

## Determining the presence of a long-term/short-term dilemma for SMEs when adopting strategic orientations to improve performance

### Introduction

The strategic orientation of firms has attracted scholarly interest from different research areas, such as management, marketing and entrepreneurship (Kumar et al., 2011; Hakala, 2011; Urde et al. 2013). Strategic orientations are viewed as principles that guide businesses through a deeply rooted set of values and beliefs (Zhou et al., 2005; Dutot and Bergeron, 2016) and influence the activities of firms in order to contribute to their viability and performance (Gatignon and Xuereb, 1997; Braunscheidel and Suresh, 2009; Hakala, 2011). Market orientation (MO) is positioned as the most important strategic orientation for large and small firms in attaining superior performance (Grinstein, 2008). Despite this, MO is criticised for constantly responding to the ever-changing and expressed needs of current customers (Carrillat et al., 2004; Kumar et al., 2011). Therefore, it would be myopic to assume that market orientation is the only legitimate orientation for business success (Noble et al., 2002; Frösén et al., 2016). Further, it is assumed that firms regularly employ multiple strategic orientations to achieve competitive advantage in increasingly dynamic markets (Deutscher et al., 2016; Anees-ur-Rehman and Johnston, 2018). Consequently, a complementary development and use of multiple orientations is endorsed as a way of aligning environmental context and organisational characteristics that can maximize business performance (Theodosiou et al., 2012). Nevertheless, research that emphasises the relationship between different orientations has received fragmented attention, particularly regarding the mutual support of complementary strategic orientations (Hakala, 2011; Deutscher et al., 2016). Recent research by Anees-ur-Rehman and Johnston (2018) reveals the complementarity of multiple strategic orientations combining (MO, entrepreneurial orientation, brand orientation) to enhance performance in SMEs. The study findings show that any interactions among strategic orientations was significant and/or positive to improve performance.

When considering orientation complementarity other questions emerge. For example, are strategic orientations complementary throughout the development life cycle of a firm during specific business contingencies? Furthermore, what is the influence of multiple strategic orientations on how a firm's business approach relates to performance? Of particular interest in this respect is consideration of MO with sales orientation (SO) in firms. Marketing and sales are often seen as highly complementary, with both responsible for generating revenue for firms. Noble et al. (2002) suggest that the more they are aligned in firms the greater the growth in revenues, indicating a complementary role for these orientations. As strategic orientations, both aim to maintain a balance between strategic intent and operational activities in order to enhance performance by focusing on customers and markets (Noble et al., 2002). However, when considering closely related strategic orientations such as MO and SO in firms, research has tended to overlook the potential for 'tensions' between them in this respect. While viewed as two sides of the same coin, there is the potential for long-term/short-term tension between MO and SO. Noble et al. (2002) assert that SO emphasises short-term sales maximization over long-term relationship building while MO is longer-term focused in the targeting of and meeting customer needs. While firms adopting MO seek to build long-term sustainable

relationships with customers that increase long-term customer satisfaction (Dunlap et al., 1988; Day, 1994), firms with SO seek to close the sale and thus take a short-term transactional approach to customer engagement (Boles et al., 2001). Schlesinger and Heskett (1991), note that firms can foster a strong selling-oriented sales force by rewarding, for example, the immediate sale without regard for customer interests or developing customer relationships.

This long-term/short-term ‘tension’ between MO and SO may be particularly pronounced for SMEs. It could be assumed that these two orientations are complementary for SMEs: SO is crucial for SMEs to survive and compete in the short term (Noble et al., 2002); MO is crucial to their long-term customer relationship development and sustainable performance (Raju et al., 2011; Donnelly et al., 2015; Frambach et al., 2016). However, SMEs are often challenged by limited resource availability (time, expertise, finance) and a lack of power in their markets. To secure business survival or face specific business contingencies at various points in time, or to grow their business quickly in the early lifecycle stage, they often need to focus on short-term performance outcomes (McCartan-Quinn and Carson, 2003; Bocconcelli et al., 2018). Pitkänen et al. (2014) suggest that the skills of the entrepreneur in smaller firms are important to the emphasis of a proactive SO. They note that selling activity changes the focus onto the short term in order to create and retain durable links with customers. This is set against the longer-term need to develop intimate customer relationships and repeat business, in order to grow market share and sustainable business viability. Hernández-Linares et al. (2018) note that SMEs have shorter “distances” between employees and customers with higher levels of MO facilitating improved internal coordination and superior customer value. This long-term/short-term dilemma for SMEs resides in selecting the best option to orient strategically, which may often be driven by necessity and not optimal strategic choice. Despite this tension, Bocconcelli et al. (2018) note that few studies in the SME management literature have examined SO and sales management despite its apparent importance to SME survival and growth. This also applies to the relationship between MO and SO and its impact upon on how SME business approach relates to performance.

Assuming that there is a short-term/long-term dilemma for SMEs, a knowledge gap exists pertaining to this strategic orientation tension and its implications for SME performance. Such a gap is compounded by conventional marketing theories and models that neglect to consider the uniqueness of SMEs (Stokes and Wilson, 2010), which can significantly hinder the understanding of the challenges they face compared to larger firms when adopting strategic orientations to improve performance. To address this knowledge gap the aim of this study is to examine the role of MO and SO as mediators of the relationship between business approach and SME performance. Strategic priority in terms of long-term/short-term focus of SMEs is examined as a possible moderator of the orientations’ effects on performance in the research model. An empirical study of 122 SMEs from the UK grocery sector is conducted.

