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Market Orientation and Performance: The Interaction Effect of Entrepreneurial Orientation

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Abstract

The centrality of resource-based view (RBV) from different angles and in diverse situations has widely been acknowledged, explored and researched. Keeping in view that the area still needs researchers' attention. This study looks into the possible impact of market orientation (MO) on organizational performance. The study will also be looking at the moderating role of entrepreneurial orientation (EO) in the MO and organizational performance link among the small and medium enterprises (SMEs). This is a survey type of qualitative and questionnaire based research. Sample size of the study is 213. The results of the study reveal the presence of positive relationship among the MO and organizational performance. The results of the study also demonstrate that the effects of MO on organizational performance are positively moderated by EO behaviors. This study covers the limitation of the previous studies by utilizing EO as a five-dimensional construct. This research fills the gap by probing the association of MO with organizational performance moderated by EO in a developing economy's context like Pakistan. This is an empirical study with a reasonable sample size and the results have both academic as well as practical implications. The study has a number of limitations like using a single informant for data collection and studying only one city. Future research directions have also been provided.

1. Introduction

Strategic orientation has received considerable attention in strategic management and entrepreneurship literature over the past two decades. Research has highlighted that strategic orientation comprising of market orientation (MO) and entrepreneurial orientation (EO) are the intangible valuable resources which ensure an organizational survival in the long run and facilitate the achievement of superior performance (Herath & Mahmood, 2014; Ruokonen & Saarenketo, 2009). Extant literature has investigated the performance effects of MO (Attia, 2013; Kara et al., 2005; Ledwith & O'Dwyer, 2009) and EO

(Kurtulmuş & Warner, 2015; Lisboa *et al.*, 2015; Rauch & Frese, 2007; Rauch *et al.*, 2009) in separate studies. However, a number of researchers have been arguing in a different way. They believe that by investigating the effect of a single orientation on firm performance may results in poor firm performance (Hakala, 2011; Kropp *et al.*, 2006; Li *et al.*, 2008; Lonial & Carter, 2015). Balancing multiple orientations or implementing complementary orientations simultaneously improves performance and results in competitive edge (Baker & Sinkula, 2009; Noble *et al.*, 2002; Thourmrunroje & Racela, 2013). More specifically, researchers' viewpoint on the theory of the resource-based concept is that implementing either MO or EO alone is not sufficient to yield superior performance (Kajalo & Lindblom, 2015; Keh *et al.*, 2007; Ngo & O'Cass, 2012). But, a combination of the both enhances firm performance and outperforms those who do not implement these orientations (Morgan *et al.*, 2015).

Keeping the centrality of the above aspects in view, empirical studies on the combine effect of both MO and EO have been found deficient (Atuahene-Gima & Ko, 2001; Baker & Sinkula, 2009; Boso *et al.*, 2012; T. Morgan *et al.*, 2015; Paladino, 2009; Zahra, 2008). Researchers in this field have majorly looked into the direct relationship of MO and EO with organizational performance in developed economies, while only two studies (Bhuan *et al.*, 2005; Li *et al.*, 2008) have examined the moderating effect of EO (three dimensional construct) in the relationship of MO and organizational performance in transitional economy of China. The current study will add to the extant literature by taking EO as five dimensional construct as proposed by Lumpkin and Dess (1996). Since, recent research suggested operationalizing EO as five-dimensional construct within the EO conceptual family, rather than a three-dimensional construct (George & Marino, 2011; Zhang *et al.*, 2014), this study addresses that research gap.

Besides analyzing the effect of MO of a firm on its financial performance, it also looks into the possible moderating role of EO in this relationship. The study will be contributing to the current literature from a number of aspects, including the studying of a five-dimension model, and examining EO as moderator in the MO and performance linkage. The study will also be validating the previous studies (Bhuan *et al.*, 2005; Li *et al.*, 2008) in the context of manufacturing SMEs in a developing economy. The current study advocates that adoption and implementation of EO strategy would lead a market oriented firm towards attaining the sustained competitive advantage and greater firm performance.

