1 IPBJ Vol. 3 (2), 15 - 31 (2011)

THE ROLE OF MARKET ORIENTATION AS A MODERATING VARIABLE IN THE RELATIONSHIP BETWEEN ENTREPRENEURIAL ORIENTATION AND FIRM PERFORMANCE

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ABSTRACT

This conceptual paper tries to examine the relationship between entrepreneurial orientation (EO) and firm performance and also the role of market orientation (MO) as a moderating variable. EO and MO are important strategic orientations that can coexist and relate to the firm's performance but most of the studies which performed these orientations towards firm performance considered as independent variables and carried out separately. This paper also discussed the main dimensions of EO and MO variables and its relation to the firm performance. Finally it will be ended with the conceptual framework and methods that should be used for future study.

Keywords: *entrepreneurial orientation, market orientation, firm performance*

Introduction

The dynamic and hostile business environment may affect the relationship between entrepreneurial orientation (EO) and firm performance. This gave rise to the issue that plagues the study of entrepreneurial orientation and firm performance as stated by Covin, Green & Slevin (2006) which constructs moderating variables that may affect their relationship. This paper tries to propose market orientation as a moderating variable to that relationship.

Several studies on the relationship between market orientation and firm performance that used different moderating variables can be summarized as the following table:

Table 1

Summary of moderating variables used in previous studies on the relationship between market orientation and firm performance.

Researchers	Moderating Variables
Norzalita & Norjaya (2010)	External environment
Baker & Sinkula (2009)	Entrepreneurial orientation
Iskandarsyah (2008)	Use of technology
Sefnedi (2007), Becherer & Maurer (1997)	Environmental factors
Zhou, Brown, Dev & Agarwal (2007)	Different environmental conditions

Therefore, this paper attempts to see market orientation as a moderating variable that may affect the relationship between entrepreneurial orientation and firm performance as suggested by Baker and Sinkula (2009) which stated that market orientation can play a role as a moderating variable that should be studied in future. Next constructs like customer satisfaction may be in addition to the studies (Baker & Sinkula, 2009).

Problem Statement

Market orientation (MO) and entrepreneurial orientation (EO) are separate yet important strategic orientations that can coexist and relate to the firm's performance especially in the development of a new product (Frishmmar & Horte, 2007). Substantial studies show that firms with an entrepreneurial orientation (EO) are more likely to have increased performance as well (Wang, 2008). Currently, the business environment faces pressures that can jeopardize the performance or the existence of the firm if measures are not taken to stabilize the company (Aloulou, & Fayolle, 2005). The business environment has led to shortened cycles of business models as well as product cycle. Moreover, it has now become uncertain to predict the future profitability of the firm from the current operations. As a result, businesses are continually seeking newer opportunities.

The purpose of this paper is to examine the moderating effect of market orientation towards the relationship between entrepreneurial orientation and performance of the firms. The literature reviews relevant studies in relation to the topic and seeks to draw a comparative analysis of the studies concerning the topic. The components of entrepreneurship are fully discussed in relation to performance of the firms. These components include innovative, proactive, risk taking, autonomy and competitive aggressiveness. Similarly, the dimensions of MO will be measured on these components, and these dimensions are customer orientation, competitor orientation and coordination between departments. The review seeks to establish the relationship between EO and performance in firms when MO is considered as a moderator.

Studies on strategic orientations of the firm, such as entrepreneurial orientation (EO) and market orientation (MO), in connection with the firm's performance, has been undertaken. But, still research through further study is required to fill the knowledge gap. Most studies, on the relationship between the orientations of the firm's performance, have been considered as independent variables and are carried out separately. This includes a study on the performance of firms i.e., EO (Lumpkin & Dess, 1996; Lumpkin, Cogliser & Schneider, 2009), and MO of the firm (Zahra, 2008; Ramayah et al., 2011). Instead, most of the studies, performed by combining the EO and MO, with relation to the performance of the firm, also consider these two orientations as independent variables (Atuahene-Gima and Ko (2001), Boso et al., (2011), Becherer and Maurer (1997)).