In the next section the theoretical background and study hypotheses are developed, followed by the methodology section. Subsequently, the results of analysis of survey data from the SMEs studied are discussed. Finally, managerial implications, study limitations and further research questions are presented.

## **Literature Background and Research Hypotheses**

### *Business Approach and Performance in SMEs*

SME management literature indicates that large firm models should not be applied to a SME setting (Gilmore et al., 2001; Simmons et al. 2008; Simmons et al., 2011). SMEs reveal different approaches to doing business than larger firms. Arguably the most well-known article in this regard is of Welsh et al.(1981) who state that a small business is not a little big business. The authors assert that the very size of small businesses creates a special condition referred to as ‘resource poverty’ that distinguishes them from their larger counterparts and requires different business approaches. Other authors have also noted that SMEs reveal inherent characteristics when compared to larger firms that impact the way in which they conduct their business (McCartan-Quinn and Carson, 2003; Spillan and Ziemnowicz, 2003). These characteristics are defined by resource constraints, lifecycle stage, and business contingencies at points in time. SMEs have poor managerial skills, a reactive approach to management, and both internal and short-term operational focus (Ates et al., 2013; Lansiluoto et al., 2019). Scarcity of resources and difficulties acquiring and managing market information are also typical characteristics of SMEs (Bocconcelli et al., 2018). Furthermore, SMEs are influenced in their business approach by the dominant presence of owner/managers (Reijonen, 2010). Positively, SMEs are seen as being close to their markets, having greater flexibility than larger firms and a capacity to operate on slimmer margins (McCartan-Quinn and Carson, 2003). Coviello et al. (2000) note that SMEs tend to have more personal contact with their customers that can develop close and intimate relationships. Being closer to their customers than larger firms can allow them to develop more personal and informal relationships that can be a point of differentiation over larger firms (Hernández-Linares et al., 2018).

The SME business approach therefore tends to be much more informal and entrepreneurial than larger firms driven by owner/managers who tend to be proactive and opportunistic in nature (Day, 1998). Their more informal way of doing business leads to a lack of formal strategic planning process compared to larger firms (Pelham and Wilson, 1996; Donnelly et al., 2015). Moreover, small family businesses are viewed as being more conservative in their strategic behavior (Donckels and Fröhlich, 1991; Lansiluoto et al., 2019). For many SMEs traditional values and a link with past activities, particularly successes, can be an important aspect in defining their informal approach to doing business (Pérez and Duréndez, 2007). SMEs tend to exhibit owner/managers’ characteristics and preferences in this regard, which tend to be for a more informal and flexible approach to business (Richbell et al., 2006; Pérez and Duréndez, 2007; Malshe et al., 2017). Harris and Watkins (1998) and Donnelly et al. (2015) state that SMEs in their business approach often take an informal approach to their marketing planning that is based on intuition and instinct rather than hard market data and formalised marketing strategic process. Alpkan et al (2007) found that this informal and flexible business approach allowed SMEs to be more nimble and responsive to market demands than larger firms which, in turn, favors their capacity to compete with larger firms. Spillan and Ziemnowicz (2003) studied the decision-making process of small retail firms and highlighted that flexible interaction between their external environment and internal business approach was crucial to achieving higher performance. Pelham and Wilson (1996) found that the unique characteristics of SMEs regarding business structure and

approach to strategy were important to their unique business approach and competitiveness. Based on these statements, we hypothesize:

*H<sub>1</sub>: The business approach of SMEs will positively influence its performance.*

### *Mediating Effect of Market Orientation and Sales Orientation*

Market orientation (MO) has a central role in management and marketing strategies (Urde et al., 2013). From a MO perspective, firms need to gather information from their customers and competitors in a manner that is internally coordinated and allows them to respond by taking actions to adjust to client needs (Kohli and Jaworski, 1990; Narver and Slater, 1990). Essentially, MO consists of three behavioural components - customer orientation, competitor orientation, and inter-functional coordination - that emphasise the understanding of customers and markets and allow companies to create superior value for target customers (Narver and Slater, 1990). Each of these components is engaged in intelligence generation, dissemination, and responsiveness (Kohli and Jaworski, 1990; Han et al., 1998). According to Kumar et al. (2011, p.16), “the sustained advantage in business performance from having a market orientation is greater for the firms that are early to develop a market orientation. These firms also gain more in sales and profit than firms that are late in developing a market orientation.”

In SMEs, MO presents a means to compete with larger firms in the search for differentiation, improving response to consumer dissatisfaction, facilitating flexible planning, supporting innovation because of its boundary-spanning role, as well as positively effecting performance in dynamic environments (Pelham, 2000; Keskin, 2015; Lansiluoto et al., 2019). Exploring different strategic orientations and their links with SME performance, Al-Ansary et al. (2015) found that MO positively affected performance compared to technology and alliance orientations. Hernández-Linares et al. (2018), note that SMEs have shorter “distances” between individuals, with higher levels of MO facilitating productivity improvements as well as greater communication, collaboration, and coordination between inter-functional areas to provide superior customer value. MO provides SMEs with the capacity to focus their business approach on customers and competition and provides direction for improving the quality of market knowledge.

