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Marke forces, competitive strategies and small business performance: Evidence from Mexico`s low-income market

Fuerzas de mercado, estrategias competitivas y desempeño de pequeños negocios: evidencias del mercado de bajos ingresos en México

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Abstract

In Southeast Mexico, low-income entrepreneurs run their small businesses in a local market to earn their daily income. The aim of this study is to analyze the effect of market forces on generic competitive strategies and small business performance. It analyzes (1) which generic strategy has the greater effect on small business performance, (2) which market force is the one with greater effect, and (3) how market forces influence the relationship of competitive strategies on small business performance. Findings suggest that a differentiation strategy has a greater effect on performance than cost leadership; however, a hybrid strategy works better.

JEL code: D22, L60, L25, L10, M10
Keywords: Competitive strategies; Small business; Performance; Market forces

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Resumen

En el sureste de México, los pequeños negocios son dirigidos por emprendedores de bajos ingresos, quienes operan estos negocios en un mercado local para obtener un ingreso diario. Este estudio analiza el efecto de las fuerzas del mercado sobre las estrategias competitivas genéricas y el desempeño de los pequeños negocios. Se analiza (1) qué estrategia tiene el mayor efecto en el desempeño de los pequeños negocios, (2) cual es la fuerza de mercado más representativa, y (3) cómo estas fuerzas de mercado influyen en la relación entre el desempeño y la estrategia competitiva. Los resultados sugieren que la estrategia de diferenciación es la que tiene el mayor efecto sobre el desempeño, pero que una combinación de ambas estrategias competitivas tiene mejores resultados en el desempeño para este tipo de contextos.

Código JEL: D22, L60, L25, L10, M10

Palabras clave: Estrategias competitivas; Pequeños negocios; Desempeño; Fuerzas del mercado

Introduction

Consumers and producers in low-income markets are subjects of interest for marketing, management, strategy implementation researchers and practitioners who analyze business opportunities (Toledo-López, Díaz-Pichardo, Jiménez-Castañeda, and Sánchez-Medina, 2012). The reason is that one major goal in management and business research is to clarify and identify sources of profitability differences among firms (Spanos, Zaralis, and Lioukas, 2004). Some researchers have examined the impact of market forces, such as substitute products and entry barriers, while others have analyzed the implementation of different types of strategies.

Authors refereeing to market forces support that these forces are an important determinant of firm profitability (Gupta, Polonsky, Woodside, and Webster, 2010; Uçmak and Arslan, 2012). However, competitive strategy effects on firm performance have predominated the discussion on medium and large firm's profitability (Spanos et al., 2004). Thus, the results of these studies might differ in strategies, skills, and market factors that affect small businesses' performance in emerging economies, indicating that little has been studied on the influences of market forces, competitive strategies and small business performance in low-income markets of emerging economies (Spanos et al., 2004; Acquaah, Amoako-Gyampah, and Jayaram, 2011; Ingenbleek, Tessema, and van Trijp, 2013; London, 2016).

Emerging economies are characterized by a large number of small businesses run by low-income entrepreneurs. Most of these firms (small businesses) perform in the informal and traditional sector of the economy. Also, they contribute directly and indirectly to the local economy and preserve traditional means of production and doing business (Viswanathan, Sridharan, Ritchie, Venugopal, and Jung, 2012; Christensen, Parsons, and Fairbourne, 2010; Wankel, 2008). Mexico's low-income entrepreneurs and their small businesses

earn a daily income through daily face-to-face negotiations; they represent a 57% of the workforce, and 97% of total registered economic entities, respectively (London and Hart, 2004; Toledo, Hernández, and Griffin, 2010; INEGI, 2014).

Despite the economic, social and cultural importance of small businesses around the world and in Mexico, there is a shortage of literature that helps to understand how these businesses operate in low-income markets (Viswanathan et al., 2012), and how strategy implementation and the market forces might help to enhance their performance (Viswanathan et al., 2012). The present study attempts to identify which strategy and market forces are the most influential on small business performance in emerging economies such as Mexico's. Thus, it provides evidence of small business´s competitive strategies and the market forces present in a low-income market of an emerging economy.

The document is comprised of five sections. In the first, the literature is reviewed and the questions it seeks to answer are presented. In the second, the research design, the sample, and the measurement instrument are explained. In section three, the empirical results of the applied model are shown. In section four, the conclusions are presented and in the final section, the discussions and implications of the study are presented, as well as its limitations.

Literature review

We focused on strategic management literature which analyzes business performance based on a developed business model (Koufteros, Verghese, and Lucianetti, 2014; Deniz, Seckin, and Cureoğlu, 2013). However, Díaz-Pichardo, Juárez-Luis, and Sánchez-Medina (2014) mention that business performance conceptualization and its understanding become difficult because of its spread application in developed economies, such as in the United States, which differs from contexts such as those of emerging economies, in particular for micro, small and medium-sized enterprises with high vulnerability levels, basic production processes and a low-level of administrative expertise. Different studies have posed two types of business performance (financial and nonfinancial) and two types of indicators (objective and subjective). Research suggests the use of financial and nonfinancial performance with subjective measures to capture a more accurate estimation of the variable, especially for analysis of a small business context given the scarce availability of financial records (Díaz-Pichardo et al., 2014; Garg, Walters, and Priem, 2003; Hernández Girón, Domínguez Hernández, and Mendoza Ramírez, 2010; Mendoza-Ramírez and Toledo-López, 2014; Paige and Littrell, 2002; Venkatraman and Ramanujam, 1986).

