

The Influence of Strategic Orientations and Innovation Capability on Small and Micro Farm Performance

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Abstract: - The objective of this paper is to examine the determinants of strategic orientation (SO), which consist of market learning orientation (MLO) and entrepreneurial orientation (EO) and innovation capability (IC) towards small firm's performance. According to the resource based view theory, MO and LO are significant antecedents of firm performance but many of the studies measured both as separate constructs. These two orientations are complementary in term of behavioral perspective where firm will learn and focus on market and later can help in the contribution of marketing towards business strategy. While the combination of MLO and EO is significant to proactively identify any changes related with the environment. Considerably, IC is regard as a dynamic capability approach to enable firm to sustain in this volatile market. The study is to explore the MLO, EO and IC of small and micro farmers of Malaysia using 235 respondents from Northern, Southern, Western and Eastern regions. The statistical analysis were done through scale's reliability, factor loading determination and hypotheses testing. The testing showed that MLO and EO have positive impact to IC as well as farm performance. The contribution of this paper are on the conceptual model as well as the hypotheses development, particularly how MLO and EO give small and micro farmers' ability to innovate and implement it towards farm's performance.

Key-Words: market orientation, learning orientation, market learning orientation, entrepreneurial orientation, innovation capability, small and micro farm performance

1. Introduction

Strategic orientation (SO) studies has emerged more than thirty decades ago. Until present, the study of SO is still relevant and mushrooming with different types of orientations, either individually, or complement with other orientations, either for firms' growth [50] or firms' innovation [65]. In this paper, two types of SO are selected, the market learning and entrepreneurial orientations.

Market learning (ML) is the exploration and exploitation ability of firm to organize, appropriate and apply new external knowledge or build from prior existing knowledge and use it for the development of innovation [28]. Market learning is regard as one of the firm's business strategy in relation to the importance of firm to orient their firms' learning behavior about market to gain competitive advantage position.

Different concepts related with market learning are recognized such as market-based organizational learning (MBOL) by Sinkula et al. [73] or market learning capability by Weerawardena [78] and have been applied in various sectors or industries such as towards the exporting firms [20],[9], family businesses [83], high-tech business [28] or

manufacturing [44]. Moreover, many of the market learning related studies were conducted in the developed countries [82] or in the Asian countries [28], [44]

However, to the knowledge of author, limited number of studies on market learning have been done towards the small or micro sized firms, particularly in the developing countries, where these countries are facing with limited domestic market growth [76]. Albeit ML will lead firms towards superior growth and innovation performance, the impact of ML towards this sector is undeniable and significance.

This paper will also highlight on the literature gap, specifically on agricultural sector, by analyzing two types of orientations, the firm's market learning orientation (MLO) and entrepreneurial orientation (EO). The capability of exploration and exploitation of MLO in gaining market knowledge alone is not enough. Firms need high-level of EO to fuel firms with a greater growth potential instead only depend on the high level of MLO [19]. Based from the resource based view (RBV) theory, even though the market knowledge and EO are distinct construct,

nevertheless both are firms' resources and being the SO of firms to recognize opportunities [66].

With entrepreneurial oriented behavior, farmers are able to be more innovative, risk taker and aggressive in seize opportunities [13], [14]. This paper seek to recognise on any explicit or situational or environmental conditions where both orientations are being identified as importance. Even though difference countries vary in term of culture, the MLO and EO also be applicable in Malaysia [1]. That is to say, both MLO and EO are describe as SO facilitation and fuel on farmers' efficiency and capability towards farm's growth albeit differences in types, sizes or countries.

Additionally, this paper addresses innovation as mediator between MLO, EO and firm performance. Innovation could help firms to thrive significantly in this competitive environment [67]. Nowadays, the non-adapting innovation firms may eventually become late adopters [87]. The capacity of finding and creating new resources and produce superior products and services than competitors is being viewed as an innovation capability (IC) [36]. Through MLO and EO as firms' resources, firms will be able to innovate their processes or products towards better performance.

