CHAPTER THREE

THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

3.1. Theoretical Framework

Upon review of related literature, the following conceptual model has been developed to show the relationship between each variable. Market orientations is described using customer orientation, competitor orientation and inter-functional coordination. Entrepreneurial orientation is described with the help of innovativeness, Risk taking, Proactiveness, competitive aggressiveness, and autonomy. Innovation orientation that involve innovative output both new products and processes. All are theorized to have a positive impact on the Firms’ performance (Increase in market share, Increase in profit margin, Increase in return on asset). It is proposed here that strategic orientation which is described in terms of the three constructs (market orientation, entrepreneurial orientation and innovation orientation) has a positive impact on the firms' performance. Each of the variables has also posited to have a positive impact on the performance of the firm. Market orientation is expected to have a positive impact on the performance of the firm in terms of increased market share, increased profit margin and increased Return on asset. It is also theorized that entrepreneurial orientation has a positive impact of the firms’ performance. Additionally, innovation orientation positively impacts the performance of a given firm. Moreover, we expect to have a positive relationship among the independent variables that form up strategic orientations.
Figure 3.1 Conceptual Model (adapted from Han et al., 1998; Mu and Di Benedeto, 2011; Lonial & Carter, 2013; Zhou et al., 2005a).

3.2. The Link Between Market Orientation and Firm Performance

Marketing is a management function typically responsible for understanding the consumer and keeping the rest of the organization informed about the customer so that superior value is delivered to the customer (Kara et al., 2005); whereby Companies must make long-term assurances to sustain the relationship with the help of guaranteed quality, better service, and innovation works. As a result, market orientation has been supposed as a precondition to success and profitability for most firms.

Market orientation can be defined as the firm’s management decision of delivering the products that are meant to reflect the needs of market demand...
and the changing customer tastes (Slater and Narver, 1995). Market orientation (Slater and Narver, 1994) refers to the development and maintenance of an organization culture that most effectively and efficiently creates higher value for consumers and continuous, greater performance for the firm.

There are two major pioneer frameworks that dominate market orientation research. The Narver and Slater (1990) framework that defines market orientation as comprising of the three behavioral measurements of customer orientation, items that measure competitor orientation, and those items measuring interfunctional coordination, and a long-term horizon and profit stress in the implementation of the three behavioral dimensions. The other one is the Kohli and Jaworski (1990) basis that emphasizes more on market orientation as a process of having three stages: intelligence generation, intelligence dissemination and reaction to available information. The frameworks take similar perspectives of the market orientations in addition to how organizations should address market orientation though they are using varied measurement dimensions (Noble et al., 2002). As a result, the current study has employed the Narver and Slater (1990) framework of market orientation.

Most writers argue that market orientation is a premise for any company's performance. The link between market orientation and performance was first studied in the papers of Narver and Slater (1990) and Kohli and Jaworski (1990). The relationship between market orientation and performance of the firm might be considered to be positive or MO does have a positive impact on firm performance (Haugland, Myrtevit and Nygaard, 2007; Olavarrieta and Friedmann, 2008; Slater and Narver, 2000; Subramanian and Gopalakrishna, 2001; Cano, Carrillat and Jaramillo, 2004; Sin et al., 2005; Kumar, Subramanian and Yaeger, 1998). The importance of incorporating market orientation (Kara et al, 2005) in a unified model of factors of performance is emphasized by numerous research findings, which indicate
that there is an effect of market orientation on customer orientation, commitment of the organization, growth in sales, and financial position and profitability. Market orientation is often posited to improve business performance. The argument is that those market oriented firms are more track and respond to the needs of its customer and their preferences so that they can better satisfy customers and therefore perform at a greatest level (Jaworski and Kohli, 1993)\textsuperscript{14}.