2. Literature review

1.1 Market Orientation

MO focuses on the implementation of marketing concept (Matsuno *et al.*, 2005). In the words of Narver and Slater (1990), MO is “the organizational culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus, continuous superior performance for the business” (p. 21). These researchers opine that MO needs to be treated as a three-dimensional construct—a) customer orientation; b) competitor orientation; and c) inter-functional coordination. The first one, by definition is knowing of a firm's target customers (Narver & Slater, 1990); the second one is having similar knowledge of strengths and weaknesses of a firm strategically (Awwad & Agti, 2011; Liu *et al.*, 2013; Narver & Slater, 1990; Zhou *et al.*, 2009); while, inter-functional coordination is the synchronization of a company's diverse assets and the customer associated activities across the functional areas (Zhou *et al.*, 2009). Generating

and sharing market intelligence across all the functional areas of the organization provides a firm with promoting, facilitating and delivering superior customer value and sustainable competitive advantage (Baker & Sinkula, 2009; Long, 2013). MO creates such a culture that develops a firm's potential in market sensitization and customers' satisfaction capabilities that ensure a firm's survival, superior performance and sustainable competitive advantage (Kirca et al., 2005). Organizations with a MO culture generate and share market information to satisfy customer needs and adapt to the external changing environment (Narver & Slater, 1990). Thus, MO strategy ensures sustained organizational performance and competitive advantage in the long run (Jyoti & Sharma, 2012; Slater & Narver, 1994).

2.2 Resource Based View as Theoretical Foundation

Resource Based View (RBV) is a central theoretical foundation that has been found extensively practicable in the area of strategic marketing (Morgan et al., 2006; Voola et al., 2012; Voola & O'Cass, 2010; Zahay & Peltier, 2008). RBV provides that firms can perform better and attain the competitive advantage, if they have better resources and abilities to utilize these resources effectively in exploiting the business opportunities prior to competitors (Voola et al., 2012).

Any firm has tangible and intangible assets comprising of abilities, organizational processes capabilities, specific attributes and information. These resources enable a firm to visualize, plan and formulate strategies, and then implement with the sole purpose of improving its overall performance (Barney, 1991). The internal capabilities of a firm enable a firm to adapt to the external environment (Farrell, 2000; Verhees & Meulenber, 2004). Firms employ their specific resources and organizational capabilities in pursuit of sustainable competitive advantage (Cadogan, 2012). If a firm is successful in making these capabilities and resources inimitable, rare and un-substitutable, sustainable competitive advantage and greater return could easily be ensured (Barney, 1991; Eisenhardt & Martin, 2000). Based on the notion of RBV, this study posits that SMEs gain competitive advantage and superior performance if they deploy their unique capabilities and resources effectively such as, MO and EO.

2.3 Entrepreneurial Orientation

EO as a concept is composed of a variety of disciplines including entrepreneurship, strategic management, organizational behaviour, marketing, and operations and has emerged as a major concept (Dess et al., 2011; Zhang et al., 2014). It is a managerial attitude supposed to plan the strategy-making processes enabling a firm to have sound basis for entrepreneurial choices and actions (Alegre & Chiva, 2013). The strategic nature of this orientation includes many aspects like, the organizational renewal, learning the innovative ways to improve the revenue stream, success in international market, increasing the effectiveness and innovations in services and products, and effective and efficient deployment of resources with the aim to achieve optimum level of performance (Birkinshaw, 1997; Covin et al., 2006; Kraus et al., 2012). EO, as whole, can be conceptualized by features of proactiveness, aggressiveness, innovativeness, risk taking and organizational autonomy. Today market is more uncertain as compared to the past and top management requires accepting risk by taking bold decision (Hakala, 2013). Similarly, management has to be well-aware of the opportune moment and must be capable of acting proactively (Kwak et al., 2013). Proactiveness is forward looking approach and is a firm's inclination to "take initiative by anticipating and pursuing new opportunities and by

participating in the emerging markets” (Lumpkin & Dess, 1996). According to Vora *et al.* (2012), firms with proactive nature may even predict future opportunities. Innovativeness strengthens a firm’s willingness of undertaking new experiments with its creative orientation in the presence of the current technology for the promotion and development of new services and products through its own research and development (Rauch *et al.*, 2009). It is through its innovative differentiation that a firm competes its potential competitors in the market and earns a niche for itself (Hughes & Morgan, 2007). While when a firm is out to challenge the distinctive capabilities of its competitors and then devise its own strategies to defeat them in the market is referred to as competitive aggressiveness (Lumpkin & Dess, 1996). A firm’s this approach reflects its intention of utilizing original and new means instead of following the conventional means to compete in the market (Lumpkin & Dess, 1996). Here culture of autonomy in a firm is the *sine qua non*. An individual can only present an idea or take action and then implement the decision if she/he is independent (Lumpkin & Dess, 1996; Hakala, 2013). This independence is extended till the vision of the organization is accomplished (Lumpkin & Dess, 1996).