Frösén et al. (2016) explored the interplay of MO and marketing performance measurement in large businesses and SMEs. Overall, the results confirmed previous research findings considering the important role of MO in improving SME performance. Importantly, MO is long-term in its business approach to targeting of and meeting market needs. Miller et al (2008) found that longer-term orientation of SMEs was positively associated with superior firm performance. Long-term orientation, or “long-term preservation and nurturing of the businesses” (Miller et al., 2008, p.75) suggests that SMEs are also engaged with longer-term building of their market position through adopting a MO in their business approach. Harris and Watkins (1998) highlight this as a potential constraint for SMEs in adopting a MO. They may perceive MO as inappropriate due to contentment with the status quo and short-termism in their planning. Considering the joint effects of planning flexibility and MO on SME performance, Alpkan et al (2007) found that both MO and an informal approach to planning flexibility positively influences

performance. Specifically, measures used by Alpkan et al (2007) for planning flexibility capture the ability of SMEs to adapt and respond nimbly to environmental changes. Thus, we hypothesize:

*H<sub>2</sub>: Market orientation positively mediates the influence of business approach on SME performance.*

In general, SMEs “attain high performance by embracing high market orientation” and, for SME market leaders “mere MO may suffice” (Frösén et al., 2016, p.2). We noted previously that scholars, including founding proponents such as Kohli and Jaworski (1990) and Narver and Slater (1990), have criticized MO as originally defined. They suggest that information search located in a firm’s existing marketing routines and market knowledge, pursuing the expressed needs of customers, is a weakness of MO’s original conception. This has led scholars to consider the role of alternative strategic orientations and their relationship with MO in creating superior performance in firms (Deutscher et al., 2016). MO may therefore not be enough, of itself, to provide a source of superior performance (Kumar et al., 2011) or, even, may not be the first option for SMEs that are pressured to generate revenue in the short term considering their “weaknesses with respect to capitalisation” (McCartan-Quinn and Carson, 2003, p.201). In this regard, sales orientation (SO) could be an important consideration for SMEs because their business approach is often defined by a short-term need to survive or grow sales revenue. SO stimulates short-term sales where customer loyalty and repeat business are not viewed as so important due to a need for revenue growth (Noble et al., 2002). The short-term nature of sales, which is not as predisposed to customer loyalty and repeat business, can therefore be important to SME performance. Despite this, a recent systematic literature review notes that surprisingly few studies examined SO and sales management in SME management literature despite its apparent importance to SME survival and growth (Bocconcelli et al., 2018). Research has primarily focused on sales as either a function or an outcome instead of investigating its implications for business approach and performance (see, for example, Do et al., 2018; Rezaei and Ortt, 2018; Miller et al., 2008). Some recent studies have evolved to capture perspectives of the sales phenomenon and its impact on SME performance, such as: selling capability (Pratono, 2018); the alignment with sales and marketing (Malshe et al., 2017); sales as a component of social media orientation (Dutot and Bergeron, 2016).

With a clear focus on the selling process and related activities, “a selling oriented approach to sales emphasises getting the sale and/or selling as much as possible to every customer” (Boles et al., 2001, p. 2). This view is commensurate with small business thinking where a proactive SO reflects the intention to initiate new selling approaches and methods to sell products in order to survive and grow revenue at this early stage in their life-cycle (Pitkänen et al., 2014). Pitkänen and colleagues show that a proactive SO was positively related to the critical need to grow sales in new venture firms. They also explored the commercial and entrepreneurial capabilities of the founders as a way of enhancing proactive SO in those firms. Their study revealed the positive support of commercial capabilities in this regard. Other research on SO considers the phenomenon *per se* without emphasizing firm size or the particularities of SMEs compared to larger firms (Boles et al., 2001). Pratono (2018) analyzed the mediating role of selling capabilities on the relationship between social network and SME performance, find that

selling capability has a significant impact on their performance. In this regard, selling capability can be understood as both competencies of personnel engaged in selling activities and the systems and structures required to manage the sales force efficiently and effectively (Morgan, 2012).

Thus, we hypothesize:

*H<sub>3</sub>: Sales orientation positively mediates the influence of the business approach on SME performance.*

#### *Moderating Effect of Strategic Priorities*

Strategic priorities or strategic focus is linked to the goals of firms in the marketplace or the way of “setting their sights” (Hooley et al., 2000, p. 277). Previous research reveals that SME business planning, short or longer term, is pertinent to enhancing performance in spite of some inconclusive results (Fletcher and Harris, 2001). When contrasting strategic priorities and MO, Hooley et al (2000) proposed three different strategic priorities: survival; short-term profit orientation; and, longer term building of market position. The authors’ findings support the premise that firms, including SMEs, exhibiting a higher degree of MO will exhibit more aggressive, externally focused, long-term strategic priorities than less market-oriented firms (Hooley et al., 2000). Hoffmann et al. (2016) reveal that long-term orientation is associated with superior performance in small family firms. Long-term orientation was defined as “the tendency to prioritize the long-range implications and impact of decisions and actions that come to fruition after an extended time period” (Lumpkin et al., 2010, p. 241). A long-term perspective is identified by Miller et al (2008) as a way of explaining the performance advantages in SMEs. To the authors, these firms “exhibit much care about continuity, community and connection: specifically, about the long-term preservation and nurturing of their business and markets [...] an emphasis on growing and sustaining relationships with clients” (Miller et al., 2008, p.75). Alternatively, previous research findings in the SME context evidence ‘survival’ as the main goal when interacting with the environment (Spillan and Ziemnowicz, 2003). Furthermore, research suggests that SMEs with a strong commitment to short-term goals, present survival as their ultimate strategic priority (Spillan and Ziemnowicz, 2003). This suggests that adopting SO and focusing on short-term sales maximization is an optimal strategy priority to enhance SME performance and ensure a continuing presence in the marketplace; faced in many instances with threats to their continuing existence in the market. Pratono (2018) indicate that a selling capability in SMEs links to a pricing capability that may help them to optimise a transactional approach to customer engagement that maximizes sales revenue growth as a short term strategic priority.

