environment that is potentially distracting due to political (election campaign) and law and other situation. The enmity of the environment caused some respondents to hastily complete the survey questionnaire without the benefit of through consideration.

Fifth limitation is the cross-sectional of the data. As this data is static and does not represent the dynamic nature of small and medium sized business environment. Change and competition is the main phenomenon of any business environment, hence relationship among the variables of marketing practices, marketing capabilities and market orientation may vary over time, and therefore a longitudinal study may be proposed with same or additional industrial representation in the data sample.

#### **5.4 Future direction for research**

The limitations of this research and its findings should be noted with a view to extending the present study.

- 1) Longitudinal study may appropriate for studying the effects of marketing practices, marketing capabilities and market orientation. Data of different intervals of time may give more understanding about the SMEs performance and it may give the idea about the sustainability and profit of the SMEs.

- 2) It is suggested that data gathering can be increased from Lahore and Faisalabad and it may increase the understanding about impact of marketing practices, marketing capabilities and market orientation.
- 3) Data collection may broaden to all over the four states of Pakistan, which may provide the distinct information about the understanding of marketing concept in SMEs. As different states has different culture and mind set, so it would be beneficial for existing business and future business and planners to get advantage from such study.
- 4) Comparative study may initiate between manufacturing industry and service industry. It may offer specific differences between the two industries which may contribute into the theory and rationale strategies about the manufacturing and service industries. Some adopted questionnaire items with minor changes can utilize for manufacturing industry.
- 5) Comparative study may commence between public sector and private sectors. It may illustrate the overall marketing adaptation of two sectors and may differentiate both sectors firm performance based on marketing practices, marketing capabilities and market orientation.



- 6) Market orientation can employ as mediating variable with two independent and dependent variables. As market orientation is the exertion of market information and reforms the information for managing or formulates marketing practices and marketing capabilities. Hence, it may provide different consequence of marketing practices and marketing capabilities on firm performance.
- 7) Narver and Slater (1990) suggested few situational variables which can also associate with the firm performance in Pakistan service sector SMEs environment. These are buying power or the degree to which a buyer can negotiate lower prices, supplier power or the degree to which a supplier can negotiate higher prices for the buyer, ease of entry of new competitors, rate of market growth, size of the firm relative to nearest competitor, and average total operating cost of a business in relation to its largest competitor, so these additional variables and may open the door for the future research with all three proposed constructs.

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**APPENDIX "A" – SURVEY QUESTIONNAIRE**



**FACULTY OF MANAGEMENT AND ECONOMICS**

**THE RELATIONSHIP OF MARKETING  
ORIENTATION, MARKETING CAPABILITIES,  
AND MARKETING PRACTICES ON FIRM  
PERFORMANCE OF SMALL AND MEDIUM  
ENTERPRISES IN PAKISTAN**

**SURVEY QUESTIONNAIRE**

**ARSALAN MUJAHID GHOURI**

### **Cover Letter for Survey Questionnaire**

November, 2012

My name is Arsalan Mujahid Ghouri and I am currently undergoing Doctor of Philosophy (PhD) studies in Marketing at the Universiti Pendidikan Sultan Idris (UPSI), Malaysia. In fulfillment of the degree, I am required to conduct a research. Toward this, I intend to conduct a study on "Marketing practices, marketing capabilities and market orientation and their impact on the performance of the SMEs of Pakistan".

The research is important for SMEs as they play an important role in the economy of Pakistan. Your organization has been selected because it fits the profile of SMEs that make an important contribution to the economic development of our country. The findings from this research have the potential to assist SME owners/managers in designing superior polices for improving performance of their organizations. The study could also assist in the SME's survival rate and ultimately benefit the economy of Pakistan.

The questionnaire has been developed to minimize the amount of time for completion and to facilitate the summarization of findings. It should only take 25-30 minutes to complete. If you are interested to know the results of the study or about the study itself, please do not hesitate to contact me at the following address, or email me at: arsalan.ghouri@gmail.com or call me at: 006014-2206916.

Your responses will be treated in the strictest confidence. You are not supposed to mention your name or your organization name on the questionnaire. Only the aggregate findings will be published. If you have any query regarding the implementation of this study, you are encouraged to contact Assoc. Prof. Dr. Nek Kamal Yeop Yunus (Principle Supervisor) on his email: nkamal@fpe.upsi.edu.my

Thank you for your valuable contribution to this research effort. While your participation is entirely voluntary, it is highly appreciated.