Market orientation (Slater and Narver, 1994)\textsuperscript{29} refers to the development and maintenance of an organization culture that most effectively and efficiently creates higher value for consumers and continuous, greater performance for the firm. The relationship between market orientation and performance of the firm might be considered positive or MO does have a positive impact on firm performance (Haugland, Myrteit and Nygaard, 2007\textsuperscript{10}; Olavarrieta and Friedmann, 2008\textsuperscript{27}; Slater and Narver, 2000\textsuperscript{31}; Subramanian and Gopalakrishna, 2001\textsuperscript{32}; Cano, Carrillat and Jaramillo, 2004\textsuperscript{2}; Sin et al., 2005\textsuperscript{28}; Kumar, Subramanian and Yauger,1998\textsuperscript{32}). With this, we develop the first hypothesis as:

\begin{equation}
H1: \text{Market orientation has a positive and strong impact on the performance of a firm.}
\end{equation}

If this holds, then the three sub-constructs that form market orientation is proposed as the following sub-hypotheses:

\begin{itemize}
  \item H1a: Competitor orientation has a positive and strong impact on company performance.
  \item H1b: Customer orientation has a positive and strong impact on company performance.
  \item H1c: Interfunctional orientation has a positive and strong impact on company performance.
\end{itemize}
3.3. The Link Between Entrepreneurial Orientation and Performance

Entrepreneurial orientation (EO) is defined as a firm-level construct (Zhao et al, 2011)\textsuperscript{38} whereby top-level management of the company assumes risks, generate innovative ideas, show proactiveness strategically (Covin & Slevin, 1989\textsuperscript{4}; Miller, 1983\textsuperscript{23}). It is therefore, Entrepreneurial orientation phenomenon is serving as a driving force behind the organizational search of entrepreneurial activities which has become a central focus of the entrepreneurship literature (Covin and Wales, 2011)\textsuperscript{5}. Entrepreneurial orientation has generally been considered of as an organizational decision-making tendency backing entrepreneurial activities (Lumpkin & Dess, 1996)\textsuperscript{22}.

The root of entrepreneurial orientation go back to 1970s and Miller's (1983)\textsuperscript{23} conception of Entrepreneurial orientation as a construct composed of three sub-dimensions—innovativeness, taking calculated risk, and proactiveness—that must positively change together in addition to competitive aggressiveness and autonomy in order for an Entrepreneurial orientation to be manifested (Covin and Wales, 2011)\textsuperscript{5}. Miller indirectly views Entrepreneurial orientation as the intersection of, or shared variance among the dimensions of entrepreneurial orientations so that one can claim the presence of entrepreneurial orientations (Covin and Wales, 2011)\textsuperscript{5}. Thus, with the help of these dimensions, we can measure the firm’s level of orientation towards entrepreneurship and in turn study its effect on business performance.

Entrepreneurship has the aim of searching, discovering, and exploiting new opportunities to maximize wealth (Kirzner, 1979)\textsuperscript{16} which also reflects the degree to which a firm's business strategy is oriented to the pursuit of new market opportunities and to the renewal of existing areas of operation through the introduction of innovations (Lumpkin and Dess, 1996)\textsuperscript{22}. Lumpkin and Dess also described that management at the top level that put greater values on
entrepreneurial orientation take initiatives in seeking to learn about potential changes in their environments to take calculated risks on prospects coming from first hand technologies, untapped markets, or fresh ways of operating.

An entrepreneurially oriented firm is active in taking risks to discover market opportunities and accordingly employing these opportunities to develop and introduce new products to the market, thereby obtaining first-mover advantages (Han et al., 1998; Hurley and Hult, 1998; Mu and Benedetto, 2011). The emphasis of looking forward and dealing on market opportunities lead the firm to take initiatives and act optimally in the market (Venkatraman, 1989; Wu et al., 2008). This help the firm to promote innovative capabilities by taking advantage of emerging market opportunities and by targeting a better market segments (Lumpkin and Dess, 1996), which will consequently benefit its new product commercialization. These first movers dominantly earns incomes, accumulate consistently greater profits, and reports higher financial performance (Lumpkin and Dess, 1996; Wang 2008). New ventures are not successful in translating Entrepreneurial orientation into higher performance, as revealed by entrepreneurial researches, which is mainly lack of strategic resources (Hitt et al, 2001). With this respect, an entrepreneurial orientation will only facilitate wealth creation when firms strategically acquire, advance and advantage resources that raise both opportunity- and advantage-seeking behaviors (Ireland et al., 2003). With these, entrepreneurial orientation affects the firm performance or Entrepreneurial orientation and firm performance are related to each other.

