

## The interplay of strategic orientations and their influence on SME performance

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### ABSTRACT

This paper examines the role that learning orientation plays with respect to entrepreneurial orientation, market orientation, and, ultimately, the performance of small and medium-sized enterprises SMEs. Previous research indicated mixed findings in regards to the relationship of these strategic orientations and firm performance. Instead of just direct influences to performance, we examine if learning orientation is an antecedent to market and entrepreneurial orientation. We suggest that in this way, their influence to SME performance would be more accurately predicted. We argue that learning orientation reflects the overall values of the organization, whereas entrepreneurial and market orientations are more action-oriented firm behaviors. Learning orientation would likely set the stage for the requisite actions implied in market and entrepreneurial orientation. Direct effect and mediated effects hypotheses between these strategic orientations are tested on a sample of SME manufacturing firms and their performance. Findings indicate that learning and entrepreneurial orientation directly influence SME performance. However, when learning orientation and its effects are mediated by market and entrepreneurial orientation, direct effects disappear when testing this model. The study offers insight into relationships between various strategic orientations, as to how and when they might influence SME performance.

### Introduction

Learning has long been an important topic of interest to organizational researchers (Cohen & Levinthal, 1990; Hedberg, 1981; Nonaka, 1994). The premise underlying an organization learning capability is that it facilitates flexibility, opportunities for growth, and overall better performance in those firms that possess such a capability (Maes & Sels, 2014; Real, Roldán, & Leal, 2012). Learning capabilities are thought to facilitate organizational adaptation in the face of negative and positive exogenous forces. The ability to learn may be particularly important to small and medium-sized enterprises (SMEs) in their quest for survival and growth. However, the internal dynamics in SME learning processes that lead to increased performance remain a rich area of research.

Literature examining firm abilities to learn have focused on various strategic orientations that direct and

influence the activities of businesses and inform their behaviors aimed at exploiting opportunities in order to gain and sustain competitive advantage (Hakala, 2011). These orientations have included ‘learning’ orientation (Sinkula, Baker, & Noordewier, 1997), ‘entrepreneurial’ orientation (Covin & Slevin, 1986; Miller, 1983), and ‘market’ orientation (Kohli & Jaworski, 1990) which have been suggested as drawing the most attention from researchers (Schweiger, Stettler, Baldauf, & Zamudio, 2019). Gnizy, Baker, and Grinstein (2014) suggest that these three strategic orientations are important aspects of a firm’s proactive learning culture and are mutually dependent and synergistic.

The term ‘orientation’ as employed in organizational research is a common descriptor with an imprecise connotation. The American Heritage Dictionary (2007) defines orientation as “the act of orienting or the state of being oriented” (emphasis added). To ‘act’ is the process of doing, while ‘state’ is condition with respect to attributes. In organizational research, numerous constructs are articulated as orientation.

From each orientation label one cannot determine

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whether it is an action or a state construct. Absent a careful, clear, and consistent articulation of a construct based on its original conceptualization, empirical tests and analyses can yield spurious or confusing results which muddy rather than clarify our understanding. Two situations illustrate the issues that arise when logical inconsistencies occur in research. The first situation develops when researchers operationalize and measure theoretical constructs with dimensions that confuse or mix the “action” or “state” notion of an orientation construct. As it was originally conceptualized by Sinkula, et al. (1997) learning orientation (LO) is a set of values that an organization holds toward learning and influences how likely it is to develop a learning culture. As such, values and culture represent a condition of being, therefore LO is a state construct as originally conceptualized.

The second situation (more fully developed in the sections that follow) and a contribution of our paper is where the relationship between ‘orientations’ are considered with respect to a dependent variable. Though researchers have examined the various orientations and performance relationship performance (see Baker & Sinkula, 1999; 2009; Farrel & Oczkowski, 2002; Real et al., 2014; Wolff, Pett, & Ring, 2015), most of this research has focused on direct effects, combinations of two orientations only or the complementarity of the orientations (Schweiger et al., 2019). There has been limited theoretical development and analysis of the interplay of these three strategic orientation constructs and their influence on each other and firm performance (Raj & Srivastava, 2016; Wales, Beliaeva, Shirokova, Stettler, & Gupta, 2019). Specifically, there has been a lack of theorizing the relationships between the three strategic orientations. Previous examination of these variables is akin to attitude-consequence research which goes without examining intermediate behavioral action variables. In other words, attitudes do not by themselves lead to consequences. It is only when attitudes lead to behavior that consequences result. Similarly, when referring to the interplay of orientations, we do not expect an organizational state to lead to performance in the absence of organizational actions.

We propose the generalized conceptual model that is illustrated in Figure 1. In this model, we argue that organizational values influence organizational actions, which, in turn, yield organizational outcomes. We examine these internal dynamics by building on research, examining market orientation (MO) (Kohli, Jaworski, & Kumar, 1993), entrepreneurial orientation (EO) (Covin & Slevin, 1986), and the relationship between MO, EO and SME performance (Baker & Sinkula, 2009).

