

# STRATEGIC ORIENTATION AND SME PERFORMANCE: CONCEPTUAL, OPERATIONAL AND RELATIONAL ISSUES

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## ABSTRACT

*While the strategic management literature has numerous studies examining the relationship between strategic orientation and firm-level financial performance, relatively few studies have viewed this relationship in an entrepreneurship context. This study uses three samples to develop an operationalization of strategic orientation in a small-firm context. Moreover, in a final sample of 613 respondents from 19 small-to-medium enterprises (SMEs), this study empirically demonstrates a significant positive relationship between strategic orientation and SME firm-level financial performance.*

## INTRODUCTION

According to the U.S. Department of Labor, in 2009 small businesses represented 99.7% of all employer firms in the US. While small-to-medium enterprise (SME) growth was impacted by the 2008 recession, by 2009 entrepreneurs were already beginning to look for new opportunities for small business growth (Small Business Administration, 2010). Despite the importance of SME growth, there is not much known about the antecedents of SME growth. Overall, development and conceptualization of SME growth is limited (Wiklund, Patzelt, & Shepherd, 2009).

Strategic orientation has received considerable attention in the strategy literature as an important antecedent of firm growth. It has been defined as a continuous and iterative process that must focus on the different effects of rational, economic, political and subjective aspects of strategic change on competitive performance (Whipp, Rosenfeld, & Pettigrew, 1989). Grounded in Barney's (1991) theory on the resource-based view (RBV) of a firm, researchers have defined *strategic orientation* as an attribute that influences the ability of a firm to focus strategic direction of the firm and build or sustain the proper strategic fit for superior firm performance (Davidsson and Wiklund, 2000; Gatignon & Xuereb, 1997). Since strategic orientation will vary from one organization to the next; and vary based on contextual organizational variables,

strategic orientation is viewed as a multidimensional construct (Venkatraman, 1989). Therefore organizations use resource allocation and environmental cues to determine the right plan for the company to achieve its goals (Goll & Sambharya, 1995). Based on strategic management literature, strategic orientation increases the likelihood of share goals, making it easier to implement effective processes and increase performance.

While a significant body of literature exists examining the impact of strategic orientation and growth in large firms, generalizing these findings to SMEs is suspect. The impact of strategic orientation on SMEs will differ from big businesses based on resource allocation constraints and capabilities of the firm. In an attempt to address the gap between strategic orientation and context-specific SME performance, this paper attempts to operationalize strategic orientation in a small-firm context. Moreover, we examine 857 respondents from 22 SMEs to empirically demonstrate a relationship between strategic orientation and SME performance. First, we will discuss strategic orientation from a large business and an SME perspective. Accordingly, this study: (1) operationalizes strategic orientation; and (2) assesses the impact of strategic orientation on SMEs.

### **Strategic Orientation and Large Firm Performance**

As previously stated, there have been many studies that have examined the significance of strategic orientation and its requisite impact on firm success. Studies have conceptualized strategic orientation utilizing various approaches including classifying firms into typologies (Miles and Snow, 1978) or identifying cultural attributes (Venkatraman, 1989). Consequently, confusion exists regarding the conceptualization and operationalization of strategic orientation. A review of the research attempting to operationalize strategic orientation has identified nearly 20 attributes to measure strategic orientation including variables associated with several alternative strategic orientations including learning, entrepreneurial, employee, and innovation orientations. While the Miles and Snow (1978) strategic archetypes typology is the earliest conceptualization of strategic orientation, it is operationalized in a limited number of studies. Studies have increasingly employed Venkatraman's (1989) conceptualization of six cultural dimensions of strategic orientation: aggressiveness, analysis, defensiveness, futurity, proactiveness, and riskiness. Alternative conceptualizations include both customer orientation and competitor orientation as prevalent themes in this body of research (Kohli & Jaworski, 1990; Slater & Narver, 1994).