The relationship between Entrepreneurial orientation and business performance or the impact of Entrepreneurial orientation on business performance has been researched for years showing positive relationship or significant impact on business performance. Among the studies conducted, (for example, Li, Huang and Tsai, 2008) has reported such relationship or impacts. This leads to the
second proposition that entrepreneurial orientation has a positive impact on the business performance

\[ H2: \text{Entrepreneurial orientation has a positive and strong impact on the performance of a firm.} \]

This leads us to the following three sub-hypotheses:

\[ H2a: \text{Innovativeness has a positive and significant effect on firm performance.} \]
\[ H2b: \text{Risk taking has a positive and significant impact on firm performance.} \]
\[ H2c: \text{A firm’s proactiveness has a positive and significant impact on firm performance.} \]
\[ H2d: \text{A firm’s competitive aggressiveness will have a positive and significant impact on firm performance.} \]
\[ H2e: \text{A firm’s autonomy will have a positive and significant impact on firm performance.} \]

3.4. The Link Between Innovation Orientation and Performance

Innovation is an organization’s covering procedure that must repetitively change in response to, and in expectation of, varying business environments (Yang et al., 2012)\(^{37}\). Innovation within a firm could take various ways that include business models innovation, product innovation, service innovation, process innovation, and channel innovation (Carr, 1999)\(^{3}\) to retain or capture markets, to outrun competitors, and to guarantee long-term growth and survival, especially in highly complex and turbulent environments (Freeman, 1994\(^{7}\); Lawless and Anderson, 1996\(^{19}\)).

A strategic innovation orientation provides collective guidance and direction that drive a firm to achieve sustainable competitive advantage (Gatignon and
Xuereb, 1997; Zhou et al., 2005a). Such an orientation reflects the firm’s viewpoint of how to manage innovation through a genuinely embedded set of values and beliefs that guide firm-wide innovation activity (Talke et al., 2011). Innovation activity essentially concerns the creation of new means-end combinations by combining technologies with markets (Benner and Tushman, 2003). Innovation products avail openings for business organizations in terms of development and spread into new areas where it also allow firms to gain competitive advantage. Innovation is defined as generating, accepting, and implementing new ideas, processes, products or services (Erdil et al., 2004).

Innovation orientation is thus, expected to affect the firm’s performance in different ways where innovativeness of a new product and firm innovation capability is important for several reasons. Innovation products avail prospects for firms in the form of development and advancements into new areas where it allow firms to gain economic upper hand. This leads us to the following hypothesis:

\[ H_3: \text{Innovation orientation will have a positive and strong impact on company’s performance.} \]

### 3.5. Strategic Orientation and Business Performance

Strategic orientation is expected to lead to a given level of organizational performance. As described in the literature review, strategic orientation in the current study is a composite effect of market orientation, entrepreneurial orientation and innovation/technology orientation. Thus, a high level of market orientation is theorized to lead to a high level of organizational performance. This relationship is supported by previous researches showing that a positive relationship between market orientation and business profitability (Narver and Slater, 1990; Jaworski and Kohli, 1993; Haugland, Myrtveit and Nygaard, 2007; Olavarrieta and Friedmann, 2008; Slater and Narver, 2000; Subramanian and Gopalakrishna, 2001; Cano, Carrillat and Jaramillo, 2004; Sin et al., 2005; Kumar, Subramanian and
Yauger, 1998). There are also studies revealing a relationship among entrepreneurial proclivity and performance of businesses (Li, Huang and Tsai, 2008); and business performance is also related to the level of firm’s innovation orientation.

It is proposed here that strategic orientation, which is described in terms of the three constructs (market orientation, entrepreneurial proclivity and orientation towards innovation), has a positive impact on the firms' performance. Each of the variables has also posited to have a positive impact on the performance of the firm. Market orientation is expected to have a positive impact on the performance of the firm in terms of increased efficiency, growth and profit. It is also theorized that entrepreneurial orientation has a positive impact on the firms' performance. Additionally, innovation orientation positively influences the performance of a given firm. Moreover, we expect to have a positive relationship among the independent variables that form up strategic orientations so that it demonstrates the expected impact.

In general, market, entrepreneurial, and innovation (technology) orientations are the most important strategic orientations that result in long-term business success in progressive economies (Hurley and Hult, 1998; Noble et al., 2002). As strategic orientation is composed of the three variables, in this study context, it is proposed to have a positive impact on the performance of the firm.

H4: Firm’s strategic orientation will have a positive and significant impact on business performance.
Chapter Reference