Management literature suggests that a firm can improve its performance by following the examples of successful firms. This generalizes what a "successful" business model is (Baraldi, Brennan, Harrison, Tunisini, and Zolkiewski, 2007). Some authors recommend

that a conventional business model cannot be generalized to all organizational sizes since it requires an analysis of strengths, weaknesses, and differences between contexts (Viswanathan, Sridharan, and Ritchie, 2008). This is because contextual factors and specific measurement issues must be considered to assess high-income market research result in challenging contexts such as low-income market in emerging economies (Ingenbleek et al., 2013; Toledo-López et al., 2012; Viswanathan, Sridharan, and Ritchie, 2008).

Ingenbleek et al., (2013) mention that some factors of a low-income market such as cultural embeddedness, cultural hierarchy and, subsistence populations have consequences for the generalizability of market orientation theory. However, if sufficient evidence comes from different contexts the goal of defining a successful business model for different types of contexts might be achieved. For example, Viswanathan, Sridharan and Ritchie, (2008) point out that Indian businesses in a low-income market, despite their lack of resources, generate their income implementing innovative marketing strategies to improve business results. The authors explain that Indian business innovative product strategies cannot assume a narrow set of products usage conditions. So, businesses in a low-income market have developed the ability to identify consumer characteristics to give a real value added to their product and improve performance. In addition, product pricing is as important as product development, but to set a pricing strategy in a low-income market the entrepreneurs must consider the nature of these markets because resource constraints allow a narrow range of acceptable price levels (Viswanathan, Sridharan, and Ritchie, 2008).

In this regard, evidence affirms that competitive strategy, market forces or environmental factors affect business performance and show a linkage between differentiation strategy, product pricing strategies and organizational results (Amoako-Gyampah and Acquaah, 2008; Claver-Cortés, Pertusa-Ortega, and Molina-Azorín, 2011, 2012; Gabrielsson, Seppala, and Gabrielsson, 2016). If correct, this evidence helps identify where a business may seek to improve its performance. However, the evidence does not come from small businesses operating in a low-income context such as in Latin American. So, it will be interesting to evaluate if, and to what extent, the results obtained in other countries might vary, especially in a low-income market such as the ones in Mexico.

Therefore, different typologies and taxonomies are proposed to study the link between strategy and performance in small businesses. For example, the ones developed by Ansoff (1965), Porter (1980) or Miles and Snow (1978), being the latter the most famous. Porter uses the term ‘‘generic strategy’’ referring to new product development (differentiation strategy) and prices (cost leadership strategy). The author also mentions a degree of focus, which consists of directing the strategies to a certain market´s (Leitner and Güldenberg, 2010). This study concentrates on Porter’s generic strategies because it incorporates market forces and the generic strategies (competitive strategy), there are other studies (Zerón Félix,

Sánchez Tovar, and Hernández, 2015) which retake Miles and Snow's typology.

Porter (1980) points out that competitive conditions vary from context to context. For example, in an emerging economy, –represented by a high number of small businesses in the market–, the implementation of a pricing or product differentiation strategy might vary as a result of the particular market forces of that context. Assessment of this issue plays a critical role for businesses to overcome its performance problems.

Toledo-Lopez, Mendoza-Ramirez, and Guzman-Cruz (2013) mention that a differentiation strategy is the most commonly implemented by small businesses in an emerging context such as México. Therefore, product quality and design, are elements that businesses use to improve their performance (Adiamo, de Castro Vila, and Leal, 2012), meaning that small businesses in emerging economic contexts meet the demand for a "good, beautiful and cheap" product (Franco, 2016). In other words, in emerging economies, customers are not only price sensitive but they have also become progressively aware of quality, image, and service (Acquaah and Yasai-Ardekani, 2008).

These aspects make small businesses operating in low-income contexts even more unique, as they manage to meet these demands to generate a daily income (Calderon, Alvarez, and Naranjo, 2010; Mendoza-Ramirez and Toledo-Lopez, 2014; Toledo-Lopez et al., 2013). For example, in a fragmented industry with low-income entrepreneurs, a product differentiation strategy allows a business to create a competitive advantage and improves its performance, which is a result of the artisan´s (entrepreneur) creativity (Toledo-Lopez et al., 2012; Domínguez, Hernández & Toledo, 2004). However, a cost leadership strategy is not feasible for these businesses, since they try to apply this strategy when customers haggle prices or buy wholesale, but not to incorporate equipment to reduce its cost structure (Toledo-Lopez et al., 2013).

While true, that a competitive strategy allows a business to meet the market forces, its efficacy depends on the analysis of the context –market forces–. Therefore, the choice and implementation of strategy must consider factors, such as the negotiation power of customers, bargaining power of suppliers, the rivalry of firms, entry barriers and the pressure of substitute's products (Wu, Tseng, and Chiu, 2012). Clearly, the strategic positioning approach relies on evaluating market forces and the strategy implemented by a business to deal with these forces. Recently, there have been studies that incorporate into the debate the application of a pure strategy, that is differentiation or cost leadership, one at a time, and a hybrid competitive strategy, which implies a combination or the simultaneous application of both (Salavou, 2015).

