IMPACT OF WORD-OF-MOUTH MARKETING ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN AFGHANISTAN

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Abstract: The objective of this research was to figure out the effect of word-of-mouth marketing on the overall performance of Afghan SMEs. The study employed a quantitative research approach, with data being gathered using a standardized questionnaire. Totally, 110 questionnaires were distributed by Google Forms to the owners of SMEs operating in Afghanistan. Collected data were then analyzed through regression tests and by SPSS version 23. Results from this study show that SMEs in Afghanistan benefit significantly from word-of-mouth marketing. Furthermore, the study's findings show that word-of-mouth marketing affects companies regardless of their employee numbers. The findings of the research hold significant value for SMEs owners, as they provide insights into how word-of-mouth marketing influences their companies.

1. Introduction

Marketing has continually been a crucial and significant factor in the world of business. The subject of marketing is crucial, as it is a key part of business activities and has a significant role in increasing sales of products. Therefore, the discussion on the sale of products would be insufficient without including marketing. The significant impact of marketing made it a key element of the business's operations (Resnick et al., 2016). Among different types of marketing, word-of-mouth marketing is very successful because it does not require any financial investment (Jaanvi et al., 2018), According to the majority of marketing professionals, word-of-mouth marketing is considered to be one of the most successful marketing strategies, that can be employed by firms of all types, when compared to traditional marketing techniques (Berger, 2014).

Specifically, businesses operating in nations such as Afghanistan which has a gross domestic product (GDP) of $14.8 billion and is known to be a small economy (World Bank, 2021), while these small enterprises form the largest portion of the economy. However, these businesses have several constraints, primarily financial restrictions. According to (Reddy, 2007), in countries where resources, capital, and technology are limited, small and medium-sized businesses are even more important.

Small and medium businesses have been shown empirically to have a strong connection with the economic growth of different countries. Specifically, small and medium-sized enterprises (SMEs) play a significant role in generating employment opportunities. SMEs in

Europe have been accountable for 85% of the job creation. According to (World Bank, 2023), 90 percent of all companies in the world fall into the category of small and medium-sized enterprises, and they are responsible for fifty percent of all job opportunities around the globe. Based on the report, formal small and medium-sized enterprises in developing nations provide up to 40% of the total national revenue, as measured by Gross Domestic Product (GDP).

The amount of total number of businesses would be additionally increased by including informal small and medium enterprises. Although in Afghanistan SMEs are predicted to make up 50% of the country's gross domestic product (GDP) and employ 75% of the total workforce (Rasoli & Mirza, 2019), the actual contribution of SMEs to the economy is likely to be even higher, as many of them operate informally and in the shadow economy, meanwhile, the Ministry of Economy of Afghanistan (MOEC, 2018), has decided to increase the proportion of Small and Medium-sized Enterprises (SMEs) that contribute to the Gross Domestic Product (GDP) of the nation by 60 percent. According to (Gavurova et al., 2020), one of the most efficacious ways to prevent monopolies and maintain competition across all industries is to allow and support small and medium-sized businesses to operate.

Multiple definitions have been proposed for small and medium-sized enterprises. One reason behind the presence of these diverse definitions is the issue of the economies of scale in a country. Typically, governments define the criteria for categorizing SMEs by considering either the total number of employees or the total income of the businesses. According to the latest definition of SMEs by the European Commission (Commission et al., 2020), enterprises that fall under this category must have less than 250 workers and either have revenues below €50 million or have a financial sheet with less than €43 million. Similarly, small and medium-sized enterprises (SMEs) in Afghanistan are defined as firms that employ less than 100 individuals (Ardic et al., 2011), whereas businesses with 20 to 100 employees are classified as medium-sized enterprises, while businesses with less than 20 workers are classified as small firms (Mashal, 2014).

Word-of-mouth marketing describes the method of using certain marketing strategies to influence customer communications (Kozinets et al., 2010), or it represents the practice of exchanging thoughts and opinions based on customers' prior experiences with a specific product, service, or firm (Luu, 2020). WoMM indicates situations in which customers promote the items they use to prospective buyers, either verbally or in written form (Horbal & Nitsenko, 2022). Typically, this occurs when customers experience satisfaction with the items or services they have purchased. An essential benefit of word-of-mouth marketing lies in its credibility, since people autonomously promote items or services, independently from sellers, making their recommendations more compelling and influential to prospective buyers (Chen, 2020).