Overall, it may be that SMEs tend to engage in one or other strategic orientation considering their strategic priority in terms of scarce resource allocation and long-term/short-term tension. It may also be that a long-term/short-term strategic priority tension may influence whether SMEs adopt a MO or SO with different impacts on performance. Thus, we hypothesize:

*H<sub>4</sub>: The strategic priority of SMEs will moderate the impact of sales orientation on performance.*

*H<sub>5</sub>: The strategic priority of SMEs will moderate the impact of market orientation on performance.*

The tested model is represented in Figure 1.

< Insert figure 1 here >

## **Methodology**

### *Sampling and Data Collection*

To analyse the influence of SME business approach on business performance and the mediating role of strategic orientations on this relationship, an initial sample of 138 SMEs from the UK grocery sector was considered. SME definition in this study refers to firms that are non-subsiary, independent firms that employ up to 250 people as per the European Union definition. The sample selected for this study was drawn from a research project designed to provide support in the form of customised market intelligence for food and drink producers supplying one or more of the UK supermarkets with niche products ranged as premium lines and distributed 'locally', in the case of the smallest (artisanal) brands, or regionally, in the case of more established businesses with greater capacity to fulfil demand from beyond the area in which the product is produced. The project provides participating firms with market intelligence, from a variety of sources, that is of relevance to specific supermarket customers (e.g. Tesco) or retail distribution channels (e.g. independent grocery retailers). The importance of local and regional foods in mainstream supermarkets has grown significantly in the UK over last decade, resulting in all of the major supermarkets sourcing a wider range of niche (local and regional) food and drink products that are of strategic importance for the supermarkets and account for a significant share of sales in certain categories. The growing interest of the supermarkets is of particular relevance to this study as suppliers may be lured by the prospect of increased sales through increased distribution but unwilling or unable to invest (time, effort and financial resources) to build demand and sustain sales growth in the long term, leaving them vulnerable to range reviews and performance measures undertaken by retail buyers that focus on short term revenue growth rather than long term business development. In some cases the supermarket customer(s) will account for a significant share of the producers' sales whilst in others they will be just one of many accounts, often served through a third party (e.g. wholesale distributor) or a shared resource. Firms who were participating in the research project were sent a link to the on-line survey designed for this study, for completion by the person who was responsible for sales and/or marketing. Out of the 138 questionnaires received, 16 were excluded from the sample due to missing values, leaving the final sample consisting of 122 valid cases for analysis.

Table 1 presents the sample characteristics, which include the age of the businesses and size, according to the EU SME criteria: micro up to 10 people; small up to 50 people and, medium up to 250 people.

<insert Table 1 here>

The results presented in Table 1 reveal that the majority of SMEs (101 firms in total) are micro (41 firms) or small (60 firms) with the remainder medium-sized (21 firms). Considering the full sample, there were 82 firms that have been operating in the market

between 10 and 50 years, which indicates that they are established with a relatively long trading history. Furthermore, 19 firms had been trading for more than 50 years, which represents 15.5% of the sample. Considering people involved in sales and marketing, the majority of firms had less than 4 people engaged with both activities simultaneously (Table 2).

<Insert Table 2 here>

Despite the numbers shown in Table 2 being in accordance with SMEs, the lack of dedicated resources for each of these functional areas could result in difficulties regarding the assertiveness of decisions in each perspective or the integration of the respective strategic orientations. People could overlap and take short-term sales decisions or longer-term marketing decisions, which, in turn, could represent a ‘tension’ between MO and SO in SMEs, as has been discussed above.

Considering the strategic priorities of firms, 79% referred to the long-term development of their market position as being important with 21% emphasizing survival and good short-term financial returns (Table 3).

<Insert Table 3 here>

#### *Common Method Bias*

Overall, it is assumed that survey measurement procedures, choice of respondents, and survey context affect the common method variance (CMV) (Rindfleisch et al., 2008). Podsakoff et al. (2003, p.881) note that “some sources of common method biases result from the fact that the predictor and criterion variables are obtained from the same source, whereas others are produced by the measurement items themselves, the context of the items within the measurement instrument, and/or the context in which the measures are obtained.” In order to reduce the potential CMV, the measures of dependent and independent constructs were separated physically within the questionnaire. This is a procedural remedy that was recommended by Podsakoff et al (2003) and further reinforced by Hulland et al. (2018). Additionally, Harman’s single-factor test was considered as a post-hoc procedure. As noted by Babin et al. (2016, p.3136), this test “may be more powerful diagnostically than previously thought”. To do so, the unrotated factor solution was used for all the items measured in the study and it generated more than a single factor with eigen values greater than 1. In addition, the first factor explained 24.3% of the variance. This result suggests that common method bias is not a concern in this study (Babin et al., 2016). Furthermore, our measures suggest an acceptable level of construct validity (see Table 4 for reliability evidence, i.e. Cronbach’s alpha) which has been proposed as one way to minimize the possible negative effects of common method bias (Conway and Lance, 2010).