## **Strategic Orientation and SME Performance: Conceptualization Issues**

Interestingly, while strategic orientation is commonly studied in the strategic management literature, there have been limited attempts at assessing its impact on firm performance in small business and entrepreneurship studies. Also, there is a lack of clarity regarding the construct of “entrepreneurial strategic orientation,” as entrepreneurship researchers have addressed this construct from both organizational- and individual-level perspectives (Davidsson & Wiklund, 2001). For example, Tan (1996; 2002) defined “entrepreneurial strategic orientation” as the strategic decision-making processes specific to individual entrepreneurs. Other researchers (Wang, 2008; Wiklund, 1999) took a macro-oriented view and designated “entrepreneurial strategic orientation” as firm-level characteristics of new ventures that facilitate product-market innovations. Accordingly, this discrepancy within the existing entrepreneurship literature limits the generalizability of assessing performance outcomes in SME studies. But several studies attempt to link SME and strategic orientation or specific dimensions of strategic orientation to characteristics of small firms. First, Covin and Slevin (1991) postulated that organizations that adopted an entrepreneurial posture and possessed a strong strategic orientation would yield positive firm performance. Covin and Slevin’s (1991) Conceptual Model of Entrepreneurship as Firm Behavior noted the impact of entrepreneurial posture and strategic orientation of large firms rather than SMEs. In keeping with Covin and Slevin’s (1991) model, Borch, Huse and Senneseth (1999) presented dimensions of strategic orientation and examined entrepreneurship as firm behavior rather than individual characteristics exhibited by managers. Although Borch et al. (1999) positively correlated dimensions of strategic orientation to firm growth; the dimensions were not empirically linked to financial performance. While both studies provide significant insight into the relationship between strategic orientation and entrepreneurial behaviors of firms, questions remain as to the relationship between strategic orientation and the firm-level financial performance of SMEs.

## **SMEs and Entrepreneurship: Differentiating large firms vs. SMEs**

As first theorized by Mintzberg (1973) and subsequently supported by Khandwalla (1977) and Miller and Friesen (1982), SMEs possess different structures and firm ideologies than larger enterprises. Given the existing literature depicts SMEs as simple-structure firms that can implement strategies relatively quickly, due in part by the flexibility inherent in small firms (c.f., D’Amboise and Muldowney, 1988; Messeghem, 2003; Miller and Friesen, 1984; Quinn and Cameron, 1983), it can be argued that strategic orientation may have direct implications on SME performance.

Oftentimes when strategic orientation has been tested in the entrepreneurship literature (c.f., Covin, Green, and Slevin, 2006; Ireland et al., 2003; McGrath and MacMillan, 2000; Meyer and Heppard, 2000) it has been confounded with entrepreneurial orientation. Wiklund and Shepherd (2003) noted in a survey of 384 Swedish SME's the importance of entrepreneurial orientation and consequently, the resulting firm performance. Lumpkin and Dess (1996) cited five dimensions of entrepreneurial orientation that impact performance. Entrialgo (2002) examined 233 managers of Spanish SMEs and linked entrepreneurial orientation to performance. Wiklund (1999) hypothesized that entrepreneurial orientation is positively associated with small firm long-term performance as a result of previous research highlighting the ability of smaller firms to grasp first-mover advantages and newer opportunities. Moreno and Casillas (2008) took a different approach and looked more toward the relationship between entrepreneurial orientation and the rate of growth in organizations, which can indirectly link to firm performance. Escriba-Esteve, et al. (2008) denoted a positive correlation between strategic orientation, top management experience, and firm performance of 295 SME's. Pearce, Fritz, and Davis (2009) identified a positive relationship between entrepreneurial orientation and firm performance in 250 medium-sized non-profit religious organizations. Tang, Tang, Marino, Zhang, and Li (2008) identified a curvilinear relationship between entrepreneurial orientation and performance in a sample of 185 Chinese firms. A meta-analysis compiled by Rauch, Wiklund, Lumpkin, & Frese (2009) indicated 51 studies designating a moderately large correlation between entrepreneurial orientation and firm performance. In summary, while there is an impressive body of research designating a relationship between entrepreneurial orientation and SME performance, the literature suggests both conceptual and operational differences between entrepreneurial orientation and strategic orientation.

### **Differences between Entrepreneurial Orientation and Strategic Orientation**

The overlap between dimensions of strategic orientation at a large firm and SME context indicates core differentiations at each level. A review of the extant literature illustrates the confusion that exists between the two constructs.

Conceptually, entrepreneurial orientation is comprised of three core attributes: introducing new products or services through experimentation and innovative behavior, taking risks in uncertain environments, and proactively seeking new opportunities. Several studies provide variation about these core attributes of entrepreneurial orientation. Miller's (1983) work yields the most commonly employed conceptual definition of entrepreneurial orientation consisting of product-market innovativeness, risk taking, and proactiveness. Covin and Slevin (1991) define entrepreneurial orientation as firms that exhibit

innovation, proactiveness, and risk-taking, with strategic actions an outcome of the firm's risk-taking behaviors.