In summary, some studies indicate that competitive strategies, pure or hybrid, have a positive effect on business´ performance (Pertusa-Ortega, Molina-Azorin, and Claver-Cortes, 2009), but selecting such strategies can be the result of the market´s behavior. For example, a business must consider the bargaining power of suppliers to implement a cost leadership

strategy; and the bargaining power of customers when it comes to brand differentiation strategy (Altuntaş et al., 2014). However, most studies retake Porter's belief about market forces. Meaning that market forces are seen as partly exogenous and also influenced by a firm's strategic actions (Spanos et al., 2004; Porter, 1991). Therefore, market forces and the business strategic positioning might affect business performance, but the strategy chosen might help a business to overcome the effects of the market regarding business performance. That is why most studies analyze competitive strategies but do not incorporate explicitly the effect that market forces might have on strategies and performance.

For example, Parker and Helms (1992) analyzed textile firms in a declining industry of a developed economy. The authors found that strategies need to be carefully tailored to the industry´s characteristics, but that a hybrid strategy (differentiation plus cost leadership) is associated with high business performance. Acquaah and Yasai-Ardekani (2008) studied medium and large businesses in an emerging economy finding that businesses pursuing a hybrid strategy have a better performance than those that pursue a pure cost leadership strategy. Furthermore, Leitner and Güldenberg (2010) focus on small businesses in the Austrian context finding that a cost leadership or a differentiation strategy performs equally well, although those businesses that pursue a hybrid strategy achieved equal or greater financial performance.

In the context of Mexican traditional industries, there are few studies that have analyzed the implementation of competitive strategies in small businesses. Dominguez, Hernández, and Toledo, (2004) analyzed the effect of differentiation, cost leadership and a generous environment on the competitiveness of small business. The authors defined a generous environment as the degree to which the different segments of the environment can maintain a sustainable development and identify business opportunities. They found that the most influential factor on the competitiveness of small businesses is a differentiation strategy. Meanwhile, Jiménez Castañeda, Domínguez Hernández, and Martínez Castro, (2009) in a similar analysis found that pricing strategy is the most used, which allows them to increase their sales volume. If the business focuses on increasing revenue; it uses a quality product strategy.

Toledo-López et al., (2013) examine how competitive strategies affect small business performance of Mexico. The authors found that the most common implemented strategy is a differentiation one. Whilst a cost leadership is not a result of cost reduction such as production, advertising, and business logistics; instead, it is a result of the impact of wholesale.

Granados-Echegoyen and Toledo (2017) retook the perspective of competitive advantage to analyze the competitive strategies and small business manufacturing strategies to reveal their performance impact. The authors found that flexibility and delivery are

related to a differentiation strategy, which is the most widely used strategy by small businesses in Oaxaca. These small businesses align these strategies so their products meet their customers´ preferences, who prefer to buy unique and exclusive handmade products, (differentiation); as well as those that are delivered on time (flexibility and delivery).

All of these studies shed light on how small businesses operate in Mexico, but they do not explicitly consider both market forces and the implementation of a hybrid, competitive strategy on small business performance. In addition, the sample of these studies focused specifically on a single state of Mexico (i.e. Oaxaca). These studies analyzed the competitive strategy as independent variables and neglected to analyze the advantage of the implementation of a hybrid competitive strategy when market forces operate as a business environment. For Ynzunza and Izar (2013) most studies in traditional industries focus on exploring the extent to which firms are market-oriented or what are the best strategies, but little has been written about market forces, strategies and their impact on small business performance in a low-income market. So, their research findings guided this study, but cannot be generalized to a larger context in Mexico.

Tavitiyaman et al., (2011) explains that in the presence of a high bargaining power of customers, a business will perform better if it implements brand differentiation. This strategy might result in some protection over potential competitors, since creating a brand will increase entry barriers. Also, businesses might implement a cost leadership strategy to compete with prices not allowing its competitors, with less reputation, to offer the same product at the same price. Associating competitive strategy of cost leadership and differentiation with business´ performance is present in various studies, but the factors that create a better performance are yet unclear. This inconsistency might be due to the fact that most studies are carried out in different contexts (Calderón et al., 2010; Dominguez et al., 2004; Pertusa-Ortega et al., 2009; Tavitiyaman et al., 2011). Additionally, there is the belief that competitive strategies are exclusive instead of considering that a hybrid strategy might enhance business´ performance (Salavou, 2015; d'Amboise, 1993).

All of this suggests a need and importance for empirical research, in a low-income context in emerging economies, that can help to shed light on how small business identify market forces and implement competitive strategies to perform in a hostile environment. While it is true that there is ample evidence on the effect that market forces and competitive strategies may have on a business performance in developed economies and high-income markets, the study of these variables has not received enough attention in low-income markets and small business contexts. Therefore, it is convenient to raise five questions and answer how these small businesses identify market forces and implement strategies in a business environment of low-income market and emerging economies:

1. How do strategies, market forces, and small business performance relate in a low-income market context?
2. Which is the pure generic strategy that has a greater effect on small business performance in Mexico's low-income market?
3. Which market force (entry barriers, substitute products, suppliers and customers bargaining power and, rivalry among businesses) has a greater influence on Mexico's small business performance?
4. How pure and hybrid generic strategies relate to business´ performance in an emerging context?
5. How do market forces influence that relationship?