Multiple studies indicate that word-of-mouth marketing significantly impacts various aspects of enterprises. Primarily, the most significant influence of word-of-mouth comes from its effect on customers since it is a kind of customer-to-customer communication. Based on (Setianingsih, 2022), WoMM showed a remarkable positive impact on customers' purchase intentions. This conclusion is further supported by a study conducted by (Aslam et al., 2019) suggesting that word-of-mouth marketing remarkably affects purchase intentions as well as significantly enhancing customer satisfaction. The aforementioned two variables are crucial for businesses to stay on track and enhance or keep their turnover. Put simply, clients who feel satisfied are more willing to make more purchases of a similar product, increasing the business's profitability. Similarly, (Heryana, 2020) did a study that revealed the major impact of word-of-mouth on both the purchasing intention of prospective consumers and the brand attitude of the organization.

The effect of word of mouth on the performance of Iranian eSports companies was investigated in a recent study by (Abdolmaleki et al., 2022). This study's findings suggest that word-of-mouth marketing has significantly influenced eSports' overall performance by influencing customer loyalty. In other words, word-of-mouth marketing has the potential to be used as a trustworthy predictor of the performance of a business. Undoubtedly, consumers who get information via spoken words may significantly enhance company performance compared to customers who get information through conventional channels. Similar findings were discovered by (Nisar et al., 2020), who found that word-of-mouth marketing improves the reputation of a company, which in turn leads to an increase in the company's overall performance.

In general, different types of word-of-mouth communication are always happening among customers and therefore it is expected to have a remarkable influence on customer satisfaction. Indeed, consumers who actively engage in good word-of-mouth have higher levels of satisfaction in comparison with those who are not experiencing positive word-of-mouth (Kuo & Nakhata, 2019). (Kokila & Sampathlakshmi, 2022) examined the correlation between customers' purchasing decisions and word-of-mouth marketing. The researcher discovered that offline word-of-mouth has a substantial effect on brand perception, which in turn can affect customers' purchasing decisions.

Although previous studies have examined how word-of-mouth marketing affects various parts of businesses in several countries, there is still a notable dearth of studies investigating its influence on the performance of small and medium-sized firms in Afghanistan. The objective of this study is to address this significant gap by examining how SMEs in Afghanistan are impacted by WoMM. Doing this, helps to narrow the current knowledge gap on the effect of WoMM on the performance of Afghan SMEs.

The researcher formulates the following hypothesis based on the findings obtained from the literature.

H1: Word-of-mouth marketing can remarkably enhance the performance of Afghan SMEs.
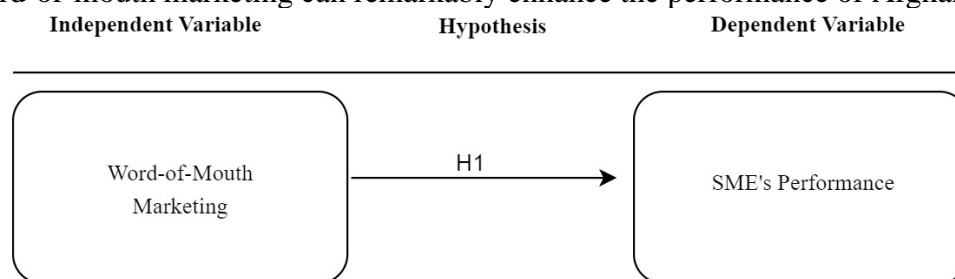

Figure 1: The Theoretical Framework

2. Research Method

The researcher employed a cross-sectional and quantitative methodology to investigate the relationship between selected variables. Data for this study was gathered using questionnaires. The study employed the Likert scale questionnaire to gather responses from small and medium-sized enterprise (SME) owners in six distinct cities of Afghanistan, with Google Forms as the data collection method. Figure 1 displays the geographical dispersion of the respondents.

The study employed a non-probabilistic approach to gather data. The purposive sampling approach was specifically used to get data from chosen SME owners. The selection of SME owners was based on their English skills in order to guarantee comprehension of the English-written questionnaire.