However, previous studies on innovation were mainly focused on high-tech or manufacturing firms, either large or medium firms, such as [7], [76] [82], while limited numbers were on the small or micro firms [16], [10], [63], while very little on agricultural sector. Regardless of what kinds of businesses and sizes the firms are, this paper specifically examine on how small and micro agricultural firms could overcome the resources and capabilities limitations [75] while would be able to apply innovation as one of firm's assets to fuel up performance.

On the other hand, this paper aims to provide one important theoretical contribution to the small firm business literature. Particularly, market learning orientation (MLO) consists on the simultaneous process of market orientation (MO) and learning orientation (LO). The assumptions is that many of classic and contemporary studies have analyzed MO and LO on three situations: whether MO and LO are complement [57] or contradict between each other [27], [26] or involved a simultaneous process together [44], [42], [32]. Although these situations give positive outcome on the relationship, however, the causality issues between both remains unsettled [12]. In addition to that, this paper will give special insight on the redundancy of term regarding the behavioral concept of MO by Kohli and Jaworski [46] who shared the same concept as LO theory by

Huber [33]. Due to that, this study is to analyze on the combination of both concept as MLO as a new concept contribution, particularly to small firms' literature

2. Literature review and hypotheses development

2.1 MLO and Firm performance

The MO concepts has been developed by several researchers, and the prominent scholars of MO were Kohli and Jaworski [46] and Narver and Slater [61]. This concept has, until present, be proven to give far-reaching effects on market and being recognized as an important intelligence system approach to help firms analyze any potential opportunities within the environment [24], [9]. However, numbers of studies focused on the direct effect of one specific orientation but neglected to consider them as potential mutual partners [30]. That is to say, MO theory has largely being discussed by marketing practitioner as being positively connected towards firm performance. However, MO alone is not enough to cater the environment.

Moreover, there are several limitation on MO which have been noted. For example, Kirca et al. [45] mentioned weak relation between MO and objective firm performance. Besides, Narver, Slater and MacLachlan [60] mentioned that MO failed to predict successful connection with innovations in relation with new markets. While Cadogan et al., [9] mentioned that the MO in the export industry is very complex and non-linear relationship. The export performance depends on how the managers reacted and identify upon the internal and external determinants. Therefore, scholars argue that MO is necessary, but alone is not sufficient, particularly to facilitate types of innovation that will breed long-term competitive advantage [3]. Thus, this study is to relate MO with other business orientation towards better performance, and the suggested orientation in this study is LO.

The significant of firm to learn and focus on market can help in the contribution of marketing towards business strategy [35], [82]. Firm will be able to learn on market faster with the existence of endogenous learning. This is supported by Jiménez-Jiménez and Cegarra-Navarro [42] who highlighted the importance of both MO [46], [61] and LO [73] to gain the competitive advantage position.

Knowledge gained from market learning will increase the level of efficiency in production and product development due to knowledge is far more important than other factors of production [17], yet,

limited studies on the influence of market learning have been done [28]. The significant impact to exploit and explore on MLO at the front end to enhance market sensing, innovation as well as performance as being stressed such as by Eltamimi [20] and Kim & Atuahene-Gima [44] rather only focusing on MO only.

On the other hand, there is a similarity of construct between MO by Kohli and Jaworski [46] and LO by Huber [33], namely knowledge/intelligence acquisition and knowledge/intelligence distribution. Intelligence generation and intelligence dissemination of MO on behavioral perspectives by Kohli and Jaworski have the same concept with knowledge acquisition and knowledge distribution of LO theory by Huber respectively, where it representing on how market information is processed and distributed.

Moreover, Slater and Narver [74] mentioned that MARKOR's scale "have facilitated research on organizational learning by developing measures of the effectiveness of the information acquisition, intelligence dissemination and organizational responsiveness stages of the learning process..." (p.72). Thus, it indicates that there is a construct redundancy on Kohli and Jaworski's who relate MO with LO. Virtually, the definition of both is referring to the same process.

