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The Impact of Stagflation on Small and Medium-Sized Enterprises Performance in Champasak Province Lao Pdr

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Abstract:
This study investigates the impact of stagflation on SME performance in Champasack Province, Lao PDR. Utilizing data from 450 SME's owners, acquired via structured questionnaires, the research employed the structural equation modeling technique for data analysis. The result showed that stagflation have positive impact and significant on marketing management capability, Consumers, and SME performance. According to Marketig management capability has a positive impact and significant on Consumers, but its negative impact and significant on SME performances, and Consumers has a positive impact and significant on SME performances. The insights derived from this research provide essential directives for SME managers striving to business survival in economic uncertenty. Therefore, Medium-sized and small-sized enterprises in ten districts of Champasack Province, Lao PDR, need to effectively develop their marketing management capability to stimulate consumer spending during periods of stagflation. This will lead to a continuous improvement in SME performance and high business survival during the period of stagflation.

Keywords: Stagflation, Marketing management capability, Consumers, SME performance, SEM

1. Introduction

1.1 Background

Laos faces economic challenges marked by rising inflation and a depreciating currency. Government initiatives, such as pricing restrictions and currency controls, have failed to impress the public, leading to declining real household income. Many young Laotians seek jobs overseas due to limited prospects at home. Despite government assurances of self-sufficiency, trust issues persist, hindering a solution to the economic woes (RFA Lao, 2023).

While the Lao economy is expected to grow by 3.7% in 2023, up from 2.7% in 2022, challenges persist. Recovery is driven by sectors like travel, tourism, transportation, and logistics, along with foreign investment. However, inflation, labor shortages, a weakened kip, and adverse weather impact anticipated growth. Rising consumer expenses threaten households, necessitating successful debt renegotiations and increased tax collection for economic stability (The World Bank lao PDR, 2023).

In January 2024, Lao PDR experienced a 24.4% inflation rate, a slight increase from December 2023 (Tarket Magazine, 2024). The country faced a two-decade high inflation rate of 39.2% in December 2022, driven by food and fuel price hikes and a weakening kip. Structural issues like import dependence and limited revenue require long-term solutions beyond interest rate adjustments. High inflation poses risks to living standards and economic recovery (The East Asia Forum office, 2023).

Despite economic rebound (3.7% GDP growth in 2023), Laos contends with challenges including a weakening currency, inflation, labor shortages, and adverse weather. Rising costs jeopardize households, emphasizing the need for debt relief and higher income to protect investments and stability ((The World Bank, 2023). Laos faces slowed economic development due to macroeconomic pressures, weather conditions, and reduced Chinese growth prospects. Growth estimates for 2023 and 2024 are 3.7% and 4.0%, with projected high inflation rates at 28% and 10%. Currency devaluation and food cost increases contribute to economic challenges, emphasizing the importance of solid macroeconomic management (The Asian Development Bank, 2023). In an attempt to mitigate the effects of rising food costs, the Lao Ministry of Industry and Commerce has partnered with local businesses to offer widely used consumer goods at reduced pricing (Lao News Agency, 2023).

SMEs are the businesses that drive the economy of the country. The government is now concentrating on helping these SMEs grow in order to boost local business activity (Dinarso et al., 2024). To secure survival and development in a constantly changing market, small and medium-sized enterprises must drive company operations toward success and develop a competitive advantage (Singthong et al., 2023; Tran et al., 2023). SMEs are a significant driver of employment and economic growth for the majority of world economies (Durst et al., 2024; Jones et al., 2024).

1.2 Objectives of the Study:

- To analyze the direct and indirect impact of under stagflation on the SMEs performance
- To analyze the structural equation modeling of stagflation impact on SMEs performance by the role of marketing management and consumers as mediation.

2. Literature Review

Economic stagnation and high inflation brought on by stagflation can have an impact on marketing and consumers. Businesses might have trouble making money and setting prices, and consumers might have less money to spend. Marketing management may need to concentrate on cost-cutting measures and alternative pricing strategies to address these issues. Businesses may need to provide discounts or financing options to customers in order to offer more affordable goods and services. Overall, a strategic approach that places value for customers first can assist businesses in maintaining profitability and forging closer bonds with their clientele (Shama, 1978b).