Initially, a total of 110 questionnaires were delivered to the chosen participants. Out of these, 105 were deemed full and accurate, while the remaining 5 were considered incomplete.
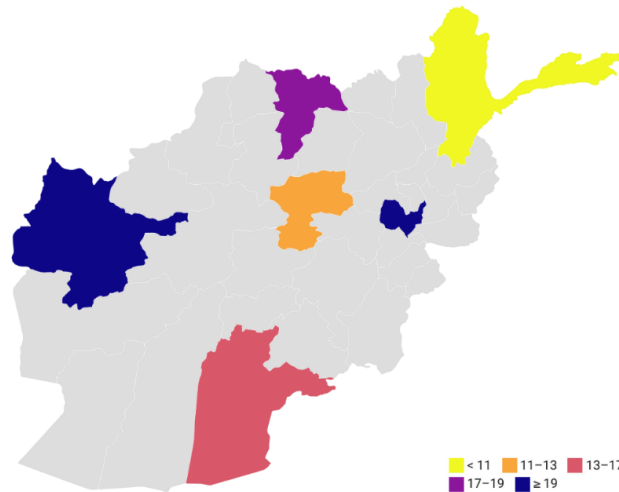

Figure 2: Respondents' Geographical Distribution

The measurements of the chosen variables were derived from prior studies. The word-of-mouth marketing measurement utilized in this study was derived from the research of (Jean Harrison-Walker, 2001). It consists of a 7-point Likert scale with six distinct items. The business performance measurement for SMEs was derived from the work of (Muda et al., 2020). A 5-point Likert scale questionnaire with 9 items was used here to assess the performance of SMEs from both operational and financial aspects.

Word-of-mouth marketing is the independent variable for this study which is assessed by indicators such as regularly mentioning the business name, sharing the business with others, talking about the business in detail, saying good things about the business, recommending the business to others, and being proud of using the business services or products (Jean Harrison-Walker, 2001) . Business performance is the dependent variable and is assessed by indicators such as returning on assets, return on sales, profit growth, sales growth, customer satisfaction, quality development, cost management, responsiveness, and productivity of the business (Muda et al., 2020). The association between variables was assessed using linear regression for data analysis. The software utilized for this investigation was IBM SPSS version 23.

3. Results and Discussion
3.1. Results
Respondents' Demographic Characteristics

Considering the present exceptional challenging conditions in Afghanistan, which involve severe limitations on women's actions, the group of small and medium-sized enterprise (SME) owners included 104 males (99% of the total) and simply one female (1%).

Table 1. The Participants' Demographic Details

	Frequency	Percentage	Valid Percentage
Female	1	1	1
Male	104	99	99
Total	105	100	100

The 25 to 34 age group is the largest portion of respondents, accounting for 54.3% of the total number of respondents. Similarly, the remaining portion consists of respondents aged 35-44, accounting for 31.4%, respondents aged 45-54, accounting for 10.5%, and respondents under 25, accounting for 3.8%. The mean age of the participants was 34.85, with a standard deviation of 7.35.

Table 2: Age of the Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Below 25	4	3.8	3.8	3.8
25 to 34	57	54.3	54.3	58.1
35 to 44	33	31.4	31.4	89.5
45 to 54	11	10.5	10.5	100.0
Total	105	100.0	100.0	
Mean				34.85

