

## **An examination of strategic orientation profiles of low- and high-performing international SMEs**

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### **Abstract**

**Strategic orientations are believed to be associated with the international performance of SMEs, but empirical evidence on the subject is scarce. Addressing this research gap, the present study examines whether low- and high-performing international SMEs emphasize different strategic orientations to different extents. Three different strategic orientations, namely entrepreneurial orientation, market orientation and brand orientation, are being examined. Using independent samples t-test, the authors analyze a data of 385 effective responses from Italian international SMEs, concentrating on two separate performance metrics, namely (1) success in new customer acquisition and (2) success in customer retention. The findings indicate that internationally operating SMEs that perform well in terms of both customer acquisition and customer retention are more market, entrepreneurial and brand-oriented than those SMEs that perform weaker in this area.**

*Keywords: Market orientation, entrepreneurial orientation, brand orientation, international markets, customer acquisition, customer retention, SMEs*

*Track: Marketing Strategy and Strategic Marketing*

## 1.0 Introduction

Even though the changes in operating environment have made it easier for small firms to enter international markets, there are still many questions concerning what affects their decisions to expand to foreign markets and succeed in there (Frishammar and Andersson, 2009). Strategic orientations have been proposed to play a key role in explaining the success of firms, allowing conclusions to be made why some firms are performing better than others. The relationship between various strategic orientations and a firm's international performance is regarded as very relevant both to the firms and policy-makers. However, empirical research on the topic is scarce (Hagen et al., 2012). This study contributes to the literature by studying whether high-performing international SMEs emphasize strategic orientations differently than low-performing ones. Some scholars have suggested that focusing on only one strategic orientation at a time may not be enough when competing successfully in international markets. Instead, a combination of multiple strategic orientations is required (Hagen et al., 2012; Frishammar and Andersson, 2009; Ruokonen and Saarenketo, 2009). In this paper, we empirically examine three strategic orientations, namely entrepreneurial orientation, market orientation and brand orientation. As for performance, we concentrate on international SMEs' success in (1) acquiring new customers and (2) retaining current ones. Both customer acquisition and customer retention are regarded as important in creating customer profitability (Thomas et al., 2004), which in turn is believed to improve firm's overall performance and growth. The findings shed light on what kinds of strategic choices seem to be beneficial for SMEs that pursue success in international markets.

## 2.0 Literature review and hypothesis development

*Market orientation* is about the generation, dissemination and response to market intelligence related to customers' current and future needs, competitors' strategies and actions, channel requirements and abilities, as well as the broader business environment (Morgan et al., 2009). It is believed that market-oriented firms are more likely to achieve high levels of customer satisfaction, maintain customer loyalty, acquire new customers and as a consequence, attain desired levels of growth, market share and profitability (Davis et al., 2010). Market orientation helps firms to develop sustainable competitive advantage by enhancing the creation of learning organization that is willing to experiment and continuously improve its processes and systems (Kumar et al., 2011). Thus, it has been suggested that market-oriented managers are more proactive, opportunity-oriented and committed to recognize and respond to customer needs regardless of the market, and that market orientation promotes successful exporting behaviour (Rose and Shoham, 2002). It is further argued that market orientation fosters and facilitates the learning process needed to succeed in foreign markets, and that market orientation strengthens the abilities of firms to acquire foreign market knowledge and design a proper response to it (Armario et al., 2008). Also, it has been shown that market orientation has a direct effect on firms' competitiveness in foreign markets (Armario et al., 2008). Based on the nature of market orientation and prior results gleaned from international context, it can be assumed that high-performing international SMEs are likely to show a higher level of market orientation than low-performing ones.

