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**Title: Integrating subsistence producers from developing and emerging countries with the world market: the roles of Reactive and Proactive market orientation**

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## **Abstract**

*Integrating subsistence producers from developing and emerging countries with the world market is seen as a way out poverty. Market integration analyses have been predominately the domain of economists who generally indicate that only socioeconomic and institutional factors such as cost of doing business and trade liberalizations exert influence on subsistence producers integration with markets. The extant literature has however overlooked the role of market orientation (MO) as a main driver of market integration of subsistence producers. Based on three streams of literatures (market integration, MO and embeddedness literatures), this study develops a framework in which MO is on the one hand seen as an antecedent of market integration and on the other hand rooted in embeddedness of transaction and social relationships. A distinction is made between reactive and proactive MO. The framework is tested on data obtained from a sample of 183 shrimp fishers from Benin using a structural equation modeling. The results show that not proactive but reactive MO is the main driver of export market integration. In turn export market leads to better livelihood performance of shrimp fishers. Results also show that both MO dimensions are embedded-dependent, with favor support to reactive MO.*

**Keywords:** *Market integration, Reactive and Proactive orientation, Embeddedness, Subsistence producers, Benin*

## **1. Introduction**

The integration of D&E countries with the global economy is seen in the development literature as an important policy theme to stimulate economic growth (Frankel and Romer 1999; Dollar and Kraay 2004; Maertens, Colen et al. 2011). Despite such importance, integration of subsistence producers with international markets still remains a major challenge for D&E countries. However, what remains unclear from the literature is how market integration is rooted in the systems of subsistence producers. Market integration is an outcome whereas integration is such a process, and there is lack of insights such as underlying mechanisms that drive it at individual level. From the perspective of marketing theories, market orientation (MO), defined as individual generation, dissemination of and responsiveness to current and potential customers and competitors and factors affecting them (Kohli and Jaworski 1990: 6), is one of such underlying mechanisms. The aim of this study is to extend the market integration model with proactive and reactive market orientation, including their relational and cultural embeddedness.

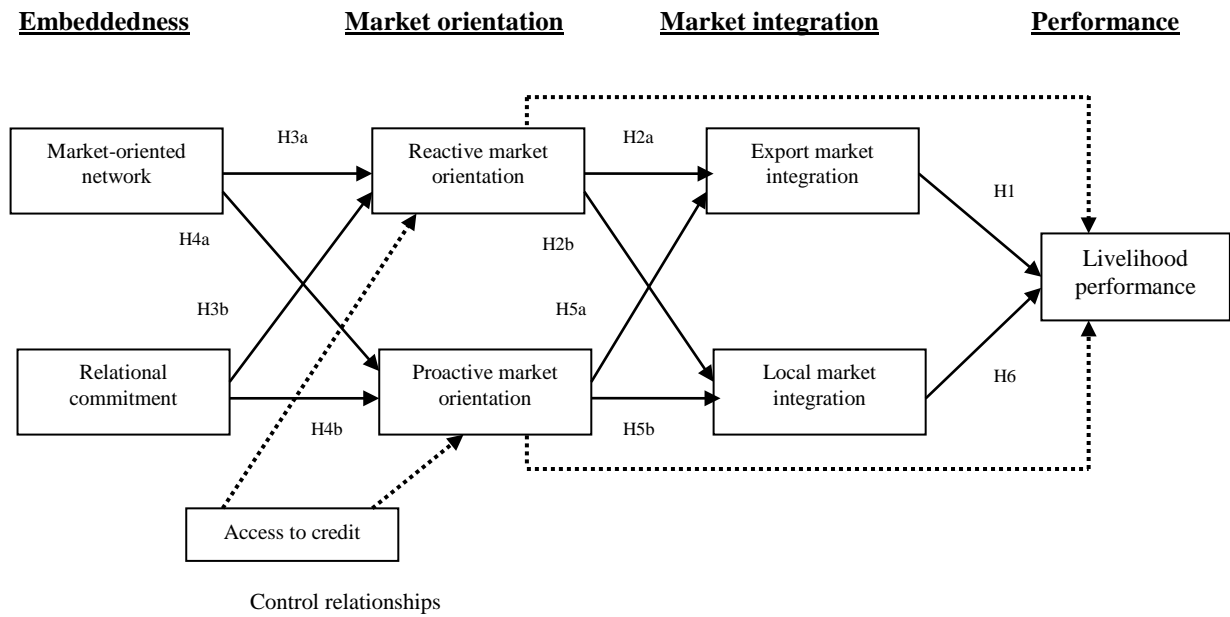
## **2. Theoretical framework**

The model is shown in Figure 1. Livelihood performance refers to the degree in which subsistence producers are equipped with the capabilities, material and social assets as well as activities required for living (Carney 1998; Masanjala 2007). Consistent with the market integration model, we distinguish between integration with the local and the international market, in which the latter is predicted to have a significant impact on livelihood performance (e.g., Swinnen 2007; Maertens and Swinnen 2009; Maertens, Colen et al. 2011). Market integration is the quantity of products that is commercialized in a particular market versus the

quantity sold in other markets, used for own consumption or that is wasted (e.g., Bernard, Taffesse et al. 2008; Maertens, Colen et al. 2011)).