In fact, Fiol and Lyles [26] mentioned that the behavioral change is required for learning while other i.e. [33] conclude that new ways of thinking culture are enough for learning. This also has lead towards overlapping of MO in term of behavioral and cultural approach. To avoid any redundancy of both MO-LO application and terms, this study will use MLO as behavioral learning perspective and explore its effect on performance.

MLO is required by firms due to the uncertainty level in many aspects such as local demand, product adoption, intense domestic competition, purchasing behavior or product acceptance on new, either domestic or international operated market [79], [2]. Thus, it suggests the following hypothesis:

H1: There is significant relationship between MLO and firm performance

2.2 EO and Firm performance

Firms are not to focus much on customers as they are naturally short-sighted, will lead firm fail to embrace breakthrough innovation and may be exceeded by competitors [86]. Small firms normally have limited resources and capabilities [76], consequently are required not to depend too much on customers. Indeed, small firm's need

entrepreneurial inclination so that firm would be able to move position into another level.

The entrepreneurial orientation (EO) is one of the entrepreneurial activities with a wide-range of firms' behavior such as decision making or practices and efficiently use resources to exploit any opportunities [48]. Although entrepreneurial activities are important to all size and age [47], however, firms with smaller size are normally very flexible as compared to large firms with many departments. The advantages of small firms are in term of changes and quick response on opportunities. Findings have proven that EO in small firm had perform greater than the large one [68].

Perhaps, not only on the size, growing numbers of research interest of EO are regardless of sectors and across regions. For instance, numbers of studies have relate a positive significant relationship between EO and performance in SMEs of manufacturing firms in Africa [49], service business of Japanese food restaurants [51], US small manufacturer [13] and Europe small firms [80], [48].

In fact, the study on the relation of EO and firm performance have been conducted since 1980s (see [68]). For instance, study by Covin and Slevin's [13] recommended the relationship between EO and performance of small firms in hostile environments. Until present, the studies on EO-performance relationship has widely emerged with various extensions. For example, Wiklund and Shepherd [81] have applied an approach to examine the effect of the relation on EO dimensions with financial capital and environments as moderators. Again, the results showed a positive impact on EO and Swedish SME performance. Thus, the following hypothesis is suggested:

H2: There is significant relationship between EO and firm performance

2.3 IC and Firm performance

Innovation plays a significant role in creating value and sustaining competitive advantage position. Innovation is different than invention. Invention involves on creating new or improved products only, but innovation will bring that new or improved products to market successfully [22], [72], [10]. As far as IC is significant towards large firms, it is also important to the small or medium sized firms [10], [16], [63]. The studies on IC implementation by large companies suggested a significant contribution as they have all the abilities

and capacities of doing so as compared to small and medium firms [39].

Nevertheless, the small firms need IC if they want to stay longer in the market. Although small firms gave limited resources and capabilities [76], [63], the owner or manager needs to deploy both to be successful [29]. A summary done by Saunila [70] has indicated that IC, regardless of the different terms by previous scholars, are mainly referred on four perceptions: the ability to do innovation, fitting together with firms' internal strategy, involves continuous enhancement and to give value added to firms. This to indicate that the IC involves on how firms utilize and deploy their internal resources and capability to leverage firms' performance [39]. Firms with greater IC will lead to a higher innovative output besides generate higher sales growth [84]. Firms must innovate and promote innovation so that they can sustain in the industry and achieved competitive position [6], [78].

Number of studies in several industries have identified IC has the positive relationships with firm performance [31]. The positive relationship between IC and performance are shown by many studies across countries, industries as well as sizes (such as [71], [10], and [16]). Therefore, this next hypothesis suggests the positive influence of IC to firm performance.

H3: There is a significant relationship between IC and firm performance

2.4 IC as mediator

Once firms have gathered information on customer's current and future needs, what should firms do following from the intelligence gathering and dissemination? The market exploitation helps to increase the new product development speed while market exploration can improve product innovativeness which will help to influence new product financial performance [85], [28]. Hurley and Hult [37] highlighted the impact of market focus and market learning style on innovation which will give greater firm growth. These market information should be transformed into product innovations to meet with the needs, provided that firms have the capacity to innovate. IC is the reflection of knowledge firm's learn from the market [78], [7].