This study seeks to provide evidence of all these relations.

Methodology

The proposed relationships are tested using a sample of 141 small businesses operating in low-income markets from the central valleys of the states of Mexico, Puebla, Oaxaca, and Chiapas in southern México. 46.8% of participants are women. 39.1% have secondary school, 28.4% unfinished primary, 7.8% have technical studies, 4.3% have no studies, and just 3.5% of the respondents have a college education. 31.9% of the artisans have 11 to 20 years of experience.

Qualitative and quantitative data were gathered in a single questionnaire and contextual observations were made to compare and contrast the opinion of business owners. To analyze the data a hierarchical regression and Pearson's correlation analyses were used. This study is based on the phenomenon´s direct observation and primary data collection.

To collect the data, the authors applied 141 face-to-face questionnaires. The sample size was arbitrary, and a snowball sampling technique was used. This technique allows overcoming some difficulties that derive from the characteristics of low income and literacy of the response unit, as well as the atmosphere of violence affecting the country. The technique consisted of a first contact with the representative of the artisans in each community, who is commissioned of reporting to the entrepreneurs the objective of the research. The authors interviewed the entrepreneurs that accepted to participate in the survey. Respondents were asked about aspects related to actions aimed at differentiation, cost leadership, performance and identifying environmental forces.

The survey was conducted using a selection criterion for the study population. This criterion was the number of employees that a business has and the product offered to the public,

which must be manufactured products made of clay, wood or textiles. The study analyzed 141 small handicraft businesses that serve and operate in the Mexican low-income market. The designed questionnaire was applied to owners or managers of these small businesses as a response unit.

To measure small business performance respondents were asked to assess relative growth and financial performance by indicating the degree of sales, earnings and production. To measure competitive strategies, respondents were asked to rate the importance they give to each activity related to differentiation and cost leadership. To measure market forces (environmental forces) respondents were asked to rate the degree in which each force (substitute products, the threat of new entrants, customers and suppliers bargaining power) is perceived and identified. Table 1 shows the items used. During the data collection, a total of 161 observations were collected during November and December 2016. A good response rate is ensured since the respondents' names were not asked. Also, it was assured the use of the data was purely academic and scientific. Thus, a response rate of 87% was achieved.

Measures

Three major variables relevant to small business performance in a low-income market of emerging economies were examined: (1) performance; (2) competitive strategies; and (3) market forces. To measure small business performance respondents were asked to assess relative growth and financial performance on scales anchored by 5 = excellent and 1 = poor. This scale intends to lessen respondent concerns over confidentiality. While this is a limitation, this method may be appropriate to examine this context (Parker and Helms, 1992) and small businesses (Mendoza-Ramírez and Toledo-López, 2014; Paige and Littrell, 2002). Business performance is defined as the growth of earnings, production and sales using subjective indicators (Díaz-Pichardo et al., 2014; Dominguez et al., 2004; Mendoza-Ramírez and Toledo-López, 2014).

The scale validation consisted of a factor reduction analysis with principal component extraction, varimax rotation, and a Kaiser Mayer standardization. While reliability was assessed by Cronbach's Alpha index which presented a value over 0.600, which is the acceptable threshold (Table 1).

To measure competitive strategies, respondents were asked to rate the importance of each activity to the business's overall strategy on a 5-point Likert-type scale where 1 = not important and 5 = important. Following survey administration, factor analyses were used to examine construct validity for the sample. The data shown in Table 1 indicate items of the two generic type strategies clustered on two factors. These correspond to brand differentiation and cost leadership. Scale reliability (Cronbach's alpha) for these

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factors were 0.679 and 0.713 respectively. Differentiation strategy is defined as the actions implemented to offer unique and different product and services, which is based on a brand establishment. While a cost leadership strategy is defined as actions to reduce production costs and the offer of lower prices than competitors.

Table 1

Validity and reliability of the variables

	Factors						
	1	2	3	4	5	6	7
	FPG	TSP	CL	BPS	TNE	BD	BPB
FPG: Financial performance growth							
Increase in sales	0.789						
Improvement in production	0.753						
Increase in customers	0.788						
Increase in earnings	0.660						
TSP: Threat of substitutes Products							
Number of similar products		0.720					
Similar industrial product		0.839					
A similar product from nearest regions		0.776					
International similar products (Chinese)		0.773					
CL: Cost leadership							
Focus on reduction of production cost			0.688				
Acquisition of equipment to reduce production costs			0.514				
Promotes products with defects at a lower price			0.726				
Search for cheaper raw material to produce			0.730				
BPS: Bargaining power of suppliers							
Number of suppliers				0.846			

Quality of the products offered by suppliers				0.836			
Dependence on the material offered				0.639			
Dependence on the prices imposed by suppliers				0.559			
TNE: Threat of new entrants							
Businesses difficulties to attract customers					0.846		
Businesses difficulties to increase sales					0.872		
Businesses difficulties to connect with settled business					0.634		
BD: Brand differentiation							
Products with brand identification						0.720	
Use of distinctive product packing						0.609	
Use of presentation cards						0.814	
BPB: Bargaining power of buyers							
The degree to which buyers' purchases are large							0.823
Buyers influences product prices							0.687
Business's sales dependence on the buyers							0.588
Individual explained variance	11.263	10.882	10.014	9.609	8.123	7.993	7.130
Individual Cronbach's Alpha	0.774	0.813	0.713	0.728	0.707	0.679	0.632
Total explained variance							65.014
Kaiser-Meyer-Olkin							0.678
Global Cronbach's Alpha							0.741

This table shows and describes the factor charges and the discriminant matrix of the items used to measure the variable considered in the study. It shows how the items loaded on 7 factors.

