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Degree of Market Orientation and Sustainability of Micro Enterprise Operators – Case Study in Batticaloa District

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Abstract Micro enterprises can help to alleviate poverty and supply the essential goods and services to the people. Small and micro enterprises play a significant part in the economy. Data collection was done using structured pre tested questionnaire and informal interviews. Four divisional secretariats were randomly selected and simple random sampling technique was used to take the sample size of thirty four. Both descriptive and non-parametric techniques were used as analytical tool. Findings reveal that most of micro enterprise operators (MEOs) are market oriented while few MEOs practice production orientation. However, market oriented MEOs show higher sustainability while production oriented MEOs show lower sustainability. Most of sustainable MEOs are decided by integrating the market and production orientation. Sustainable MEOs have given more priority for the customer satisfaction. Moreover, MEOs who showed higher degree of market orientation are sustainable. There is a relationship between degree of market orientation and sustainability of MEOs.

Keywords Micro enterprise operators, Market orientation, sustainability

Introduction

There has been a raising attention in how micro enterprises (MEs) can assist to provide jobs, alleviate poverty and supply the essential goods and services to the people. Small and micro-enterprises play a significant part in most economies. In addition, research has shown that small businesses play a major role in generating non-farm employment in industrialized countries, as well as in developing countries. Small and Medium Enterprises (SMEs) play an important role in any economy through generation of employments, contributing to the growth of GDP, boarding on innovations and motivating of other economic activities. This

sector is known to be the backbone of all developed and developing nations. Therefore, the development of this sector is dominant important for any country irrespective of their level of development.

However, in developing countries like Sri Lanka its major concern is on the development and poverty alleviation perspective, rather than as potentially growing businesses. Over the past decade, micro enterprise development programs have emphasized the provision of credit. They have paid much less attention to providing business development services, such as marketing assistance, training, and technology supply services. In addition to that Micro financial institutes have faced a big problem regarding loan repayment of MEOs.

Background

With the globalization and deregulation of markets the business environment is highly competitive. Therefore in order to battle and survive in the severely competitive global marketplace, firms have to pay more attention to the needs of customers. As a result many firms are changing their business operations from a production-oriented approach to a market-oriented approach. In this context the importance of the marketing concept as a central tenant of marketing has been discussed by many authors for decades (Felton, 1957). Market orientation is grounded in the marketing concept and is the cornerstone of marketing management and the marketing strategy paradigm (Hunt, 2000). Market orientation provides a company with a better understanding of its customers, competitors, and environment and subsequently leads to superior firm performance. Micro and small enterprises are the engine of growth in Sri Lanka, especially outside Colombo and the Western Province. They are vital to local economic development which create employment and reduces poverty. As in most

Asia and Pacific, Sri Lanka too has a majority portion of population living in rural areas which is estimated to be 78 percent (Department of Census and Statistics, 2013) of the country's total population. The small industries in the rural areas are the major source of employment and production of food Sri Lankan villagers' livelihood. Therefore, almost all the governments that come to power since independence give the impression to have been understood the great need for developing this vital sector. According to the Central Bank of Sri Lanka the Cottage and Small Scale Industries (CSSI) sector plays an important role in economic development through creation of employment opportunities, mobilization of domestic savings, poverty alleviation, income distribution, regional development, training of workers and entrepreneurs, creating an economic environment in which large firms flourish and contribute to export earnings. Having understood the positive impact of SMEs development and economic growth, successive governments in Sri Lanka, have taken various steps to develop this vital sector (Gamage, 2000).

While examining the present contribution of this sector to the national economy it seems that it has not yet produced desired results when compared with the other developed and developing countries in the region. Therefore there is an enormous opportunity for Sri Lanka to develop this sector thereby harnessing the benefits deriving from it. There is a broad diversity of micro enterprises in most of the villages and semi urban areas of Sri Lanka. MEs have been recognized as an important strategic sector in Sri Lanka for generating high economic growth, reducing unemployment, inequality and poverty (Ministry of Enterprise Development, 2002). Sri Lanka's economy is predominantly a Small and Medium Enterprise economy where over 50 % of GDP (Central Bank Report, 2007) is produced by the SME sector.