2.4 Firm Performance

A firm performance can be measured in terms of the outcomes achieved after the internal and external goals of a firm are accomplished (Lin *et al.*, 2008). Researchers have used different kinds of indicators for measuring the organizational performance and have restricted themselves to collect information only on those variables which it is not difficult to collect the required information (Cooper *et al.*, 1994; Jalali *et al.*, 2014). For example, Ellis (2006) argue that often greater effects on performance are found when the subjective measures are used rather than using objective measures. Prior research has highlighted that often owners/ managers of the firms are reluctant to provide financial data. Also, they opined that subjective measures provide correct, reliable and accurate measure than objective measures provided by the owners/ managers (Khan & Khaliq, 2014). The present study undertake four indicators of performance as non-financial performance indicators identified by Kirca *et al.* (2005) comprised of employees satisfaction, quality of service, innovation, customer satisfaction and organizational growth

2.5 The Relationship between Market Orientation and Organizational Performance

There are a number of studies that have looked into the interplay of MO and firm performance in the entrepreneurship and strategic management literature. For example, Idar and Mahmood (2011) demonstrated a significant positive relationship between MO and a firm’s financial performance. Other studies like Lin *et al.* (2008) reported that MO has significant positive influence on growth in sales, profitability and market share in venture companies in Taiwan. Sorensen (2009) reported that dimensions customer and competitor orientations dimensions of MO have a positive and significant impact on the organizational performance of manufacturing firms in Denmark. Laukkanen *et al.* (2013) found that MO has a positive impact on brand performance i.e. non-financial performance includes firm’s age, reputation and customer loyalty. Voola *et al.* (2012) investigated the relationship of non-financial performance and MO and suggested a significant relationship of MO on non-financial performance of the firm. Im and Workman (2004) investigated the role of MO by targeting high-tech companies in America and found that MO plays a key role in the new product success, increase in market share, return on investment, sales volume and profitability. Hilman and Kaliappen (2014) conducted a study on three, four and five star hotels in Malaysia. The results reported that competitor orientation and

customer orientation dimensions of MO are positively associated to organizational performance. Long (2013) reported that MO has significant positive impact on organizational performance in terms of market share growth, sales and profitability. Paladino (2009) conducted his study on 250 top performing manufacturing companies in Australia and found that high resource orientation and MO yield highest financial performance. This study further found that low MO and high resource orientation contribute largely to innovations. Reviewing the extant literature, one can easily conclude that there exists a positive relationship between MO of a firm and its organizational performance. On the basis of which we posit that:

- **H₁:** Market orientation is positively related to the performance of SMEs.

2.6 Moderating Role of Entrepreneurial Orientation

Many studies examined the co-relationship between EO and MO (González-Benito et al., 2009; Miles & Arnold, 1991; Morris & Paul, 1987). González-Benito *et al.* (2009) reported the combined effect of EO and MO on the business performance. Other studies assessed the impact of interactive effect of EO and MO on firm performance (Atuahene-Gima & Ko, 2001; Kwak et al., 2013; Matsuno et al., 2002; Smart & Conant, 2011). For example, Atuahene-Gima and Ko (2001) argue that MO and EO are complementary but distinct constructs. Both constructs interact and results in new products performance. In a similar vein, Kwak *et al.* (2013) are of the opinion that the basic theme of the interactive effect is that EO creates such organizational culture that accelerate and motivate the innovativeness and creativity of the organizational members. At the same time MO tries to main such a culture through tools and procedures necessary for fostering the subject culture. From it one can easily concluded that MO needs to be treated as a mean to an end. Matsuno *et al.* (2002) reported that MO is required for EO to have significant positive impact on performance. These researchers believe that MO may not necessarily bring about sufficient willingness on the part of organization to take risk and exploit the market opportunities. The effects of EO on performance become visible when it interact with MO. Similarly, a recent study conducted by Amin et al. (2016) investigated the impact of MO in the relationship of EO and SMEs performance in Malaysia and found that MO mediates this relationship. In addition, another recent study was conducted by Vega-Vázquez et al. (2016) in 70 hotel sector in Spain provided that EO in individual capacity may not yield superior performance unless MO act as mediator in the relationship of EO and performance. Yu et al. (2016) argue that the adoption of EO results in improved human capital knowledge for a firm because it deals a changing situation as an opportunity while MO helps a firm to link it with marketplace. The outcome derived from combining EO and MO results in greater firm performance and sustainable competitive advantage.

