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The Comparative Analysis on Associations Concerning Market Orientation and Strategic Orientations: Study on Performance of SME

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Abstract – One of the strongest convictions in marketing is that market orientation contributes to firms' performance substantially more than alternative strategic orientations such as innovation and entrepreneurial orientations. Still, some studies show that alternative orientations can also substantially affect the performance of firms, and furthermore, that firms that combine market orientation with alternative orientations are likely to perform even better than firms adopting only market orientation. Also, the nature of the relationship between market orientation and other strategic orientations is not clear. The purpose of this paper is to deal with these discrepancies in the marketing literature. It highlights the importance of the study of the relationship between market orientation and alternative strategic orientations, examines the effect of market orientation on different orientations, and identifies the orientations that are more likely to be combined with market orientation.

Performance of Small and Medium Enterprises (SMEs) has been considered as one of the most important driving force behind economies of both developed and developing countries due to their multiple contributions. In most of the developing countries, the performance of the SMEs is a key issue today. Strategic orientation of SMEs is one of the most critical factors for their success.

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INTRODUCTION

During the past two decades market orientation has been a focal construct in the marketing literature (Smirnova, Naudé, Henneberg, Mouzas, & Kouchtch, 2011). The work of Kohli and Jaworski (2000) spurred a substantial stream of research focusing on this construct's definition, measurement, antecedents and consequences.

Organizations attempt to achieve superior performance by developing and implementing effective business strategies that exploit emerging opportunities in the marketplace while capitalizing on available resources and capabilities. The multiplicity of strategic and financial objectives they aim to achieve, the idiosyncratic environmental conditions they face, and the unique bundle of organizational resources and skills they possess, direct firms to simultaneously engage in multiple sets of strategic behaviors (Olson, Slater, & Hult, 2005). For nearly two decades the marketing literature has emphasized the significant benefits associated with market orientation. However, being market oriented may not be comprehensive enough to be used as a strategic beacon for achieving competitive advantage. Firms need to pursue complementary strategic orientations (Zhou et al., 2005). Drawing on this emerging stream of research, and particularly on the work of Olson et al. (2005), we develop a broad conceptual framework comprising of four strategic orientations.

Moreover, the shortcomings of market orientation to solely generate superior competitive advantage, turned researchers attention on exploring relevant firm capabilities that should be combined with market orientation (and other strategic orientations) to strengthen performance (Smirnova et al., 2011). Morgan, Vorhies, and Mason (2009) have demonstrated that market orientation and marketing capabilities complement one another in ways that contribute to superior firm performance. Therefore, our conceptual framework examines the influence of strategic orientations on building marketing capabilities that in turn drive firm performance.

Strategic orientations are the guiding principles that influence a firm's marketing and strategy-making activities. They reflect the strategic directions implemented by a firm to create the proper behaviors that lead to superior performance, and are founded on a firm's philosophy of how to conduct business through a deeply rooted set of values and beliefs (Zhou et al., 2005).

Research in marketing has mainly focused on maintaining a market orientation, based on the adoption and implementation of the marketing concept. However, a growing stream of research endorses the adoption of alternative strategic orientations including innovation orientation, technology orientation, entrepreneurial orientation, quality orientation and productivity orientation. These authors contend that firms can maximize their performance by complementing market orientation with other important strategic orientations that fit their environmental context and organizational characteristics.

Following a thorough review of the relevant literature, our study focuses on four strategic orientations that attracted most research attention, and whose relationship with business performance has been empirically established: customer orientation, competitor orientation, innovation orientation and internal/cost orientation. Customer orientation is a firm's sufficient understanding of its target buyers in order to be able to create superior value for them. Customer orientation advocates a continuous, proactive disposition toward meeting customers' exigencies.

Competitor orientation reflects a seller's ability to understand the short-term strengths and weaknesses and long-term capabilities and strategies of both the key current and the key potential competitors. Innovation orientation is a strategic behavior that reflects openness to new ideas as well as the active seeking of such ideas. Finally, internal/cost orientation reflects a firm's emphasis on efficiency in all parts of the value chain and relates to Porter's (1980) cost leadership strategy.