In addition, the first three constructs: innovativeness, proactiveness, and risk taking, proposed by Miller (1983), and Covin and Slevin (1988), are frequently used in EO studies. Two additional constructs: autonomy and competitive aggressiveness were later proposed by Lumpkin & Dess (1996).

This study employs MO as a moderating variable to measure the relationship between EO and performance of the firms. Many studies on EO and MO have revealed that both of these variables serve as independent variables and the findings are empirically consistent. They jointly support the positive relationship between business performance and profitability of the firm (Becherer & Maurer, 1997; Han et al., 1998; Hurley & Hult, 1998). These proposals, by Baker & Sinkula (2009), suggest that the MO can play a role as a moderating variable that should be studied in the future.

Literature Review

Entrepreneurial Orientation (as an independent Variable) and Firm Performance

The concept of entrepreneurial orientation (EO) emerged from research focused on corporate entrepreneurship. Earlier research on EO was centred on big corporate organizations. Over the years, it has grown to include small and medium-sized firms. Research on EO is predominantly done at the firm level in order to analyze the strategic components of the firm and predict firm performance. The focus is on studying the relationship between the firm and the marketplace and the level of participation of the firm in firm survival, renewal and innovation (Dana, 2011). Product enhancement, new product development and strategic planning facilitate the survival and future growth of the organization. These actions and initiatives exist in almost all businesses, but the degree at which they are capitalized differs from one organization to another. The degree of the commitment and drive to innovate and improve its products or services depends on the entrepreneurial orientation of the organization.

According to Dess (2009), "EO refers to the strategy-making practices that businesses use in identifying and launching corporate ventures. It represents a frame of mind and a perspective toward entrepreneurship that is reflected in a firm's ongoing processes and corporate culture." EO has an impact on the manner in which the firm survives and grows both in the domestic and foreign markets. EO has a direct impact on the decision making mechanism in the organization as it represents the rules, norms and principles of decision making (Wiklund, 2006).

EO refers to the mindset of organizations involved in pursuing new ventures and provides a viable framework for researching entrepreneurial activity. These activities include planning, analysis, decision making, and various aspects of a firm's culture, value system and mission. EO is a firm-level strategy making process that companies use to achieve their organizational purpose, attain their vision and obtain competitive advantage (Schmude, 2007). The influence of EO on firm performance needs to be analyzed carefully in order to understand the nature of the relationship between the two.

A number of EO studies have been conducted to analyze the relationship between the degree of entrepreneurial orientation and firm performance. But these studies have yielded ambiguous results. Some studies found a positive relationship between EO and firm performance. While other studies found no significant relationship between the two (Landstrom, 2008) Lumpkin and Dess (1996) came out with different models on the relationship between EO and performance, suggesting moderator and mediator variables. According to Wales & Rensselaer Polytechnic Institute (2007), a meta analysis of 42 samples from 39 studies suggested a generally positive relationship between EO and above average firm performance. Few studies argue that in certain cases, entrepreneurial strategies could be linked to poor performance. From all these studies, it can be concluded that the degree of impact of EO on firm performance depends on number of internal and external factors. Internal factors include organizational structure, leadership style, management techniques etc. External factors include state of the economy, growth and trends in the industry, government rules and regulations (Fayolle & Todorov, 2011).

The four dimensions of EO: innovativeness, pro-activeness, risk taking and autonomy have an influence on strategy, organizational structure, human resource practices and information systems thus affecting the performance of the organization. Companies that continuously innovate and offer new products and services generate more customer interest, sales and profits. An innovative organization culture facilitates the business to enter into profitable avenues and opportunities in an effective manner. This has a positive impact on the firm performance (Terziovski, 2008).

The concept of EO is established by identifying five dimensions of the entrepreneurial process: autonomy, innovativeness, risk taking, pro-activeness and competitive aggressiveness. It also facilitates the investigation and analysis of the relationship between EO and firm performance (Hisrich et al., 2005).