From the marketing and resource-based advantage perspectives, the study sees reactive and proactive MO as antecedents of market integration. Indeed, by attempting to establish the key drivers of market integration, economists generally point out the cost of doing business such as transport costs (e.g., Bougheas, Demetriades et al. 1999; Limo and Venables 2001; Buys, Deichmann et al. 2010), access to investment capital like microcredit (e.g. Montgomery 1996; van Greuning, Gallardo et al. 1998; Lapenu and Zeller 2001; Nieto, Cinca et al. 2007), access to market information (e.g. Marter 2005) and trade liberalization policies (e.g. Ahluwalia 2008; Mahmood, Sheikh et al. 2010) as the main drivers of subsistence producers integration with markets. Although these socioeconomic and institutional factors are prerequisites for integrating subsistence producers with markets, they are, however, not sufficient because removing such barriers to market integration would not make sense unless subsistence producers themselves respond to customers' needs and wants. Reactive MO refers to those needs and wants that customer himself is aware of whereas the proactive MO is concerned with unarticulated needs and wants of customers (Narver, Slater et al. 2004; Atuahene-Gima, Slater et al. 2005).

The literature favors proactive market orientation because it enables companies to be one step ahead of competitors (e.g., Narver, Slater et al. 2004; Voola and O'Cass 2010; Blocker, Flint et al. 2011). However, this works differently in the context of individual subsistence producers in D&E countries for two main reasons. First, subsistence producers do not take risks. Because they are financial resource-poor, subsistence producers can't afford to engage in long-term innovation processes based on latent needs and wants. They can only respond to opportunities that render immediate value (Viswanathan, Seth et al. 2009; Viswanathan, Rosa et al. 2010a; Sheth 2011)). Second, subsistence producers lack access to market information. This is because supporting industries and institutions that can provide market information are absent (Fafchamps 2004; Dorward, Kydd et al. 2005). Hence, we expect that reactive MO will be instrumental in integrating subsistence producers with the world market: it enables them to respond to concrete criteria to provide them market access. Proactive market orientation is merely used by producers that perceive a misfit in their relationships with middlemen and thus explore new opportunities in the system that help them to improve their livelihoods. Reactive MO is in turn expected to be embedded in a committed relationship with a middlemen, while proactive MO is embedded in a relationship with low commitment. Both means of market orientation are expected to be embedded in social networks like clans and communities that have norms and values that reflect greater market interest (Homburg and Pflesser 2000). Access to credit is included as a control variable.



**Figure 1: Conceptual framework**

### 3. Method

We test our framework in the context of shrimp fishing in Benin. Data collection started with an extensive pilot study, followed by questionnaire development and pretesting. For the main study a stratified sampling technique was used. Stratification variables included the lake/lagoon where the fishers were established, and distance to the main road. In each village a randomly selected number of fishers was interviewed, proportional to the number of fishers in the village. The sample includes in total 183 respondents. To conduct our survey, we relied on the services of five professional and trained enumerators.

Our measures of reactive and proactive market orientation, embeddedness and livelihood performance were based on newly developed multiple-item scales whereas those of (export and local) market integration and access to microfinance were based on objective measures. The level of export and local market integration is measured in terms of an average over the last three years, i.e. 2009-11. On average, about 71 % of the total shrimps are sold to local markets and only 17% to export markets. All items were scored on a (five)-point Likert-type scales using five pebbles of different sizes representing values that range from “strongly disagree” to “strongly agree”. Measurement items were purified in exploratory and confirmatory factor analyses. All measures are also discriminantly valid and reliable (Cronbach’s Alpha’s between .89 and .93).