We suggest that learning orientation (LO) (Sinkula et al., 1997) is an antecedent construct to these actions and create the necessary internal organizational environment

for MO and EO to be effective influencers of SME performance. LO is a set of values exhibited by the organization that demonstrates whether or not the organization is likely to develop a learning culture (Sinkula et al., 1997). Absent a learning culture, it is axiomatic that organization learning would likely be reduced if not missing entirely.

The purpose of the paper is to explore and empirically test the notion that firm values when coupled with appropriate behaviors can lead to enhanced performance. Specifically, we examine in the following sections the relationship between LO, MO, EO and the growth of small firms. While EO, MO and LO have received much research attention (Brettel & Rottenberger, 2013; Hakala, 2011), a contribution that this research makes is to link theoretically and to test empirically the relationship between three constructs discussed above. Frishammar and Andersson (2009) argue that there are problems linking EO and MO to SME performance. Other researchers have found no relationship between organizational learning and SME growth (Altinay, Madanoglu, De Vita, Arasli, & Ekinci, 2016). We suggest how these complex relationships interact with each other and link to organizational growth.

A second important contribution of our research is to argue for clarity at the meta-construct level that more accurately specifies theoretical relationships that model important organizational processes. Research has become interested in the complementarity of various strategic “orientations” in order to mirror organizational complexities (Schweiger et al., 2019). We argue that significant confusion exists in the literature with respect to the term ‘orientation.’ As we show, some strategic ‘orientations’ in the literature are philosophical and values-based constructs and some ‘orientations’ are behavioral and action-based constructs. We present a general model that illustrates the intervening role of two behavioral meta-constructs (MO and EO) between organizational values (LO) and organizational performance.

The paper initially presents our rationale to the values-behavior-performance explication of orientation and the confusion that exists with respect to this term. We present theory underlying the constructs and our arguments for the hypothesized relationships between them. We discuss our empirical methodology, the operational measures of the constructs, and the statistical analysis used to test the hypothesized relationships. We provide the results and interpretation of our analysis, and a discussion of the implications, limitations and directions for future research.

## Theory and Hypothesis Development

The principal concern of this study is to examine the interplay of three strategic orientations and firm performance.

Strategic orientation refers to a “firms’ philosophy of how to conduct business through a deeply rooted set of values and beliefs that guides the firms’ attempt to achieve superior performance” (Zhou, Yim, & Tse, 2005). Many studies have found that the orientations of LO, EO and MO have both direct and indirect influences on performance. However, there is a lack of theoretical development or consistency in findings regarding how the relationships between these factors play out.

### Learning Orientation

Learning orientation has been conceptualized as the values an organization has that influence firms to create and use knowledge, particularly in regards to questioning long held organizational norms (Baker & Sinkula, 1999; Schweiger et al., 2019). Of importance to organizational learning research is that these values enable firm’s adaptability in dynamic environmental or competitive conditions (Moingeon & Edmundson, 1996). LO specifically refers to the idea that firms should question existing assumptions and beliefs about the firm and its environment so that it can adapt appropriately (Wales et al., 2019).

Conceptually, LO is a construct that is comprised of three constituent elements: a commitment to learn, open-mindedness, and shared vision (Canlanzone, Cavusgil, & Zhao, 2002). A commitment to learn at the organization level is expressed by a philosophy-in-use and culture regarding learning and refers to the value a firm places on recognizing new knowledge (Sinkula et al., 1997). The second element of LO, open-mindedness, is a precondition to the learning process because firms must be willing to question routines and assumptions that comprise their mental models (Senge, 1990). Third, shared vision captures the notion that learning results in some changed perception or an insight not previously identified that yields a changed pattern of action by a part or the whole of an organization (Sinkula et al., 1997).

Absent the cultural values that reflect a commitment to learning, learning and adaptation is not likely. Hence, LO, at minimum, requires the elements of open-mindedness and a commitment to learning as a precursor for organizational learning and ultimately successful adaptation. The notion that organization learning—as a broadly construed construct—can yield performance improvements is logically appealing and is an important element with respect to understanding organizational function. Research has demonstrated that LO firms are better able to adapt to environmental complexities and improve their performance (Lonial & Carter, 2015; Zhou et al., 2005) and the organizational values inherent in having a Learning Orientation serve as

the focal construct in our research.

### Entrepreneurial Orientation

Fundamental to entrepreneurial orientation (EO) is that firms behave in different ways in regards to entrepreneurial values and practices (Real et al., 2014). Entrepreneurial orientation (EO) has come to be most closely associated dimensions being risk taking, innovativeness, and proactivity (Covin, Green, & Slevin, 2006; Covin & Slevin, 1991; Miller, 1983). Entrepreneurs are generally regarded as risk takers in terms of their decision-making and business activities and may view risk differently than non-entrepreneurs (Busenitz, 1999; Palich & Bagby, 1995). Innovativeness relates to the degree to which firms create new products or processes (Covin & Miles, 1999) through the pursuit of creative or novel solutions (Knight, 1997). Proactivity is similar to competitive aggressiveness (Covin & Slevin, 1991) and involves behaviors that take the lead vis-a-vis competitors and perceived business opportunities (Wiklund & Shepherd, 2003).