Market Orientation (as a Moderating Variable) and Firm Performance

Frishmmar & Horte (2007) defines market orientation (MO) as the process in which the needs of customers are satisfied, and this is done through assessment of continuous needs. The dimensions of market orientation include customer orientation, competitor orientation and coordination between departments. MO is a strategic management task that, if well applied within its dimensions, then it leads to successful business performances (Kreiser, Marino & Weaver, 2002).

Furthermore, entrepreneurial orientation (EO) is defined as a combination of processes, practices, and decisions that eventually lead to new entry (Wang, 2008). An entrepreneurial firm that engages in product-market innovation, and involves in risky ventures, is always the first to introduce proactive innovations, and the event attains a competitive advantage over other firms (Marino, Strandholm, Steensma, & Weaver, 2002). As suggested by Lumpkin and Dess (1996), these entrepreneurial dimensions; - innovative, proactive, risk taking, autonomy and competitive aggressiveness, are related to increased firm performance despite today's business environment which is characterized by short life cycles of business models and products.

Just like MO, EO is also a strategic management task, which, if the management appropriately applied in the running of the firm, can lead to improved performance in businesses (Baker & Sinkula, 2009). EO and MO moderate each other, and there needs to be a certain balance in the dimensions for optimal performances in the business (Tzokas, Carter & Kyriazopoulos, 2001).

Sin, Tse, Yau, Chow, and Lee (2005) argued that globalization has led to companies adopting strategies with a global outlook for the purpose of reaching the world market. Nevertheless, the authors assert that differences in the market environments of various countries can influence the kind of strategies that companies develop and adopt, for the purpose of increasing the business performance (Kumar & Subramanian, 2000).

Cadogan, Kuivalainen and Sundqvist (2007) carried out a study to prove the reasoning that MO has a positive linear relationship with business performance. In their study, the authors found that the relationship between the two is a curvilinear presented by an inverted U-curve. This indicates that excessive MO can actually reduce performance of the business (Ward, Girardi & Lewandowska, 2006). The authors therefore suggest that the management task should not focus on ever-rising levels of market orientation but should manage MO to a level that is optimal when the firm's environment and market approach is considered.

As a moderating variable in this study, market orientation as suggested by Narver and Slater (1990) includes the dimensions of customer orientation, competitor orientation and coordination between the departments.

Customer Orientation

Li, Zhao, Tan and Liu (2008) highlight the various ways in which a firm shows orientation to the customer. Firms which are customer-oriented show a strong emphasis on customer satisfaction. Such companies also develop a strong emphasis in understanding the needs of the customer.

Moreover, they participate in the frequent and systematic measuring of the extent to which the customer is satisfied. Customer-oriented firms pay great attention to services especially the after-sales services, and are frequently focused on increasing the customer value. Overall, such firms are characterized by high customer commitment practices.

A customer orientation approach is a market orientation strategy that when combined with EO dimensions can provide a competitive advantage to the firm and ensures the continual running of the business through customers' transactions (Dawes, 2000). Moreover, satisfied customers are likely to do business with the firm again and also invite fellow customers (Im, Mason & Houston, 2007). The more the number of customers using the products of a particular firm, the higher the revenue that this firm will generate. Higher revenue also means that the firm will enhance its profitability and create more room for business growth and expansion (Noble, Sinha, & Kumar, 2002).

All the EO dimensions should be regulated with the customer in mind, such that the business carries out innovations that will benefit the customer (Coley, Mentzer & Cooper, Martha, 2010). Second, the business takes risks of which the outcome will meet the customer needs, both at the present and the future. Third, the business involves aggressive competition in order to retain its market share though holding on to existing customers and attracting newer ones. Fourth, the business is proactive in identifying opportunities for newer ventures for the purpose of satisfying the customer needs, and this can be achieved through addressing the emerging market problems, or through fulfilling areas of deficiency in the market (Langerak, 2003). Finally, the business allows an environment of the autonomy so that the employees are able to work on their own in identifying problems, or areas that need reinforcement, for the purpose of customer added value or making customers satisfied with the firm's goods and services (Jordan & Segelod, 2006). Autonomy should be encouraged in any enterprising firm because it is the employees who interact most with the customers and are in touch with the market, and therefore have a better chance of contributing the best ideas ever (Lumpkin, Cogliser & Schneider, 2009)