Businesses may find it challenging to maintain profitability and market share during a stagflation, which is characterized by a stagnant economy, high unemployment, and high inflation. A decline in consumer demand for goods and services can result from high inflation because it raises production costs and reduces consumer purchasing power. Businesses must adjust their marketing strategies and capabilities to meet these challenges by emphasizing cost effectiveness, productivity, and market research to spot new opportunities and target niche customer segments less impacted by the recession (Anning-Dorson, 2023; Olarewaju & Ajeyalemi, 2023; Stephen, 2023; Xin & Jiang, 2023).

Since consumer preferences, needs, and purchasing power have an impact on sales and revenue, consumer behavior is crucial for SMEs' performance. Consumers may prioritize necessities during economic

downturns, which can have a big impact on SMEs, especially those in sectors that are sensitive to changes in the economy. To increase customer satisfaction and loyalty, SMEs must comprehend their target consumers and adjust their marketing strategies by providing competitive pricing, promotions, value-added services, leveraging technology, and building strong customer involvement capabilities (Boonkrong et al.; EZE et al., 2023; Khan, 2022; Mamun et al., 2018; Ogunlade et al., 2023).

Economic crises have an impact on export performance, internationalization strategy, and marketing management. In particular, it highlights the importance of innovative dynamic capabilities for expanding into new markets and enhancing export performance during crises. According to the study, there is a relationship between an organization's ability to be innovatively dynamic and how it responds to economic crises. The findings demonstrate a stronger link between new markets and innovative dynamic capability for born-global firms. In order to improve export performance during economic crises, the study emphasizes the value of nurturing dynamic capabilities in marketing management (Brondoni, 2022; Ledesma-Chaves & Arenas-Gaitán, 2022; Xu et al., 2022).

3. Methodology

The research used a quantitative approach and focused on studying 1,499 small and medium-sized enterprises (SMEs) in 10 districts of Champasack Province (The Department of Industry and Commerce Champasak Province, 2023). The sample size of 450 SMEs was determined using 20 times per indicator of J. F. Hair, R. E. Anderson, R. L. Tatham, et al. (2010). Prior to data collection for the main study, a pilot study was conducted; some statements were evaluated and adjusted on the ground of 3 expert discussion or IOC (Turner & Carlson, 2003). The pilot survey sample size was 30, and data were collected from 9 different SME. The statement's wording and formatting were adjusted after the mini-pilot survey. Finally, the research study considers 450 SME from ten districts in Champasack Province, respondent included both owner and manager working in business. Item responses were recorded on a seven-point-Likert scale range (1 strongly disagree to 7 strongly agree) (Colman et al., 1997; Vagias, 2006). To collect data from the SMEs, a Likert scale questionnaire was used. This questionnaire structure used to measure the opinion or attitude of a respondent. The questionnaire design was based on previously validated scales, ensuring the reliability and validity of the data collected. The questionnaire measured various dimensions related to stagflation, marketing management, consumers, and SME performance. For example, stagflation was measured using the dimensions of Deflation, Wages, Unemployment, and Inflation (Shama, 1978a). Marketing management was measured using the dimensions of Product and Service, Price, Place, Promotion, People, Process, and Physical Evidence (Kotler, 1997; Kotler et al., 2017; Shama, 1992), which are commonly used in the field of marketing. Consumers were measured using the dimensions of Attitude, Choice, Behaviors, Purchasing Power, and Anxiety (Okun, 1977; Shama, 1980), which are important factors that influence consumer behavior. Lastly, SME performance was measured based on dimensions of Cost Efficiencies, Profitability, Market Share, Customer Satisfaction, Flexibility, and Quality (Exposito & Sanchis-Llopis, 2018; Meekaewkunchorn et al., 2021; Murphy et al., 1996; Omerzel & Antončič, 2008), which are key indicators of SME success. The use of a Likert scale questionnaire allowed for a comprehensive analysis of the various dimensions related to SMEs, providing valuable insights into their performance and potential areas for improvement.