Arsalan Mujahid Ghouri  
Faculty of Management and Economics  
Universiti Pendidikan Sultan Idris  
Tanjung Malim, Perak  
Malaysia









22) Please indicate your gender:

a) Male

b) Female

### Part 2: Marketing Practices

	Strongly Disagree	1	2	Neutral	3	4	Agree	5
1) One of our focuses in marketing planning is advertising.	1	2	3	4	5			
2) When dealing with business related market(s), our focus is on advertising.	1	2	3	4	5			
3) In our organization, one of marketing activity is carried out by advertising.	1	2	3	4	5			
4) Major lacking in marketing practice by our company isn't advertising.	1	2	3	4	5			
5) One of our focuses in marketing planning is sales promotion.	1	2	3	4	5			
6) When dealing with business related market(s), our focus is on sales promotion.	1	2	3	4	5			
7) In our organization, one of marketing activity is carried out by sales promotion.	1	2	3	4	5			
8) Major lacking in marketing practice by our company isn't sales promotion.	1	2	3	4	5			
9) One of our focuses in marketing planning is public relation.	1	2	3	4	5			
10) When dealing with business related market(s), our focus is on public relation.	1	2	3	4	5			



11) In our organization, one of marketing activity is carried out by public relation.

1 2 3 4 5

Strongly  
Disagree

Neutral

Agree

12) Major lacking in marketing practice by our company isn't public relation.

1 2 3 4 5

13) One of our focuses in marketing planning is direct marketing.

1 2 3 4 5

14) When dealing with business related market(s), our focus is on direct marketing.

1 2 3 4 5

15) In our organization, one of marketing activity is carried out by direct marketing.

1 2 3 4 5

16) Major lacking in marketing practice by our company isn't direct marketing.

1 2 3 4 5

17) One of our focuses in marketing planning is pricing.

1 2 3 4 5

18) When dealing with business related market(s), our focus is on pricing.

1 2 3 4 5

19) In our organization, one of marketing activity is carried out by pricing.

1 2 3 4 5

20) Major lacking in marketing practice by our company isn't pricing.

1 2 3 4 5

### Part 3: Marketing Capabilities

1. Our market research ability help us find more new customers then do our competitors.

1 2 3 4 5

2. Market research skills help us develop effective marketing program.

1 2 3 4 5

3. We use our marketing research information more effectively than our competitors uses their marketing research information.

1 2 3 4 5

<b>4. Our market research expertise helps us develop better marketing programs than our competitors.</b>	1	2	3	4	5
<b>5. Pricing has a major impact on marketing program success.</b>	1	2	3	4	5
	Strongly Disagree		Neutral		Strongly Agree
<b>6. Our pricing approach is more effective than our competitors.</b>	1	2	3	4	5
<b>7. We know competitors' prices better than they know ours.</b>	1	2	3	4	5
<b>8. Our prices are more competitive than our competition's price.</b>	1	2	3	4	5
<b>9. We do a better job of developing new services than our competition.</b>	1	2	3	4	5
<b>10. Our service development often falls short of its goals.</b>	1	2	3	4	5
<b>11. Our service development gives us an edge in the market.</b>	1	2	3	4	5
<b>12. Our service development efforts are more responsive to customer needs than those of our competition.</b>	1	2	3	4	5
<b>13. We have better relationships with distributors than do our competitors.</b>	1	2	3	4	5
<b>14. Our distribution system is more efficient than our competitors.</b>	1	2	3	4	5
<b>15. We work more closely with distributors and retailers than do our competitors.</b>	1	2	3	4	5
<b>16. Our distribution programs are vital for marketing program success.</b>	1	2	3	4	5
<b>17. Advertising is a vital component of our promotional program.</b>	1	2	3	4	5

<b>18. Our sales promotions (coupons, free samples etc.) are more effective than those of our competition.</b>	1	2	3	4	5
<b>19. Our advertising programs are more effective than those of our competitors.</b>	1	2	3	4	5
<b>20. Our abilities to segment and target market help us compete.</b>	1	2	3	4	5
<b>21. We manage our marketing programs better than our competitors.</b>	1	2	3	4	5
<b>22. Our marketing management skills give us a competitive edge.</b>	1	2	3	4	5
	Strongly Disagree		Neutral		Strongly Agree
<b>23. Our ability to coordinate various departments and groups in this business helps us to respond to market conditions faster than our competitors.</b>	1	2	3	4	5