SMEs are found in all sub-sectors of the economy, with a large concentration in manufacturing, and a further concentration of the small ones with 5 - 10 workers. They are widely spread across urban, rural and estate sectors (International Labor Organization, 2009). The Government have recognized the importance of this sector in achieving a balanced economic growth, equitable regional distribution and increasing employment and

productivity levels, has adopted various policies for the development of SMEs in Sri Lanka. The launching of the SME Bank and the establishment of the SME Authority to function as the apex body for the development of the SME sector, are supposed to be the means for SME led growth (Ministry of Enterprise Development, 2005). They are widely spread across urban, rural and estate sectors. Considering the large number of employments by SMEs and the fact that many SME units unlike the factories located in the rural areas where unemployment levels are higher. It is pointed out that there are a number of problems associated with SMEs in Sri Lanka and the major problem is the lack of entrepreneurship (Sri Lanka Chamber of Small Industries, 2005). Compared with large firms SMEs have greater backward linkages and shows different business orientations like production orientation, market orientation, sales orientation and product orientation.

In a number of developing countries a substantial number of new job seekers, retrenched workers, and even pensioners, have turned to small and micro-enterprises (MEs) as a source of livelihood. Furthermore, it has also been emphasized that MEs offer basic goods and services, which are cheap and easily accessible to the most low-income earners (Bagachwa 1991). Micro enterprise operators (MEOs) are playing a major role in Sri Lankan economy and there is a tendency among the Sri Lankan people to start their own business as main occupation or source of income. In this situation finance has become a critical problem and credits to small business and micro-enterprises have become a fashionable topic in development agenda, where credit has been considered necessary for MEs owned by poor people to improve performance. Presently there are so many financial institutes which help to MEOs to fulfill their financial requirements. Sustainability is reflected through the loan repayment of the MEOs and it is varying among MEOs. At the same time micro financial institutes have faced a big problem in getting back the money from the MEOs. Only some of borrowers pay on time repayment while the others fail to repay. In this situation it is important to find out the reasons for such differences among MEOs. With this background the main objective of this research was to explain the differences of sustainability of MEOs by studying degree of

market orientation of MEOs. Moreover, the specific objectives are to i) find out the types of business orientations adopted by microenterprise operators, ii) review the degree of market orientation of

microenterprise operators, iii) find out whether there is a relationship between business orientation and sustainability of loan repayment of MEOs.