To ensure the validity of the factors, a confirmatory factor analysis (CFA) was conducted. The results are presented acceptable convergent and discriminant validity. The model fit for both independent and dependent variables was above the recommended cutoff by J. F. Hair, W. C. Black, et al. (2010) for all

study variable CFA measurement model. This indicates that the model fits well and the data is reliable. The Normed Chi-square was above 0.05, RMSEA was below 0.08, NNFI was above 0.95, CFI was above 0.95, and other fit indices met or exceeded the minimum threshold value as per J. Hair et al. (2010). Additionally, the standard loadings were all above 0.50 with high t-values ($p < 0.01$), and the composite reliability values of the study factors were all above 0.7. These findings suggest that convergent validity exists in the measurement models.

In addition, discriminant validity was established by comparing the squared correlation between two latent constructs to their average variance extracted (AVE) (Bentler, 1976; Fornell & Larcker, 1981). None of the correlations was higher than the squared root of the AVE for each study variable, which further confirms the existence of discriminant validity. This means that each construct is measuring a unique aspect of the phenomenon being studied and is not overlapping with other constructs. Overall, the results of the CFA support the validity of the measurement models and provide confidence in the accuracy of the data collected.

Confirming the related measures of the intended constructs and determining whether these constructs differed from one another (discriminant validity) were the first two objectives of the quantitative analysis. The proposed conceptual model's appropriate constructs and causal relationships were examined for the second goal. Maximum likelihood estimation in AMOS 23.0 was used for these analyses. A correlation matrix or a covariance matrix can be used in structural equation modeling (SEM) as a building block for any model, according to Hair et al. (1998) and SEM model fit indices and their acceptable thresholds are CFI values greater than 0.95, RMSEA values less than 0.07, SRMR less than 0.08, NFI values greater than 0.95, IFI values greater than 0.95 (Hooper et al., 2008; Hu & Bentler, 1999; Kline, 2023; Steiger, 1990).

4. Result

4.1. Descriptive statistics for the respondent's profile

Table 1 Descriptive statistics for the Respondent's profile (n = 450).

Respondent's Profile	**Sample** (n = 450)	**Percentage (%)**
Gender:		
Men	227	50.44%
Women	223	49.56%
Age:		
20-40 years old	161	35.78%
41-60 years old	276	61.33%
Above 60 years old	13	2.89%
Education:		
No	3	.67%

Primary School	30	6.67%
Secondary School	144	32.00%
Diploma	86	19.11%
Bachelor	174	38.67%
Master	13	2.89%
Business's Type:		
Production	26	5.78%
Service	166	36.89%
Commerce	258	57.33%
Business's Age:		
1-5 years	104	23.11%
6-10 years	184	40.89%
11-15 years	103	22.89%
More than 15 years	59	13.11%

4.2. Reliability and validity of constructs

The assessment of reflective CFA measurement models includes item level reliability, internal consistency (composite reliability), convergent validity (average variance extracted; AVE), and coefficient Cronbach's Alpha. As all items the loadings were above the threshold, indicator reliability was confirmed of 0.70 (Hair et al., 2019) (.700 and .846). The composite reliability ρA indicates the constructs' internal consistency reliability. For all constructs, the ρA criterion was between the required thresholds of 0.70 and 0.95 (Hair et al., 2019), and the AVE values ranged from .561 to .646, which supports the convergent validity of all constructs (Table 1). In this study, the composite reliability values (Table 1) are all above the conservative threshold of 0.70 and significantly above the more liberal threshold of 0.95 (J. F. Hair, R. E. Anderson, B. J. Babin, et al., 2010; Sarstedt et al., 2021). Hence, we concluded that constructs validity was established.

Table 1 Item loadings, reliability and validity of constructs (N =450).