#### **Part 4: Market Orientation**

<b>1. We have strong commitment to our customers.</b>	1	2	3	4	5
<b>2. We look for ways to create value in our products.</b>	1	2	3	4	5
<b>3. We closely monitor and assess our level of commitment in serving customers' need.</b>	1	2	3	4	5
<b>4. Our business objectives are driven by customer satisfaction.</b>	1	2	3	4	5
<b>5. We frequently measure customer satisfaction.</b>	1	2	3	4	5
<b>6. We pay close attention to after sale service.</b>	1	2	3	4	5

**7. In our organization, our sale people share information about competitor information.**

1 2 3 4 5

**8. If a major competitor were to launch an intensive campaign targeted at our customers, we would implement a response immediately.**

1 2 3 4 5

**9. Customers are targeted when we have an opportunity for competitive advantage.**

1 2 3 4 5

**10. Top managers usually discuss competitor's strategies.**

1 2 3 4 5

**11. Information on customers, marketing success, marketing failures is communicated across functions.**

1 2 3 4 5

**12. All of our business functions (e.g. marketing/ sales, R&D, finance/ accounting, etc.) are integrated in serving the needs of our target markets.**

1 2 3 4 5

Strongly Disagree

Neutral

Strongly Agree

**13. Our managers understand how employees can contribute to the value of customers.**

1 2 3 4 5

**14. We share resources with other business units.**

1 2 3 4 5

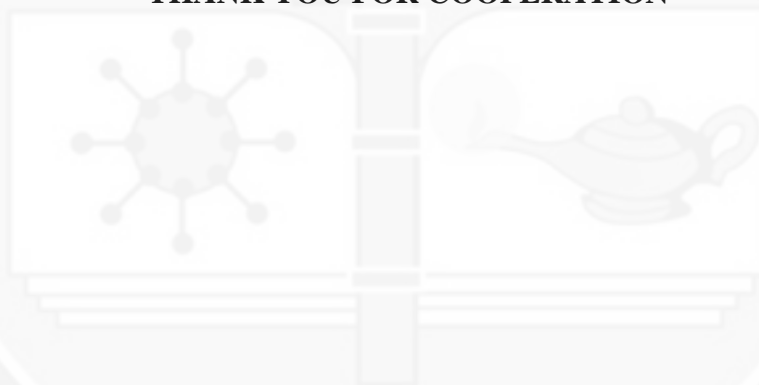
### **Part 5: Firm Performance**

**1. Please evaluate the performance of your business over the previous THREE years relative to your major competitors.**

better	Much worse					Much than competitors
	than competitors					
a) Business unit profitability	1	2	3	4	5	
b) Return on Investment (ROI)	1	2	3	4	5	
c) Customer satisfaction & retention	1	2	3	4	5	

d) Delivering value to your customers	1	2	3	4	5
e) Overall marketing effectiveness	1	2	3	4	5