Conceptual frame work

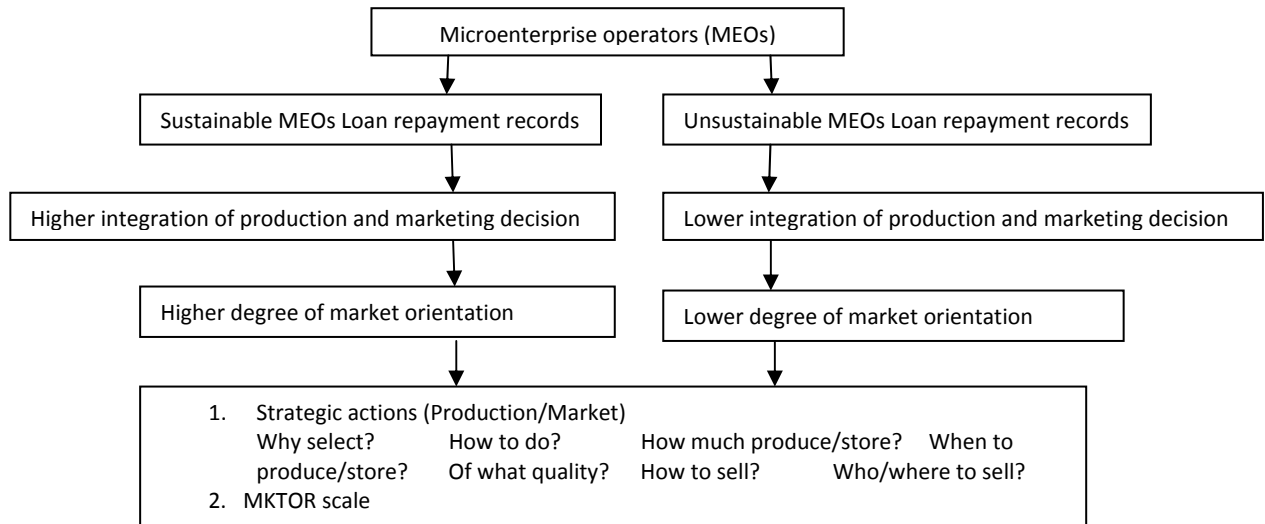


Figure 1 Conceptual framework

Materials and Methods

Data collection

The primary data collection was done using structured pre tested questionnaire. Questionnaire comprised of close - ended questions, open - ended questions and rating scale questions. General information about the respondents, present status of the microenterprises, information about their business orientation and degree of the market orientation were gathered. Interviews were also done to understand the context completely and gain further details. In order to measure business orientation the strategic actions of MEOs were gathered through the questionnaire. Moreover, in order to measure the market orientation MKTOR scale which was developed by Kohli *et al.* (1993) was employed since it reflects the specific behaviours and activities of business pertaining to market orientation. A five-point likert scale was used as one of the response items ranging from strongly disagree to strongly agree. In addition to this brief informal interview was done as counterpart of the research to get more information from MEOs through building up a rapport with them, which is more important to understand the context much better.

Batticaloa is one of the important areas when considering micro enterprises since there are higher number of microenterprises. Especially, agriculture related microenterprises are prominent way of income generation in this area and in addition to fisheries, manufacturing and small business industries can also be seen in this area. There are huge numbers of MEOs who deal with SANASA development bank. The population of interest in this research was the MEOs in Batticaloa district who have taken loan from SANASA development bank under JAYATHA project. List of individuals who have taken loans from SANASA development bank under “JAYATH” project was taken from project officer in the bank. They have taken Rs. 50, 000 as a loan with a low interest rate to start a micro enterprise. Both male and female were in this sample.

Four divisional secretariats, such as Vakara (Koralai Pattu North), Kiran (Koralai Pattu South), Chenkalady (Eravur Pattu) and Arayampathy (Manmunai Pattu) out of fourteen were randomly selected for the study. Simple random sampling technique was used to select the farmers from the village and the sample size was thirty four from different divisional secretariat as follows.

Table 1 Sample size of farmers

Divisional Secretariat	Sample Size
Vakarai	07
Kiran	08
Chenkalady	10
Arayampathy	09
Total	34

Secondary data were collected to get information about repayment pattern of the respondents, which were reported in the project reports in SANASA development bank under JAYATH project.

Data analysis

The degree of market or production orientation shown by MEOs was assessed based on the number of market or production orientated decision criteria adopted by each respondent (Tab. 2). In this context, the routine decision criteria devoid of market considerations were considered as production oriented factors and the corresponding decisions deviated from routine production orientated practices with the intentions of capitalizing market opportunities were considered as market oriented factors. Altogether 7 decision criteria were identified for each orientation. In assessing the market or production orientation which shown by farmers one mark was assigned for each decision criteria adopted by each MEO. Hence, the total attainable score by a farmer for each orientation varied from zero to seven. The total score earned by a farmer for each orientation was taken as indication of his/her degree of market and/or production orientation, which was assessed. Considering responses received for the items of the scale three degrees of market orientation was found (Tab. 2).

Table 2 Degree of market orientation

Degree of Market Orientation	Score
1. Poorly market oriented	>30
2. Moderately market oriented	30-50
3. Highly market oriented	50-70

Cronbach’s alpha value was calculated to measure reliability of the items of the scale. It is the most commonly used measure of reliability (i.e. internal consistency).

Cronbach’s alpha value was calculated for the MKTOR scale.

The following null and alternative hypotheses have been taken in order to test the relationship among the sustainability, business orientation and degree of market orientation.

Null hypothesis 1: There is no relationship between business orientation and sustainability of MEOs.

Alternative hypothesis 1: There is a relationship between business orientation and sustainability of MEOs.

Null hypothesis 2: There is no relationship between degree of market orientation and sustainability of MEOs.

Alternative hypothesis 2: There is a relationship between degree of market orientation and sustainability of the business.

Both descriptive analysis and non-parametric techniques were used as analytical tool. The data were analyzed using Statistical Package for Social Science (SPSS) and Microsoft excel. Strategic actions and MKTOR scale were used to measure business orientation and degree of market orientation. A reliability test was done to measure accuracy of scale to measure market orientation. Chi-square test was used to check whether there is a relationship between business orientation and continuous/discontinuous loan repayment of MEOs and to check whether there is a relationship between degree of market orientation and continuous/discontinuous loan repayment of MEOs also was found using chi-square test.