*Entrepreneurial orientation* represents how a firm is organized in order to discover and exploit opportunities (Wiklund and Shepherd, 2003). It is a market-driving approach that brings changes and newness to the markets (Chen et al., 2012), as it includes innovativeness,

proactiveness and risk-taking (Rauch et al., 2009; Wiklund and Shepherd, 2005). In markets characterized by rapid change, innovations and proactiveness can prove to be an important avenue for achieving competitive advantage (Dess and Lumpkin, 2005) and risk taking is needed to challenge the existing order of business and consequently, to secure performance (Hughes and Morgan, 2007). Hagen et al. (2012) found that entrepreneurial/growth-oriented firms enjoy competitive advantage in foreign markets due to the fit between capabilities and strategy. In a similar vein, Jantunen et al. (2005) showed that entrepreneurial orientation together with organizational reconfiguring capabilities come with a positive impact on firms' international performance. Finally, Ruokonen and Saarenketo (2009) claimed that entrepreneurial orientation combined with learning and market orientations affects the success of an international venture. However, the above-mentioned studies have not examined the direct effect of entrepreneurial orientation on customer acquisition or retention, even though prior research has suggested that innovation leads to a positive perception of the firm in the minds of market participants (Rosenbusch et al., 2011). In addition, innovative firms achieve competitive advantage via creating innovations that include important and attractive elements, while excluding those that are trivial and undesirable in the potential buyer's value chain (Lengnick-Hall, 1992). It can thus be assumed that entrepreneurial orientation with a strong focus on innovativeness helps firms to attract new customers and deepen relationships with existing ones.

*Brand orientation* can be defined as a mindset, where the brand is recognized, featured and favoured in the marketing strategy (Wong and Merrilees, 2007). Brand-oriented firms see brands as strategic assets, which help them to create value and promote competitiveness (Huang and Tsai, 2013). Along with brand orientation, the main focus of a firm is diverted from customers' wants and needs (although they are not ignored) to treating brand identity as a framework for company operations that is used to ensure uniqueness and differentiation in the markets, thus offering a source of competitive advantage (Urde, 1999). Consequently, although being moderated by some external factors, such as customer type and market life cycle, brand orientation is found to have a positive impact on a brand's success in the markets (Hirvonen et al., 2013). Even though it has been claimed that branding has a vast potential for international marketing (e.g. Wong and Merrilees, 2007), the impact of brand orientation on internationally operating firms' performance has been examined only scarcely. Studies exploring this area have shown that brand orientation affects positively business growth via brand performance and market performance in different countries (Laukkanen et al., 2013). Wong and Merrilees (2007) in turn found that brand orientation helps to shape effective international marketing strategies. On the other hand, the results in prior studies concerning the effect of brand orientation on customer-related market performance are not entirely conclusive. The study of Baumgarth (2010) showed that brand-oriented behaviours have a positive impact on market performance, while in Laukkanen et al. (2013) the results indicated that a negative effect exists between brand orientation and market performance among SMEs operating in Hungary.

Importantly, the strategic means of how the above strategic orientations pursue competitive advantage differ notably from each other. Market orientation lays emphasis on customer satisfaction (González-Benito et al., 2014), while in entrepreneurial orientation the focus is on driving markets with innovative approaches (Chen et al., 2012). In brand orientation, the heart and soul of the strategy is brand identity and how it is used to guide business decisions (Urde, 1999). As all these strategic orientations have been shown to be beneficial to firm performance, it can be assumed that low- and high-performing firms are distinguished from each other in regards to these orientations. Therefore, we hypothesize:

**H1:** *Internationally operating SMEs that succeed in customer acquisition and retention differ with regards to their strategic orientations from those who fail in these aspirations.*

### **3.0 Data and Methods**

The data was collected from Italy, the total number of responses being 778. However, in this study, we focus only on those firms that (1) are SMEs (based on the official categorization by the European Union) and (2) operate in international markets. With these criteria applied, the final sample size is 385 effective responses. The contact information was obtained from a large commercial database administered by an international service provider specialized in company information services. In order to collect the data, an email stating the purpose of the study and asking them to complete an online questionnaire was sent to the firms included in the database. As for the measures, we used six items based on Smart and Conant (1994) for measuring entrepreneurial orientation. Market orientation was measured with 14 measure items derived from Farrell et al. (2008), while brand orientation was measured with five items from Wong and Merrilees' (2007) study. As for the performance measures, namely customer acquisition and customer retention, we used single-item measure items adopted from Laukkanen et al. (2013). All three strategic orientations were measured with a seven-point Likert scale ranging from (1) *Totally disagree* to (7) *Totally agree*. The two performance measures were measured with a five-point scale asking the respondents to evaluate their performance relative to their competitors. The response options ranged from (1) *Clearly poorer* to (5) *Clearly better*.