**THANK YOU FOR COOPERATION**





**APPENDIX “B” – NORMALITY HISTOGRAM GRAPHS**

## Histogram

Dependent Variable: FirmPerformance

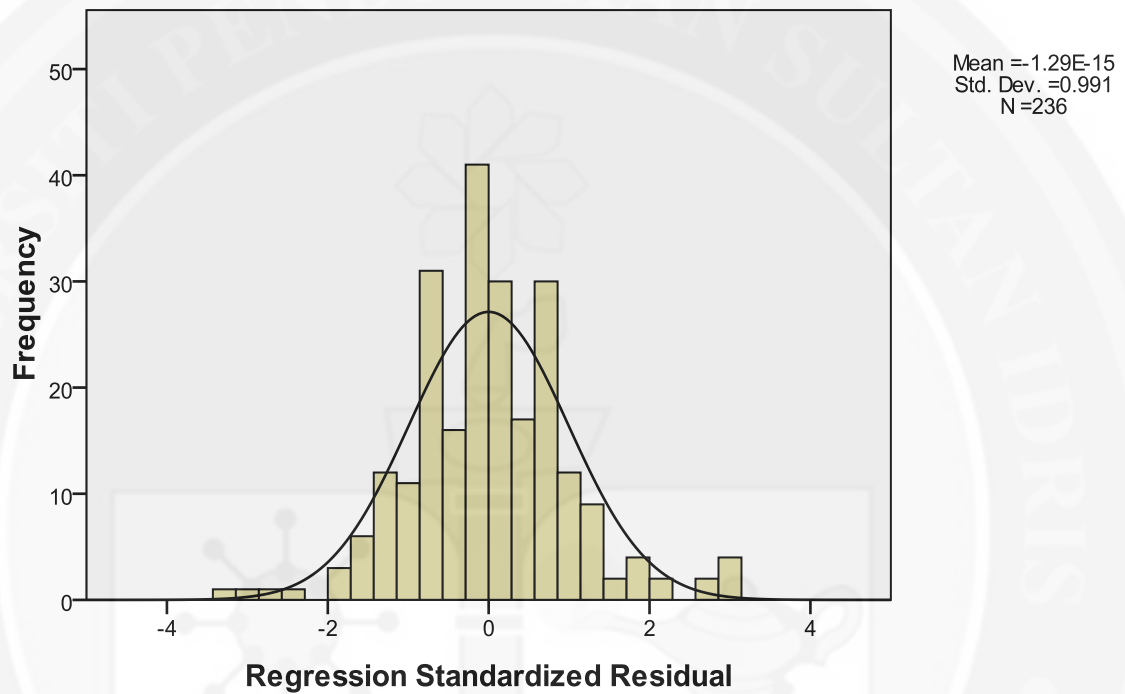