Source: author's own.

To measure market forces respondents were asked to rate the degree in which each element raised by Porter (1980) is perceived and identified. A 5-point Likert-type scale was 1 =

nothing and 5 = a lot. These elements correspond to the threat of substitutes, suppliers bargaining power, threat of new entrants and, buyers bargaining power. These factors presented a Cronbach's alpha of 0.813, 0.728, 0.707 and, 0.632, respectively (Table 1). The threat of new entrants is defined as the actions the businesses take to safeguard their interests. Customers bargaining power is defined as the actions of the customers to affect the product's prices and the profits of the business. Suppliers bargaining power is defined as the degree the suppliers influence the price and quality of the raw material delivered, as well as the number of suppliers in the market. Finally, substitute products are defined as the extent to which the products that belong to other branches of products and other regions affect the ability of a business to commercialize their products.

The analyses were carried out using composites, which were calculated using the transformation option in SPSS software. This means that scores or indices are used to analyze the variables presented in this study. In this matter pure and hybrid strategies were comprised considering the research works of Hansen, Nybakk, and Panwar (2015); Miller and Dess (1993) and, Pertusa-Ortega, Molina-Azorín and Claver-Cortés, (2009). For example, a competitive hybrid strategy consisted of combining the two factors (differentiation and cost leadership), which loading is presented in Table 2.

Control Variables

Two control variables were included: education and experience of the entrepreneurs. This was because these variables might be responsible for the impact of the independent variables on performance. Therefore, each of these variables was included in the regression.

Results

To test the relationship between the variables a Pearson's correlation analysis is performed and a hierarchical regression analysis to test the influences of competitive strategies and market forces have on performance.

Table 2 shows the results of Pearson's correlation (r) analysis. This analysis reported that the cost leadership strategy relates positively with the threat of substitute product ($r=0.277$, $p\leq0.010$), the bargaining power of buyers ($r=0.257$, $p\leq0.010$) and small business performance ($r=0.263$, $p\leq0.010$). In the presence of substitutes product, the low-income entrepreneurs lower their product prices to compete and increase sales. However, customer bargaining power a might increase since the existence of a substitute product, so customers have the power to bargain and ask for a better price. A differentiation strategy relates positively to small business performance ($r=0.298$,

p≤0.010), and in a greater manner than cost leadership.

Table 2 shows that cost leadership and differentiation have a minor positive relation with small business performance than a hybrid competitive strategy (0.348, p≤0.010). On the other hand, it is found that none of the market forces relate to performance only with cost leadership. This first approach discloses how strategies, market forces, and small business performance relate to one another in a low-income market context.

Table 2

Pearson's correlation among variables

	LC	DS	CS	TNE	TSP	BPB	BPS	EF	VIF
Cost Leadership (CL)	1.000								1.341
Differentiation Strategy (DS)	0.308***	1.000							1.306
Competitive Strategy (CS)	0.742***	0.866***	1.000						1.088
Threat of New Entrants (TNE)	-0.169**	-0.113	-0.169**	1.000					1.076
Threat of Substitutes Products (TSP)	0.277***	0.147	0.249***	-0.092	1.000				1.204
Bargaining Power of Buyers (BPB)	0.257***	-0.061	0.092	-0.075	0.250***	1.000			1.218
Bargaining Power of Suppliers (BPS)	0.128	0.031	0.089	0.100	0.216**	0.112	1.000		1.100
Environmental Forces (EF)	0.238***	0.025	0.143	0.353***	0.688***	0.537***	0.650***	1.000	1.054
Small Business Performance (SBP)	0.263***	0.298***	0.348***	-0.091	-0.059	-0.121	0.180**	-0.031	1.000

This table shows and describes the Pearson's correlation among the study variables. The first row presents the acronyms of the variable while the first column shows its meaning. ***, **, and * indicate significance at the 1, 5 and 10 percent levels respectively.

Source: author's own.

A hierarchical regression analysis is used to see which pure generic strategy has a greater effect on Mexico's small business performance and which market force has a greater influence on performance. So, a simple, multiple and moderator regression models are given by the equations one, two and three; used to establish the models of the analysis.

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$$Y = \beta 0 + \beta 1\ X1 \pm e \quad (1)$$

$$Y = \beta 0 + \beta 1\ X1 + \beta 2\ X2 + \beta n\ Xn \pm e \quad (2)$$

$$Y = \beta 0 + \beta 1\ X1 + \beta 2\ X2 + \beta 3\ X1X2 \pm e \quad (3)$$

Where:

Y=Dependent variable (Business Performance).

β0=Constant

βn-1=Independent variables (Pure competitive strategies, hybrid competitive strategies, and environmental forces).