Construct	Item	Loading	α	ρ_A	AVE
Consumers	Consumers Attitude Choice purchase	.782 .789 .832 .812	.904	.901	.646

	Consumer Behaviors Consumer purchasing power Consumer anxiety	.846			
Stagflation	Deflation Wage Unemployment Inflation Collaborative Rebellion	.700 .801 .746 .822 .721	.864	.864	.561
Marketing management capability	Product and Service Price Place Promotion People Process Physical Evidence	.735 .790 .776 .778 .803 .776 .776	.917	.918	.614
SME performance	Cost Efficiencies Profitability Market Share Customer Satisfaction Flexibility Quality	.787 .796 .798 .763 .766 .781	.914	.916	.610

4.3. Confirmatory factor analysis (CFA)

The research team examined the confirmatory factor analysis of the latent variables and their subcomponents throughout the data gathering procedure for from 450 respondents. These analyses allowed them to compute quality indicators that were then included in the structural equation modeling analysis, which could provide the specifics and analysis outcomes. as follows:

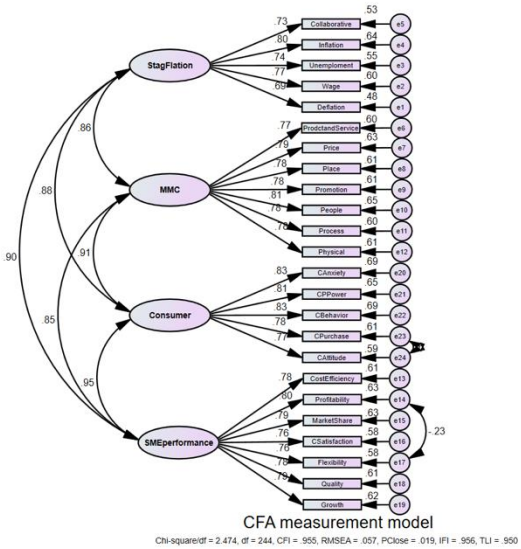

Figure 1 CFA measurement model

Based on the statistical indicators that satisfy the standard criteria, it was discovered that the overall model has excellent agreement with the findings of the examination of the confirmatory factor analysis (CFA): Chi-square/df = 2.474, df = 244, CFI =.955, RMSEA =.057, Pclose =.019, IFI =.956, TLI =.950. When taking into consideration each latent variable's indications, It turned out to be:

It can be concluded that the sub-components of the latent variable pass the set standard threshold of .70 at the statistically significant level of .000 *(p-value<.05)* even though the Deflation indicator has a factors loading .69 less than . 70, but can also be accepted based on the measurement of the sub-composite of the latent variable in stagflation, which found that the sub-components such as Deflation, Wage, Unemployment, Inflation, and Collaboration are in a positive direction and have factors loading between .69 - 80.

Based on the statistical indicators that satisfy the standard criteria, it was Product and Service, Price, Place, Promotion, People, Process, and Physical are the sub-components of the latent variable Marketing Management Capability that were measured. The results showed that the sub-components are positive and that their factors are loading between .77 - .81. This indicates that the sub-components of the latent variable pass the standard threshold of .70 at the statistical significance level of .000 *(p-value<.05).*

The consumer attitude, choice purchase, behavior, purchasing power, and consumer anxiety sub-components are measured as part of the latent variables of consumer consumption. The results show that the sub-components are measured in a positive direction, and their factors are loading between .77 - .83. This indicates that the sub-components of the latent variables pass the standard threshold of .70 at the statistical significance level of .000 *(p-value<.05).*

Through measuring the latent variable's sub-components, the performance of small and medium-sized enterprise was found to be positively correlated with cost efficiency, profitability, market share, customer satisfaction, flexibility, quality, and growth. The component's factors load between .76 - .80, indicating that the sub-component passes the standard threshold of.70 at the statistical significance level of .000 *(p-value<.05)*. Figure 1 provides more detailed information on this sub-component.