Figure 5.1: Normality Histogram Marketing Practices

## Histogram

Dependent Variable: FirmPerformance

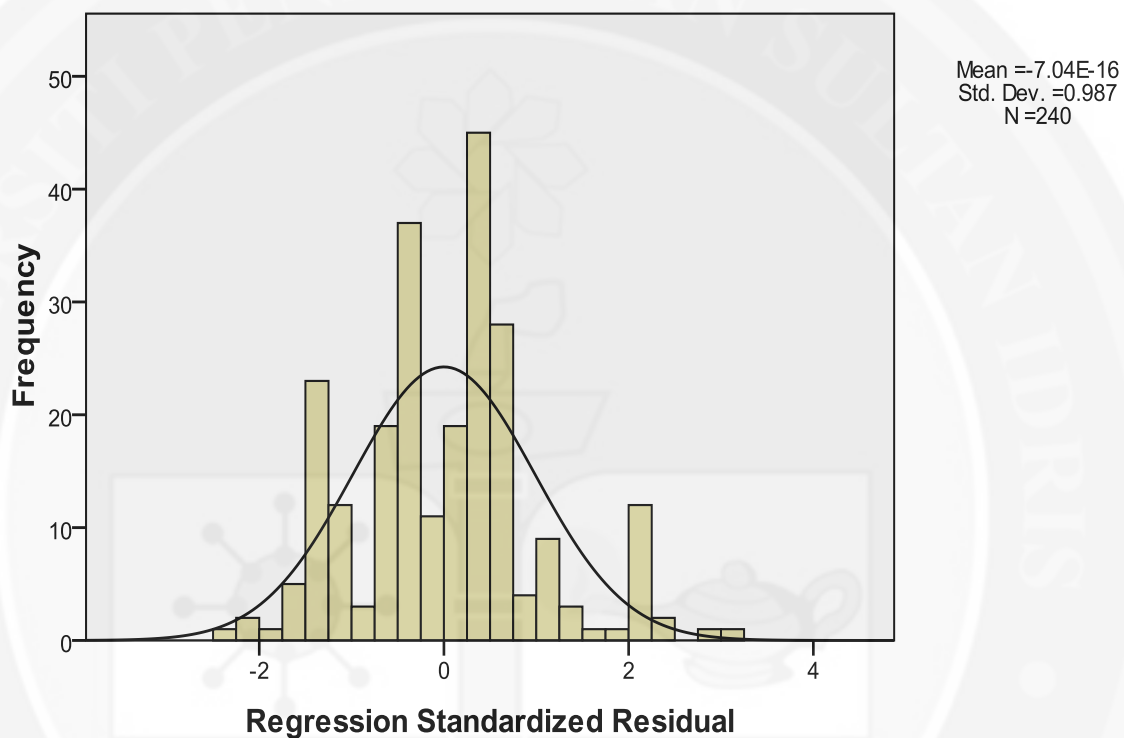
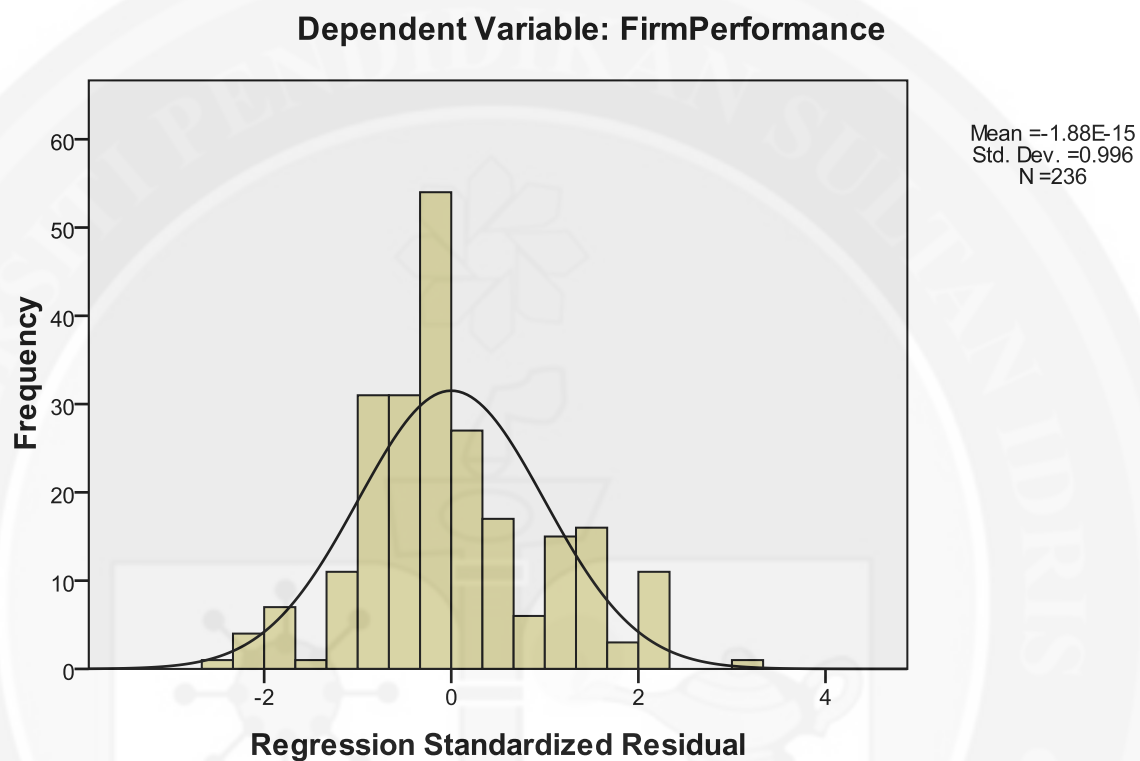