The hypotheses are tested by means of structural equation model (SEM) using LISREL 8.72 software where the objective measures were treated like latent variables. In addition to the hypothesized paths, we allowed for a covariance between export market integration and local market integration, because both add up to market integration (Bernard,

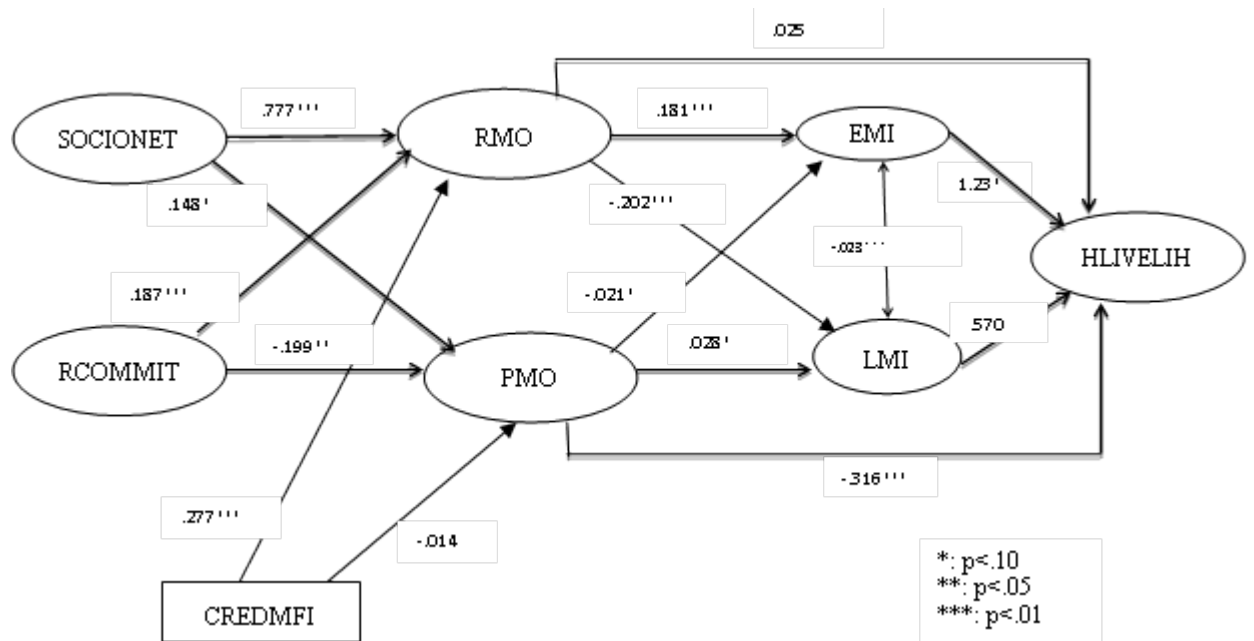
Taffesse et al. 2008). Because the data–parameter ratio is below 5-to-1 (Kline 2010), we used predicted latent scores as recommended by (Skrondal and Laake 2001; Croon 2002).

#### **4. Results**

Figure 2 displays the results of the hypothesized model. CFI of our hypothesized model was above the threshold of .90 (.95) indicating good overall fit. We controlled for asset holdings (here the amount of land owned by the shrimp fisher) which is presumed to affect shrimp fishers' livelihoods. However, we do not report its result in this paper because this presumed effect on livelihood performance was not significant. The results show that export market integration has a positive and significant effect on livelihood performance ( $p < .10$ ). The effect of local market integration on livelihood is positive, but not significant ( $p > .10$ ). Reactive MO has a positive effect on export market integration and a negative effect on local market integration, suggesting that producers that portray reactive market-oriented behaviors indeed manage to integrate more with the export market. The concept is positively affected by relational commitment and embeddedness in the social network. Proactive MO is associated with lower livelihood performance and is anteceded by low levels of relational commitment, supporting the idea that proactive MO characterizes producers that explore new opportunities, driven by a dissatisfaction with current conditions.

The results imply that MO is an important concept to understand the variance in market integration of subsistence producers within a single sector and even single communities. Reactive MO enables producers to respond to concrete standards that offer them an opportunity to tap into the higher purchasing power at export markets and thus to improve their livelihoods. Such behaviors can, however, not be taken for granted: they require a supportive social network and committed relationships with middlemen. Development workers may therefore provide trainings and education, not only for the producers but also for their families, community-members and middlemen.

The results also have a marketing theoretical implication. By showing that proactive and reactive MO models show different results in a subsistence context, the generalizability of previous findings on these concepts apparently has its limits (see also Burgess and Steenkamp 2006). The results imply in that respect that the positive effect of proactive MO is only found in contexts that are rich in information (so that latent wants can be recognized), and/or in which risky investments in markets don't immediately imply a decrease in livelihood performance.



In which

SOCIONET=Social network

RCOMMIT=relational commitment with collectors

REACTIVE=reactive responsiveness

PROACTIVE=proactive responsiveness

EMI=Export market integration

LMI=Local market integration

CREDMFI=Access to credit

HLIVELIH=Livelihoods

**Figure 2: Results for the hypothesis model**

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