4.4. structural equation modeling (SEM) analysis:

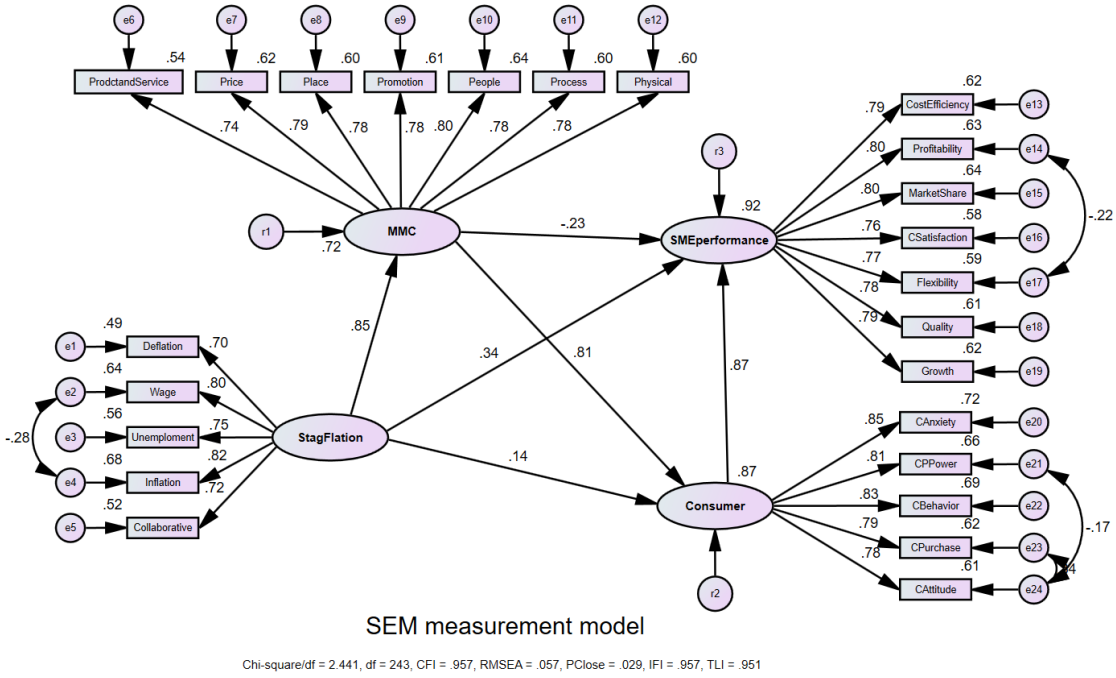

Figure 2 SEM measurement model

The study of the data showed that there is a significant relationship between the empirical data and the causal model of the latent variable of stagnation, marketing management capability, consumers, and SME performance. that the index Chi-square/df = 2.441, df = 243, CFI =.957, RMSEA =.057, Pclose =.029, IFI =.957, TLI =.951. assesses the consistency of all indices to a good degree.

The main hypothesis of the model's structural equation modeling research revealed that the economic slowdown impacts consumers, SME performance, and marketing management capability at statistically significant levels of .001 and.000 *(p-value<.05)*, respectively. Consumers received impact from marketing management capabilities with the highest statistically significant interval at the 1.000 level. The SME performance is impacted by marketing management capability at the highest statistically significant level of.042 *(p-value<.05)* and consumers at the most statistically significant level of.000 *(p-value<.05)*.

4.5. Hypotheses test result

Table 3 Hypotheses test result

Path	H	Standardized coefficient	*S.E.*	*T-statistics*	*p-value*	Result
StagF → MMC	H_1	.851	.059	14.126	.000	Supported
StagF → SMEp	H_2	.339	.069	5.501	.000	Supported
StagF → Cons	H_3	.137	.052	3.185	.001	Supported
MMC → Cons	H_4	.812	Not estimates			Supported
MMC → SMEp	H_5	-228	.128	-2.037	.042	Supported
Cons → SMEp	H_6	.873	.108	7.482	.000	Supported

Note: StagF = Stagflation, MMC = Marketing management capability, Cons = Consumers, SMEp = SME performance

Hypothesis results H_1: Standardized regression weights estimates of the under-stagflation (deflation, wage, unemployment, inflation, and collaborative rebellion) have positive and significant direct impact on marketing management capability are .851 and significant at.000 ($\lambda_{\text{stagflation, MMC}}$ = .815, SE =.059, *t-value* = 14.126, *p-value* >.001). In summary, the hypothesis is accepted, and when stagflation increase goes up by 1 standard deviation, received marketing management capability (product and service, price, place, promotion, people, process, and physical evidence) goes up by .815 standard deviation or 81.5%.

