

INTER-FUNCTIONAL COORDINATION: IMPORTANCE OF EMPLOYEE COMMUNICATION IN MARKETING ACTIVITIES OF ENTREPRENEURIAL COMPANIES IN A DEVELOPING ECONOMY

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Abstract

The main purpose of this paper is to explore the significance of inter-functional coordination (IFC) for the financial performance of the entrepreneurial companies in a developing economy. The objectives are: 1. To measure the level of the variables explaining IFC (IFC 1: Current and future needs of consumers are discussed in all of the concerned departments; IFC 2: When a department discovers something important about the consumer or the competition, it quickly informs the other concerned departments; IFC 3: There is extensive communication between different departments in terms of consumer experience and market changes); 2. To determine the average level of IFC; 3. To confirm the effect IFC has on profitability. The methodology included both quantitative and qualitative methods and, the research was done in entrepreneurial companies from the food production industry in Macedonia, as a developing economy. This research is a part of an ongoing project entitled: “Strengthening the business capacity of women entrepreneurs in Republic of Macedonia, as a developing country”. Data was analyzed with IBM SPSS19. The results show that companies of varied sizes demonstrate diverse level of implementation of IFC i.e. medium and large-sized companies have higher average levels of IFC than small companies. The results also confirm the meaningful relationship as well as the direct influence of the level of IFC on business profitability. The main limitation of this study is the small sample size and the fact that it analyses a single industry. However, the paper has some practical implications: to achieve higher financial performance, companies must adopt and implement inter – functional coordination as a part of the market orientation process. The value of the paper derives from the verification of the significance of the relationship between IFC and

profitability, in a different business sector, with a different research subject from those analysed hitherto by the literature.

Keywords: *Inter – functional coordination, market orientation, marketing, financial performance, entrepreneurship, transitional economy*

1. Introduction

Entrepreneurial companies are often considered to be on the forefront of positive change. This is so, even in times of recession and pessimism. Nowadays, they are in the main focus of scientific research and analysis, including the study of their competitiveness and the key elements that create this competitiveness. Furthermore, the turbulent business environment and constantly increasing competition is causing researchers and companies to continuously search for and analyze the key elements in the business operations of the company.

Some of the widely-analyzed marketing and management factors of influence on entrepreneurial companies' success were, and still are the competitors and the consumers (Smith, 1990; Cromie, 1991; Stokes & Wilson, 2006; Marjanova J. & Conevska, 2011; Marjanova J., 2014). Nonetheless, one other factor with great significance is the workforce, which is considered as an element of strategic importance and, with the greatest influence on business results (Post, Preston & Sachs, 2002).

In most industries, the employees are involved in every stage of the business process, from procurement of materials and goods to distribution and post-sales communication. Moreover, the participation of the personnel in the process of production, commercialisation or the final provision of the service creates a base for significant differentiation among companies (Gummesson, 1987; Lings & Brooks, 1998; Lings, 2004). This means, that employees which have acquired the skills to be market orientated, and thus, share their ideas, knowledge, and consumer information within the company, can help in creating and sustaining meaningful, long term differentiation from competitors, such as, more functional and/or quality products; more acceptable terms of pay or price levels; new, easily accessible channels of distribution (on-line sales, automated cashier – free sales¹); more integrated two-way communication with consumers and the broader public...

Due to the proven connection of employees and business performance, the personnel (employees' orientation, their treatment as internal customers) have also

¹ See more on: <https://www.theverge.com/2016/12/5/13842592/amazon-go-new-cashier-less-convenience-store>

become an important subject of study in marketing (Collins & Payne, 1991; Rafiq & Ahmed, 1993). Moreover, the process of market orientation of a company undeniably considers the actions of the workers through the analysis of the internal information sharing, also known as inter-functional coordination (IFC) (Narver & Slater, 1990; Kohli et al., 1993; Farrell & Oczkowski, 1997).

IFC is an important part of market orientation. Market orientation is defined as "business culture which: 1. attaches the highest priority to the profitable creation and maintenance of superior value for customers, taking into account the interests of other stakeholders and 2. provides norms of behaviour in terms of generating extensive market intelligence for current and future needs of customers, allocation of intelligence through departments, and a comprehensive response to these by the organization, which provides a competitive advantage and superior organizational performance in the long run" (Kohli & Jaworski, 1990). This definition demonstrates the high importance of inter-functional coordination, by naming it as one of the two most important elements. Inter – functional coordination is defined as "the coordinated use of company resources in creating superior value for target customers" (Narver & Slater, 1990).