While most studies indicate that EO has positive performance influences (for example, see Lee, Lee, & Pennings, 2001; Pett, Errami, & Sie, 2018; Zahra & Covin, 1995), there has been some research with negative or insignificant effects (Rauch, Wiklund, Lumpkin, & Frese, 2009). Schweiger et al. (2019) suggest this variation may be due to the need to align EO with other constructs, namely MO and LO. We argue that this is due to the equivocation with respect to state or action in language used to articulate the dimensions of EO. Miller’s (1983) original work rooted the construct in behavioral action. In addition, Lumpkin and Dess (1996) indicate that EO refers to the processes, practices, and decision-making activities which articulates EO as an action construct. As suggested earlier in the paper, we adopt the notion that EO is a behavioral action construct and its influence on firm performance is not merely a direct relationship, but part of the larger set of strategic orientations that firms possess.

### Market Orientation

Narver and Slater (1990) specify that MO is the ability of an organization to produce behaviors that lead to the creation of value for buyers and increased performance for the business. A firm’s market-oriented behaviors include three components: customer orientation, competitor orientation, and inter-functional coordination. These components must be supported by a relevant culture (Grinstein, 2008). A strong customer orientation is the depth of knowledge and understanding for customers in order to deliver superior

value to them. Competitor orientation are behaviors related to gaining and acting on understanding competitor's capabilities and strategic direction. Inter-functional coordination includes utilizing and coordinating firm resources to create superior value for customers (Narver & Slater, 1990). Implied in these components of MO dimension is the need for continuous actions designed and executed to create significant marketing insight for the firm.

Ultimately, MO research suggests that it is important for firms to orient themselves to market demands so that they can grow (Zahra, 2008). Many researchers have found that the components of MO contribute to firm performance (Grinstein, 2008; Schweiger et al., 2019). However certain studies have nonconclusive or alternative findings (Ellis, 2006). The influence of MO directly on firm performance may be more complicated than originally predicted. For example, researchers have found that MO's influence is mediated by or complimentary to other orientations (Deutscher, Zapkau, Schwens, Baum, & Kabst, 2016; Schweiger et al., 2019).

## Growth

Firm growth has been associated with the ability to better withstand environmental shocks (Hannan & Freeman, 1984) and is a core element underlying the resource-based view of the firm (Barney, 1991) where theorists propose that resource endowments are the crux of a firm's ability to grow (Penrose, 1959). Growth as measured by revenue and employee growth is particularly important in the study of small firms. What Stinchcombe (1965) termed a "liability of newness", Freeman, Carroll, and Hannan (1983) concluded was also comprised of a "liability of smallness." Bruderl and Schussler (1990) proposed that new firms only possess a stock of resources that will sustain them through startup and adolescence, however the stock of resources may run out after this. Therefore, the growth of the firm is critical so that it can generate the resource flows necessary for survival. We expect that these resource flows are made possible by a growth in revenues and employees for small firms.

## Hypotheses

Given the globalization of markets, the pace of technological change (Ireland & Hitt, 1999) and other exogenous environmental changes that inevitably challenge small firms, a coping mechanism is to gather information, analyze information and learn what decision avenues or opportunities may be open to them. The process of information gathering, analysis and gaining insight into dynamic conditions is organization learning (Fiol & Lyles, 1985). Therefore, a

key process in the successful strategic management for any firm may be its ability to learn. Learning may provide the means by which small firms successfully negotiate difficult environments and overcome liabilities of newness (Stinchcombe, 1965), smallness (Freeman et al., 1983), or adolescence (Bruderl & Schussler, 1990). Implicit in Narver and Slater's (1990) content specification of MO is the notion of learning. In their discussion of customer orientation and competitor orientation is the idea of understanding. To understand complex and dynamic entities such as customers and competitors with respect to current and future needs and actions requires the firm to have a proclivity for information gathering, processing and interpretation—essentially a culture for learning. Firms that value learning are much more likely to enact the behaviors that comprise MO.

Similarly, entrepreneurship researchers propose that learning in various manifestations is an important element in the opportunity recognition process (Dutta & Crossan, 2005; Lumpkin & Lichtenstein, 2005) by entrepreneurs and entrepreneurial firms. Recognized opportunities provide options for strategic renewal or new product/new venture efforts (Lumpkin & Lichtenstein, 2005), both of which may provide a firm the path to enhanced performance. The parallel between strategic management and entrepreneurship is the idea that opportunity provides the avenue for a firm to grow and prosper. Firms with an orientation or the values present to learn may be better able to successfully establish performance enhancement mechanisms (Baker & Sinkula, 1999).

**Hypothesis 1.** Learning Orientation is positively related to SME performance.

To the extent that an EO allows SME firms to be more efficient in their activities, cater to customer needs in superior ways, or be faster to market than competitors, firms may be able to create competitive advantage and hence superior performance (Covin et al., 2006). Given the relative consistency in empirical support from other research studies that examine the EO/performance relationship (Deutscher et al., 2015; Wiklund & Shepherd, 2003) we anticipate a direct effects relationship between EO and small firm growth.

