THE EFFECT OF STRATEGIC ORIENTATIONS ON ORGANIZATIONAL PERFORMANCE OF SMES: EMPIRICAL EVIDENCE FROM PAKISTAN

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Abstract: Strategic orientations like Market orientation (MO) and Learning orientation (LO) play critical role in improving the performance of both large and small scale businesses. This paper investigate the relationship between LO and organizational performance with MO as moderator. The current study reports the findings of two hundred and seven owners or managers of Small and Medium Sized Enterprises (SMEs) in Pakistan. The findings of the study indicate a positive relationship between LO and organizational performance. Mo was found to have moderated the direct relationship between LO and organizational performance. This study is among the few attempts made to systematically examine the interplay among MO, LO and organizational performance in SMEs operating in Pakistan.

Key words: Strategic orientation; Pakistan; Organizational performance; learning orientation; Market orientation

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The effect of strategic orientations on organizational performance of smes: empirical evidence from pakistan

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Resumo: Orientações estratégicas, como orientação para o mercado (MO) e orientação para aprendizagem (OA), desempenham papel crítico na melhoria do desempenho de empresas de grande e pequena escala. Este artigo investiga a relação entre OA e desempenho organizacional com MO como moderador. O presente estudo relata as descobertas de duzentos e sete proprietários ou gerentes de pequenas e médias empresas (PME) no Paquistão. Os resultados do estudo indicam uma relação positiva entre OA e desempenho organizacional. O Mo moderou a relação direta entre OA e desempenho organizacional. Este estudo está entre as poucas tentativas feitas para examinar sistematicamente a interação entre MO, OA e desempenho organizacional em PMEs que operam no Paquistão

Palavras-chave: Orientação estratégica; Paquistão; Desempenho organizacional; orientação de aprendizagem; Orientação de mercado

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1 Introduction

Enhancing the productivity and competitiveness of the organizations has been an issue for both small and large organizations around the globe. In this context, organizations need to deliver products with superior value in order to meet the changing needs and expectations of the customers (Beneke, Blampied, Dewar, Soriano, & Deacon, 2016). Prior studies in the strategy literature have suggested that business organizations must adopt those strategies that help them to effectively respond to the changing market demands (Hilman & Kaliappan, 2014), and compete successfully in the dynamic business environment (Altinay, Madanoglu, De Vita, Arasli, & Ekinci, 2016; Jogaratnam, 2017). Research scholars have highlighted that both small and large organizations need to deploy strategic orientations (e.g. MO and LO) in order to survive and grow in the competitive business environment (Jabeen & Mahmood, 2015).

Prior studies focusing on strategic orientation have suggested that the adoption and implementation of two strategic orientations namely Market orientation (MO) and learning orientation (LO) help both small and large organizations to enhance their core competitiveness, satisfy the current and latent needs of the customers and achieve improved organizational performance (Choi, 2014; Lin, Peng, & Kao, 2008; Mokoena & Dhurup, 2016). MO reflects the organizational behavior to understand the changing buying pattern of present and potential customer as well as keeping vigilant eye on the competitors’ move in the marketplace to deliver superior value to customers (Narver & Slater, 1990). LO on the other hand reflects an organization ability to generate and share the market related information across the organization and facilitates the superior value creation (Sinkula, Baker, & Noordewier, 1997). Review of the extant literature in the subject area has highlighted that the complimentary effects of both MO and LO enable the organizations to respond effectively to changing market demands, gain competitive advantage and enhance the organizational performance (Slater & Narver, 1995).

Notably, the strategy literature has highlighted that most of the prior researches have attempted to associate organizational performance with a single orientation, like LO and MO (Frank, Kessler, Mitterer, & Weismeier-Sammer, 2012; Hilman & Kaliappan, 2014). However, recently researches argue that the adoption and implementation of a single orientation may prove less effective to achieve improved organizational performance (Baker & Sinkula, 2009; Hakala, 2011), and suggested that organizations need to build their strategies based on multiple orientations together in order to survive and grow in today’s challenging business environment (Laukkanen, Nagy, Hirvonen, Reijonen, & Pasanen, 2013). Prior researches argued that organizations that deploy multiple strategic orientations are in better position to respond effectively to the changes posed by business environment and exploit the business opportunities (Choi, 2014; Deutscher, Zapkau, Schwens, Baum, & Kabst, 2016; Farrell & Oczkowski, 2002). In the light of the aforementioned arguments, the present study takes an integrated approach and investigates that how MO and LO together influence that organizational performance of SMEs.