#### *Research variables and model testing*

In accordance with the tested model (see Figure 1), we considered the direct and indirect influence of business approach on performance through SO and MO and the moderating role of strategic priorities in these relationships. Variables were measured using a seven-point scale ranging from 1= “strongly disagree” to 7= “strongly agree” with the exception of strategic priorities, which were assessed using categorical measures. Respondents were



asked to respond to the question “which of the following best describes your strategic focus over the last 2 years” amongst three different options (survival; short-term financial returns; long-term development of the market position). This variable was finally coded as a dummy variable in order to run it as a moderator in the model.

Variables for the approach to business planning were adapted from Hoffman et al. (2016) as they represent a long-term orientation of the businesses. Items related to values and heritage were also included considering the specific context of the sampled firms, i.e. food and drink producers operating in the market for many years and with strong links to their origins and sustainable development over time (Lumpkin et al., 2010; Pérez and Duréndez, 2007; Malshe et al., 2017). In total, 6 items composed the approach to business planning. The scale of SO was adapted from Boles et al. (2001) and was composed of 5 items representing the selling context. The MO scale was adapted from the original scale of Narver and Slater (1990) to capture the specific context of the sampled firms that was previously explored in Donnelly et al. (2015). In total, 13 items were considered to measure MO. Strategic priority measures were adapted from Hooley et al. (2000). Business performance measures were adapted from Deutscher et al. (2016). Table 4 shows the measures and descriptive statistics as well as Cronbach’s alpha of each variable.

< Insert Table 4 here >

The correlation matrix of variables is exhibited in Table 5 and indicates that multicollinearity is not a concern for further regression analysis.

<Insert Table 5 here >

The variance inflation factor (VIF) of variables (results ranging from 1.13 and 1.34) and the standardized residuals of the regression corroborate this previous condition. In addition, the result of Levene’s test of equality of error variances ( $p$ -value = 0.439) showed that the homoscedasticity condition is satisfied.

We also included firm age, size and number of people involved in sales and marketing as control variables in the model. Age of firms is an important perspective when considering SMEs that plan for the long-term and that are engaged with values and history (Hoffman et al., 2016). The current sample reveals that more than half of firms were trading for a long time (from 10 years up to more than 50 years), which can impact on the long-term/short-time dilemma of choosing different strategic orientations. Age was measured in terms of the number of years the firms had been trading. Firm size was used of a control variable as a way of controlling possible effects on strategic orientations. Previous literature emphasises differences between small and medium firms in terms of managerial aspects, decision-making processes and several organisational practices, including the development and application of strategic orientations (Cagliano et al., 2001; Prajogo et al., 2013). The number of employees was used to determine firm size. Furthermore, the number of people that were allocated in sales and marketing activities was also considered as a control variable because of the resource limitations typically faced by SMEs, which includes limited marketing activity and an “over dependence on the marketing ability of the owner/manager” (McCartan-Quinn and Carson, 2003, p. 205). Moreover, “when rivalry between sales and marketing is high, marketing may try to prevent sales from

conducting marketing activities and be reluctant to share power with sales through encroachment because it fears to lose influence to sales” (Keszey et al., 2016, p. 3699-3700). This would imply a narrow perspective in the decision-making process when emphasizing one or another strategic orientation and could be more explicit depending on how many people are engaged with it. The natural logarithm of all control variables was used to normalize the data and reduce heteroscedasticity concerns (Hoffman et al., 2016).

The Preacher and Hayes’ (2008) procedure was used to test the hypotheses. The SPSS macro outlined by Hayes (2013) was used to run this procedure. Recent studies in the marketing strategy field have applied this technique to run multiple mediator models (e.g. Grisseemann et al., 2013; Ozkaya et al., 2015). Both SO and MO were simultaneously included in a multiple mediator model instead of estimating two separate single mediator models. Two other regression models were run after that in order to test the moderation of strategic priority in the relationship between both orientations and business performance, as hypothesised in H<sub>4</sub> and H<sub>5</sub>. This procedure was necessary because of the categorical nature of this variable (Hayes, 2013). The means of each variable were used to run the model with the exception of strategic priority, which was used as a dummy variable. The recommended 5,000 bootstrap samples for bias corrected bootstrap confidence intervals and a level of confidence of 95 percent was considered to run the model (Hayes, 2013). Confidence intervals (CI) were used to confirm/reject hypotheses, with reference to the relevant p-values. In the case of CI, if an interval for an estimated coefficient does not include zero, a significant effect is assumed (Hayes, 2013).

## Study Results

Table 6 summarizes the results of the tested model considering the direct effect of business approach on performance and the indirect effect through SO and MO. The moderation of strategic priorities in the relationship between the orientations and performance was also tested.

<Insert Table 6 here>

The results in Table 6 indicate that the business approach of SMEs positively influences performance ( $\beta = .197$ ; p-value = .074), which leads us to accept H<sub>1</sub>. The more SMEs value their links to past activities, traditional values, heritage, and plan for longer-term, the more they are able to improve results in terms of keeping their customers satisfied and gaining repeat business; being more profitable and growing faster than their competitors. This corroborates previous findings in the SME context (Spillan and Ziemnowicz, 2003; Hoffmann et al., 2016; Pelham and Wilson, 1996). However, this influence is not strongly emphasised given the low significance (p-value < .10). Considering the strategic choice of SMEs in terms of innovation/differentiation or low cost, Pelham and Wilson (1996) found that increases in low-cost strategy in terms of growth/share and differentiation strategy does not positively influence SME performance. The authors comment that these results could represent the “inability of SMEs, noted by limited financial resources, to successfully achieve performance” (Pelham and Wilson, 1996, p.36). Similarly, our ‘weak’ result could represent the inability of SMEs in translating their way of doing businesses into better performance.