**Hypothesis 2.** Entrepreneurial Orientation is positively related to SME performance.

The relationship between MO and performance has been the subject of much empirical research in larger firms (Narver & Slater, 1990), SMEs (Kara, Spillan, & DeShields, 2005) and Chinese SMEs (Li, Zhao, Tan, & Liu, 2008). The

idea that firms with higher reported levels of the MO construct demonstrate greater levels of performance is generally supported in the literature. This outcome should not be surprising given that MO effectively measures how well a firm understands its customers, its competitors, and how well it coordinates its value creating activities throughout the firm to (more effectively than competitors) meet its customers' needs.

**Hypothesis 3.** Market Orientation is positively related to SME performance.

While there is logical and empirical support for the presence of a positive main-effects relationship between both MO and EO with firm performance, there is also logical and empirical support for a significant positive interaction effect between MO and EO on SME performance. As shown by Li et al. (2008) in their study of transition economy SMEs there was a significant positive interaction effect between MO and two of the three dimensions of the EO construct (proactiveness and innovativeness). Interestingly the risk-taking dimension was positive but not significant. This outcome may be an artifact of the stage of development in the Chinese economy from which the sample was drawn (Li et al., 2008). Irrespective of the outcomes reported by Li et al. (2008) the notion that MO and EO may be complementary constructs that have a multiplier effect with respect to SME performance has logical and intuitive appeal and, thus, should be examined across a spectrum of SME conditions.

The complementary nature of MO and EO can be illustrated by the following discussion. The component dimensions of MO combine create within a firm the necessary knowledge to understand deeply customers, competitors, and how to effectively combine the internal organization to maximize value creation (Narver & Slater, 1990). As previous research pointed out (Bhuiyan, Menguc, & Bell, 2005; Li et al., 2008) this is a necessary condition for higher performance levels in firms but it may be insufficient for the highest levels of performance. Absent behaviors that provide a firm the capability to recognize opportunities and act on perceived opportunities performance improvement may be limited.

Conversely, past research has shown that the presence of EO in firms is positively related to performance (Covin & Slevin, 1991). However, while EO may signify that a firm has the knowledge base to recognize opportunities and the willingness to act on perceived opportunities, in the absence of a deep customer understanding, knowledge of their current and future needs and how to marshal organizational resources to satisfy needs, the full performance benefits

from EO may be attenuated. Recent research has shown that strategic orientations may have complementary effects on business performance, and firms that combine orientations outperform those that have one orientation alone (Beliaeva, Shirokova, Wales, & Gafforova, 2018; Deutscher et al., 2015; Ho, Plewa, & Lu, 2016; Lonial & Carter, 2015). Hence, we expect there to be a mutually reinforcing positive relationship between MO and EO with respect to SME performance.

**Hypothesis 4.** Market Orientation and Entrepreneurial Orientation interaction is such that higher levels of each yield a significantly positive relationship to SME performance.

To this point we have discussed the main effects relationship of LO, EO, and MO with performance and the interaction effects between EO and MO. In addition to these relationships there is a logical link that exists between the cultural values present in a firm, the actions taken by the firm and the resultant organizational outcomes realized by the firm. Specifically, we expect there is a relationship between LO (values), EO and MO (actions), and the performance (outcomes) of SMEs. Learning is a process (Crossan, Lane, & White, 1999). Knowledge, the desired result of the learning process, is that which facilitates innovation or the solution to problems (Nonaka, 1994). Crossan, Lane and White (1999) proposed the 4I framework for organization learning—intuiting, interpreting, integrating and institutionalizing. The last two of these activity components can be argued to comprise the conversion of learning to knowledge. Integrating and institutionalization (the third and fourth I respectively) represent the transition from learning to organizational knowledge. Given these arguments we propose that the presence of a LO within the firm will yield more usable knowledge with which the firm can innovate or generate marketplace solutions to problems. LO represents a set of specific values that may guide the firm in what it does (Sinkula et al., 1997).

Lumpkin and Dess (1996, p. 136) state that “EO refers to the processes, practices and decision-making activities” exhibited by a firm. Consistent with this reasoning is the argument that EO represents the actions that may be shaped by the values of the firm. An EO is an organization-wide predisposition to act in a way that reflects innovation, risk-taking, and pro-actions regarding how a firm operates (Lumpkin & Dess, 1996). A firm with an EO must learn to be able to innovate and act ahead of competitors. Therefore, a firm's LO is antecedent to an EO and may shape the actions that firms take. In other words, there are indirect effects of the LO/performance relationship such that EO will mediate the effects of LO on performance.

With respect to MO, customer orientation and competitor orientation include all of the activities involved in acquiring information about these entities and then disseminating this information throughout the business (Narver & Slater, 1990). Similar to the EO discussion above MO requires an organization-wide predisposition to act in a manner consistent with the elements that comprise the MO construct. Hence there is likely to be present in a firm that exhibits a strong MO the values that shape the culture or climate to acquire information, disseminate information, process information into knowledge, and use that knowledge to coordinate an organization-wide response to create value for customers. LO is antecedent to MO and shapes the actions taken by the firm to yield outcomes (performance) realized by the firm. Reinforcing these arguments is the premise that organizational values work through other factors (attitudes, climate, and task organization) to impact organizational performance (Marcoulides & Heck, 1993).

