

Linking Sustainability Orientation in SMEs Strategic Approach for Sustainable Firm Performance: An Integrative Framework

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Small and medium enterprises (SMEs) are often considered as one of the key drivers for sustainable development (i.e., economic, social, and environmental) in both developed and developing countries. In this vein, the success of SMEs remains a critical issue in current challenging times; therefore, this study aims to develop a comprehensive research framework explaining orientation-performance relationship in small business and entrepreneurship context. This study employed the selective-intensive methodology to review the pertinent literature in multiple streams of studies in order to develop a conceptual model. Extant review of the literature highlighted two fundamental strategic orientation dimensions (i.e., entrepreneurial orientation and market orientation) in an orientation-performance relationship. This study underlines the role of sustainability orientation for SMEs superior performance and underpins an integrative framework.

Keywords: Strategic orientation; sustainability orientation; entrepreneurial orientation; SMEs performance

INTRODUCTION

Small and medium enterprises (SMEs) play a central role in economic, social, and environmental development in both developed and developing countries (Higgs & Hill, 2019; Klewitz & Hansen, 2014). In contrast to the larger companies, this category of business dominates the business arena worldwide (e.g., Prashar, 2019). For example, SMEs represent 99% of all businesses in Europe (European Commission, 2019), and 98% of all businesses in Asia providing every two out of three private jobs (Yoshino, 2016). Various studies have reported that SMEs constitute more than 90 percent of the business worldwide, accounting for more than half of the total employment (e.g., World Bank Group, 2019; Kaminskaite, 2017). Because of this dominance, SMEs' success has a huge connotation for the global economy, hence, this issue remains a constant and ongoing subject of research (Jansson, Nilsson, Modig, & Hed Vall, 2017; Yoshino et al., 2016).

In order to ensure survival and competitiveness, SMEs need to focus on the principles, processes, and practices, that guide firm activities to achieve superior performance (Kersten, Harms, Liket, & Maas, 2017; Tutar, Nart, & Bingöl, 2015; Khalil, 2019). Against this background, scholars have devoted much attention to exploring the effectiveness of existing business practices of SMEs and suggested improvements for reducing their dependency upon governmental support (Irwin et al., 2018). Accordingly, firms are striving to seek and adapt new pathways within their strategic management in order to survive in a highly dynamic and competitive business environment (Beliaeva, Shirokova, Wales, & Gafforova, 2018). To this end, the concept of strategic orientation got prominence in the research fields of strategic management, marketing, and entrepreneurship; thus, highlighting the significance of strategic orientation for a firm's effectiveness.

Strategic orientation provides directions, and guidelines to a firm related to their actions, strategies, and decisions to achieve

superior performance (Hakala, 2011). Scholars have predominantly studied the role of strategic orientation linking it with the positive organizational outcomes (e.g., Irwin et al., 2018; M'zungu, Merrilees, & Miller, 2017). Moreover, several of the strategic orientation types have been examined in scholarly works, for example, entrepreneurial orientation (EO), market orientation (MO), technology orientation (TO), learning orientation (LO), and customer orientation (CO). For the most part, strategic orientation is generally considered as an umbrella term that covers multiple constructs (e.g., EO, MO, etc). In this vein, two types of strategic orientation — entrepreneurial orientation (Lumpkin & Dess, 1996; Covin & Slevin, 1989) and market orientation (Jaworski & Kohli, 1996; Narver & Slater, 1990) – have received immense scholarly attention in orientation-performance relationship studies.

Despite scholarly advances in orientation-performance relationship research, there is a dearth of research in several ways. For instance, the research frameworks in existing studies have mainly considered one or two dimensions of strategic orientation (e.g., Brouthers et al., 2015; Kumar, Jones, Venkatesan, & Leone, 2011), however, studies that examine the effects of multiple dimensions of strategic orientation are lacking (Kumar et al., 2011). Furthermore, existing studies have predominantly investigated a direct and/or a linear relationship of strategic orientation on organizational outcomes. Although recent studies have argued about the complex nature of the orientation-performance relationship (Hakala, 2011; Baker & Sinkula, 2009), however, there is limited understanding on how mediating and moderating factors influences such relationships.