Moreover, current research by Jayawardhana and Weerawardena [40] further supported on MLO to be conducted as one of the key antecedent of innovation. The firm who is capable to focus on MLO can successfully be more innovative as MLO and IC has not been studied extensively from prior

research [78]. Market knowledge on customers and competitors are among the important antecedents of innovation. This can be seen in the study of Fang, Chou, Yang and Ou [22] who relates market learning with innovation and concern on how innovation is affected through MO.

The importance of MLO towards creating innovativeness can also be seen from the study by Watanabe, Lei and Ouchi [77] on Canon's printers. They learned from computer producers which they cooperate with other competitors to integrate relevant knowledge in order to produce innovative indigenous printer products. As NPD process started from identifying target market as important and effective new product development process, innovativeness needs market learning as well, either from external [43] or internal learning [54].

Additionally, Baker and Sinkula [4] have analyzed three different models of MLO and EO on their direct effect with profitability. The findings showed that the combination of MLO and EO is mediated by innovation success to gain profitability. Firms' innovation success can be achieved when firms are able to translate what they have learn from the market (MLO) while EO will proactively seize opportunities from the MLO [4]. Innovation success is achieved from implementation and translation of MLO and the aggressive action by the small entrepreneur.

Innovation is to be looked differently from the innovativeness dimensions of EO. EO is to look at how entrepreneur's behavior or his/her characteristics influence innovation instead of looking at innovation from a perspective of firm's behavior. An entrepreneur is an individual who is responsible in creating new value such as innovation or new organization and without which, new value would not be created [8] and innovation needs to be combined with entrepreneurial approach to recognize opportunities that can be exploited through innovation [5].

In spite of the existence association between entrepreneurship and innovation, both terms seem to have slight dissimilarities. From the entrepreneurship point of view, innovativeness of EO is referring to the willingness of owners to use the new ideas to improve the firm's operation and leave what exactly that new idea means to the respondent/audience. While innovation involves the entering new or established market with new or existing products or services [53], [74]. However, Hurley and Hult [37] mentioned that innovation focuses only on the implementation and adoption of new ideas, products or process but not entering new markets. In particular, they mentioned that the

firm's orientation towards innovation (i.e. innovativeness) could increase the firm's capacity and capability to adapt and implement innovation (i.e. innovation capability). Therefore, a test on the mediation effect of IC on MLO and EO has been suggested.

H4: There is a significant mediator relationship between MLO and IC

H5: There is a significant mediator relationship between EO and IC

3. Research Method

The questionnaire was pre-tested with seven potential farmer respondents, two field experts from Federal of Agricultural Marketing Authority (FAMA) of Malaysia and one academic expert from local university, resulting only minor alterations. The choice of research setting was guided from the review that agricultural sectors not only to be modern, but also need to sustain in the market as they faced risks and challenges from many directions. Moreover, agricultural sector is among the understudy sectors on strategic orientations, particularly in Malaysia. The focus of this study was with those who have registered in the contract farming program (CFP), as among one of the agriculture's high impact program (HIP) suggested by the government.

The unit of analysis involved was the firms and represented by the owner as respondent. Data of CFP participants gained from FAMA as population frame, consists of 1594 participants from Northern, Southern, Eastern and Western regions in Malaysia. Set of questionnaires was distributed to 300 participants. The selection criteria were (1) respondents have registered as participants in contract farming program (2) respondents who have at least three workers (micro to small sized firms) and will omit those with less than two workers [62], [18]. After the selection processes as according to the criteria, 235 participants were selected and analyzed through IBM SPSS Statistics version 21 and three proposed relationships were tested through regression analysis.

3.1 Measures

This study used the existing measures and adopted it based on the purpose of this study. Purified items were measured by five-point Likert scales ranging from "strongly disagree" to "strongly agree". All items in the measurement were adopted and purified to fit with this study. MLO measurement consists of 19 item-scale by Spillan, Kara, King, and McGinnis [76] and Zhang and

Duan [84] on market intelligence generation, dissemination, and responsiveness while interpretation with five items adopted from Hult, Ketchen, and Slater [34] and Jiménez-Jiménez and Cegarra-Navarro [42].