The findings reveal that SO is directly and positively influenced by the business approach of the SMEs studied confirmed by the high significant coefficient of .277 (p-value = .000). For MO, the influence of businesses approach is stressed by a high significant coefficient of .261 (p-value = .000) as well. Therefore, SMEs tend to emphasise both SO and MO in framing their approach to doing business. Furthermore, this influence is stronger than the direct impact of the business approach on performance ( $\beta = .197$ ; p-value=.074), which suggests that successful performance in the marketplace would depend on the way that SMEs orient their strategies. The possible allocation of SME resources in defining their business approach to both SO and MO simultaneously, concurs with previous literature that highlights the importance of different orientations ‘coexisting’ (Hooley et al., 2001; Kumar et al., 2011; Urde et al., 2013).

The results for indirect effect of business approach on performance through MO shows a positive and significant influence ( $\beta = .147$ ; confidence interval of 95% ranging from .064 to .278). This finding leads us to accept  $H_2$  and reinforce the importance of MO to SME performance as well as confirm it as ‘operationalising’ their approach to doing business in order to achieve better performance results (Alpkan et al., 2007; Al-Ansary et al., 2015; Frösén et al., 2016;). The partial effects also corroborate this result (see Table 6). Business approach positively influences MO ( $\beta=.261$ ; p-value=.000) and MO strongly and positively influences performance ( $\beta=.563$ ; p-value=.000). These findings also reinforce MO as a ‘necessary cost of competing’ as advocated by Kumar et al. (2011). Considering SO as a mediator, the indirect influence of business approach on SME performance was not supported by our research findings ( $\beta= .005$ ; confidence interval of 95% ranging from -.067 to .079), which leads us to reject  $H_3$ . This finding contradicts previous research on the positive effects of SO on SME performance (Pitkänen et al., 2014; Pratono, 2018). The partial effects reported in Table 6 help us to understand this result more clearly. Despite the positive and significant impact of business approach on SO ( $\beta= .277$ ; p-value=.000), there is no direct influence of SO on performance ( $\beta= .017$ ; p-value=.905). When testing the impact of MO and alternative strategic orientations on firm performance, Noble et al. (2002) hypothesised a negative impact of SO on performance advocating the short-term nature of this orientation. However, this is not enough to explain the current results considering the perceived importance of sales and sales management for SMEs (Bocconcelli et al., 2018). Thus, our findings appear to confirm the long-term/short-term dilemma or tension faced by SMEs when choosing the best option to orient their businesses strategically to achieve better performance. As it was argued before, this dilemma could cause tension in terms of deploying the limited resources of SMEs to adopt SO and MO together.

This result could also reflect a lack of strategic clarity, which pertains to “the extent to which a single generic strategy reflects the organisation’s strategic intent” (Parnell, 2013, p. 215). Assuming that SO is more closely related to short-term performance, the short-term strategic priority (e.g. survival and short-term financial results) could ‘balance’ this influence on performance. Further, the long-term strategic priority could contribute to strengthen the influence of MO on performance. In order to explore this further, we tested the moderation of strategic priority of SMEs on SO and MO’s influence on performance. The results in Table 6 show a strong and positive direct influence of strategic priority on performance ( $\beta = .609$ ; p-value=.011). However, this influence was not extended to confirm that strategic priority of SMEs moderates the impact of SO and MO on

performance as hypothesised. The results reveal that strategic priority does not strengthen or weaken effect of the orientations on performance, i.e. strategic priority does not interact with both strategic orientations (MO x strategic priorities:  $\beta=.265$ ;  $p\text{-value}=.422$  and SO x strategic priorities:  $\beta=.324$ ;  $p\text{-value}=.331$ ). These findings lead us to reject H<sub>4</sub> and H<sub>5</sub>.

### **Discussion of Findings**

Overall, the findings indicate that the business approach of the SMEs studied positively influences performance. This points to the importance of values inherent in the founding family, their heritage and a strong link to past successes and failures. Lewis et al. (2001), found that successful SMEs in the food and drink sector, while quite hostile to formal conceptions of marketing or strategy, emphasised traditional values and a desire to develop close if informal relationships with customers and other pertinent stakeholders. Due to their smaller size and greater levels of informality and intimacy, SMEs often more effectively than larger firms were able to balance the need to make a profit with a deeper purpose based on more traditional values that customers and other stakeholders can easily connect with. In order to survive in their markets against larger incumbents the food and drink SMEs in this study focused on niche, higher value, market segments that require a more intimate understanding and relationship with customers.