Hypothesis results H_2: Standardized regression weights estimates of the under-stagflation (deflation, wage, unemployment, inflation, and collaborative rebellion) have positive and significant direct impact on SME performance are .339 and significant at .000 ($\lambda_{\text{stagflation, SMEperformance}}$ = .339, SE =.069, *t-value* = 5.501, *p-value* >.001). In summary, the hypothesis is supported, and when stagflation increase goes up by 1 standard deviation, received SME performance (cost efficiencies, profitability, market share, customer satisfaction, flexibility, and quality) goes up by .339 standard deviation or 33.9%.

Hypothesis results H_3: Standardized regression weights estimates of the under-stagflation (deflation, wage, unemployment, inflation, and collaborative rebellion) have positive and significant direct impact on consumers are .339 and significant at .001 ($\lambda_{\text{stagflation, consumers}}$ = .137, SE =.052, *t-value* = 3.185, *p-value* >.05). In the end, the hypothesis is validated, and receiving consumers (i.e., consumer attitude, decision buy, consumer behaviors, consumer purchasing power, and consumer anxiety) rise by.137 standard deviations, or 13.7%, for every 1 standard deviation increase in stagflation.

Hypothesis results H_4: Standardized regression weights estimates of the marketing management capability (product and service, price, place, promotion, people, process, and physical evidence) have positive and significant direct impact on consumers are .812 ($\gamma_{\text{MMC, consumers}}$ = .812, SE, *t-value*, *p-value* = Not estimates). In the end, the hypothesis is validated, and receiving customers (i.e., consumer attitude, decision purchase, consumer behaviors, consumer purchasing power, and consumer anxiety) rise by.812 standard deviations, or 81.2%, for every 1 standard deviation improvement in marketing management capacity.

Hypothesis results H_5: Standardized regression weights estimates of the marketing management capability (product and service, price, place, promotion, people, process, and physical evidence) have negative and significant impact on SME performance are -.228 and significant at .05 ($\gamma_{\text{MMC, SMEperformance}}$ = -.228, SE = .128, *t-value* = -2.037, *p-value* = .042). In conclusion, the hypothesis has been confirmed and the achieved SME performance (cost efficiencies, profitability, market share, customer satisfaction, flexibility, and quality) decreases by -.228 standard deviation, or -22.8%, for standard deviation increase in marketing management capability (product and service, price, place, promotion, people, process, and physical evidence) of one standard deviation.

Hypothesis results H_6: Standardized regression weights estimates of the consumers (consumers attitude, choice purchase, consumer behaviors, consumer purchasing power, and consumer anxiety) have positive and significant impact on SME performance are .873 and significant at .000 ($\gamma_{\text{MMC, SMEperformance}}$ = .873, SE = .108, *t-value* = 7.482, *p-value* < .001). In summary, the hypothesis is validated, and the obtained SME performance (cost efficiencies, profitability, market share, customer happiness, flexibility, and quality) increases by.873 standard deviations, or 87.3%, for every 1 standard deviation rise in consumers. Additionally, the under stagflation and MMC are estimating marketing management capability explain 72.4% of its variance. In order words, the error variance of MMC is approximately 27.6% of the variance

of MMC itself. In the meanwhile, it is estimated that consumers explain 86.7% of the under stagflation and MMC. Put another way, the error variance of the consumers is approximately 13.3% of the consumers' variation. Additionally, the under stagflation, MMC, Consumers are estimating SME performance explain 91.8% of its variance. In order words, the error variance of SME performance is approximately 27.6% of the variance of the under stagflation, MMC, Consumers.