Nevertheless, majority of the studies on strategic orientations have been conducted in developed economies and in large organizational settings. However, prior studies argue the researchers should not assume the interplay between strategic orientation and performance as homogenous in all contexts due to low sampling variance and suggested the inclusion of moderator in the relationship according to the context of the study (Rauch, Wiklund, Lumpkin, & Frese, 2009). The researchers more recently called for further attention to investigate the interplay between LO and MO in developing countries like Pakistan (Hussain, Rahman, & Shah, 2016), the research area which has been paid less attention by the research scholars.

The present study fills the gap in the literature by taking a configuration approach to examine that whether MO moderates the LO-organizational Performance link in the context of SMEs operating in Pakistan. We suggest
that firms can achieve improved organizational performance by deploying effectively their strategic orientations like LO and MO simultaneously.

2 Literature Review

2.1 Learning orientation

LO of an organization demonstrate its ability to develop a mechanism where market related knowledge is created and shared among the members across the organization for attaining the competitive advantage and superior performance (Calisir, Gumussoy, & Guzelsoy, 2013). This mechanism include observing changes in the market, intelligence generation and sharing regarding preferences and taste of the customers, keeping a vigilant eye on competitors actions and developing/ and adopting new technologies to exploit the business opportunities in those markets where the competitors have not yet reached (Sikora, Nybakk, & Panwar, 2016). A learning oriented organization is capable to generate and utilize market related information by exhibiting strong commitment to learn with in and out the organization, open mindedness in questionaing and challenging its current ways of doing things and developing new ways to learn about its customers and competitors to deliver superior customer value (Kaya & Patton, 2011; Sinkula, et al., 1997). Shared vision demonstrates the value an organization gives to the learning process (Calantone, Cavusgil, & Zhao, 2002), to transform the organizational learning acquired into action by its members (Calisir, et al., 2013; Sinkula, et al., 1997). Concentrating on these dimensions of LO enable organizations to be sensitive to market changes, generate market related information and respond to the changing market demands effectively that ultimately results in gaining competitive advantage and greater performance.

2.2 Market orientation

MO reflects the ability of a firm to create superior customer value by displaying its strong commitment towards delivering superior customer value, satisfying its customer, maintaining long term customer relationships, sharing and responding to competitors related information and exploiting the business opportunities based on market related information (Attia, 2013; Slater & Narver, 2000). Narver and Slater (Narver and Slater, 1990) conceptualised MO as a three dimensions construct explaining the mechanism under which a firm understand its target customers (customer orientation), observe movement of its competitors and discussing their strategies (competitor orientation) and sharing these information across the organization (interfunctional coordination) getting input from them, devising strategies and delivering superior value to its customers. Market oriented organizations are in better position to identify needs and wants of the customers and get closer to them to fulfill them which ultimately results in creating and delivering better customer value enabling organizations to be on more competitive position (Baker & Sinkula, 2009; Hilman & Kaliappen, 2014).

2.3 Learning orientation and organizational performance

Review of the previous literature on strategic orientation has highlighted that LO facilitates and enables both large and small businesses to acquire and develop knowledge by understanding the changing needs of the market and thereby fulfilling the needs of the customers (Hakala, 2013; Maes & Sels, 2014). Prior studies have reported the significant influence of LO on organizational performance. For example, a study conducted by Calantone et al. (Calantone et al., 2002) reported a significant and positive impact on organizational performance. These researchers further reported that LO has indirect influence on organizational performance through competitive advantage. A recent study conducted by Rhee, Park & Lee (Rhee, Park & Lee, 2010) in small technology innovative firms in South Korea opined that an organization that simultaneously deploys both strategic orientations (MO & LO) would be in a better position to improve its overall performance. They further added that focusing LO strategy more compare to MO can enable an organization to bring innovation and will results in greater competitive advantage. A more recent study conducted by Maes and Sels (Maes and Sels, 2014) support the notion that the implementation of LO strategy with other strategies can facilitate the
organization in attainment of its predetermined goals. More recently, Kharabsheh, Ensour, & Bogolybov (2017) conducted their study on 190 senior managers working in manufacturing organizations in Jordan and concluded that LO helps organizations in improving their organizational performance. Hence, on the basis of the extant literature, the following is predicted.

**H1:** Learning orientation is positively associated with the organizational performance of SMEs in Pakistan.

### 2.4 Moderation by market orientation

Prior studies in strategic management have reported that MO facilitates nurturing of LO in organizations because of its responsiveness to the external environment in terms of learning from outside the organization (Slater and Narver, 1995; Fang et al., 2014). The same view is supported by Matsuno, Mentzer, & Ozmomer(2002) that high market orientation of an organization leads to its high LO. Moreover, Dickson (1996) argues that LO provides a fertile environment to all other strategic orientations in an organization for the reason that of its ability to constantly enhance the market information generation process. Other studies suggested that an organization must deploy MO and LO together for improved organizational performance (Baker & Sinkula, 2002; Dada & Fogg, 2016). In the same line, a more recent study by Deutscher et al. (2016) argue that implementation of both high level of LO and MO together results in greater organizational performance.