**Hypothesis 5.** High levels of Market Orientation and high levels of Entrepreneurial Orientation will mediate the effects of Learning Orientation on SME performance.

Lastly, we examine the differences between low and high performing SMEs. The constructs examined here and in previous research (Baker & Sinkula, 1999; Covin & Slevin, 1991; Narver & Slater, 1990) are purported to be significant contributors to firm performance in many different contexts. According to Barney (1991) valuable, rare, hard to imitate, and non-substitutable resources are likely the source of competitive advantage. Each of the constructs examined in this research can be viewed as resources that meet the criteria for being the source of superior performance. As argued earlier, LO generally refers to values or culture within an organization which we refer to as a state of being. EO and MO orientations are more behaviorally and action aligned. We expect that the combination of a learning culture along with a strong market and entrepreneurial proclivity within a firm should associate with better performance. This logic is similar to that of Baker and Sinkula (2009) who found that MO and EO had a complimentary impact on small business profitability. Alternatively, firms without the presence of these orientations would be lower performing. Hence, lower performing SMEs should exhibit lower levels of each of these resources than will high performing SMEs.

**Hypothesis 6.** There will be significant lower values for Learning Orientation, Entrepreneurial Orientation, and Market Orientation for low performing SMEs than are present in High Performing SMEs.

The hypotheses stated above are a specification of the relationships among the constructs we examine in this study. Figure 1 illustrates the proposed hypotheses that we have formulated in a path diagram that shows the dimensions of each construct and the various paths of influence the hypotheses represent.

## Method

The study uses a survey method approach for data gathering to test the proposed relationships. A sample of 700 randomly selected small- and medium-sized firms were identified from a Midwestern state directory of nearly 2,000 business firms published by the largest newspaper and all of them were B2C businesses. The sample represented a broad cross-section of SMEs from a wide array of industries across the state. A mail survey and cover letter soliciting a response to an enclosed questionnaire was addressed to the owner, CEO or president from each firm in the sample. We provided respondents a self-addressed stamped envelope for returning the completed survey. A postcard reminder was mailed three weeks after the initial survey was distributed.

A total of 138 key-informants responded to the survey, while 117 provided complete information for a 17% response rate. The approach and response rate are consistent with similar studies that survey top management (Hambrick, Geletkanycz, & Fredrickson, 1993). A total of 96 of respondents in the study reported being the owner or CEO of the business. SMEs reported having from 7 to 500 employees with the average size being 93 employees. The average tenure for respondents was 19 years with the firm, which also could be viewed as a proxy of firm age. As for gender, the population sample was overwhelming male with 96 reported, while 82 of the SMEs reported being a family-controlled business.

## Measurement

**Performance.** Small- and medium-sized private firms are often reluctant to provide specific information regarding performance. Because of the sensitive nature of the performance construct and following prior research (Chandler & Hanks, 1994) in this area, we employed a categorical approach to assess firm performance. We asked respondents to answer three questions concerning their firm's performance when compared to similar firms in their industry. Each item used a five-point Likert scale format ranging from 1 'lowest 20%' to a 5 representing the 'highest 20%' which was used as a measure of relative performance levels. The questions

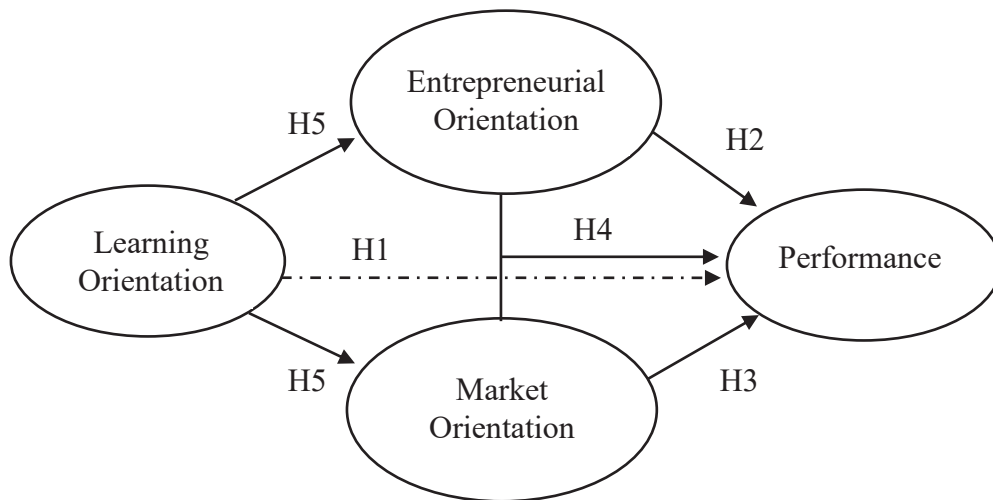


Figure 1. Hypothesized Relationships between Learning, Entrepreneurial and Market Orientation to Performance

asked respondents to compare their firm to the industry for growth in sales during the past three years, growth in assets over the last three years, and growth in number of employees during the last three years. This construct was labeled “growth” and deemed a valid measure because of the single factor loading from a confirmatory factor analysis and high coefficient alpha  $\alpha = .82$ .

