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

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

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 mengekploitasi peluang pelanggan dan pesaing untuk mentransformasikan maklumat dengan mengaplikasikan amalan pemasaran bagi membina keupayaan pemasaran dalam kalangan firma PKS di Pakistan.

TABLE OF CONTENTS

List of Tables and Figures

Tables

Figures

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 21st 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 inboth the popular press and academic literature in recent years (Dixon, Karniouchina, van der Rhee, Verma, &Victorino,2014;Gummesson, Kuusela, & Na¨rva¨nen, 2014; Strandvik, Holmlund, & Gro¨nroos, 2014; Wirtz, Tuzovic, & Kuppelwieser, 2014). Verhoef, Leeflang, Reiner, Natter, Baker, Grinstein, Gustafsson, Morrison, & Saunders (2011) addressed that the discussion remains mainlyqualitative regarding marketing effectiveness, without strong empirical evidence in multiple countries.Studies haveempirically demonstrated that strong marketing departments lead to superior businessperformance, 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 asthe impact of the marketing department, relative to that of other departmentalfunctions, 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), Go¨tz, Hansen, Jo, & Krafft (2009),Verhoef and Leeflang (2009), Urbonavic̆ius and Dikc̆ius (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, buildand maintains brand value and awareness by providing customer value. Marketing also enhance shareholder and other stakeholder valueby 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 (Ghouri*et al.*, 2011b; Palmer, 2009) and its five categories a) advertising (Ghouri*et al.*, 2011b; Nwankwo & Gbadamosi, 2011), b) sales promotion and personal selling (Odunlami, & Ogunsiji, 2011; O'Sullivan, Abela, & Hutchinson, 2009), c) public relation (Ghouri, 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 14th 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 QaumiTarana; 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^2 (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 approximatelyto 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 exits.

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 employee 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, &