Results and Discussion

Types of micro enterprises

Different types of MEOs were in the district. The main types of industries were agriculture/dairy, fishery, small businesses and manufacturing. The Fig. 2 shows the distribution of microenterprises within these types of microenterprises.

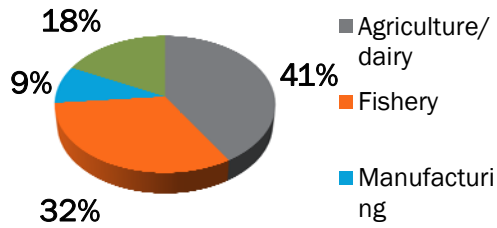


Figure 2 Types of Industries and their percentage

Among the MEOs who were interviewed, 41% MEOs were doing agriculture/dairy related industries, followed by 32% involved in fisheries. In addition to that 18% of the respondents involved in small businesses and minorities of the MEOs were involving in manufacturing. According to this study, agriculture/dairy sector was the most popular venture creation sector among MEOs considered.

Gender of the respondents

Gender variation can also be seen in the sample where both male and female were in the sample. Composition of the gender is clearly shown in the Fig. 3.

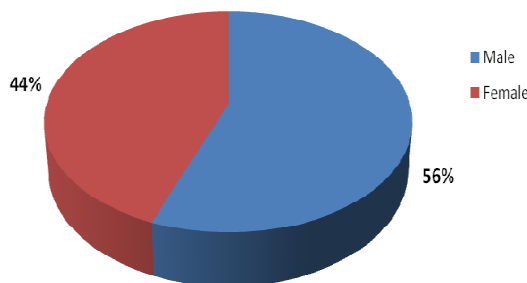


Figure 3 Gender of the respondents

Higher number of the women was engaged in micro enterprises which is 56% where only 44% of the MEOs were males who engaged in different types of MEOs.

Business orientation

MEOs can be further divided into 2 groups considering their type of business orientation. Different types of business orientation, such as market and production orientation, were shown in the sample taken. According to that higher percentage (56%) of microenterprise operators showed market orientation whereas others showed production orientation which is 44%.

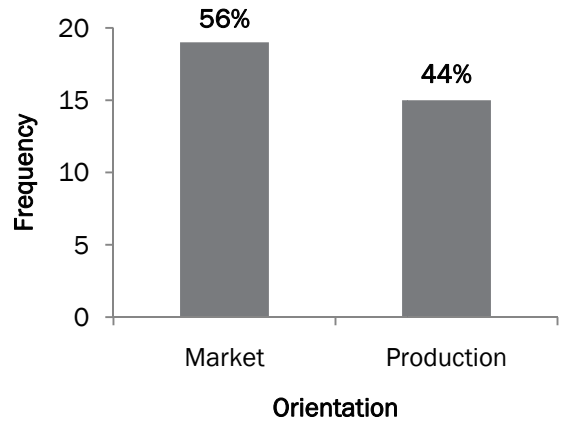


Figure 4 Business orientation of MEOs

Fig. 4 graphically depicts the number of production and market oriented microenterprise operators within the sample. Findings reveal that MEOs considered only a very limited number of market orientated factors (around 1 to 3) as opposed a higher number of production orientated factors considered is relatively low.

Sustainability of MEOs

Considering sustainability of the MEOs they have been divided into main two groups, such as sustainable and unsustainable MEOs. It is clearly shown in the Fig. 5.

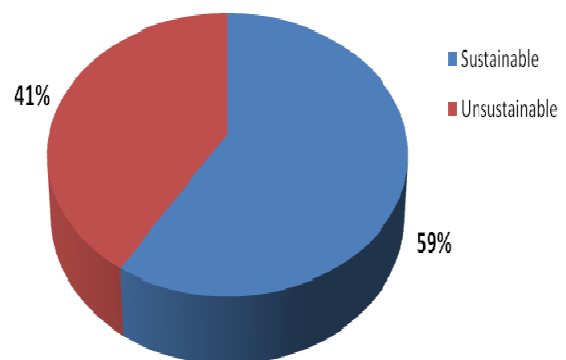


Figure 5 Sustainability of MEOs

Comparatively, there is a higher percentage (59%) of MEOs who is sustainable and only 41% of MEOs was not sustainable. Some of

them have delayed to repay while others have stopped the repayment because of the business sustainability.