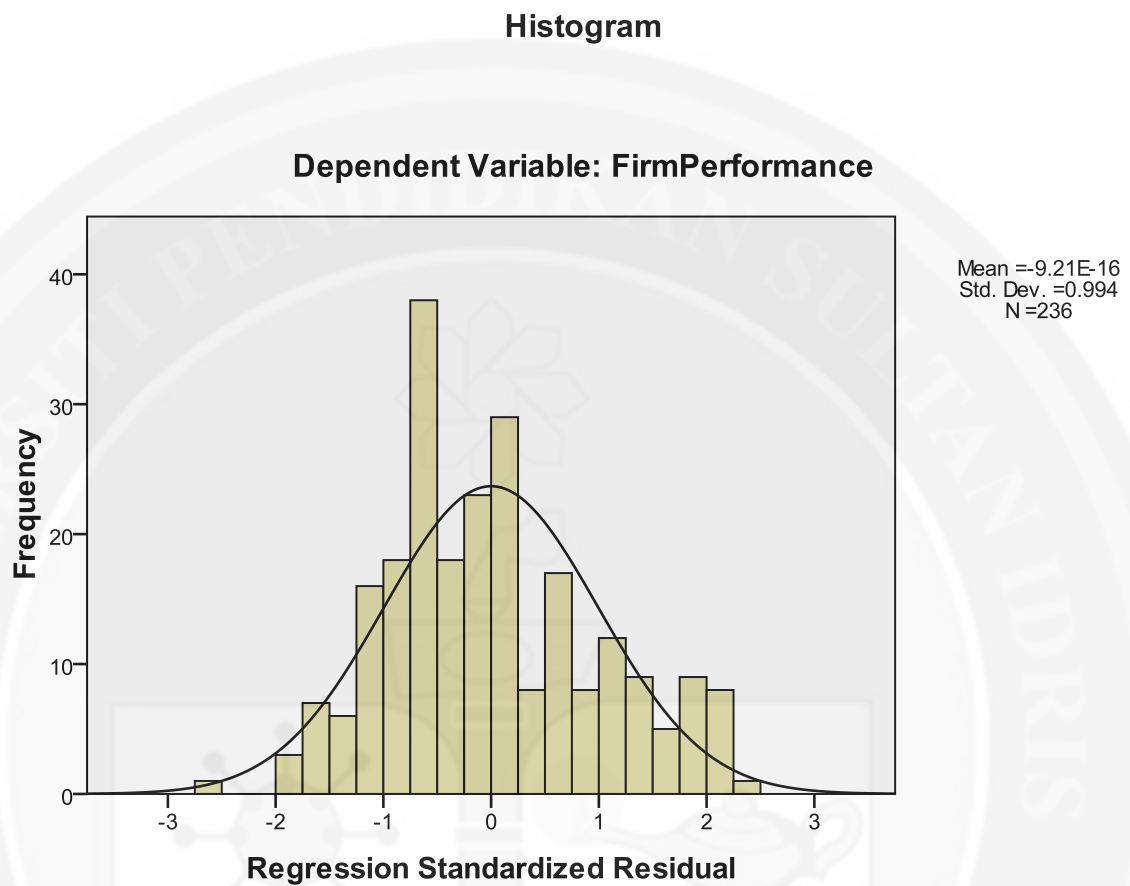
Figure 5.2 Normality Histogram Marketing Capabilities