EO scale was adopted from Mirzaei, Micheels, and Boecker [56] and Rosairo and Potts [69] with 15 item-scale measuring innovativeness, risk taking and pro-activeness. 16 items for IC measurement was adopted from Liao, Fei, and Chen [52], Camelo-Ordaz, García-Cruz, Sousa-Ginel, and Valle-Cabrera [11] and Ozkaya, Droge, Hult and Calan [64] consists of four dimensions, product, process, management and marketing. Lastly, the firm performance was measured from the scale developed by Micheels and Gow [55] and purified to five items.

3.2 Analysis and Results

The main objective of the analysis is to test the research hypotheses. The statistical data analysis involved several steps: verifying the reliability of measurement scale (Cronbach's alpha coefficient), determine the factor loading (Exploratory factor analysis) and research hypothesis testing (Pearson correlation and linear regression testing). Altogether, 66 items using 5 Likert-scale were used to measure MLO, EO, IC and firm performance.

The Cronbach alpha reliability and Exploratory Factor Analysis (EFA) tests were used prior from the hypotheses developed earlier and listed in **Table 1**. The rules of thumb for Cronbach alpha suggested to range over 0.7 as acceptable and reliable [15], [62] and results reported range from 0.854 to 0.906, thus suggesting all measures adopted are reliable. For the factor analysis, items with factor loading less than 0.5 should be eliminated. All the AVE values are more than 0.5 and retained as it is. Apart from 66 items listed, few items were been deleted due to low reliability and factor loading analysis resulting to only 55 items.

Table 1: The reliability and factor loading validity test

| Variables | No. of Items | Mean | α | AVE | CR |
|------------------|--------------|-------|----------|-------|-------|
| MLO | 22 | 4.142 | 0.904 | 0.572 | 0.965 |
| EO | 14 | 3.805 | 0.863 | 0.612 | 0.899 |
| IC | 15 | 3.742 | 0.881 | 0.667 | 0.923 |
| Firm Performance | 4 | 3.827 | 0.854 | 0.711 | 0.906 |

A summary of Pearson correlation for all the important factors in this study were shown in **Table 2**. All factors (MLO, EO and IC) were significant ($p < 0.0005$) and positively correlated with each other

as well as the dependent variable, firm performance. The reading of correlations namely are weak (0.10-0.29), medium (0.3-0.49) and strong (0.5-1.0) (Cohen, 1988). Thus, the positive relationship between EO and IC ($r = 0.750$) is stronger than other relationships such as between EO with MLO ($r = 0.428$) while low relationship found between EO and performance ($r = 0.294$). Therefore, the high level of innovativeness, risk taking and pro-activeness of owner associated with high level of innovation capability of firms.

Table 2: Pearson correlations analysis

| | | | | |
|--------|-----|---------|---------|---------|
| N= 235 | MLO | EO | IC | PERF |
| MLO | 1 | 0.428** | 0.376** | 0.348** |
| EO | | 1 | 0.750** | 0.294** |
| IC | | | 1 | 0.321** |
| PERF | | | | 1 |

**Correlation is significant at the 0.01 level (2-tailed).

The research hypotheses testing using liner regression is shown at **Table 3**. The relationship between MLO, EO, IC towards firm performance were significant ($\beta = 0.622, 0.352, 0.383, p < 0.001, F = 32.081, 22.02, 26.702, p < 0.05$). The coefficient of determination of R^2 revealed that 11.7%, 8.6% and 10.3% of the dependent variable (firm performance) variance is explained by MLO, EO and IC respectively. Hypothesis 1, 2 and 3 posits that MLO, EO and IC will have a positive relationship with firm performance. Hence, the result are supported with respect to firm performance. The regression model concerning IC as mediator were also significant ($\beta = 0.563, 0.751, p < 0.001, F = 38.392, 298.98, p < 0.05$) and the innovation capability variance is explained by the level of MLO (14.1%) and EO (56.2%). Thus, Hypothesis 4 and 5 are supported with respect to IC.