Business orientation and sustainability of MEOs

Business orientation was measured according to strategic actions taken by MEOs. Considering marks obtained to the market oriented decision criteria and production oriented decision criteria they were divided into two groups, such as market oriented and production oriented.

Table 3 Business orientation of MEOs

Marks for market oriented decision criteria	Marks for production oriented decision criteria	Orientation
0	7	Production
1	6	Production
2	5	Production
3	4	Production
4	3	Market
5	2	Market
6	1	Market
7	0	Market

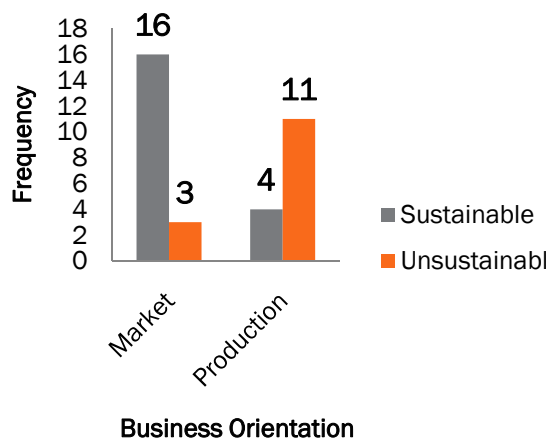


Figure 6 Business orientations versus sustainability of MEOs

According to the results obtained 16 MEOs who are market oriented were sustainable and only 3 MEOs who are market oriented were not sustainable which did not have the ability to repay continuously. Among production oriented MEOs only 4 MEOs have repaid continuously while 11 MEOs have discontinued the repayment. Therefore, according to the Fig. 6 higher number of market oriented

MEOs were sustainable which continuously repay while most production oriented MEOs were unsustainable which fail to repay continuously.

When consider strategic actions of the MEOs there are some variation between sustainable and unsustainable MEOs. Always sustainable MEOs have taken decision after scanning of the business environment. Moreover, integration of production and market orientation can be seen in the decision making process. Most of sustainable MEOs have done market orientation practices with the consideration of production decision criteria. But there is a tendency of unsustainable MEOs to get production oriented decision without considering customer satisfaction. Main criteria of production oriented decision and main market oriented decision are listed down in the Tab. 4.

Degree of market orientation

Degree of market orientation of MEOs was measured using two methods, such as:

1. According to strategic actions (decision criteria) of MEOs
2. According to MKTOR scale

Strategic actions (Decision criteria) of micro enterprise operators

In here 7 strategic actions (decision criteria) were used. All of strategic actions contained both production oriented and market oriented decision criteria. One mark is given for each decision criteria and it can be contributed to the production oriented side or market oriented side. Finally, market oriented marks and production oriented marks were calculated. Seven degrees of market orientation have been determined according to the marks received for the market oriented decision criteria.

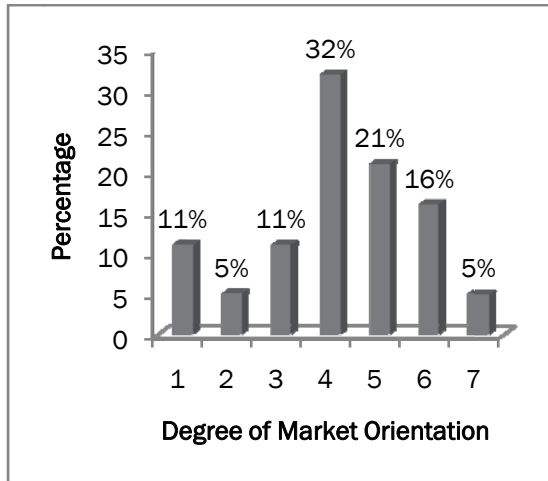


Figure 7 Degree of market orientation of MEOs

According to strategic actions (Decision criteria) which are taken by MEOs show different degree of market orientation as given in Fig. 7. According to this figure majority (32%) of MEOs belongs to category “4 degree of market orientation”. “5 degree of market orientation” is shown by 21% of MEOs. Very limited number of MEOs shows “7 degree of market orientation” and “2 degree of market orientation”. When considering degree of market orientation of the sample, most of them are belonging to the highly market oriented group.