Notably, the few existing studies that consider both MO and LO simultaneously investigated 1) the direct effects of these orientations on performance (Baker & Sinkula, 1999; Santos-Vijande, Sanzo-Perez, Alvarez-Gonzalez, & Vazquez-Casielles, 2005), 2) investigated the mediating role of LO (Keskin, 2006; Yeni, Hastini, & Hasti, 2017), or moderating effect of LO (Beneke, et al., 2016; Fang, Chang, Ou, & Chou, 2014) on the relationship of MO and performance. Moreover, majority of these studies have been conducted in large organization settings in developed countries. Nevertheless, scholars argue that the results obtained from large organization may not be applicable to small organization because SMEs use small portion of marketing research and encounter greater financial pressure(Lonial & Carter, 2015). Moreover, SMEs in developing countries operate in poor state of infrastructure, having limited access to finance and underdeveloped institutional environment as compared to large organizations (Roxas, Ashill, & Chadee, 2016; Zayed & Alawad, 2017). Therefore, this study attempts to address the gaps in the strategy literature and investigate the possible moderating effects of MO on LO and organizational performance relationship in the context of SMEs operating in a developing country like Pakistan. Hence, we hypothesized the following.

**H2:** Market orientation moderates the association between learning orientation and organizational performance of SMEs in Pakistan.

### 3 Research Methods

#### 3.1 Study context and sample

The context of the current study is Pakistan. SMEs play a critical role in promoting the economic growth, raising standard of living and improving the industrial development of both the developed and developing countries (Dar, Ahmed, & Raziq, 2017). In developing economies SMEs contribute positively to the creation of employment opportunities, reduction in poverty, development of entrepreneurship (Hosseininia & Ramezani, 2016). SME sector in Pakistan contributes 30% to Gross Domestic Products (GDP), though this sector constitutes 93% of the overall businesses in Pakistan (Mirani & Shah, 2012). The challenges these SMEs face include; lack of education and training, difficulty in access to finance and modern technology and, entrepreneurial skills which may have somehow negative impacts on health of these SMEs (Hussain, Abbas, & Khan, 2017; Jaffari et al., 2011). Though, the respective share of this sector into national economy is low compared to the large organizations, however, the importance of this sector cannot be ignored in the economic and social development process of the country. It is argued that the development of this sector is one of the prerequisites for ensuring economic and social development in any country (Dobrovic, Lambovska, Gallo,
Keeping in view the increasing importance of this sector, the current study highlights the important role these strategic orientations can play in development of this sector and making it more competitive, since this sector has the potential to promote social and economic development.

The data were collected from owners or managers of SMEs registered with either SMEDA or chamber of commerce, with less than 250 employees as per the criteria of Small and Medium Enterprises Authority (SMEDA) Pakistan for definition of SMEs. This study concentrated on two big cities of Pakistan namely Islamabad and Peshawar for data collection. For this purpose, 400 questionnaires were randomly distributed among the respondents, of which 225 were received back, of which some were discarded due to missing information. The usable responses were calculated to be 207, resulted in a response rate of 52%.

### 3.2 Measurement

This study used quantitative research methodology to collect the primary data. MO was measured through 15-items scale, adapted from Narver& Slater (Narver& Slater, 1990). LO was measured through 15-items scale adapted from Sinkula et al. (Sinkula et al.,1997) and validated by Nasution et al. (Nasution et al., 2011). MO and LO were measured on five-point Likert scales, ranging from 1 = —strongly disagree to 5 = —strongly agree. The organisational performance as dependent variable was subjectively measured through 3-items namely market share, sales growth and overall performance on a five-point Likert scale ranging from 1 = —poor to 5 = —excellent, where the by asking the respondent. The respondents were asked to assess the results of their companies against the competitors over the past three years.