The business approach of SMEs was found in the study to be influenced directly and positively by both SO and MO. It can be assumed that both SO and MO are useful for SMEs and that they can coexist to enrich their business (Hooley et al., 2001). SO benefits relate to maximizing sales revenue (Noble et al., 2002; Boles et al., 2001; Pitkänen et al., 2014). MO benefits include creating superior value for target customers (Narver and Slater, 1990) and sustained advantage in business performance in firms that are early to develop it (Kumar et al, 2011). Previous research shows that MO represents for SME business approach an enhanced capacity to compete in dynamic environments and support innovative initiatives (Didonet et al., 2016), as well as representing an optimal combination with marketing performance measurements (Frösén et al., 2016). There is also a case for SO being important for SMEs that are pressured to generate revenue in the short term considering their weaknesses with respect to capitalisation (McCartan-Quinn and Carson, 2003). Their business approach is therefore cognizant of the need to survive or grow sales revenue.

However, the study findings reveal that only MO plays a positive mediating role in the relationship between SME business approach and performance. There is no significance in the mediation of SO on this relationship. This suggests a long-term/short-term dilemma in terms of the adoption of both SO and MO to mediate the relationship between SME business approach and performance. We postulate two explanations for this. First, given the short-term and often functionally defined relationship focus of a SO it could be argued that it conflicts with the importance of a longer-term focus for the SMEs studied. This longer-term focus promotes traditional values as well as heritage seen as important to the studied food and drink firms' authenticity and the need to leverage this to cultivate close and intimate relationships with customers and other stakeholders. For example, an SME in its business approach may expect its employees to engage in time-constrained selling-oriented behaviours, whereas in practice employees may prefer to be market-oriented acting in the longer-term interests of the customer to develop sustainable relationships.

Indeed, role conflict has been cited as being a certain, although uncovered, characteristic of many sales environments (Behrman and Perreault 1984; Keszey et al., 2016). Further, close proximity to the customer for SMEs may encourage employees to feel a greater loyalty to the customer over attempts to put into practice a more transactional sales-oriented business approach. Kohli and Jaworski (1990) note that one benefit of a MO in firms is the decrease in role ambiguity for employees. Specifically, highly market-oriented employees have lower role conflict and ambiguity, and higher job satisfaction and commitment than their selling-oriented counterparts (Schlesinger and Heskett, 1991).

Second, it may simply be that some, if not most, of the SMEs in this study have responded to the specific needs of supermarket retail customers and the competitive market environment associated with fast moving consumer goods. In these markets, short term sales growth is often given greater priority by retailers than longer term business development, such are the demands of institutional investors who pay close attention to market share on a quarterly basis. This is not such a challenge for established (national and global) brands who have the resources to support sales growth through price promotions and a level of brand awareness that can be readily triggered through increased distribution. Neither of these conditions are true for the vast majority of niche (local or regional) brands, who may be tempted or encouraged to increase their distribution (following a strong SO) before investing resources in developing consumer demand, as would be associated with a strong MO, and without the financial resources available to support increased distribution with targeted price promotions. The result could be short term sales growth but with lower margins, as prices are reduced to stimulate demand for products of which busy supermarket shoppers remain blissfully ignorant. Thus, it is only those SMEs who balance a strong SO with a strong MO, resisting the lure of increased distribution and investing resources in raising brand awareness, that achieve stronger performance.

When reflecting on these explanations and considering these study findings, new avenues for further research become apparent. For example, we measured business performance based on the perceptions of SME owners/managers, which could not reproduce the 'real' results of firms. Measuring SME performance is limited by the type/s of the employed measurement (Parnell, 2013; Grimmer et al., 2018). Thus, objective measures can best capture the performance results of firms and be more accurate when testing performance antecedents. Further studies could explore this perspective. Furthermore, resource allocation was not the subject of our study when testing the proposed relationships. Exploring this perspective in future studies could provide a new understanding of the short-term/long-term dilemma when emphasizing strategic orientations. As noted by Grimmer et al. (2018), the ability for SMEs to use their resources to enhance performance is a critical component of their strategy.

## **Conclusions and Implications**

### *Theoretical Implications*

Marketing and sales functions in firms are often seen as highly complementary, with both responsible for generating revenue for firms. Noble et al. (2002) suggest that the more they are aligned in firms the greater the potential for growth in revenues. Despite this,

few previous studies in the SME management literature have examined SO and sales management despite its apparent importance to SME survival and growth. This pertains also to SO's relationship with MO in mediating the influence of business approach on SME performance. The contribution of this study to the SME management literature pertains specifically to two levels. More generally, there is also a contribution to recent research seeking to understand the role of multiple strategic orientations on firm performance (Hakala, 2011; Gnizy et al., 2014; Deutscher et al., 2016).

First, we contribute to further explore the long-term/short-term dilemma by specifying some particularities of SMEs through testing the moderation of strategic priority on both MO-performance and SO-performance relationships. As previously noted, Hooley et al (2000) proposed three different strategic priorities: survival; short-term profit orientation; and, longer term building of market position. Strategic priority was considered in this regard and related to a short-term and long-term perspective (Hooley et al., 2000). Considering the short-term emphasis of SO, it is reasonable to suppose that a short-term strategic priority for SMEs is closely related to this orientation which, in turn, could moderate the influence of sales orientation on their performance. As well, the longer-term focus of MO could be reinforced in the SMEs by adopting a long-term strategic priority, which would impact positively on their performance. Perhaps surprisingly, we found no moderation in the studied firms. Therefore, prioritizing the short-term or the long-term strategic priority of their business does not imply that SMEs attempt to 'solve' the tension between the strategic orientations. It might have been expected that a longer-term strategic priority would have been prominent in the findings given MO's positive mediating role in the relationship between SME business approach and performance.