Table 4 Main decision criteria

Decisic	Market oriented	Production oriented
1. Why did you select this business?	1. Due to high market (current/potential) 2. To get competitive advantage	1. As I have other resources required for this business 2. As neighbors are doing well 3. As parents have been done 4. Based on the advices received from NGOs/extension service
2. How do you do this business?	1. As satisfy the customers 2. Adopting innovations to get cost advantage 3. To gain competitive advantage	1. As routing practice 2. Based on advices received from NGOs/extension service
3. How much produce/ store?	1. To meet market demand	1. To reduce the cost of production in order to a higher margin. 2. Produce as much as possible with the purpose of aggressive selling.
4. When to produce/sell?	1. According to market demand 2. To get price advantage 3. To take advantage of market	1. Produce constant amount without considering customer demand. 2. considering facilities available (storage)
5. Of what quality?	1. To meet requirement of target market 2. To gain price advantage 3. To gain competitive advantage	1. Do not consider about quality of the products 2 Produce / sell low quality products to get higher profit
6. How to sell?	1. As satisfy the customers 2.As buildup customer relationships	1.Using aggressive selling strategies to sell more 2. As routing practice
7. Who/Where to sell?	1. Focusing market / identify new markets 2.To reduce the risk	1. Considering convenience 2.According to relationships

According to MKTOR scale, MEOs were divided into three groups according to the marks obtained from MKTOR scale. They were poorly market oriented, moderately market oriented and highly market oriented MEOs.

Table 5 Degree of market orientation of MEOs

Degree of Market Orientation	Percentage of MEOs
Poorly market oriented	22
Moderately market oriented	55
Highly market oriented	23
Total	100

In here marks were given for items of the MKTOR scale according to the responses

received from MEOs. After calculating the total marks, all of the MEOs were divided into three degree of market orientation. Results are shown in the Tab. 5. According to the results higher percentage (55%) of MEOs are moderately market oriented. Only 23% of MEOs show higher market orientation. 22% of MEOs are poorly market oriented.

Relationship between business orientation and continuous/discontinuous repayment of MEOs

Chi-square test was used to check whether there is relationship between business orientation and sustainability of MEOs.

H₀ = There is no association between business orientation and sustainability of MEOs

H_1 = There is an association between business orientation and sustainability of MEOs

Chi square value	P value	Acceptance of null hypothesis at 0.05 significance
8.887	0.003	Reject

According to the above result null hypothesis should be rejected at 5% significance level. It reveals that there is an association between business orientation and sustainability of MEOs.

Relationship between degree of market orientation and sustainability of MEOs

Considering different degree of market orientation according to the strategic actions adopted by MEOs relationship between degree of market orientation and sustainability of MEOs was found using chi-square test.

H_0 = There is no association between degree of market orientation and sustainability repayment of MEOs

H_1 = There is an association between degree of market orientation and sustainability of MEOs

Chi square value	P value	Acceptance of null hypothesis at 0.05 significance
13.277	0.039	Reject

According to above result null hypothesis should be rejected at 5% significance level. It reveals that there is an association between business orientation and sustainability of MEOs.

Conclusions and Suggestions

According to the study, MEOs in Batticaloa district who deal with the SANASA Development Banka show two main business orientations, such as market oriented approach and production oriented approach. Findings reveal that most of MEOs are market oriented while few MEOs practice production orientation. However, market oriented MEOs show higher sustainability while production oriented MEOs show lower sustainability. Most of sustainable MEOs get decisions by integrating the market orientation and production orientation. Sustainable MEOs have given more priority for the customer satisfaction. Moreover, MEOs who showed

higher degree of market orientation are sustainable. Results obtained from statistical analysis proved that there is a relationship between business orientation and continuous/discontinuous repayment of MEOs. As well as there is also a relationship between degree of market orientation and sustainability of MEOs.

Since the government of Sri Lanka is giving a high priority for promoting MEs, studies should therefore be carried out with a large sample of MEOs who are successful/failed. Hence, the studies would enable to identify patterns and relationships of degree of market orientation and success/failure of MEOs which would be more beneficial in policy implementation.

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