Respondents' Distribution by Company Size

The average number of personnel employed by businesses is 18, indicating a standard deviation (SD= 22.5). The majority of companies, accounting for 62.9%, are companies with an employee count ranging from 1 to 10. Similarly, 30.5% of participants represent enterprises with 11-50 employees, while 5.7% represent companies with 51-100 employees. In addition, enterprises with more than 100 employees constitute a minority, representing just 1% of the overall respondents.
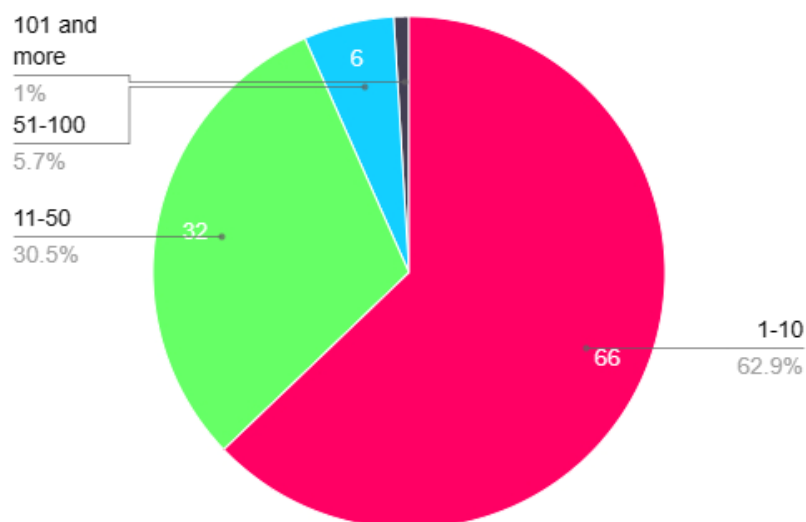

Figure 3: Distribution of SMEs based on Their Size

Variables' Descriptive Analysis

The descriptive analysis of WoMM indicates a mean value of 2.158 and SD= 0.588. It demonstrates that the majority of participants agreed with these statements. The first statement shows the greatest mean value, suggesting that speaking about company matters with other people is an accepted way of advertising their firm for the majority of owners.

Table 3. WoMM Descriptive Information

	N	Min	Max	Mean	Std. Deviation
I frequently mention this business in discussions with others.	105	1	5	2.18	.896
I have discussed this business with others than the majority of other businesses.	105	1	5	2.01	.915
I seldom miss an opportunity to tell others about this business.	105	1	4	2.16	.856
When I share information about this business with others, I have an urge to give great details.	105	1	5	2.19	.867
I only have positive things to share about this business.	105	1	4	1.92	.756
I am pleased to inform people that I use this company's products.	105	1	4	1.90	.678
Overall	82	1.00	4.17	2.1585	.58847

Descriptive Information for Performance of SMEse

The descriptive examination of the performance of small and medium-sized enterprises (SMEs) shows that the mean score is 2.20 (sd= 0.462). This shows that most of the respondents accept that their firms are operating effectively.

Table 4: Descriptive Details of SME Performance

	N	Min	Max	Mean	Std. Deviation
Our company has a higher return on assets than some of our main competitors.	105	1	5	2.44	.831
Our company has a higher return on sales than some of our main competitors.	105	1	4	2.12	.716
Our company has a superior profit growth rate compared to its primary competitors.	105	1	4	2.20	.671
Our company's sales growth is better than that of its main rivals.	105	1	5	2.16	.695
Our company has higher customer satisfaction than its primary competitors.	105	1	4	1.94	.807
Our company's quality development is greater than that of its primary competitors.	105	1	4	2.30	.808
Our company's cost management is greater than that of our main competitors.	105	1	4	2.25	.756
Our company's responsiveness is greater than that of our main competitors.	105	1	4	2.11	.788
Our company's productivity is greater than that of our main competitors.	105	1	4	2.24	.728
Overall	82	1.33	4.11	2.2076	.46231

Reliability

Reliability is a measuring tool used to test the internal consistency of a study. If a construct's Alpha (α) is higher than 0.70, it can be considered reliable (Hair et al., 2013). The reliability of the construct was assessed using Cronbach's alpha in this study. The test results indicate that word-of-mouth marketing, consisting of six items with a reliability coefficient of

$\alpha=0.875$, and SMEs' performance, consisting of nine items with a reliability coefficient of $\alpha=0.789$, were both determined to be reliable.

Table 5: The Reliability (Cronbach's Alpha)

Constructs	Quantity of items	Cronbach's Alpha (α)
Word-of-mouth marketing	6	0.875
Performance of SMEs	9	0.789

ANOVA test

The analysis of variance (ANOVA) was used to find out if the performance of small and medium-sized businesses (SMEs) is different for companies with a range of personnel. Figure 3 shows that small and medium-sized businesses were put into four groups based on how many employees they had: group 1: 0–10 employees, group 2: 11–50 employees, group 3: 51–100 employees, and group 4: 101 or more employees. There isn't a statistically significant difference between the performance scores of the different size groups of SMEs ($F_{3,78} = 0.908$, $P>0.05$), according to the ANOVA finding.