These strategic orientations are highly relevant and important for the empirical setting of this study, which focuses on the strategic behavior of banking institutions at the local branch level. In line with Olson et al. (2005) these strategic orientations are not considered mutually exclusive. Moreover, we endorse these authors' position that a firm's behavior may be simultaneously guided by multiple strategic orientations. Therefore, our emphasis is on assessing the degree to which bank branches in our sample pursue each alternative strategic orientation.

For many years, Performance of SMEs has been the main focus of many researchers. It has been considered one of the most important critical factors behind economic success of both developed and developing countries due to their multiple contributions in economic growth, employment generation and innovations (Kongolo, 2010). The importance of SMES to economies in different aspects is being continuously indicated by number of researchers.

One of the strongest convictions in marketing is that MO contributes to firms' performance substantially more than alternative strategic orientations such as innovation, learning, and entrepreneurial orientations. Indeed, the vast majority of MO studies have examined the effect of MO on business performance, demonstrating its superiority as a strategic orientation. Still, some studies show thatMO is not the only viable strategic orientation and that other orientations can also substantially influence the competitive advantage and performance of firms (Noble et al., 2002).

Furthermore, recent research shows that firms may find it more useful to combine MO with other strategic orientations. Specifically, firms combining MO with other orientations have been found to perform better than firms adopting only MO (Bhuian et al., 2005). Still, a review of the MO literature suggests that only few studies did examine the relationships between MO and other strategic orientations. This is a serious gap in the MO literature, especially in light of the findings that MO is not the only viable strategic orientation and that firms can improve performance by balancing between MO and other orientations. Based on the above we believe that research on MO should shift its focus, moving from the study of the direct effect of MO on business performance to the study of the various combinations of strategic orientations that firms can pursue in different situations. Such research efforts should involve studying how the more successful market-oriented firms balance between MO and other strategic orientations, identifying the effect of MO on different strategic orientations, the orientations that are more likely to be combined with MO, and the conditions under which different firms are likely to adopt different orientation combinations.

The marketing and strategic management literatures discuss a variety of strategic orientations that can positively affect firms' competitive advantage and performance beyond MO. The central ones are innovation, learning, entrepreneurial, and employee orientations (Liu et al., 2002). Previous independent studies offer equivocal empirical results as to the relationships between MO and these strategic orientations).

For example, it is still not clear whether MO impedes or enhances innovation. The existence of such equivocal results reinforces the need to advance research on the nature of these relationships. To study the relationships between MO and alternative strategic orientations we employ a meta-analytic procedure. Meta-analysis is a statistical technique by which information from independent studies of a theorized relationship is assimilated. This procedure enables to calculate the mean effect size of MO on all alternative strategic orientations, and the boundaries of these effect sizes (i.e. confidence intervals) across a large number of studies that investigated these relationships, while correcting for several statistical artifacts (e.g. sampling error, measurement error) (King et al., 2004). Specifically, we employ the meta-analytic procedure suggested by Hunter and Schmidt (1990), obtaining 135 effects from 77 independent samples reported in 70 studies.

MARKET ORIENTATION AND FIRM PERFORMANCE

Market orientation research has primarily been based on two frameworks. The Narver and Slater (2000) framework defines market orientation as consisting of the three behavioral dimensions of customer orientation, interfunctional coordination and competitor orientation, and a long-term horizon and profit emphasis in the implementation of the three behavioral dimensions. The Kohli and Jaworski (2000) framework is more concerned with market orientation as a process, and views market orientation as having three stages: intelligence generation, intelligence dissemination and responsiveness. Although the two frameworks focus on different dimensions, they have a similar view of the concept of market orientation and how organizations should address market orientation.