βnX1X2 =Interaction independent variables (moderator variables resulting of the product of X1 and X2).

e = Error term

The regressions included two or more competitive strategy and market forces, which can present problems of high correlation among them, known as multicollinearity (Wülferth, 2013). Another problem that arises in this type of variables is the correlation between the residuals of the variables (Prusty, 2010). Following D'Arcy, Hovav, and Galletta, (2009), we applied the variance-inflation factor (VIF) for multicollinearity and for the correlation of errors, we applied the test Durbin-Watson (D-W) (Bollen, 1989). The values of D-W were close and above 2 (Table 3), while VIF values were close to 1 (Table 2). The highest VIF value is 1.314, which is well below the usual cut-off value of 10 (Hair, Hult, Ringle, and Sarstedt, 2014).

Table 3

Hierarchical regressions of the variables

	Model1	Model 2	Model 3	Model 4	Model 5	Model 6
Variable	Control	Pure competitive strategies	Hybrid competitive strategy	Environmental forces	Competitive strategies and Environmental forces	Hybrid and Environmental forces composite
Experience	0.039	-0.201**	-0.201**	-0.167	-0.227**	-0.224**
Education level	-0.140	-0.044	-0.049	0.038	-0.022	-0.061
Cost leadership		0.208***			0.280***	
Differentiation		0.250***			0.214**	
Competitive strategy			0.371***			0.392***

Threat new entrant				-0.152	-0.097	
Substitute products				-0.074	-0.152**	
Power of Buyer				-0.168**	-0.210**	
Power of suppliers				0.217**	0.182**	
Environmental forces						-0.117
Constant	2.525	1.674	1.935	3.206	2.709	2.445
R	0.159	0.395	0.395	0.327	0.497	0.411
R^2	0.025	0.156	0.156	0.107	0.247	0.169
F	1.797	6.288	8.434	2.675	5.400	6.910
Significance	0.170	0.000	0.000	0.017	0.000	0.000
DW value	1.779	2.080	2.079	1.911	2.137	2.018

This table shows the results of the hierarchical regressions analysis. The result shows the effect of each study variable on small business performance. The first column describes each variable and the indices to fit the models. After the first column, each column represents a different model, which added variables to observe the variations and the significant effects of these variables on the small business performance. ***, **, and * indicate significance at the 1, 5 and 10 percent levels respectively.

Source: author's own.

Table 3 shows regressions results for small business performance. From the two control variables, the experience was statistically significant in four out of six models. The positive effect of pure and hybrid competitive strategies can be seen in models 2 and 3. That indicates that small businesses in low-income market pursue pure strategies, being the differentiation strategy the one with a greater effect on performance (Model 2; $\beta 4 = 0.250$; $p \leq 0.010$). However, a hybrid competitive strategy works better (Model 3; $\beta 3 = 0.371$; $p \leq 0.010$). In addition, the market forces that affect small business performance can be seen in models 4 and 5. These forces are a threat of a substitute's product, and supplier and buyer bargaining power. The latter is the most influential when competitive strategies are included in the model (Model 5; $\beta 7 = -0.210$; $p \leq 0.050$). However, while competitive strategies remain significant as a hybrid variable comprised of cost leadership and differentiation, the environmental forces do not (Table 3; Model 6).

To explore how the market forces influence the relationship between competitive strate-

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gies and performance, a moderator analysis is performed. To test moderation, only the significant variables identified in Table 3 were taken. This means that market forces are comprised by the threat of substitute's product, supplier and buyer bargaining power, while competitive strategies will be pure and hybrid, which means the effect of the moderator is tested on differentiation, cost leadership and competitive strategy

	Model 1 Cost leadership				Model 2 Differentiation				Model 3 Hybrid			
Variable	Environmental forces				Environmental forces				Environmental forces			
CL	0.302***	0.310***	0.241***	0.294***								
DS					0.367***	0.295***	0.292***	0.343				
CS									0.428***	0.349***	0.334***	0.395***
TSP	-0.152				-0.045				-0.082			
BPB		-0.200**				-0.078				-0.138		
BPS			0.118				0.173**				0.151	
EF				-0.101				-0.020				-0.048
Moderator	-0.024a	0.029b	-0.096c	-0.044d	0.318a***	0.234b***	0.065c	0.345d***	0.255a**	0.170b**	0.003c	0.275d***
Constant	2.190	2.457	1.739	2.236	1.888	2.186	1.581	1.912	1.643	2.093	1.392	1.698
R	0.298	0.329	0.315	0.280	0.440	0.392	0.349	0.454	0.447	0.416	0.379	0.447
R^2	0.089	0.108	0.100	0.078	0.193	0.154	0.122	0.206	0.200	0.173	0.144	0.200
F	4.448	5.553	5.047	3.889	10.942	8.281	6.345	11.838	11.428	9.581	7.654	11.425
Significance	0.005	0.001	0.002	0.011	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
DW value	1.958	2.055	2.142	1.982	1.896	2.008	2.120	1.913	2.000	2.149	2.211	2.010

This table shows and describes the specific moderator effect of each significant environmental force identified in the previous analysis and its effect on the relationship between competitive strategies and small business performance. The first column shows the acronyms of the study, which correspond to (CL): Cost leadership, (DS): Differentiation strategy, (TSP): Threat of substitute's products, (BPB): Bargaining power of buyers, (BPS): bargaining power of suppliers and (EF): Environmental Forces. ***, **, and * indicate significance at the 1, 5 and 10 percent levels respectively.