Only handful of studies has examined the moderating effect of EO (three dimensional construct) on MO and business performance. For example, Bhuian *et al.* (2005) conducted a study to examine the moderating effect of EO on the relationship of MO and business performance and found that the MO is high when a firm maintains a moderate level of EO. Li *et al.* (2008) carried out a similar study and investigated the moderating effect of EO as three dimensional constructs (proactiveness, innovativeness and risk taking) between MO and performance of small enterprises. Their study demonstrated that EO has significant moderating effect in the MO and firm performance linkage. They called for employing EO as moderator in future studies in other countries' context in order to gauge the true nature

of the interaction effect between these constructs. On the basis of which the researchers posit that:

- **H₂**: EO moderates the relationship of MO and OP.

3. Methodology

3.1 Sampling and Data Collection

For testing and validating the hypotheses of the current study, the top management in manufacturing sectors located in Sialkot region, Province of Punjab Pakistan were examined. For this purpose the researchers sent an adapted questionnaire to 367 respondents in the subject area. The questionnaire had a cover letter wherein the purpose of the study has been shortly explained to the respondents. This process of primary data collection remained quite tedious. After six months of follow-up, altogether 239 questionnaires were collected. Some of the questionnaire were found to be incorrectly filled and were excluded from the analysis. Resultantly only 213 questionnaires were considered for analysis. The response rate was 58%. For the data analysis the Statistical Package for the Social Sciences version 21.0 was used.

3.2 Measurement Tools

As the researchers employed an adapted questionnaire, efforts were undertaken to align all the measures from previous researches with the conceptual aspects of each construct in the current study. The questionnaire was consisted of a range of closed statements. Respondents of the study were requested to rate their level of agreement and disagreement on a five-point Likert scale (1 = “strongly disagree” to 5 = “strongly agree”).

3.2.1 Market Orientation

The scale for MO was adapted from the 15 items MKTOR measures developed by Narver and Slater (1990). Ellis (2006) suggested using MKTOR scale as it focuses more on customer value and has strong impact on performance. MO was divided into three dimensions namely competitor orientation, customer orientation and inter-functional orientation.

3.2.2 Entrepreneurial Orientation

For measuring this concept, the researchers employed the scale developed by Lumpkin and Dess (1996) and further developed and validated by Lee and Lim (2009). The scale was employed to measure three dimensions of the construct namely, innovativeness, risk taking, and competitive aggressiveness. Proactiveness dimension of construct was measured by adapting the scale developed by Miller (1983), Covin and Slevin (1986), Numan and Slevin (1993), and validated by Wang and Altinay (2012). There were total 17 items in the scale divided as follows: proactiveness (04 items), risk taking (03 items) innovativeness (03 items) competitive aggressiveness (04 items) and autonomy (03 items).

3.2.3 Organizational Performance

The scale employed for measuring this construct was adapted from Homburg and Rudolph (2001), Athanassopoulos *et al.* (2001), Caruana (2002) for its three dimensions of customer satisfaction, innovation, and service quality respectively. Likewise, the scale for growth was adapted from Spangenberg and Theron (2004). The researcher employed Minnesota Satisfaction Scale (MSQ) for measuring employee satisfaction. The questionnaire has a total of 20 items have division: five items for customer satisfaction, three items for

innovation, five items of service quality, three item for growth and four items for employee satisfaction.

3.3 Research Instrument Reliability and Validity

It is highly essential for a research to assess the research instrument to see the accuracy of the relationship that exists between the underlying traits and the measure that the instrument is supposed to measure. To cut it short a research instrument needs valid as well as reliable. By applying the technique of Principal Component Analysis on the three constructs of MO, organizational performance and EO resulted in one component for each explaining 59 percent, 65 percent and 79 percent respectively. The internal consistency of the each scale was checked in the light of recommended value of above 0.7 (Hair *et. al.*, 2010)). These values were found satisfactory as the Cronbach α values were 0.874, 0.926 and 0.899.