When we analyse different definitions of market orientation, we can see that they tend to agree in the following: market orientation can be implemented through the actions of individuals (employees) to the market they serve, guided by information obtained about that market (from customers and competitors), and they take place among employees in all sectors/departments of an organization.

2. The need for development of IFC in entrepreneurial companies in transitional economies

In developed economies, many companies place a huge value on their employees and on the development of higher levels of IFC, as a key part of the process market orientation implementation. On the other side, companies in developing economies face challenges that rise from changes due to the process of transition, which additionally creates pressure on the course of work. Macedonia is a transition (developing) economy and, has witnessed significant structural changes in its domestic market (Davcev & Hourvoulades, 2013).

The escalation of rivalry among competitors, rise in the number of product substitutes, increased expectations for product quality and functionality, make the everyday tasks a difficult challenge in a medium and long run. Some authors (Ferguson, 1992) argue that the lack of developed institutions and the absence of skills and knowledge on the side of the work force as well as the managers are some of the difficulties in marketing management processes faced by companies in developing economies. Others (Zurawicki & Becker, 1994) have identified several key challenges in companies in developing economies: low confidence in the reliability and efficiency of managers by the broader public; lack of databases and

representative research; gaps in the knowledge of management and marketing; failure to develop long-term strategies; little entrepreneurial activities; trivial starting capital and limited financial resources; focus on short-term financial results; affinity for small investments.

Government institutions (Agency for Promotion of Entrepreneurship of the Republic of Macedonia, 2005; Ministry of Economy of the Republic of Macedonia, 2009) have acknowledged that Macedonian entrepreneurial companies face problems common to transitional economies, such as: the economic development is based mainly on traditional markets through the export of metals, food and beverages; price is the main element of competitiveness; low quality of products; lack of certification for international quality standards and standardization of production processes; little information about market possibilities. Many of these factors are typical marketing activities, such as: market research, positioning, diffusion of innovations, and analysis of competition. The food production industry in Macedonia, as the focus of this paper, plays a significant role in the national economic development (Economic Chamber of Macedonia, 2017): it has a positive impact on the external trading balance of the country; it employs a significant part of the workforce and, it is a major consumer of other domestic industries (the packaging industry, transportation services etc.). However, this industry is continuously faced with many difficulties: 1. It is a part of a fragmented market for consumer goods, which is characterized by high competitive rivalry, possibility of new entrants, many substitute products, and high bargaining power of suppliers and consumers; 2. Foreign companies with strong brands, higher prices of products and/or intensive promotion are the market leaders, while the domestic companies primarily implement the strategy of a follower or imitator with low-priced, low quality products; 3. The focus is not on development of the skills of employees, but more on the products they are creating. Continuous implementation of such strategies, in a market where “the possibility to achieve better success, higher profit and larger market share are directly influenced by the sustainable competitive advantage, better competitive positioning and a proactive approach to market orientation and marketing – management activities” (Marjanova J., 2012), can be damaging to companies in a way that produces a long-term inability to achieve higher market competitiveness.

This reality highlights the importance of additional research in marketing and management in transitional economies, such as Macedonia, because through sufficient evidence of the significance of marketing and management activities for business performance, new generations of managers can make a difference in the business operations.

Considering the above-mentioned, this paper presents the empirical results of one of the components of market orientation, specifically, inter-functional coordination level and implementation, in entrepreneurial companies in a developing economy.

3. The importance of IFC for entrepreneurial success

Some of the first contributions that included the internal aspects of the company and personnel analysis as an integral part of companies' marketing activities are the studies by Kotler (1972) and Booms & Bitner (1981). Grönroos (1984) suggested that a company's orientation toward personnel is related to external marketing or customer focus. Others have concluded that the employees are one of the groups of stakeholders with the strongest influence on the company (Donaldson & Preston, 1995; Post, Preston & Sachs, 2002). According to Grönroos (1985) and Richardson & Robinson (1986), employees can be motivated to develop a higher market orientation, to search for and identify the needs and demands of company's customers, and to develop a sales mentality. Gummesson (1987) and Lings (2004) suggest that an entrepreneurial company should seek to grow the level of customer orientation among all the workers, and not only to the ones that interact directly with customers, because all the employees included in the production and commercialisation of the goods and services affect the end results of the business. The focus and analysis of the employees in a company can lead to integration of the functions within (George, 1990; Gilmore & Carson, 1995) and, serve as a strong base for strategic implementation and change (Winter, 1985).