## Histogram



*Figure 5.3: Normality Histogram Market Orientation*



*Figure 5.4: Normality Histogram Marketing Practices, Marketing Capabilities and Market Orientation*



**APPENDIX "C" – PP PLOT GRAPHS**

## Normal P-P Plot of Regression Standardized Residual

Dependent Variable: FirmPerformance

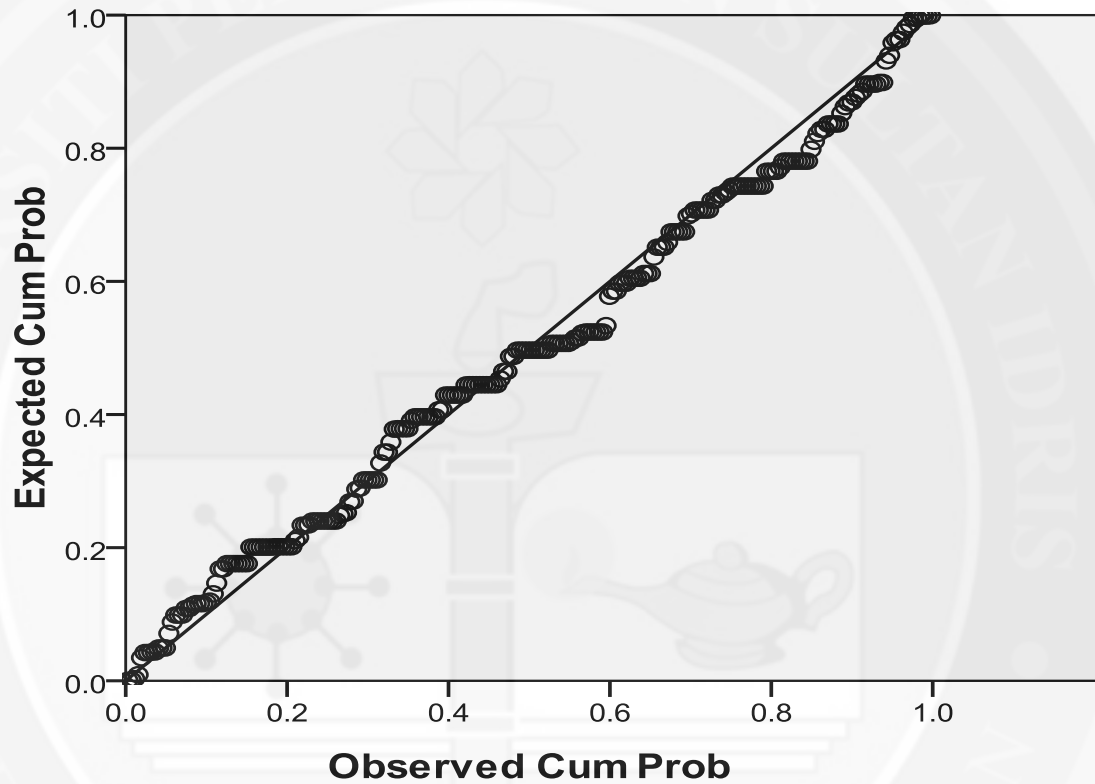


Figure 5.5: PP plot marketing practices

## Normal P-P Plot of Regression Standardized Residual

Dependent Variable: FirmPerformance