Table 6. Analysis of Variance (ANOVA) for Performance of SMEs

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.584	3	.195	.908	.441
Within Groups	16.729	78	.214		
Total	17.313	81			

Regression Analysis

To determine how word-of-mouth marketing affected the performance of SMEs, simple linear regression was used. The regression analysis revealed that word-of-mouth marketing accounted for 21% of the total variation, with an R^2 value of 21 ($R^2=21$), an F-statistic of 27.45 ($F (1, 103) = 27.45$), and a p-value less than 0.001 ($p < 0.001$). This suggests that word-of-mouth marketing serves as a strong predictor of SMEs' performance, with a beta value of 30, a t-value of 5.24 ($\beta = 30$, $t = 5.24$), and a p-value less than 0.001.

Table 7: Linear Regression

Hypothesis	Regression	The Beta Coefficient	R^2	F	P	H_1 Supported
H_1	WoMM→ Performance of SME	30	21	27.45	0.000	Yes

3.2. Discussion

The research set out to determine if there was a correlation between the independent variable of word-of-mouth marketing and the dependent variable of performance of small and medium-sized enterprises (SMEs). According to the findings, there is a remarkable positive relationship between the mentioned variables, and word-of-mouth marketing significantly increases the performance of Afghan SMEs. Put simply, word-of-mouth marketing performs an essential role in assessing the performance of SMEs operating in Afghanistan. This discovery aligns with the investigation conducted by (Abdolmaleki et al., 2022) which demonstrated that word-of-mouth marketing could enhance consumer loyalty, thereby generating a major positive influence on the overall performance of a company.

Furthermore, the research findings indicate that this effect may take place in various ways. For example, the results show that word-of-mouth marketing may increase customer satisfaction, which is a good measure of the success of an enterprise. This discovery aligns with the prior research conducted by (Kuo & Nakhata, 2019) that demonstrated electronic word of mouth as an enhancing tool for customer satisfaction. The method of word-of-mouth marketing utilized in these two studies, however, is what distinguishes them: one employs electronic WoMM, whereas the other utilizes offline word-of-mouth.

The results were then analyzed further to determine whether there is a differentiation in the performance of SMEs of different sizes. In this context, the outcomes revealed no statistically significant difference in the performance of enterprises. Organizations that maintain a lower workforce will experience comparable impacts to those that maintain a bigger workforce. One possible explanation for this phenomenon is that individuals have restricted access to modern technology and the internet. For this reason, traditional marketing strategies continue to be effective for businesses of all categories in Afghanistan.

The study's results contain significant value and benefit for small and medium-sized enterprises in Afghanistan. By allocating resources towards building positive word-of-mouth interactions with clients and customers, companies can effectively enhance their overall performance.

4. Conclusion

In conclusion, the research looked at how SMEs in Afghanistan benefited if word-of-mouth marketing was employed. The study examined the topic by employing a quantitative method and collecting data from small and medium-sized enterprise (SME) owners in Afghanistan. The findings demonstrated a significant influence of Word-of-Mouth Marketing (WoMM) on the overall performance of small and medium firms (SMEs) in Afghanistan. In other words, word-of-mouth marketing may significantly influence the performance of small and medium-sized firms (SMEs) by stimulating sales growth, raising customer satisfaction, increasing profit growth, and improving their responsiveness. Furthermore, the findings demonstrated that this influence might occur without regard for the scale of enterprises within the setting of small and medium-sized enterprises (SMEs).

Recommendations

Our research demonstrates that Word-of-Mouth Marketing (WoMM) often has favorable effects on the performance of small and medium-sized enterprises (SMEs). Nevertheless, it is crucial to acknowledge that the influence of Word-of-Mouth Marketing (WoMM) might differ based on the specific sector and the nature of the items or services being provided. This highlights the constraint of our investigation about the outcomes we discovered. Further study might explore the influence of word-of-mouth marketing in a particular sector, product, or service. Moreover, this study used a purposive sampling method, which selected those owners of SMEs who can understand the English language and can fill out the questionnaires without facing challenges. Further research can employ other sampling methods such as random sampling which is considered to be more generalizable.

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