**Entrepreneurial orientation.** EO was measured using a modified version from Covin and Slevin (1991) and based on prior works of Covin and Slevin (1986) and Miller (1983). The construct was measured by asking respondents twelve (12) questions relating to each dimension - proactiveness, innovativeness and risk-taking. Each dimension included four items. For example, in the case of the innovativeness dimension, we asked respondents ‘compared to others in the industry our company emphasizes’: ‘being first to the market with innovative new products/services’; ‘developing new processes’; ‘recognizing and developing new markets’; and ‘being at the leading edge of technology.’ Each of the twelve items used a seven-point Likert scale with 1 representing ‘strongly disagree’ to 7 representing ‘strongly agree’. A confirmatory factor analysis was utilized to establish the presence of the multidimensionality of the construct. As expected and similar to past research (Covin & Slevin, 1991), three dimensions emerged from the analysis with an overall scale reliability of  $\alpha = 0.86$ .

**Learning orientation.** Following previous research such as the work of Baker and Sinkula (1999), we measured learning orientation construct, we also examined the multidimensional of the constructs two dimensions, commitment

to learning and open-mindedness. The respondents were asked the degree in which they either agreed or disagreed with eight questions relating to learning. For example, ‘commitment to learning’ was composed of the following: ‘the ability to learn is the key to our competitive advantage’; ‘learning is a basic value throughout our organization’; ‘employee learning is viewed as investment, not an expense’; and ‘learning is seen as a necessity to guarantee the firm’s survival.’ A seven-point Likert scale ranging from 1 – ‘strongly disagree’ to a 7 ‘strongly agree’ was used. As expected the results of a confirmatory factor analysis yielded two dimensions with an overall reliability of  $\alpha = 0.93$ .

**Market orientation.** Consistent with previous research, we selected the MARKOR scale developed by Kohli et al. (1993) to assess market orientation. Respondents indicated the extent of their disagreement or agreement, on a seven-point scale (“1 = strongly disagree” to “7 = strongly agree”), with each item reflecting market orientation. These items are consistent with previous research measuring a firm’s market orientation (Kohli et al., 1993). The overall scale reliability was  $\alpha = 0.87$ .

**Control measures.** We created three distinct control measures, firm size, firm age and tenure. The first two control measures provide firm-level measures while the last provides an individual control measure. We measured firm size with an open-ended question asking the number of employees currently employed by the firm; the log of employees was used and labeled firm size. We also asked the respondents the year the company was formed, we subtracted this number from the current year; the log of the total was

used and labeled Firm age. Firm size and age provide control measures of the firms. Finally, we asked respondents how many years they were at the company; the log was used and labeled Tenure. We believe tenure provides a control for the individual respondents.”

**Results**

The means, standard deviations and correlations are reported in Table 1. Analysis of the data with respect to skewness and kurtosis in the dependent variables fall within the boundaries of normality (Shapiro & Wilk, 1965) and thus allow for parametric tests of significance. The hypotheses presented above were analyzed using both hierarchical regressions and ANOVA analyses.

The results of the regression analyses are displayed in Tables 2. The table provides the results concerning the proposed positive relationships between LO, EO and MO to SME performance. To better understand the relationships, we added the three control measures including firm size, firm age and tenure. We ran all three-regression models and then repeated all three of the regression models using a bootstrap method, which was based on 1000 bootstrap samples in SPSS. This technique provided an approach for testing stability given the relatively small sample size in this study; the technique uses the original sample to provide estimates for resampling with replacement cases.

The final results from the bootstrapping technique are similar to the original sample results and are presented here. The first regression model found strong support for LO and performance, supporting hypothesis 1. Hypothesis 2 suggested a significant relationship exists between EO and performance, while hypothesis 3 suggests that MO would explain performance. The result of the second regression (Model 2) supports hypothesis 2 (EO) but does not support hypothesis 3 (MO). Finally, Model 3 examined if there is a positive interaction between EO and MO on performance. The direct effects for the relationship between EO were found not to be significant as in the previous model but once the interaction effect is entered into the analysis the direct effects of EO disappears, confirming hypothesis 4. The results support hypothesis 4, that the interaction of EO-MO on performance would be positive. We conducted post-hoc tests to ensure reliability of the results. The Durbin-Watson Test provided evidence that the variables are relatively normal in the regressions (1.82) as well as the coefficients outputs from the collinearity statistics.

Hypothesis 5 proposed that EO and MO might mediate the effects of LO on performance. The results of the regressions indicate that the strength of the direct relationship of LO to performance relationship were attenuated, though not eliminated, when the interaction of EO and MO were included in the regression model. We interpret this result as support for hypothesis 5.