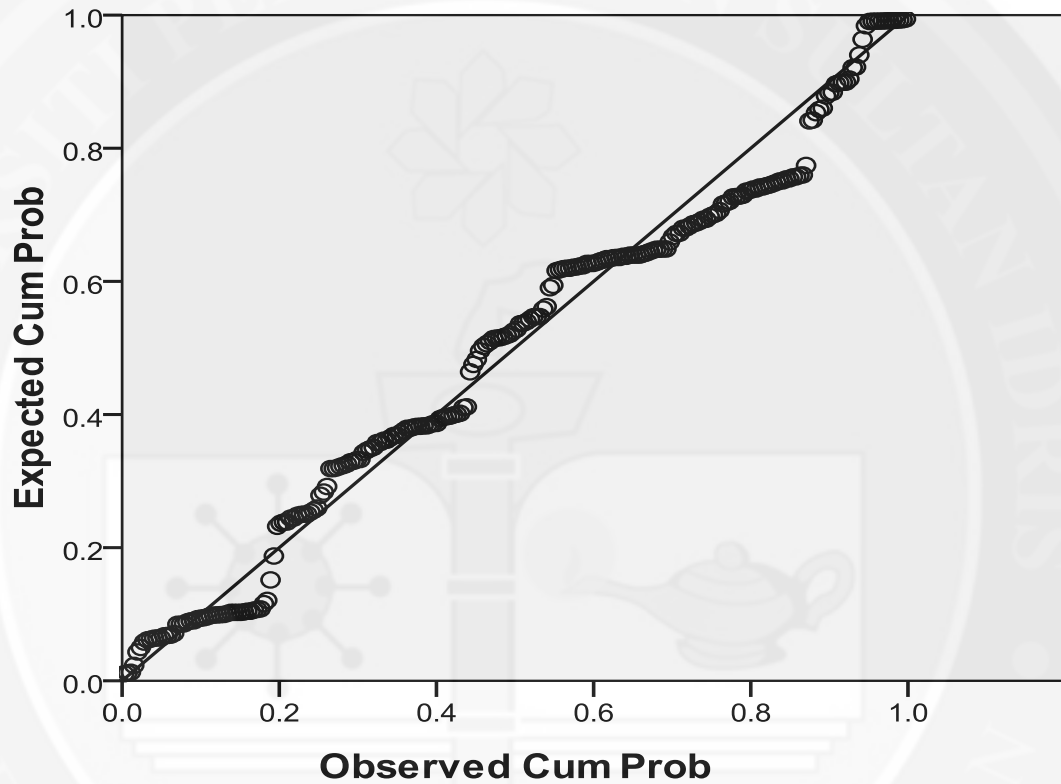


Figure 5.6: PP Plot marketing capabilities

## Normal P-P Plot of Regression Standardized Residual

Dependent Variable: FirmPerformance

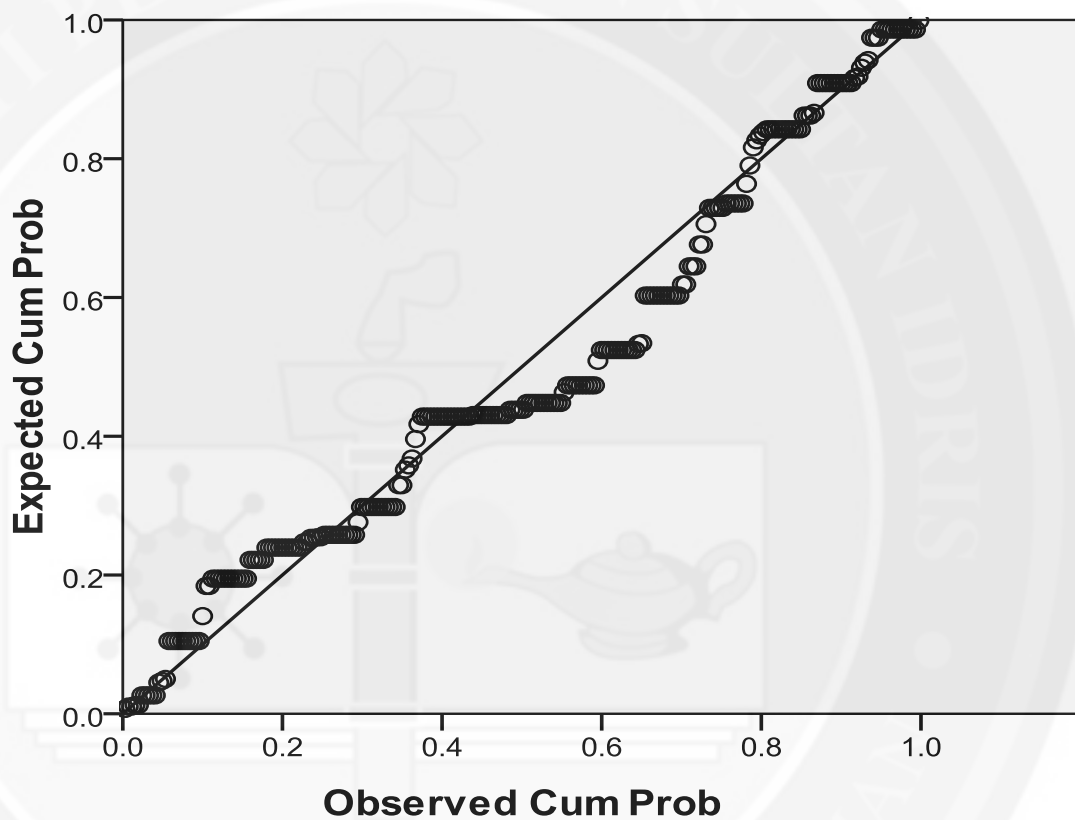


Figure 5.7: PP plot market orientation

## Normal P-P Plot of Regression Standardized Residual

Dependent Variable: FirmPerformance

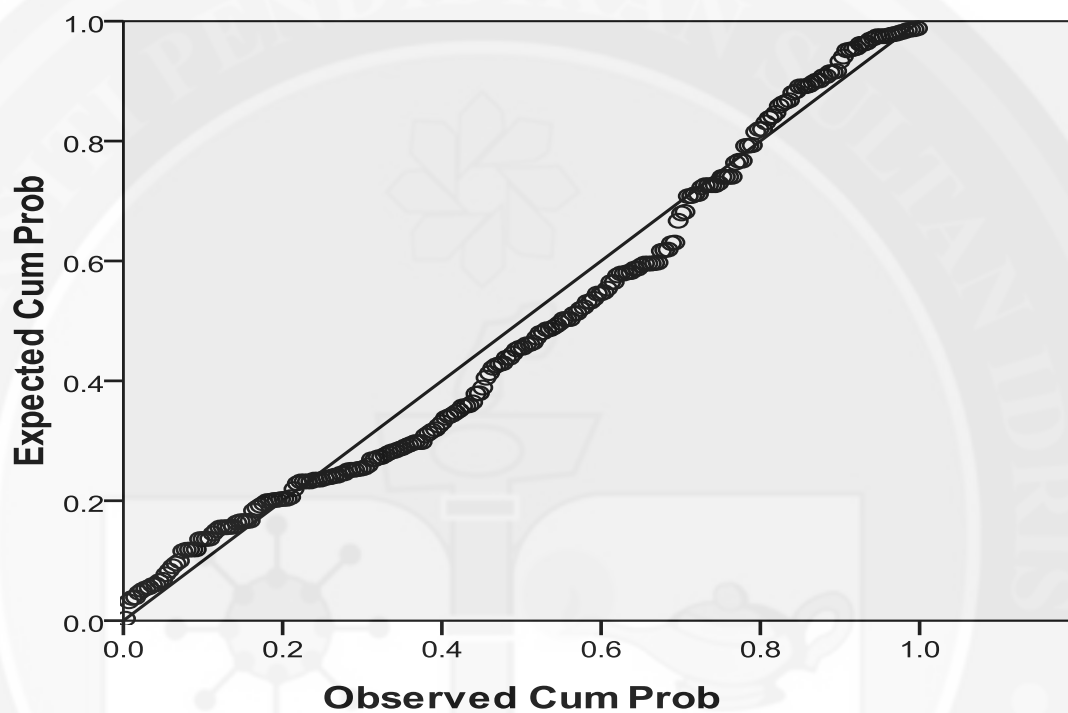


Figure 5.8: PP plot marketing practices, marketing capabilities and market orientation