The impact of market orientation on performance has been tested in a number of empirical studies. Some have found that market orientation increases business performance, while others have not found significant direct effects of market orientation on performance. Empirical researches are usually based on a combination of single methods and subjective data, including subjective or perceptual performance indicators. Respondents evaluate business performance along dimensions such as profitability, return on assets, sales growth and new product successes. Some studies have also included objective performance measures, but these studies have not revealed any direct impact of market orientation on performance.

STRATEGIC ORIENTATION AND FIRM PERFORMANCE

Commonly, strategic orientation refers to umbrella term covering different constructs such as market orientation (MO) Entrepreneurial Orientation (EO) and Learning Orientation (LO). Hoq and Chauhan, (2011) have indicated strategic orientations as organizational resources which can improve the success of SMEs. Some other researchers consider strategic orientations as dynamic capability that represents the organization’s ability to integrate and built internal and external competencies. There are other authors who consider orientations as elements of the organizational culture. This view characterized the concept as a set of attitudes, values and behaviours of the organization. It is very clear that different authors and have viewed strategic orientations through different lenses and it is very critical for the success of SMEs what so ever the lenses which it is viewed through.

MARKET ORIENTATION AND ALTERNATIVE STRATEGIC ORIENTATIONS

The positive effect of both MO and other alternative strategic orientations on business performance is no longer in doubt. Still, the vast majority of researchers in marketing argue that MO is the most important strategic orientation and that its contribution to firms’ success outweighs all other orientations. Nonetheless, a growing number of researchers suggest that an appropriate balance between MO and other strategic orientations is a primary factor in firms’ performance and survival. For example, Atuahene-Gima and Ko (2001) find a synergetic effect of MO and entrepreneurial orientation, showing that they combine positively to affect product innovation activities and performance. Similarly, Baker and Sinkula (1999a) find a synergetic effect of MO and learning orientation find that innovation mediates the relationship between MO and business performance.

Consistent with the above argument that the more successful market-oriented firms are those balancing between MO and other strategic orientations, we suggest that it is important to study the relationships between MO and these orientations, examining the effect of MO on different strategic orientations, and identifying the orientations that are more likely to be combined with MO. We study the relationships between MO and innovation, learning, entrepreneurial, and employee orientations.

STRATEGIC ORIENTATION BASED MODEL OF SME PERFORMANCE

Existing literature reveals that Strategic orientations have been used in many prior studies to explain the performance of SMEs. But prior researchers have used different orientations separately or combination of two orientations as predictors of SME performance. As Hakala and Kohtamaki; (2010) pointed out that the effect of orientations on performance has been investigated individually or single orientation coupled with other factors.

Strategic orientations have been considered as organizational resources. Valuable and unique resources are the source of the competitive advantages in SMEs. Hoq and Chauhan, (2011) argue that lack of resources and capabilities in SMEs is a barrier for them to develop their own markets and to use the experience, economies of scale and scope for achieving competitive advantage. Recent research findings have concluded that interrelation among different strategic orientations provides sustainable competitive advantage for organizations and firms that continue balancing different strategic orientations perform better.

CONCLUSION

By considering the role of strategic orientation of SMEs, it is obvious that understanding of the relationship among market orientation and strategic orientation is very important. As practical implications of the study, SME owners and managers will be able to focus on the level of different strategic orientations of their organizations in order to improve the performance. In addition, policy makers and planners in entrepreneurial education in developing countries can use findings to foster the strategic gesture of potential and actual entrepreneurs.

It might be relevant to further examine the relationship between MO and the two alternative strategic orientations with which it is most strongly correlated: learning and entrepreneurial orientations, and specifically whether these orientations drive MO, are driven by it, or adopted simultaneously. Also, while these orientations are highly correlated with MO, it might be interesting to study the firms that are reluctant to adopt both MO and these orientations and their performance in certain conditions.

Further, as to entrepreneurial orientation, our finding defers from previous research that shows that really high levels of entrepreneurial orientation often have a reduced effect on the MO-business performance relationship. Future research should therefore further examine the conditions under which the synergetic effect of MO and entrepreneurial orientation is especially effective.

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