Competitor Orientation

Narver and Slater (1990) defines the competitors orientation as the activities of the acquisition and dissemination of information which is necessary in order to understand the strategies of their competitors taken in facing the target buyer. Firms need to know the strengths and weaknesses as well as the ability and strategy of the main competitors in the market (Narver and Slater, 1990). Such information provides a framework in order to create the most value to the customer.

Positioning in the market requires that a firm is aware of the competitor activities and works become ahead of the competitors. A competitor oriented firm responds to competitor's action very rapidly. In identifying the competitor's strategies, the information is shared in the company. A competitor oriented firm always has its top management discussing the strengths and weaknesses of the competitor. Importantly, appropriate competitor orientation means gaining the competitive advantage in regard to the target customer.

Coordination between the Departments

Inter-functional coordination requires that all members of the organization are aware of the customer needs and preferences, and that they understand the market environment (Homburg, Grozdanovic & Klarmann, 2007). Coordination between the departments requires that there is efficient sharing of customer information among the departments. This also includes making interdepartmental customer calls, and there is always the awareness that all the functions contribute to the value of the customer. Through working together, and sharing, all the employees get to know the market information, and the marketing employees also take part in new product development (Stam & Elfring, 2008).

Coordination between departments or individuals positively correlates to improved performance as it contributes to employee motivation through work satisfaction and coexistence (Ayup & Kong, 2010). Malaysia firms especially in the retail industry can tremendously benefit from coordination in the departments for the purpose of promoting a good social environment in the firms. Ayupp & Kong (2010) show that the retail industry is of great importance to the economy of Malaysia and interdependence in the firms' departments is necessary for appropriate work execution and compatibility of the performance of co-workers. As a moderator of EO, coordination across the departments affects autonomy in which independence is desired. However, with the current business environment, it is desired that autonomy is promoted to encourage entrepreneurship, but this should be guided by coordination across the departments so that the goals of the entire organization are common. Ayupp & Kong (2010) highlight two aspects for coordination within the departments and these are; for task performance, and for outcome interdependence.

Firm Performance (Dependent Variable)

Firms operate in an increasingly dynamic environment that is driven by global market changes and economic environment forces that shape industry needs and trends. The success of firms is deeply influenced by the entrepreneurial leadership and strategic management practices that support its business processes.

Numerous research studies and academicians have attempted to define firm performance but the existing body of literature has little consensus on the definition of firm performance. Academicians focusing on economic theories and factors driving business outcomes define firm performance in terms of its ability to mobilize existing resources and assets to generate profits. However, the scope of this definition is limited to the assessment of firms' performance in terms of financial goals and outcomes.