Source: author's own.

The results presented in Table 4 show that none of the market forces (threat of substitute's products, buyers or suppliers bargaining power) affect cost leadership strategy. The above due to the called moderator, which is not statistically significant (Table 4, Model 1, β3a =-0.024; β3b =0.029, β3c =-0.096, β3d =-0.044, p≥0.100). This might be explained as a result that a cost leadership strategy is a result of lowering prices to achieve the daily income goal, thus lowering their product prices to cost levels so as not to incur in losses. Instead, a partial moderator effect of environmental forces is present when a differentiation strategy is implemented to reduce the effect of the threat of substitute's product on small business performance, as well as buyers bargaining power (Table 4, Model 2, β3a =-0.318; β3b =0.234, β3d =-0.345, p≤0.010).

Moreover, the same moderator effect occurs when it is assessed with a hybrid competitive strategy (Table 4, Model 3, β3a =-0.255, p≤0.010; β3b =0.234, p≤0.050; β3d =-0.345, p≤0.010). In summary, the moderator effect occurs when it is evaluated with a pure differentiation strategy and a hybrid competitive strategy. Thus, these two forces (threat of substitute's product and buyer bargaining power) are the most relevant in a low-income market as well as in emerging economies like Mexico. Therefore, small business performance is explained by the following regression equations, which represent the models in Table 4 with the better R2.

$$P= 1.912+0.343(DS)-0.020(EF) +0.345(M) \quad (4)$$

$$P= 1.643+0.428(CS)-0.082(TSP) +0.255(M) \quad (5)$$

Where:
P= Small Business Performance
DS= Differentiation Strategy
EF=Environmental forces
M= Moderator variable

Discussion and Conclusions

The aim of this study was to contribute to the applicability of the theory of competitive advantage in low-income markets of emerging economies. It focused on answering specific questions such as: do strategies, market forces and small business performance relate to one another in a low-income market context? What is the pure generic strategy that has a greater effect on these small business´ performance? What are the market forces that have

a greater influence on small Mexican business performance? What are the relationships between pure and hybrid generic strategies and performance in an emerging context? How do market forces influence that relationship?.

The study revealed that a differentiation strategy is the most influential on small business performance. Besides it demonstrates that in this context a hybrid competitive strategy is a better choice to enhance performance. This is supported by other research which analyzes different organizations (Morschett, Swoboda, and Schramm-Klein, 2006; Pertusa-Ortega et al., 2009). For example, Pertusa-Ortega et al. (2009) find that businesses usually use different types of hybrid strategies, which are associated with higher levels of performance, mainly those strategies with an emphasis on innovation differentiation.

Several studies show the effect of market forces on small business performance (Barutcu and Tunca, 2012; Dulčić, Gnjidić, and Alfirević, 2012; Ucmak and Arslan, 2012; Yunna and Yisheng, 2014). In this matter, Barutcu and Tunca (2012) mention that market forces create some positive and negative impacts on business performance. For example, market forces might make it easier to start new businesses, allow a business to deal with problems efficiently and harmonize access to information, but market forces also might decrease competitive advantages, increase pressures for price discounting, and decrease suppliers switching cost and barriers (Barutcu and Tunca, 2012).

The findings of this study indicate that in low-income markets, market forces, such as the threat of a new entrant, do not have a significant effect on small business performance or competitive strategies. That is because entry barriers are represented by "traditions and customs" between communities where entrepreneurs live. That shows the existence of informal institutions that allow the producer to have some benefit but not enough so their business can succeed.

For example, competitors outside the community are not allowed to open a business within the community. This does not mean the substitute products pressure decreases since the productive structure of the business is not based on quality. So Asian substitute products, which incorporate quality processes and a mass production affect the competitive actions of these small businesses radically. Also, customers bargaining power is characterized by its link with tourism since the "haggling" of prices has become a common practice among the consumers.

While it is true that some businesses have access to raw materials, the quality and quantity of raw material that suppliers offer, sometimes is not optimal, since there are few suppliers. Also, suppliers in most cases are people from the community who take advantage of the situation of some entrepreneurs to sell more expensively and reduce the number of available materials. Finally, it is important that in a low-income market, such as in Mexico, rivalry might be minimum or null, because of the informal institutions deriving from the

"traditions and customs" of the entrepreneurs and their communities.

In the sectors where low-income entrepreneurs operate, a low-level of education is a common factor, which makes decision making difficult. In contrast to findings of Pertusa-Ortega et al. (2009) and Barutcu and Tunca (2012), in this study, we analyzed how the entrepreneur experience and education level might affect implementing a competitive strategy when environmental market forces exist. We find that education level does not affect implementing a competitive strategy, neither help in identify market forces, but entrepreneur experience had a significant positive effect on the implementation of competitive strategies.

That is because Mexican small businesses have a remarkable cumulative learning process due to trans-generational renewal present in these small family businesses. So, the role of experience of entrepreneurs on the implementation of competitive strategies, is similar to findings of Hernández, Domínguez, Moreno and Rodriguez (1998). They found that the entrepreneur's experience is a decisive factor on the implementation of a differentiation strategy. According to the authors entrepreneur experience helps to continuous improvement of the product quality.