The level to which every employee is fully committed to build and introduce marketing philosophy and integration of marketing activities in the company that will create value for consumers can be considered as inter-functional coordination (Wrenn, 1997). IFC is considered as an integral part of market orientation, which consists of (Kohli & Jaworski, 1990): consumer orientation, reaction to consumer demands, competitor orientation, inter-functional coordination or internal information sharing. Therefore, a higher level of IFC can lead to higher level of market orientation, which additionally results in numerous benefits for the company, such as (Marjanova J., 2014): better response to and satisfaction of customers' needs; detailed analysis of competitors and better preparation for defensive or offensive strategies; increased internal information sharing and improved decision making; orientation on long term strategic planning instead of short term activities.

Altogether, the analysis of employees and the level of IFC, can be considered as a marketing management process that integrates the many different functions of a company. This means that with the proper management of personnel, the company can achieve an improvement of employee-customer interaction, and success in the market and business performance (Bak et al., 1994; Foreman & Money, 1995; Lings, 1999).

4. Methodology and hypotheses

This paper aims to prove the significance of inter-functional coordination (IFC) as an integral part of market orientation, for the competitiveness of entrepreneurial companies, linking it to business performance (profitability), in a transitional economy. The methodology included quantitative and qualitative methods. Primary data derived from structured questionnaires about attitudes on inter-functional coordination statements, measured on a 5-point Likert scale (1-strongly disagree to 5- strongly agree), whereas for profitability a subjective scale was created (0 –extremely poor to 10 –absolutely outstanding). Secondary data was gathered from books, journals and academic articles. Data was analyzed with IBM SPSS19. The conclusions are given on the base of descriptive and deductive statistics.

The variables for IFC derived from the popular scales used in the measurement of market orientation, i.e. MKTOR (Narver & Slater, 1990), and the revised MARKOR scale of 20 variables (Kohli et al.,1993) and (Farell & Oczkowski,1997). Accordingly, the elements of IFC for the needs of this study are as follows:

- IFC 1: Current and future needs of consumers are discussed in all the concerned departments;
- IFC 2: When a department discovers something important about the consumers or the competition, it quickly informs the other concerned departments;
- IFC 3: There is extensive communication between different departments in terms of consumer experience and market changes.

In order to confirm the effect that the components of inter-functional coordination have on business performance, we propose the following hypotheses:

1. Entrepreneurial companies in a transitional economy implement no more than medium level of IFC.
2. Implementation of higher level of IFC in business activities is positively associated with business profitability.

5. Results and discussion

The descriptive statistics shows that the share of the enterprises by size in the purposive statistical sample is nearly equal (Table 1). The analysis is focused on entrepreneurial companies irrespective of the size, since the authors believe that the level of IFC and, market orientation of the company in general, should not depend of the size, but of the level of competitiveness and attractiveness of the industry and the competitive strength of the company within.

Table 1. Enterprises by size

		Frequency	Percent	Cumulative Percent
Valid	Small	6	31.6	31.6
	Medium	7	36.8	68.4
	Large	6	31.6	100.0
	Total	19	100.0	

Most of the analyzed companies have reported on average moderately bad profitability (average of 5.3; min.3; max.9). The results show notable differences among companies of varied sizes, i.e. most of the small companies (50%) have profitability that is bad, most of the medium – sized companies (57%) have moderately good profitability, while large companies have stated that their profitability is very good (33%) and extremely good (33%) (Table 2). Additional research is needed to explore the key factors of influence for the differences in profitability among companies of different sizes.

Table 2. Companies' profitability by size

		Size of the company				
		Medium – sized				
		Small		Large	Total	
Profitability	Bad	Count	3	0	0	3
		% within company's size	50.0%	.0%	.0%	15.8%
	Moderately bad	Count	2	2	1	5
		% within company's size	33.3%	28.6%	16.7%	26.3%
	Moderately good	Count	1	4	1	6
		% within company's size	16.7%	57.1%	16.7%	31.6%
	Very good	Count	0	1	2	3
		% within company's size	.0%	14.3%	33.3%	15.8%
	Extremely good	Count	0	0	2	2
		% within company's size	.0%	.0%	33.3%	10.5%
Total		Count	6	7	6	19
		% within company's size	100%	100%	100%	100%

Scale reliability was tested with coefficient Cronbach alpha (α). It is obtained that IFC has internal consistency over the acceptable level $\alpha = 0,854$

(Gliem and Gliem, 2003). This means that the test can simply be repeated in future research.