Therefore, the main goal of this study is to review the pertinent strategic orientation literature in order to develop a research framework that explains SMEs' orientation-performance relationship in a more comprehensive and holistic manner. Moreover, this study highlights some important mediating and moderating variables to be considered in an orientation-

performance relationship in order to present a clearer and more holistic picture. Such as, this study considers SMEs innovation success and sustainable competitive advantage to intervene in the direct relationship between strategic orientation (i.e., market orientation, and entrepreneurial orientation) and firm performance. Moreover, this study underlines the significance and crucial role of sustainability orientation for SMEs superior performance and underpins an integrative framework.

THEORETICAL FRAMEWORK

This section develops the theoretical basis and arguments to develop an integrative orientation-performance framework. We discuss the review of the literature through the theoretical lenses of the resource-based view, dynamic capability perspective, and strategic orientation. And In the next section, the proposed integrative framework of this study is presented after discussing theoretical argumentations.

The resource-based view (RBV) is one of the most important theories for examining resource strategy relationships. The RBV underlines the significance of internal resources (tangible or intangible) of a firm as the crucial elements of sustainable competitive advantage and better performance (Newbert, 2008; Black & Boal, 1994). However, these resources must be properly managed and organized, such that resources should be “valuable, rare, inimitable, and non-substitutable” in order to achieve a sustainable competitive advantage (Barney, 1991).

The concept of capabilities derived from further research in RBV refers to the enterprise's skills to organize its resources (Constance et al., 2003). Resources are the available stock of tangible or intangible assets possessed by the firm (Teece, Pisano, & Shuen Amy, 1997), whereas capabilities represent the firm's ability to deploy resources for certain desired goals (Constance et al., 2003). Drawing from this theoretical assumption, strategic orientations are generally considered as firm resources and capabilities which play an essential role in order to acquire a competitive advantage (Fainshmidt, Wenger, Pezeshkan, & Mallon, 2019) and superior firm performance (Beliaeva et al., 2018; Kantur, 2016., Khan, 2019).

Strategic Orientation

Strategic orientations are the principles and guidelines that influence firm activities (Hakala, 2011), and reflects a firm's philosophy in order to create certain behaviors that generate superior performance (Narver & Slater, 1990). Previous researchers have approached the concept of strategic orientation through different lenses, for instance, it has been considered as an organizational resource (Barney, 1991), a dynamic capability (Constance et al., 2003), or as an element of organizational culture (Noble, Sinha, & Kumar, 2002), however, despite different perspectives through which authors have approached this concept it is often highlighted as a crucial determinant for SMEs success. According to Gatignon and Xuereb (1997), strategic orientations are the principles and guidelines that provide directions to firm activities for superior performance outcomes. However, several of the strategic orientation types have been identified and studied in scholarly works, but in general, strategic orientation is considered as an umbrella term that covers multiple constructs.

Entrepreneurial orientation (EO) is generally considered a key driver of superior firm performance. EO reflects the ability of a firm to seek out and exploit new opportunities (Zahra, 2008). Lumpkin & Dess, (1996) referred EO to the processes, practices, and decision-making activities towards the new entry. Most of the scholarly works mainly conceptualize EO from these five dimensions, such as “innovativeness, risk-taking, proactiveness, competitive aggressiveness, and autonomy” (Lumpkin & Dess, 1996a; Covin & Slevin, 1989b; Miller & Friesen, 1983). Entrepreneurial orientation (EO) concept is extensively studied and reported to have the significant positive relationships with innovation (e.g., Asemokha, Musona, Torkkeli, & Saarenketo, 2019; Zhai et al., 2018; Alegre & Chiva, 2013), sustainable competitive advantage (e.g., Pratono, Darmasetiawan, Yudianto, & Jeong, 2019; de Guimarães, Severo, & de Vasconcelos, 2018) and SMEs performance (e.g., Karami & Tang, 2019; Tang, Tang, & Cowden, 2017; Semrau, Ambos, & Sascha Kraus, 2016).