The data analysis proceeded in several steps. We first analyzed the data in relation to non-response bias and common method bias. Regarding non-response bias, we adopted the linear extrapolation approach (Armstrong and Overton, 1977). The comparison between *early* (the first quarter of the respondents) and *late respondents* (the fourth quarter) in relation to all the 27 research variables showed that there were no significant differences ( $p > 0.05$ ) between the two groups, confirming that non-response bias is not a problem in this study. As for common method bias (Podsakoff et al., 2003), we utilized Harman's single factor test using the CFA approach. The final measurement model (see below for details) was altered so that all the measure items were specified to load on the same latent construct. This one-factor model was then compared against the hypothesized multiple-factor model. The results show that the model fit of the one-factor model is significantly weaker than that of multiple-factor model ( $\Delta\chi^2 = 2344.12$ ,  $\Delta df = 3$ ,  $p < 0.001$ ), indicating that common method bias is not a major concern. Next, we conducted confirmatory factor analysis (CFA) in order to assess the validity of the latent constructs (i.e. entrepreneurial orientation, market orientation and brand orientation). Then, a summated scale was developed for each of the three latent constructs. Finally, these summated scales were used in independent samples t-test for comparing the strategic orientation profiles between low- and high-performing Italian international SMEs.

### **4.0 Research results**

Table 1 summarizes the results of confirmatory factor analysis. The initial measurement model with three latent constructs and 25 measurement items did not yield a satisfactory model fit with  $\chi^2_{(272)} = 1106.03$  ( $p < 0.001$ ), RMSEA=0.089, CFI=0.89, TLI=0.88. To this end, the model was modified based on factor loadings (using a threshold of 0.50 – see e.g. Hair et al. (2010)) and modification indices (Byrne, 2010). The modified model shows a good fit with  $\chi^2_{(182)} = 585.47$  ( $p < 0.001$ ), RMSEA=0.076, CFI=0.94, TLI=0.93. Furthermore, the internal consistency of the constructs is adequate as all the standardized factor loadings

are statistically significant at  $p < 0.001$ . The composite reliability values also exceed the suggested threshold of 0.70 (Hair et al., 2010), and the average variance extracted values for all three constructs are above the 0.50 threshold (Fornell and Larcker, 1981). In addition, discriminant validity is supported as the AVE value for each construct is greater than its shared variance (Fornell and Larcker, 1981); that is, the amount of variance that the latent construct explains in observed variables associated with another latent construct.

Table 1. CFA Results and Construct Validity

Construct	Composite reliability	Entrepreneurial Orientation	Market orientation	Brand orientation
Entrepreneurial orientation	0.92	<b>0.62<sup>a</sup></b>		
Market orientation	0.98	0.46 <sup>b</sup>	<b>0.54<sup>a</sup></b>	
Brand orientation	0.98	0.19 <sup>b</sup>	0.20 <sup>b</sup>	<b>0.85<sup>a</sup></b>
<b>Goodness-of-fit statistics</b>				
	$\chi^2_{(182)}$	Sig.	RMSEA	CFI
	585.47	<0.001	0.076	0.94
				TLI
				0.93

Note: <sup>a</sup>Average variance extracted (AVE); <sup>b</sup>Shared variance (i.e. squared interconstruct correlation)

Table 2 shows the research findings in relation to new customer acquisition. The low performance group refers to those respondents who indicated that their performance relative to competitors was either poorer or at the same level. The high performance group in turn represents respondents who indicated that they perform better than their competitors. As the results indicate, the differences are statistically significant ( $p < 0.001$ ) in relation to all three strategic orientations. It appears from the findings that the level of entrepreneurial orientation (*low*=4.02 vs. *high*=4.97), market orientation (*low*=4.57 vs. *high*=5.31) and brand orientation (*low*=4.57 vs. *high*=5.44) is notably higher in firms that perform better than their competitors in relation to new customer acquisition than in firms that perform poorer or equally well.