The degree of IFC and of the variables in the model separately, are defined through measures of central tendency (Aaker, Kumar & Day, 2007), i.e. arithmetic mean of the responses of managers for each of the variables that make up the scale. Overall, the average degree of IFC from the analysis of the companies showed a level of 3.9 (Table 3). This result confirms the first hypothesis. Additionally, from table 3 we can see that the employees in these companies have better results in the dissemination of essential information among different departments (IFC 2), while on the other side, the discussion about the needs (current and future) of consumers are on a lower level (IFC 1). This is an important finding since it shows that companies should find a way to educate their employees about the importance of consumer needs and help them to develop strategic capabilities in obtaining such information outside the company and discuss them with their colleagues from different departments.

Table 3. Average values of IFC variables

IFC		IFC 1	IFC 2	IFC 3
N	Valid	19	19	19
	Missing	0	0	0
Mean		3.53	4.16	4.05
Min.		2	3	2
Max.		5	5	5

* Average value of IFC is 3.9, i.e. $(3.53+4.16+4.05)/3=3.91$

The deductive analysis assumes a linear dependence of phenomena, according to which the level of profitability in a company is a linear function of the level of IFC which the company applies in its operations. Several measurements were performed using correlation and linear single regression analysis, in order to test the isolated impact of IFC on the business profitability. Correlation analysis shows that there is significant direct correlation between IFC 1, IFC (total average) and business profitability (Table 4).

Table 4. Correlation of IFC and profitability

		IFC 1	IFC 2	IFC 3	IFC
Profitability	Pearson Correlation	.464*	.402	.396	.478*
	Sig. (2-tailed)	.046	.088	.093	.038
	N	19	19	19	19

**.

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

*. Correlation is significant at the 0.05 level (2-tailed).

Additionally, during a one-sided test, according to the rule of decision-making: $t > t_{df,\alpha}$ (Newbold, Carlson & Thorne, 2007) a simple linear regression analysis with critical value of the test $t_{df,\alpha} = 1.740$ confirmed the linear dependence of profitability on IFC, i.e. that higher level of IFC is positively associated with profitability (table 5).

Table 5. Regression estimates

Model Summary						
Model	R	R Square	Adjusted R Square		Std. Error of the Estimate	
1	.478 ^a	.228	.183		1.838	
a. Predictors: (Constant), IFC						
Coefficients ^a						
Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
(Constant)	1.732	1.789			.968	.347
IFC	.997	.444	.478		2.243	.038
a. Dependent Variable: profitability						

With the F-test for testing the statistical quality of the regression ($F=5.033$; $df:1;17$; critical value of the test $F_{1;17} = 4.45$) the relation between profitability and the level of IFC in a company is proven to be statistically significant (Newbold, Carlson & Thorne, 2007).

The regression analysis has confirmed the second hypothesis. The relation of IFC and profitability states the importance of the higher level of IFC for better performance and competitiveness of companies.

After mentioning the main contributions of the study, we show its most notable limitations. First of these is the analysis of IFC at a given moment in time, when its study demands a longitudinal treatment in accordance with the dynamic nature of the reality that it aims to describe. However, the main limitation of the present study lies in the small number of companies analyzed. It is therefore necessary to repeat the study in other entrepreneurial companies characterized by turbulent business environment similar to the one analyzed.

Conclusions

This paper shows that entrepreneurial companies in a developing economy operate under problematic circumstances, with certain limitations in the strategic planning process and implementation. They show moderately bad profitability and tend to implement a medium level of IFC. The results also corroborate the meaningful relationship, as well as the direct influence of the level of IFC on

business profitability. On the basis of these findings, we can conclude that it is significant for a company to adopt and maintain a high level of IFC and of market orientation in general. Therefore, the entire personnel, regardless of the size of the enterprise, in various departments of the company must be coordinated in a way that can create value for customers through mutual cooperation and assistance, or the company should organize multifunctional teams rather than separate departments. It is also important that the internal cooperation is presented through participation in the creation of company's plans and strategies, distribution of information obtained from/about clients across sectors, as well as knowledge about offering superior value to the customer. One of the important variables is the discussion of the needs of consumers by the employees of different departments, since it is significantly correlated with profitability.

The paper has some practical implications. Namely, in order to achieve higher financial performance and thus, higher success, companies must adopt and implement inter-functional coordination as a part of the market orientation process. The value of the paper derives from the verification of the significance of the relationship between IFC and profitability, in a different business sector and with a different research subject from those analysed hitherto by the literature.

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