One explanation that may be offered is the more informal approach to 'doing business' that is adopted by SMEs. The very term of strategic priority is anathema to many SMEs. They are often at the coal face of business on a daily basis and with limited resources of time and expertise do not often have the luxury of defining clearly their strategic priorities. As noted, a small business is not a little big business and this distinguishes SMEs from their larger counterparts and requires different business approaches. Various authors have noted SMEs' more informal way of doing business with a lack of formal strategic planning process compared to larger firms (Pelham and Wilson, 1996; Spillan and Ziemnovicz, 2003; Donnelly et al., 2015). Donnelly et al. (2015) note that SMEs' informal approach to their marketing planning is based on intuition and instinct rather than hard market data and formalised marketing strategic process. So, while the SME food and drink firms studied may not overtly frame their business as having two priorities in terms of market position, in their daily 'doing of business' they cultivate and nurture close and long-term relationships with customers that reflect a strong MO. This concurs with Lewis et al.'s (2001) study of food and drink firms, which found that while formal conceptions of marketing or strategy were often neglected, their emphasis of traditional values and desire to develop close relationships with customers and other stakeholders underpinned their success. A more likely explanation in the context of niche (local/regional) food and drink producers is that 'doing business' with supermarkets increases the tension between long term business (brand and relationship) development and short term sales growth. In the majority of cases the former will be very difficult to achieve without the latter, given the metrics by which retailer buyers are measured.

Finally, we contribute to management literature that suggests MO be combined with other strategic orientations to ensure business success. Deutscher et al. (2016), note that firms regularly employ multiple strategic orientations to achieve competitive advantage in dynamic markets. Noble et al. (2002) comment that MO is a necessary, but not sufficient, factor for firms seeking to achieve competitive advantage in dynamic markets. In the SME literature, recent research by Anees-ur-Rehman and Johnston (2018) has considered how multiple strategic orientations positively impact brand equity of B2B SMEs. These authors call for research to consider further the combination in SMEs of MO with other strategic orientations.

The focus of this study is on MO and SO and their mediating role on the relationship between business approach and SME performance. These two strategic orientations are considered complementary by researchers such as Noble et al. (2002). What we found is rather than a complementary combination of these orientations, there appears to be a tension in SMEs. Their business approach is favorable to a selling orientation but in practice there is no significance in the mediation of SO on the relationship between business approach and SME performance. This finding may be SME specific and less likely to be the case with larger firms. It may be in the tough internal resource and external market conditions faced that the smaller size of SMEs and their need to target niche markets and get close to customers to succeed precludes a SO and emphasises a MO to ensure sustainable performance. It may also be that the systems, processes, incentives and rewards that are well established in the multiple retail sector are not conducive to SMEs who fail to recognize the importance of organic growth – building demand (MO) ahead of distribution (SO) – and the allocation of resources, both strategic and tactical, necessary to achieve success.

### *Managerial Implications*

The study provides some guidelines for SME owner/managers. Overall, our research findings suggest that MO enhances SME performance and it is an important ‘vehicle’ to winning in their markets. SO, in turn, may well be important for short term sales growth, the generation of much-needed cash flow, and an important part of relationship development in the context of multiple retailers but it is not an optimal strategic orientation for SMEs to achieve superior performance in the long term. This suggests that SMEs should not seek to allocate a disproportionate share of their limited resources to short-term sales activities, which could be inappropriate in certain market contexts, such as niche products in mainstream supermarkets. As well, this could represent an inefficient allocation of resources, as the final objective has not been successfully achieved. Usually SMEs are resource constrained and frequently lack technical, marketing, financial and managerial resources (Do et al., 2018). However, “by virtue of their limited resources, many small businesses are best equipped to pursue niche markets” (Parnell, 2013, p.217). SMEs do not have the scale to compete on cost and therefore, out of necessity, will in many cases target more niche markets than larger firms. With close proximity to their customers and the targeting of niche markets, SMEs need to prevent salesperson role ambiguity by focusing their business approach on market orientation and avoid seeking to foster a selling orientation that constrains the salesperson in practice from performing in a customer-oriented manner. SMEs are much more likely to success in the mainstream market environment of supermarkets if they focus on building demand in advance of

increasing distribution, creating the ‘pull’ before the ‘push’ which is essential if they are to avoid reverting to price discounting which, in the majority of cases, is inconsistent with their premium positioning, heritage and culture.

Furthermore, strategic priority was found not to be important to facilitating the successful development of MO and SO. It seems that SMEs do not coordinate their focus in order to achieve better results. In some way, their instincts and informal way of ‘doing business’ guides their interactions with the marketplace (Donnelly et al. 2015). That is, strategic orientations are ‘disconnected’ from the chosen priorities of interaction with a SME’s environment. Thus, SMEs seem to orient their business in a specific way as a desired business approach, which can create challenges to achieving performance goals in practice as a consequence of their orientations. This can be due to particularities of SMEs, such as informal and intuitive approach to strategic planning, the importance of past activities and particular successes, heritage, family influence, traditional values and short vs. long-term planning tensions. Long-term strategic priority focused firms “seek either to expand their total market [...] or to win a greater share of the market from their competitors” (Hooley et al., 2000, p. 277). This priority can be reinforced in market-oriented SMEs that seek to facilitate the flow of market information from competitors and customers. In the short term, the need to simply survive or grow sales revenue rapidly can define the strategic priority of SMEs.

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