In today's intensively competitive and dynamic business environment, market orientation (MO) is crucial for identifying and satisfying the needs and wants of customers in the pursuit of superior long term performance (e.g., Narver & Slater, 2012; Slater & Narver, 1994; Jaworski & Kohli, 1993). MO generally reflects the degree to which a firm strategically and operationally prepared to respond to changing market demands. Among many conceptualization and perspectives, two approaches of MO - as organizational culture (Narver & Slater, 1990), and as the implementation of the marketing concept (Kohli & Jaworski, 1990) - got prominence and considerable attention in the literature. Narver and Slater, (1990) conceptualized MO in cultural dimensions i.e., “customer orientation, competitor orientation, inter-functional coordination, and a long-term profit focus”. Kohli & Jaworski (1990), conceptualized MO as “intelligence generation, intelligence dissemination, and responsiveness”. In terms of its nature, structure, and outcomes, MO is a well-established construct in business management literature that has been extensively studied in strategic orientation research. The existing literature suggests the effects of MO on innovation (e.g., Ozkaya et al., 2015; Boso, Cadogan, et al., 2013), sustainable competitive advantage (e.g., Pratono et al., 2019; de Guimarães et al., 2018) and SME performance (e.g., Presutti & Odorici, 2018; Baker & Sinkula, 2009).

There is the vast majority of empirical evidence available in the existing literature on reporting the influences of strategic orientation (e.g., MO, and EO) on desired organizational outcomes (e.g., Shou et al., 2019; McKenny et al., 2018; Brouters, Nakos, & Dimitratos, 2015). We argue that SMEs can yield superior performance benefits by satisfying the needs and wants of their market (MO) through continuously looking for new ideas and opportunities to improve their products and services (EO).

An Integrative Framework of Strategic Orientation and SMEs Performance

The previous section briefly discussed the reviewed literature on strategic orientation indicating that how a firm's strategic orientation is crucial and plays a central role in the strategic management process to facilitate superior desired outcomes.

However, in order to stay effective and competitive, a firm must be able to perform better than its competitors. To this end, competitive advantage is reflected through the ability of a firm to outperform others in the business by providing satisfying the market need more effectively and efficiently (Peteraf, 1993). In this vein, a firm achieved a sustainable competitive advantage when competitors are incapable of duplicating or imitating the firm's resources (Kumar, Jones, Venkatesan, & Leone, 2011b). Therefore, firms must continuously look for new ideas, opportunities, and strategies in order to outperform other firms in the industry and continuously strive to innovate (Popadiuk & Choo, 2006).

Innovation is generally approached in two distinctive perspectives in the literature (Hult, Hurley, & Knight, 2004). For instance, innovation is considered as a process - the openness of a firm to new ideas (Verhees, Meulenbergh, & Pennings, 2004), and as an output - the outcome of the process or the innovation success (Baker & Sinkula, 2009a). It has been argued that innovation success leads a firm to acquire a sustainable competitive advantage (Tinoco, 2010; Madhavan and Grover, 1998). Moreover, there is ample literature suggesting that strategic orientations (i.e., entrepreneurial, and market) as firm resources and capabilities to promote innovation (Tutar, Nart, & Bingöl, 2015), acquire a competitive advantage (e.g., Fainshmidt et al., 2019) that in turn lead towards achieving superior firm performance (e.g., Kantur, 2016).

Different scholars have highlighted the significance of the strategic orientation on attaining organizational goals from a macro and micro perspective (e.g., Fainshmidt, Wenger, Pezeshkan, & Mallon, 2019; McKenny, Short, Ketchen, Payne, & Moss, 2018; Gatignon & Xuereb, 1997). On the other hand, the lack of focus on sustainability at a strategic level is one major reason for limited progress towards sustainable development (Baumgartner & Rauter, 2017; Engert, Rauter, & Baumgartner, 2016). Despite SMEs dominance in all sectors and their crucial role in the economy, previous studies have barely developed investigations in this regard. However, more recently, there is a paradigm shift in the firm's strategic management as governments, policymakers, scholars, and civil society has suggested that businesses should align the social and environmental concerns in their strategic decisions. In this regard, the firm's responsible orientation towards social and environmental aspects of sustainable development is often highlighted as sustainability orientation (SO) in the literature (Kuckertz & Wagner, 2010; Tata & Prasad, 2015). Sustainability orientation (SO) refers to the extent of a firm's internal commitment to integrating societal and environmental considerations in decision making (Shou et al., 2019).