Table 3: Hypotheses testing with Regression analysis

| | Variable | β | R^2 | F | p |
|----|----------|---------|-------|--------|-------|
| H1 | MLO-Perf | 0.622 | 12.7% | 32.081 | 0.000 |
| H2 | EO-Perf | 0.352 | 8.6% | 22.02 | 0.000 |
| H3 | IC-Perf | 0.383 | 10.3% | 26.702 | 0.000 |
| H4 | MLO-IC | 0.563 | 14.1% | 38.392 | 0.000 |
| H5 | EO-IC | 0.751 | 56.2% | 298.98 | 0.000 |

3. Discussion and Conclusion

Literatures recently have suggested the need to do research on the combination of market, learning, entrepreneurial and innovation on any of business success. Therefore, this paper was to investigate the influence of strategic orientations of MLO, EO and IC on small and micro farm performance as well as the IC as mediator to both MLO and EO. This study

sought to examine the impact of MLO (market information generation, dissemination, interpretation and responsiveness), EO (innovativeness, pro-activeness and risk taking) and IC (product, process, management and marketing) would theoretically be called for. The results for this paper have shown that all components, either individually or jointly, contributed to IC as well as towards small and micro farm successfulness

First, result concern on the relationship between MLO and small and micro farm performance. As in line with classic and contemporary studies, MLO has a positive impact on IC and farm performance. These are with the agreement from the findings made by Weerawardena [78], Jiménez-Jimenez, Valle, and Hernandez-Espallardo [41], Morgan and Turnell [58] and Jiménez-Jiménez and Sanz-Valle [40]. Their findings have showed on the positive relationship between both MLO on IC and MLO-firm performance. The MLO with constantly monitor the relevant external knowledge gained from outside will flow towards the firm and the ability of firms to absorb it plays a critical role in developing product, process, marketing and innovation (IC) [78], [58]. Market knowledge needs to be utilized efficiently and effectively as the external knowledge can help to foster product innovation [74]. Therefore, farmers who are able to come out with IC, are able to offer a superior products/services to their customers [41], [40].

Secondly, this study examined the impact of an EO on IC and small farm performance which mainly associated with owner's willingness to do innovation, manage risk and pro-actively seek opportunites. The analysis found a strong positive relationship between EO and IC while less cotributed in relation of EO with performance. This is in line with Baker and Sinkula [4] who posits that small firms with higher EO are able to transform their available resources and capability into innovative outcome. Through innovative outcome, firms would achieve a greater competitive advantage positions than other firms.

4. Managerial Implications

The first managerial implication is highlighted by validating the hypotheses. It is important for small and micro farmers and their employees to study and analyze consistently about market, detect on any changes from customers preferences and reacted on competitors' behavior. Through the information gained, firms are able to develop innovation and lead towards better growth. The second managerial implication highlights the vital

role of being innovative, risk taking and pro-activeness to develop innovation capability. Through EO and IC, firms are able to manipulate the existing market by improving their current or develop new products.

How the information gained is well used within the firms will depends on how the owner manipulate it and bring it towards success. Is all about owners' strategic orientations to improve and enhance the farm's MLO and EO. This involves on how owners utilize and deploy farms' resources to frequently acquire information related to market. Moreover, owners must value employees, such as by giving rewards or training, so that employees can contribute into a higher degree of innovativeness, risk taking and pro-activeness. The success of farms depends not only on the hand of owners, but involves the collaboration with their internal resources strengths, to quick respond with environmental changes, bravely face risks and seize any opportunities. Although IC in small and micro farms is regards as costly and complex, owners need to develop unique and rare products. With owners, who are innovative towards market, are believed able to give better direction of farm towards achieving a superior performance and create a lifelong benefits and improving intense moves in farm's competitive positioning. Innovation will support the strategy of the farm and farm strategy will support on innovation.

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