5. Discussion

Under-stagflation (deflation, wage, unemployment, inflation, and collaborative rebellion) have positive and significant direct impact on marketing management capability (product and service, price, place, promotion, people, process, and physical evidence) (Shama, 1978b). Additionally, the impact of stagflation on consumer behavior can prompt businesses to adjust pricing strategies to remain competitive, further influencing consumer choices and market dynamics (Barsky & Kilian, 2002; Charan, 2023; FasterCapital, 2024). According to Anning-Dorson (2023) explained that the relationship between customer involvement capabilities and firm-level competitiveness is not always positive, and it exhibits an inverted U-shaped pattern. Meanwhile, Companies can adopt various marketing strategies to mitigate the negative effects of an economic downturn (Köksal & Özgül, 2007). For instance, SMEs can differentiate themselves from competitors by adopting unique and creative strategies known as Guerrilla Marketing (Bayudan-Dacuycuy & Baje, 2018; Marasigan et al., 2023; Roxas et al., 2017; Sandra et al., 1992; Yasa et al., 2020).

Marketing management capability (product and service, price, place, promotion, people, process, and physical evidence) have positive and significant direct impact on Consumers (consumers attitude, choice purchase, consumer behaviors, consumer purchasing power, and consumer anxiety) (Anning-Dorson, 2023; Kankam-Kwarteng et al., 2022; Olarewaju & Ajeyalemi, 2023; Stephen, 2023; Xin & Jiang, 2023). Kankam-Kwarteng et al. (2022) argument suggests firms with strong marketing capabilities not only focus on consumers but also anticipate their concerns, leading to superior performance, service quality, employee satisfaction, and consumer satisfaction (Bruhn et al., 2023).

Marketing management capability (product and service, price, place, promotion, people, process, and physical evidence) have negative and significant impact on SME performance (cost efficiencies, profitability, market share, customer satisfaction, flexibility, and quality) (Razak et al., 2024). In addition, Siregar et al. (2024) argument suggests market orientation has a negative and insignificant impact on SME performance. Other studies identified that to marketing management capability that enhances SME performance (Anjaningrum et al., 2024; Brondoni, 2022; Ledesma-Chaves & Arenas-Gaitán, 2022; Rubio-Andrés et al., 2024; Xu et al., 2022).

Consumers (consumers attitude, choice purchase, consumer behaviors, consumer purchasing power, and consumer anxiety) have positive and significant impact on SME performance (cost efficiencies, profitability, market share, customer satisfaction, flexibility, and quality) (Boonkrong et al.; EZE et al., 2023; Khan, 2022; Mamun et al., 2018; Ogunlade et al., 2023). Stagflation, characterized by high inflation, weak economic growth, and high unemployment, impacts consumers' purchasing power, leading to changes in buying behavior and reduced consumption (Saxena, 2022; Velotrade, 2022).

6. Conclusion

This study shows how SME unit in Champasack Province benefit from a set of research model for under stagflation that support their marketing management capability, consumers, and result in SME

performance. When moving towards a SME performance under stagflation, SME units need to pay attention to marketing management capability development that may consumers to ensure SME performance in the stagflation. SME performance, hence, requires improved in marketing management capability, including Product and Service, Price, Place, Promotion, People, Process, and Physical Evidence (Kotler, 1997; Kotler et al., 2017; Shama, 1992). Moreover, SME units in Champasack Province, under stagflation, need to transform their ways of working and increase their capabilities, and consumers need to support their SME performance through both marketing management capabilities (Brondoni, 2022; Ledesma-Chaves & Arenas-Gaitán, 2022; Xu et al., 2022). Finally, the under stagflation is for small and medium-sized businesses in Champasack Province with marketing management capabilities to build strategies and customers in order to achieve company survival and obtain a competitive advantage from their economic crisis. Therefore, we contend that due to the necessity of close collaboration, particularly when planning and developing their marketing management capability under stagflation, SMEs operating in both the manufacturing and service industries require systemic transition management orientation not only on SMEs level but also on government and private sector, industry, and societal levels.

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