Table 2. T-test results (new customer acquisition)

	Low performance (n=149)	High performance (n=236)	t-value	Sig. (p)
Entrepreneurial orientation	4.02 (Std. deviation=1.22)	4.97 (Std. deviation=1.14)	-7.729	<0.001
Market orientation	4.57 (Std. deviation=1.20)	5.31 (Std. deviation=1.10)	-6.175	<0.001
Brand orientation	4.57 (Std. deviation =1.74)	5.44 (Std. deviation=1.53)	-5.010	<0.001

Table 3 reports the results in relation to customer retention. Similarly to new customer acquisition, low performance refers to firms who perform poorer or equally well than their competitors, whereas high performance group represents firms performing better than competitors. Again, the findings indicate that there are statistically significant ( $p < 0.01$ ) differences between the two groups so that better performing firms are notably higher in entrepreneurial orientation (*low*=3.80 vs. *high*=4.77), market orientation (*low*=4.33 vs. *high*=5.17) and brand orientation (*low*=4.63 vs. *high*=5.20). Thus, H1 is supported as the low- and high-performing groups differ significantly from each other in terms of all three strategic orientations.

Table 3. T-test results (customer retention)

	Low performance (n=68)	High performance (n=317)	t-value	Sig. (p)
Entrepreneurial orientation	3.80 (Std. deviation=1.27)	4.77 (Std. deviation=1.19)	-6.069	<.001
Market orientation	4.33 (Std. deviation=1.24)	5.17 (Std. deviation=1.13)	-5.452	<.001
Brand orientation	4.63 (Std. deviation =1.69)	5.20 (Std. deviation=1.65)	-2.610	<.01

## 5.0 Conclusions

The purpose of this study was to examine whether the profiles of internationally operating SMEs differ with regards to market, entrepreneurial and brand orientations, when they are classified in low- or high-performing categories based on their success in new customer acquisition and customer retention. The analysis of data gathered from Italian SMEs indicates that those SMEs who perform better show higher levels of all the studied strategic orientations. The results are in line with prior studies claiming that strategic orientations play an important role in the international performance of SMEs (e.g. Armario et al., 2008, Jantunen et al., 2005, Laukkanen et al., 2013). The findings contribute to the literature by suggesting that a successful international business strategy is likely to be a combination of multiple strategic orientations, instead of just one. So far, the simultaneous examination of multiple strategic orientations has been scarce (Laukkanen et al., 2013). For managers the results shed light on the question of how to allocate resources between different strategic orientations. To conclude, the findings imply that SMEs should pursue success in international markets with a diversified strategic approach. They should satisfy customers, bring innovations to the markets and build brands that create value to both customers and themselves. However, completing all these tasks might prove to be challenging to SMEs who, compared to their larger counterparts, struggle with resource constraints (Gilmore et al., 2001). Different strategic orientations can be seen as partly complementing and partly contradicting with one another and thus, SMEs have to decide which specific means will get them to the desired outcome. Further studies are needed to investigate in more detail which strategic orientations (and combinations of them) generate the best results in different cultural, political and economic environments and whether factors like firm age or resources moderate the relationship. Indeed, while our results offer interesting insights into how low- and high-performing firms combine different strategic orientations, they also leave open the question of whether firms can automatically be high in several kinds of strategic orientations. For example, market orientation and brand orientation represent quite different logics (Urde, 1999), so future research is needed to examine how high-performing firms in reality combine high market orientation and high brand orientation.

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