A sustainability-oriented SMEs strive to align the social and environmental demands of stakeholders in their strategy management along with their economic goals. Drawing on previous literature and theoretical justifications, we argue that SMEs can take an innovative stance (Tutar, Nart, & Bingöl, 2015) deploying entrepreneurial and market orientations, thus, they perform better than others in the industry and attain a sustainable competitive advantage (e.g., Fainshmidt et al., 2019).

Moreover, the sustainability orientation (SO) of SMEs plays a boundary condition role in this relationship, such that, SO will enhance the positive effects of strategic orientation on innovation success and sustainable competitive advantage, that in turn will lead towards achieving superior firm performance (e.g., Kantur, 2016). Figure 1 below presents the overall integrative framework of this study.

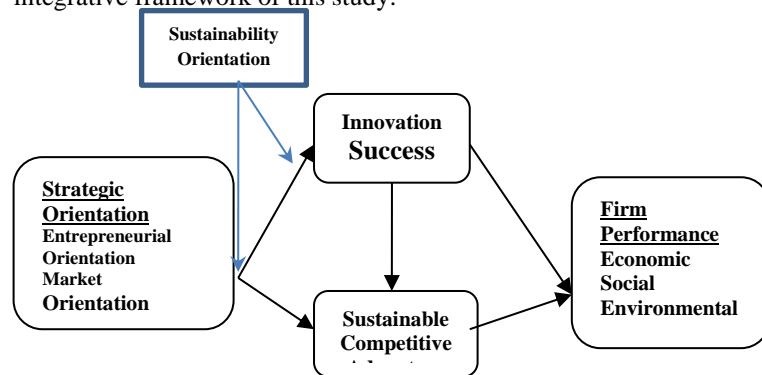


Figure1 - Interaction effects of SO in Orientation - Performance relationship mediated by Innovation success and sustainable

We argue that strategic orientations are unique resources and capabilities which facilitate the superior performance of SMEs directly, or indirectly, thus, the proposed model suggests innovation success and sustainable competitive advantage to mediate the direct relationship between strategic orientation (EO and MO) and SMEs performance. Although, SMEs seek new ideas and opportunities (EO), and strive to satisfy market needs (MO) in order to achieve superior business objectives, whereas incorporating triple bottom line (TBL) in their strategic priorities and actions will enhance the strength of the relationship between strategic orientation and firm-level desired outcomes (i.e., innovation success, and sustainable competitive advantage).

CONCLUSION

This paper develops a conceptual model of orientation-performance relationship in SMEs context. The proposed framework also suggests some indirect paths considering moderating and mediating variables in an orientation-performance relationship. For instance, we argue that innovativeness and sustainable competitive advantage intervenes in the relationship between strategic orientation (MO, and EO) and SMEs performance. Moreover, the proposed framework also highlighted the significance of sustainability orientation (SO) in enhancing the strength of the positive relationship between strategic orientation and SMEs performance through innovation success and sustainable competitive advantage.

This study provides some important contributions to the literature that fills the existing knowledge gaps. SMEs's success has been often argued to have huge implications for the growth and socio-economic development of a country (Yoshino et al., 2016). More specifically, the economy of a country is a direct reflection of its small businesses and entrepreneurship sector in a developing country context (Yacob, Wong, & Khor, 2019), for example, Pakistani SMEs represent about 90% of all businesses,

accounting for 80% of the non-agricultural labor force; moreover, contributing 40% to GDP per year (SMEDA, 2019). The existing research studies have predominantly focused on the effects of government policies on SMEs success. However, contrary to this perspective, the current study takes a different approach by focusing on SMEs strategic management and highlighting the significance of their own behaviors, actions, and strategic approaches to achieve superior performance.

This proposed orientation-performance model considers some of the contemporary theoretical issues surrounding SMEs performance in order to present a holistic picture. This paper sheds the light on some crucial aspects which can help and assist academicians, industry, and policy. We also encourage future researchers to empirically test the proposed variables as well as considering some additional important factors in order to clarify and understand the complex nature of the orientation-performance relationship.

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