Table 1  
*Descriptive statistics and correlations*

| Variable                    | Mean (S.D.) | 1       | 2      | 3       | 4      | 5       | 6       |
|-----------------------------|-------------|---------|--------|---------|--------|---------|---------|
| 1. Performance              | 3.63 (0.85) |         |        |         |        |         |         |
| 2. Firm Size                | 3.98 (1.04) | 0.179   |        |         |        |         |         |
| 3. Firm Age                 | 3.47 (0.87) | -0.170  | 0.228* |         |        |         |         |
| 4. Tenure                   | 2.72 (0.87) | 0.032   | -0.100 | 0.297** |        |         |         |
| 5. Learning Orientation     | 5.74 (0.97) | 0.262** | 0.010  | 0.039   | 0.026  |         |         |
| 6. Entrepreneur Orientation | 4.76 (0.88) | 0.284** | 0.154  | 0.141   | 0.174  | 0.515** |         |
| 7. Market Orientation       | 5.49 (0.75) | 0.234*  | 0.083  | 0.027   | -0.005 | 0.736** | 0.517** |

\*p < 0.05; \*\*p < 0.01



Table 2  
Impact of LO, EO, and MO on performance

| Variables   | Model 1   | Model 2   | Model 3   |
|---|-----------|-----------|-----------|
| Constant  | 2.271***  | 2.181***  | 6.292***  |
| Firm Size   | 0.210***  | 0.188**   | 0.180**   |
| Firm Age  | -0.353*** | -0.364*** | -0.357*** |
| Tenure  | 0.171     | 0.139     | 0.128     |
| Learning Orientation (LO)                           | 0.221***  | 0.163     | 0.194*    |
| Entrepreneurial Orientation (EO)                    |           | 0.180*    | -0.758    |
| Market Orientation                                  |           | -0.039    | -0.800    |
| Entrepreneurial Orientation<br>x Market Orientation |           |           | 0.332**   |
| $R^2$   | .169      | .192      | .214      |
| Adjusted $R^2$                                      | .139      | .147      | .162      |
| Change in $R^2$                                     |           | .023      | .021*     |
| $F$ -value  | 5.608***  | 4.282***  | 4.154***  |

\*  $p < .10$ ; \*\*  $p < .05$ ; \*\*\*  $p < .01$

The final hypothesis suggested that there would be significant differences between low- and high-performing firms in relation to LO, EO and MO. The ANOVA results are reported in Table 3. The performance measure was split at the mean (3.63) resulting in 51 low performing and 68 high performing classified firms. ANOVA analysis was then completed on both performance groups and the independent constructs. The findings found significant differences for each independent measure (LO, EO, and MO) and performance; we also found a significant difference for the interaction term (EOxMO). Overall, the findings support hypothesis 6.

### Discussion and Implications

The primary rationale for this research has been to examine the relationships between different types of firm orientations that have been posited in the strategy literature as important for performance (Deutscher et al., 2016). The study makes two distinct empirical contributions. First, from a sample of small businesses we examined the direct influences of learning, market and entrepreneurial orientations on their performance, in terms of sales, asset and employee growth. We take a knowledge base view of the firm by suggesting that the organizational capabilities of EO, MO and LO are important for determining appropri-

ate courses of action for small businesses and the resulting firm performance (Joshi & Anand, 2018; Real et al., 2014). Some authors have noted the tenuous relationship between various strategic orientations and performance (Deutscher et al., 2016; Frishammar & Andersson, 2009). The results of our study also provide mixed evidence of the influence these orientations. We found that Learning and Entrepreneurial orientations are related to higher SME performance. Alternatively, our findings did not support a direct relationship between Market Orientation and small firm growth. One explanation for these different results lies in the nature of the orientations themselves and in the liability of smallness for our sample of firms.

As stated earlier, we conceptualize LO as an organizational value, whereas MO and EO are more action-oriented capabilities. While EO and MO are similar in this action orientation, they are different, as they require distinct resources, actions and commitments from the organization. EO actions are related to being proactive, taking risk and innovating within the context of the overall business. MO is more specific in that it involves external information processing activities for the purpose of learning new knowledge about customers, consumers and competitors (Sinkula et al., 1997). Whereas EO actions can be present throughout a firm's overall value chain, MO actions are vested more narrowly in the firm-customer interface. Additionally, the

Table 3  
 Comparison of LO, EO, MO and EO x MO between high and low-growth SMEs

| Dimension   | Performance | Mean  | S.D. | Sig. |
|---|-------------|-------|------|------|
| LO Learning Orientation                                   | Low         | 5.24  | 1.06 | 0.04 |
|   | High        | 5.91  | 0.87 |      |
| EO Entrepreneurial Orientation                            | Low         | 4.50  | 0.90 | 0.00 |
|   | High        | 4.96  | 0.82 |      |
| MO Market Orientation                                     | Low         | 5.36  | 0.82 | 0.08 |
|   | High        | 5.61  | 0.69 |      |
| EOxMO Entrepreneurial Orientation<br>x Market Orientation | Low         | 12.20 | 3.55 | 0.00 |
|   | High        | 14.08 | 3.57 |      |

MARKOR scale that was used in this study to measure a firm's MO focuses on activities that require resources and effort. MO includes actions aimed at gaining information about customers, activities that disseminate the information throughout the organization, and time spent developing marketing strategy and implementing the strategy. To execute the required MO activities described above, there is a resource requirement that might not be available for many small businesses. We expect that the liability of smallness in SMEs that can contribute to a lack of time, manpower and financial resources necessary to execute many of the MO activities are present in our sample firms and influence the lack of findings for this variable.