To check the validity of the employed instrument the four steps normally used were employed here. First, face validity was carried out to check if the instrument looks like Burns and Bush (2004) it is measuring the correct characteristics. To assess this aspect the already used instrument was overviewed by two experts and their suggested minor changes were incorporated thereof. Second, predictive validity has been insured by taking the already standardized questions from the tested questionnaires with some minor customization as suggested in face validity. Third, content validity is also essential for the purpose “to see the degree of correspondence between the items selected to constitute a summated scale and its conceptual definition” (Hair et al., 2003, p.88). In this regard it is submitted that the relevant domain has possible been gone through and the contents of the current instrument have been derived therefrom. Fourth, construct validity which is checked to see if the expected pattern of relationships exists among the subject constructs. In other words this test establishes a possible agreement between the measuring instrument and the theoretical concepts. For this purpose various methods including factor analysis, correlation coefficients or judgment (Cooper & Schindler, 2008). In the current study it has been examined by computing items total correlation and inter-scale correlation. Table 1 provides the information in this regard.

3.4 Assumption of Multiple Regressions

Before applying multiple regression analysis it is wise to check if the data fulfil the required assumptions of regression analysis. The first assumption of linearity was checked through scatter plot which exhibited that the relationship between the dependent and independent variables is linear. The second assumption is the normality of the data. The data has also exhibited a normal curve. The third assumption of multicollinearity is has been tested by running factor analysis before running the regression analysis. The fourth assumption of the regression analysis is the issue of autocorrelation. It has been checked through the value of Durban-Watson test. The value of this test is above 2 which indicate that the residuals independent from each other. After meeting all the assumptions, regression analysis was run employing SPSS.

3.5 Data Analysis

To examine the hypotheses on the direct relationship between MO and its dimensions with organizational performance, proposed by this study, Pearson correlation analysis was carried out using SPSS 18.0. Hierarchical Multiple Regression Analysis (HMRA) was

employed to investigate the moderating effect of EO on the relationship of MO with OP using Baron and Kenny (1986) three step moderation method.

4. Results

4.1 Descriptive Statistics and Correlation Analysis

The descriptive analysis results in mean value for MO (mean = 3.917) and EO (mean= 3.6323) indicate that Pakistani SMEs are practicing MO and EO strategies and recognize the advantage these strategies hold for attaining organisational performance. To investigate the inter-correlation among variables of the study Pearson correlation was employed as a yardstick. Values for the subject yardstick have been provided in Table 1. MO and EO are significantly correlated with the organizational performance. The correlations between MO and firm performance ($r = 0.875, p < 0.01$) and EO and organizational performance ($r = 0.761, p < 0.01$) indicate strong relationship between the constructs.

Table 1: Correlation Analysis of LO, EO and OP

No.	Variables	Mean	SD	1	2	3
1	Entrepreneurial Orientation	3.6323	0.5494	1		
2	Market Orientation	3.9172	0.4157	0.694**	1	
3	Organizational Performance	3.7603	0.4657	0.761**	0.875**	1

Note: P< 0.01 level (2 tailed).

4.2 Direct Effect of MO on OP

Simple linear regression was used to check the impact of MO on OP. The results highlighted in step 1 of table 2 confirm that MO ($F=689.374, p < 0.05$) has significant and positive impacts on OP ($\beta = .980$), thus supporting hypothesis H₁.

4.3 Moderating Effect of EO

Baron and Kenny’s (1986) three steps moderation was employed in order to check the moderating effects of MO on OP. This method of moderation is widely applicable in marketing, management and entrepreneurship research (Wong and Tong, 2012). The results of the regression analysis are reported in Table 2.

Step 1 as depicted in Table 2 indicates a significant effect of MO on OP ($\beta = .980, F=689.374, p < 0.05$).