### 3.3 Data analysis

To ascertain the reliability, pilot testing of the developed instrument was performed. The Cronbach alpha reliability statistics were used to measure the reliability of the variables of the study. The alpha reliability for MO and LO and organizational performance was checked and found to be 0.68 and 0.68 respectively. The alpha reliability results for the dimensions of MO and LO are as follows; competitor orientation (0.67), customer orientation (0.70), inter-functional coordination (0.66), commitment to learning (0.80), shared vision (0.79) and open mindedness (0.77). The alpha values of the main variable and their sub-dimensions were found to be above 0.60 (Hair, Babin, Money, & Samouel, 2003), and thus indicated that the instrument is reliable. Descriptive statistics i.e. skewness and kurtosis were used as indicators of the deviation which have been suggested by Meyer, Becker, & Van Dick (2006) to confirm that whether the data is normal. The values derived for both skewness and kurtosis were within acceptable range indicating the data was normal. Inferential statistics were used to test the hypotheses of the study. Pearson correlation was used to confirm the correlation among the variables of the study. Linear regression analysis was conducted to check the significant influences of LO on organizational performance. The moderating effect of MO on LO-organizational performance link was also checked using Baron and Kenny (Baron and Kenny, 1986) approach. Other assumptions like homoscedasticity, multicollinearity were satisfied before the regression analysis was performed.

### 4 Findings

The results of linear regression analysis derived from testing H1 are given in Table 1. The results indicated that LO has a significant (F=155.006, p=0.000) and positive impact on organizational performance (standardized β = .656). Therefore, H1 of the study is supported.

<table>
<thead>
<tr>
<th>Table 1 Coefficients for H1</th>
</tr>
</thead>
</table>

The results of moderating effects of MO on LO and OP relationship using three steps Baron and Kenny (1986) method of moderation are reported in Table 2. The results of linear regression have already been reported in Table 1, where LO has significant and positive impact on organizational performance (Step 1). In step 2 of the Table 2, MO was added as moderator with LO. The results indicated that the addition of MO showed the increase of 02 per cent R-square i.e. 0.433-0.431=0.355 (change of F-value = 81.198, p <0.05). In step 3 of Table 2, after adding the interaction term of MO and LO (LO*MO) with step 2, the explanation power of the model increased to 77.1 per cent (R2 = 0.771; p <0.001). The results reported that interaction term resulted in significant increase of 33.8 in explaining the variance in OP (change in F-value = 227.713, p <0.001). The results demonstrate that adoption and implementation of high level of MO practices in organizations strengthen the LO-OP relationship. Thus, hypothesis H2 is supported.

### Table 2  Model Coefficients and Summary for H2

<table>
<thead>
<tr>
<th>Step</th>
<th>LO</th>
<th>Standardized beta</th>
<th>R</th>
<th>R²</th>
<th>F Change</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>LO</td>
<td>0.656</td>
<td>0.656</td>
<td>0.431</td>
<td>155.066</td>
<td>0.000</td>
</tr>
<tr>
<td>2</td>
<td>LO</td>
<td>0.617</td>
<td>0.666</td>
<td>0.433</td>
<td>81.198</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>MO</td>
<td>0.119</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>LO</td>
<td>-0.594</td>
<td>0.878</td>
<td>0.771</td>
<td>227.713</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>MO</td>
<td>-0.118</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>IT</td>
<td>1.424</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* LO (Learning orientation), MO (Market orientation), IT (Interaction Term).

5 Discussion

The objective of the present study was to investigate the role of LO and MO for improving organizational performance of SMEs in Pakistan. The current study also examined the moderating effect of MO on organizational performance. To examine how LO strategy is critical for improving the organizational performance; we tested our first hypothesis (H1) to check the effects of LO on organizational performance. The results demonstrated that there is positive and significant influence of LO on organizational performance and support the previous studies indicating that LO positively influence firm performance (Keskin, 2006; Wang, 2008). To examine the moderating effect of MO on the LO-organizational performance relationship, we tested our second hypothesis (H2), the results of which revealed that MO moderates the link between LO and organizational performance. The results support the work of Baker and Sinkula (Baker and Sinkula, 1999) that both MO and LO enable organizations to deliver superior customer value and leverage the market opportunities by serving with innovative products. Voola, Casimir, Carlson, & Anushree (Voola, Casimir, Carlson, & Anushree, 2012) also support the notion that organizations deploying multiple orientation simultaneously are better able to serve the customers and compete in the dynamic market successfully.

6 Conclusion

This research has several limitations. Subjective performance measures were used in light of the previous studies of Narver and Slater (Narver and Slater 1990) and Roxas et al. (Roxas et al., 2016). However, objective performance measures such as financial data would be valuable to be employed and the results should be compared with the current study for more insights on the subject matter. Moreover, this study relied on subjective performance measures, so on the survey design of the current study. This study provided an integrated approach and investigated the relationship between MO, LO and organizational performance, it is
proposed that future research may take the sub dimensions of these orientations and their relationships with organizational performance may be examined. This study was conducted in SMEs operating in two cities of Pakistan; future studies concentrating on other industrial hubs of the country are proposed to be conducted for gaining more insights on the behaviour of these orientations.

References