A second distinct contribution of this research to the small business management literature lies in our addressing the combined and simultaneous effects of these orientations on the performance of small businesses. We believe that direct effects do not fully capture the relationships between the orientation constructs and performance. Similar to many researchers who have called for more research in understanding how organizational growth is impacted by strategic orientations (Baker & Sinkula, 1999; Deutscher et al, 2016), we maintain that more sophisticated approaches to examining how LO, EO and MO complement each other is needed.

Researchers have previously argued that strategic orientations may be complimentary (Beliaeva et al., 2018; Hult, Hurley, & Knight, 2004). In addition, others have worked to unravel how certain orientations influence SME learning processes (Brettel & Rottenberger, 2013). We argued that the unique nature of these different orientations as described by previous research can aid our understanding of how these orientations relate to each other. Our basic argument suggesting that Learning orientation is a state or value-based capability, whereas Market and Entrepreneurial orientations are more decision or action-oriented capa-

bilities, aided us in hypothesizing that LO is an antecedent to the other dimensions embodied by market orientation and entrepreneurial orientation. This is contrary to other researchers who have argued that market or entrepreneurial orientations set the stage for organizational learning (Dess et al., 2003; Real et al., 2014; Slater & Narver, 1995). The results of our data analysis support the antecedent relationship between learning orientation and entrepreneurial orientation.

We suggest that the value an organization places in learning (LO) actually is what provides the foundation for these other orientations to occur. Our research supports this position and provides guidance as to how these strategic orientations interact with each other to support SME performance. The study illustrates that EO and MO likely interact with each other to influence performance. In addition, the results indicate that influence of LO is mitigated by EO and MO suggesting that learning is an important precondition for these other orientations.

These findings offer insights into what should be important to the owners and managers of SMEs. First, the study clearly implies that small business managers and owners should focus on developing a set of dynamic capabilities that enhance their business performance; specifically entrepreneurial and learning orientations. We recognize that many small business owners are constantly dealing with interruptions, customer demands, employee issues, while spending time on executing their businesses. In light of these many business constraints, researchers calling for SMEs to make sure they are constantly learning or innovating may seem obtuse or esoteric.

We want to make sure that our implications focus on the idea that learning activities are not merely reflections of more "To Do's". Instead, we are suggesting that SME owners and managers need to be developing and encouraging their belief systems regarding these learning and entrepre-

neurial orientations. Hess (2014) argues that organizations must value learning in today's environment and provides recommendations for developing learning cultures. He suggests that leaders must create open, emotionally positive cultures and allow for trial and error and that those working for the firm must stay emotionally engaged. Ultimately, learning facilitates the exploration of new facets of topics and techniques and individuals with learning orientation demonstrate the perseverance to learn over a long period of time about a topic and its techniques and gain expertise. Our research clearly shows that SMEs that develop and encourage values that constitute "commitment to" and a "sharing of" learning, outperform those that do not.

In addition, as our study investigates the interplay between various orientations, how they should be considered simultaneously also has implications. Firms that value learning should recognize the importance of other key resources that might assist its development and they have a synergistic impact on the firm's growth. Our research suggests that SMEs who value shared learning and open mindedness are more likely to have other capabilities that influence performance. Firms who are open to new knowledge may be better able to exploit other abilities such as risk taking or innovativeness. In addition, their attention to customers and competitors and learning from these may pay off to better performance. As these must be core values of the organization, steps to either support already existing values or developing new ones must be taken. This question takes on an added importance because most SME managers or owners do not view themselves as learning facilitators and they believe that they lack the required skills.

### Limitations and Future Research

When interpreting the research findings, several limitations should be taken into consideration. First, the data may have a social desirability bias with the small business owner or manager. In addition, the threat of common method variance can be present when utilizing a survey instrument as we did in the study. Lastly, it is difficult to establish causality from cross-sectional research designs. In light of these limitations, we also suggest recommendations for future research. For example, in order to fully confirm our findings longitudinal research should be conducted. In addition, various contexts could provide different environments that may increase or lessen the importance of strategic orientations. Rapidly changing environments often require firms to adapt. Understanding the importance of LO, MO and EO in industries or markets varying on industry characteristics might provide deeper insight into when it is even more critical for firms to having a learning or entrepreneur-

ial orientation.

Other future research opportunities lie in understanding the development and intensity of strategic orientations in SMEs. In SMEs the organizations ability is closely linked to the owner's capabilities, but often ignored are the capabilities of the employees. Investigating learning, risk taking and other capabilities by SME employees would aid our understanding strategic orientations and the management practices that development them. The literature on strategic orientations addresses what are the important values and actions managers should build into their organizations. This research suggests that SMEs with managerial values regarding commitment to learning can be combined with entrepreneurial proactiveness, innovation and risk taking to produce better performance. Firms sharing these attitudes outperform those that do not.

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