Step 2 as highlighted in Table 2 indicates the inclusion of EO as moderator. The results show that when EO is added, it resulted in a significant increase of 4.5 per cent in R-square (change of F-value= 450.692, $p < 0.001$)

Whereas, Step 3 shows the inclusion of interaction term. The results reported in Table 2 describe that when interaction term of MO and EO (MO*EO) is added, then the explanation

power of the model is significantly increased to 81.5 per cent ($R^2 = 0.815$; $p < 0.001$). The results further explains that the interaction term results in contributing small but significant increase in explaining the variance in OP (change in F-value = 306.973, $p < 0.001$). Results of the moderation analysis indicate that high level of EO results in strengthening the relationship between MO and OP. whereas, MO and Op is weakened, with low level of EO. Thus, hypothesis H₂ is supported.

Table 2: Model Coefficients and Summary for the Constructs

Step		Standardized Beta	R	R ²	F Change	Sig. F Change
1	Market Orientation	0.980	0.875	0.766	689.374	0.000
2	Market Orientation	0.750	0.901	0.811	450.692	0.000
	Entrepreneurial Orientation	0.251				
3	Market Orientation	0.348	0.903	0.815	306.973	0.000
	Entrepreneurial Orientation	-0.152				
	The Interaction Term	0.108				

Note: Dependent variable: Organizational Performance

5. Discussion

The correlation result related to MO and organisational performance indicates a strong relationship between the two variables. The results of the this study is in line with previous studies that have confirmed a significant and positive relationship between MO and organizational performance (Amirkhani & Fard, 2009; Aziz & Yasin, 2010; Homburg & Pflesser, 2000; Jaworski & Kohli, 1993; Jyoti & Sharma, 2012; Mahmoud, 2011; Raju et al., 2011; Ruekert, 1992; Slater & Narver, 1994; Wei & Morgan, 2004; Zhou et al., 2008). The results of the present study indicate that respondents SMEs are highly conscious of adopting and practicing MO to fulfil the needs of the customers in the cut prevailing throat competition to attain greater firm performance. The findings on the moderating effects of EO on MO-OP relationship are in line with the previous studies conducted by Li *et al.* (2008) and Bhuian *et al.* (2005) that have reported a significant positive moderating effect of EO on the relationship of MO and OP in transitional economy China. The findings of this study are consistent with a more recent study conducted by Amin et al. (2016) highlighting that the adoption of both MO and EO would lead a firm towards attaining greater performance and competitive advantage.

6. Conclusion

The present study highlights that firms that adopt the EO with MO simultaneously would be more able to ensure its long term survival and competitive advantage in manufacturing sector of SMEs. EO enables a firm to provide superior value to its customer than the competitors by affecting its degree of MO and result in greater firm performance (Vega-Vázquez *et al.*, 2016). Pakistan being a developing country relies heavily on manufacturing industries especially SMEs for its development. The entrepreneurial culture of Pakistan being a developing country is different from the developed countries, as mostly these SMEs are owned and operated by families who are hesitant to go for taking any risk related to business, thus have little concern for innovation and proactiveness (Akhtar *et al.*, 2015). The present study suggests that Pakistani SMEs need to adopt EO in conjunction with MO, as it would not only help them to survive in today's competitive business environment locally but also internationally, putting Pakistan in a more competitive position in the global economic environment.

7. Limitations and Future Research Directions

This study adopted the single informant approach for data collection. Multiple respondents from a single organization are advised in future studies to be selected for data collection to gauge the true nature and effect of MO and EO on organizational performance. This study relied on SMEs located only in one cluster of the Punjab province of Pakistan. SMEs are clustered in other cities of Pakistan as well. It is therefore suggested that SMEs from other cities of the country like Karachi, Peshawar and Islamabad should be considered for data collection in order to overcome this limitation. This research deconstructed strategic orientations into MO as independent variable with EO as a moderator. However, it is deemed important that future studies should include other strategic orientation like technology orientation and learning orientation. As a result correlation between all strategic orientation variables is advised. The present study only looked into strategic orientations from the SMEs perspective. Future studies that concentrate not only business companies but also government and non-profit organizations needs to be conducted since these orientation lead the organizations towards superior performance and competitive advantage. Research that examines MO/ customer orientation and EO with organizational or individual performance in service sector would be valuable, particularly in Pakistan. Finally, future research should decompose MO and EO constructs and their effects on performance mediated or moderated by learning orientation are advised to be checked in order to gauge the true nature of these constructs.

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