In this study, we found results similar to some studies of Mexico adding a hybrid competitive strategy and the analysis of market forces. For example, Dominguez, Hernández, and Toledo, (2004) found that the most influential factor on the competitiveness of small businesses is a differentiation strategy. Meanwhile, Jiménez Castañeda, Domínguez Hernández, and Martínez (2009) found that pricing strategy is the most implemented in craft businesses, which allows a business to increase its sales volume. Toledo-López et al., (2013) found that most implemented strategy is a differentiation one. Whilst a cost leadership is not a result of cost reduction on production, advertising, and business logistics; instead, it is a result of the impact of wholesale. we found that a hybrid, competitive strategy is the one with a greater effect on small business performance.

Jiménez Castañeda, Martínez and Nieto Delgado (2016) explain that low-income entrepreneurs constantly make changes in their products because customers usually look for something unique and original ("good, beautiful and cheap"). So, this study also finds similarities because brand differentiation is a result of the creativity of artisan who implements innovative changes in product design, brand identification and product packaging; which allows the business to generate a daily income and a competitive advantage against competitors.

Parnell (2011) found that a differentiation strategy is positively associated with performance, but a low-cost orientation was positively associated with performance only in a developed economy context such as the United States. This study supports Parnell's findings (2011) that successful firms are more likely to pursue differentiation strategies while those in emerging economies emphasize on cost leadership strategies (Parnell, 2011, p. 160). His assumption was not supported in this present study.

According to Morschett et al. (2006) differentiation and cost leadership strategies can be applied simultaneously depending on the business objective. Thus, similarities are found in the way in which entrepreneurs select the strategy, the predominant strategy being that of product differentiation since a cost leadership strategy is used when the consumer is not willing to buy a piece at a certain price. So, entrepreneurs lower their prices to increase sales volumes, but not profits.

The relationship between differentiation strategies and cost leadership coincides with that found by Kaya, (2015), in such a way that these two strategies have a high degree of association and the strategy that most affects the performance is the differentiation one. Another explanation for hybrid or combined strategy to deliver competitive advantage is that modern technologies and flexible production processes allow firms to simultaneously reduce costs and differentiate products. Small businesses operating in low-income market produce in short periods of time, which allow them to increase inventory volume so when a high sale volume is required they do not see it as a problem. Besides, it allows them to focus on different designs and products.

This study concurs with other researchers that each economic sub-sector is different, so the behavior of small businesses in different types of markets -low and high income- varies depending on in which country it is located. However, the analysis of these types of businesses is fundamental to develop specific and global policies that can help work in pro of the sustainable development of small business (Morschett et al., 2006; Viswanathan and Sridharan, 2009; Toledo-López, Mendoza-Ramirez, & Sanchez-Medina, 2016).

Conclusions

Implications, Limitations and Future Research

This study shows how small businesses in low-income markets implement strategies to improve performance and deal with market forces, that are represented by substitute products, suppliers, and buyers. This is important because it might allow government, researchers and other institutions to identify which factors prevent businesses in a low-income market to achieve a competitive advantage.

Furthermore, the informal institutions present in most Latin American contexts diminish the threat of new entrants, specifically in Mexico; traditions and small business community customs establish some of the local market rules. This serves as a basis for public policy programs that allow these businesses to grow and move away from informality. Besides, this might be important to those firms attempting to explore low-income market as a profitability opportunity.

Small businesses operating in a low-income market have managed to overcome extreme po-

verty levels because of their ability to generate a daily income. This sector has a creative potential and a segment of customers that in recent years prefers buying handmade products, so developing this sector through the link with tourism would facilitate their access to new markets. As a result a positive impact on poverty reduction would be achieved. In the specific case of this study, the artisanal sectors have a close link with tourism, so by knowing more about these businesses´ operation, their needs, and strengths; a strategy could be designed to help attract tourism and create benefits for participating agents. This would help improve the environment in which the businesses operate, as it would increase the influx of tourism, improve infrastructure, and increase the number of customers and suppliers, among others.

Finally, it is important to carry out studies that cover sectors that have been neglected, such as low-income markets, where economic crises and other phenomena represent externalities for these businesses which are vulnerable sectors of the economy. Small business, have a potential for survival that many other businesses do not, have which opened the door for the development of public policies that combine the traditional business vision and the results of research –such as this one–. It is important to mention policy implementation, as well as studies that help improve small businesses, should not seek to homogenize businesses, but instead create a competitive environment that enhances local and global economic development. Since it has been observed the support from some public policies focused on this type of businesses has effects on the perceived benefits for the entrepreneurs, but little effect on the growth and effectiveness of the business. Thus, public policy must generate policies that do not isolate businesses from market impacts, but should drive them to compete in the most appropriate way (Dominguez et al., 2004).

The limitations of this study are related to the unit of analysis and its context. The results are applicable to small businesses operating in markets similar to those in Mexico. The use of scales, interviews, and observation of the environment provides a considerable degree of subjectivity to the study, specifically business performance that was measured through owner perception on their growth. For future research, we recommend the study be extended to a much larger sample in another context to cover low-income markets. And so, we suggest conducting an analysis, that includes small, medium and large businesses, and tangible and intangible resource variables as moderators and mediators. This would allow having a complete model and a holistic view of the competitive advantage formation.

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