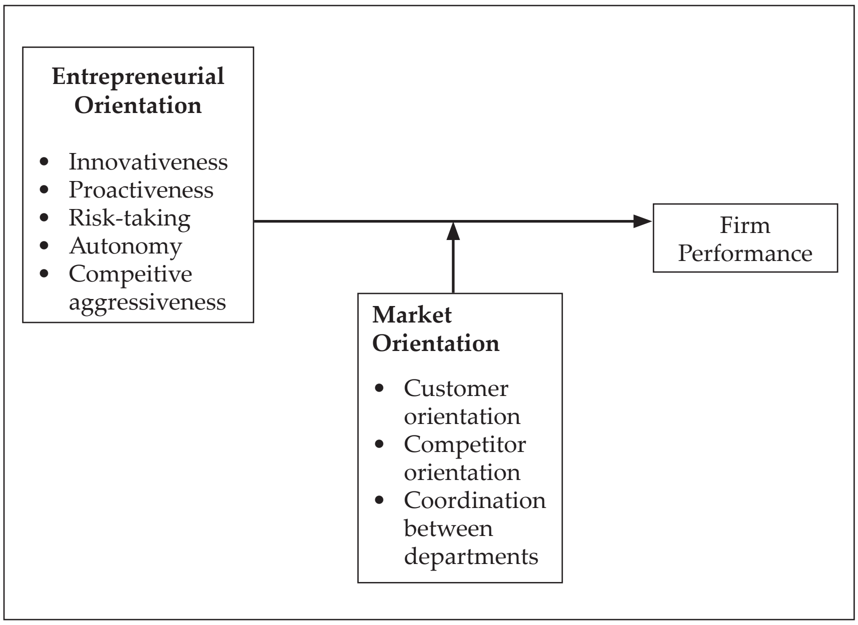
In reality, organizations are social entities that are goal-directed, deliberately structured activity systems with an identifiable boundary (Burton et al, 2006). It is a social entity that functions through individuals that assist the organization in achieving its purpose. These social entities perform economic activities to generate revenue for the firm and support its operations. Thus simplistic measurement of firms in financial terms is not enough. The social, political and psychological aspects of firm performance relates to deeper impacts of firms on the well being of its employees and the extent to which it caters to the needs of its customers, suppliers, and shareholders.

Research study on firm performance and corporate social responsibility conducted by Mackey, Mackey and Barney (2007) have defined firm performance in context of its market value since entrepreneurs are driven by profits and appreciating value for their firm's shares for the stakeholders. Market value according to the researchers has been defined as the price of firm's equity multiplied by the number of its shares outstanding (Mackey et al., 2007). The various dimensions to increasing the firm value involve the firm size, technology adaptations, innovation capacity, and customer satisfaction and employee commitment.

Conceptual Framework

This study focuses on individual characteristics of each of the five unique dimensions of entrepreneurial orientation and its impact on the performance of the firms. Also market orientation put as a moderating variable to test its effect on the relationship between entrepreneurial orientation variables and the performance of firms.

Based on the above literatures, this study proposes a conceptual framework for further studies as the following diagram:



Methodology

This study is intended to be carried out to investigate the relationship between entrepreneurial orientation and firm business performance of small and medium-sized corporations in Malaysia. Studies will also examine the effects of moderating variables of market orientation in relation between entrepreneurial orientation and business performance of the firm. Quantitative approach will be used in this study because of its relevance in explaining and predicting the nature of the relationship and also to test the theory (Leedy and Ormrod, 2005).

The study will be conducted through descriptive study focusing on the characteristics of the population or a phenomenon of study (Zikmund, 2000). In addition, hypothesis testing will be done in an effort to explain in detail the nature of the relationship between the variables to be studied (Sekaran & Bougie, 2010). This is consistent with the stated purpose of the study which is to examine the relationship between the variables of entrepreneurial orientation, market orientation and performance of business firms.

Design of the studies will be using the "cross sectional" procedure in the field involves only once time of data collection process (Cavana et al., 2001). Such case is consistent with previous studies that examine the relationship between entrepreneurial orientation and firm performance (eg. Lumpkin and Dess, 2001; Kreiser, Marino, & Weaver, 2002).

The "survey method" will be used as highly reliable and views as the best method to achieve personal and social facts, beliefs and attitudes (Kerlinger, 1973). Unit analysis of this study is a firm or organization with focus on small and medium-sized firms in Malaysia. It will be represented by the top management of the firm as chairman, CEO or general manager.

Conclusion

It is a challenge to achieve a consistent market orientation for entrepreneurs especially those in the manufacturing company (Golan, 2006). However, through process of management, firms can develop procedures, implement internal systems, and measures the performance that will improve performance, enhance market positioning and coordinate market responses (Lawer & Knox, 2008). Despite the challenges in the business environment, MO appears to improve the performance especially of small firms. Thus, further studies related on MO and EO is important because they moderate each other and require a certain balance in the dimensions in order to get optimal performance in business (Tzokas, Carter & Kyriazopoulos, 2001).

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