In contrast, researchers have characterized strategic orientation based on two primary attributes: 1) improving the strategic position of the firm through the analysis and exploitation of environmental information and 2) taking a future oriented approach when applying firm resources. Gatignon & Xuereb (1997) define strategic orientation as (1) the ability of a firm to focus strategic direction and (2) to build or sustain the proper strategic fit for superior firm performance. Morgan and Strong (2003) denoted three approaches to strategic orientation, highlighting a firm's analysis, defensiveness, and futurity, by operationalizing dimensions that evaluated performance in medium and large manufacturing firms. Goll & Sambharya (1995) identified strategic orientation as a firm's ability to allocate resources and comprehend environmental cues to determine the right plan for the company to achieve its goals. Whipp, Rosenfeld, & Pettigrew (1989) classified strategic orientation as a continuous process focused on the effects of strategic change on competitive performance.

Specifically, with regard to strategic orientation in a SME context, two studies offer convergent conclusions. Liao, Welsch, and Stoica (2003) determined a positive relationship between 242 firms that assume a proactive strategic orientation and SME responsiveness to environmental factors. In this study, the authors measured strategic orientation using a three-item scale measuring brand loyalty, speed of response to customers, and market timing. A second study identified strategic orientation as individual level behavior of managers within 164 SMEs (Gagnon, Sicotte, & Posada, 2000). In this work, strategic orientation was defined as either entrepreneur behavior, characterized by taking advantage of new opportunities, or administrator behavior, characterized by effectively optimizing firm resources. The commonality between both studies was the presence of mechanisms, either enhanced customer orientation or behaviors exhibited by the firm's managers to optimize resources, in order to cultivate a competitive advantage. Based on the differentiation of large firms and SMEs, strategic orientations will differ. Therefore, calls from research have presented opportunities in SME performance research that highlight the importance of viewing SME performance and growth from a broad scope and create a model to help further understand SME performance and growth (Wiklund et al., 2009).

In summary, strategic orientation is characterized as a means to foster a competitive advantage impacting future organizational performance outcomes and growth while a firm's entrepreneurial orientation focuses on the pursuit of innovation.



## **Opportunities in SME-Performance Research**

As previously mentioned, given there is limited research attempting to link the strategic orientation and SME level performance in the entrepreneurship literature, there has been a call for studies to investigate this relationship (c.f., Escriba-Esteve *et al.*, 2008). This opportunity may be due, in part, to two primary issues. The first involves the size of firms analyzed in previous research. Despite the indication from several studies (Jennings, Rajaratnam, & Lawrence, 2003; Jennings & Lumpkin, 1992; Lindsay & Rue, 1980; Robinson, 1982) that smaller firms exhibit contrasting characteristics compared to those of large firms, strategic orientation and performance linkages have almost exclusively occurred after examining large firms. This creates a void in the collective understanding of the role of strategic orientation in SME performance.

A second issue is the lack of a constant measure of SME strategic orientation. Several studies have attempted to address this deficiency. Aragon-Sanchez and Sanchez-Marin (2005) identified management characteristics of SMEs that facilitate strategic orientation and performance. The major limitation of Aragon-Sanchez and Sanchez-Marin (2005) was the absence of a consistent measure of SME strategic orientation, as strategic orientation was determined by the paragraph method. As noted by Conant, Mokwa, and Varadarajan (1990), the self-typing, paragraph method has several limitations, most prominently limited content validity due to the single-item scale that over-simplifies the archetypes.

The dual notions that SME level strategic orientation should be measured and analyzed in a different classification system compared to large firms can provide new insights to the existing body of knowledge about SMEs. It also takes heed to Wiklund *et al.* (2009) suggestions of an integrative model of small business growth that is broad enough in nature to be generalizable across SMEs. In order to address these issues in the literature, we develop a measure of strategic orientation. To accomplish this we performed two studies to provide construct and content validity for a measure of strategic orientation in SMEs. In a third study, we confirm criterion-related validity by identifying three hypotheses to test whether or not the strategic orientation of an SME impacts SME firm performance. Our empirical examination provides evidence on the specific relationship between strategic orientation and SME performance.

## **HYPOTHESIS DEVELOPMENT**

### **SME Performance Measurement**

The RBV perspective is linked to entrepreneurial characteristics (Alvarez & Busenitz, 2001) and the ability of SMEs to control and attain resources as an

important factor to increase growth and performance (Wiklund & Shepherd, 2003b). As seen in previous research (c.f., Gatignon & Xuereb, 1997; Goll & Sambharya, 1995), when competitive advantages are pursued, defended, and achieved via a strong strategic orientation, there is a positive impact on the financial performance of the firm. By continuously seeking out new opportunities, firms that exhibit a robust strategic orientation take action and advantage of new markets or products in order to generate a competitive advantage (Miles & Snow, 1978; Porter, 1981). Similarly, it can be argued that SMEs are more likely to gain competitive advantages over competitors via strategic orientation, resulting in superior performance similar to larger firms. Consequently, we argue that:

*H1 SME financial performance is related to strategic orientation.*

Numerous researchers (Delios & Beamish, 2001; Lumpkin & Dess, 1996; Morash, Droge, & Vickery, 1996; Rutherford, Kuratko, & Holt, 2008; Weinzimmer, Nystrom, & Freeman, 1998) advocate the employment of manifold measures to assess organizational performance. Given the absence of consensus in the entrepreneurship literature regarding appropriate methods to measure firm performance, previous studies have utilized both determinants of firm growth (Chandler & Hanks, 1994) and financial performance measures such as ROA (Lu & Beamish, 2006) and ROE. Previous SME research (Davidsson, Steffens, & Fitzsimmons, 2008; Kalleberg & Leicht, 1991; Rosa, Carter, & Hamilton, 1996; Steffens, Davidsson, & Fitzsimmons, 2009; Watson, 2002) suggests that researchers have focused on profit growth or sales growth, perhaps due to the postulation that this data is more accessible from small firms than accounting metrics (Cooper, 1995). Considering organizational growth is an important determinant for SME success and a reliable measure for SME performance, we hypothesize that:

*H1a SME revenue growth is positively related to strategic orientation*

*H1b SME profit growth is positively related to strategic orientation.*

While it should be acknowledged that financial performance measures of ROA and ROE are customarily utilized in studies evaluating samples from mature, established firms (Chandler & Hanks, 1994), recent calls from Davidsson *et al.* (2008) and Steffens *et al.* (2009) advocate for greater employment of financial performance measures in SME research. As suggested by Davidsson *et al.* (2008), the entrepreneurship literature possesses a slight pro-growth bias when evaluating performance of SMEs and renewed investigation to “the relevance of accounting measures of profitability” would be advantageous

(p. 4). Whereas it is significant to evaluate performance metrics assessing a firm's outputs, for example revenue and profit growth, it is also valuable to compare these aforementioned measures to relative inputs of the firm, specifically a firm's return on assets. In addition, previous research indicates certain strategies undertaken by firms may influence different dimensions of overall SME performance (Lu & Beamish, 2006). In this manner, ROA in SMEs may account for the differences in the variety of industries and markets served (Slater & Narver, 1994). Also with this regard, ROA is often linked to the relative size of a firm and may influence the directionality and strength of ROA (Slater & Narver, 1994). Since ROA is used as a predictor of performance in larger firms, viewing ROA vis-à-vis SME performance may yield opposite results. Since larger firms uses significantly more inputs and outputs than SMEs we predict a negative relationship between strategic orientation and ROA in SMEs. Given the previous discussion, this study hypothesizes:

*H1c SME ROA is negatively related to strategic orientation.*

## **METHODS**

### **Data Collection**

The entrepreneurship and strategy literature suffer from inconsistencies relating strategic orientation to performance. Previous studies have attempted to measure strategic orientation by surveying many individuals in very few companies (Calori & Sarnin, 1991). Conversely, other researchers have attempted to collect data from large cross-sectional samples, but only collect data from one person per company (Denison & Mishra, 1995; Kreiser, *et al.* 2002; Kreiser *et al.* 2010). Moreover, there exists no accepted measure of strategic orientation, especially at the SME level.

We performed three separate studies to overcome these deficiencies. Study one and study two was designed to ensure that we created content valid measures of strategic orientation. The final study attempted to link strategic orientation with several different measures of SME performance. To overcome inconsistencies with previous research, study three surveyed all employees (as opposed to one employee) in multiple organizations (as opposed to a single organization) in order to assess strategic orientation on firm-level performance. Specifically, in the third study, we surveyed 857 respondents from 21 small- and medium-sized companies. Company sizes ranged from 50 employees to 120 employees.



## **Measurement Development**

### Item Development

Based on a review of the extant research, we developed a list of potential survey items to measure strategic orientation as an underlying cultural dimension of SMEs. We were able to draw on existing literature from the strategy and entrepreneurship literatures to identify construct items that had been empirically tested in previous research. Consistent with previous performance research, survey items measured both employee perceptions of management practices of the organization and employee perceptions of core values of the firm (Calori & Sarnin, 1991). We then performed an inter-rater reliability assessment to address the consistency of the potential items (c.f. Carmines & Zeller, 1991). Specifically, we had a panel of seven experts (defined as academics researchers actively involved in studying antecedents of SME financial performance) to match potential individual survey items with our construct of strategic orientation. Values greater than 0.70 are accepted for consistency estimates of inter-rater reliability (Crocker & Algina, 1986); in which, any item that received an inter-rater reliability score of less than 0.70 was dropped as a potential survey item.

Once we established the content and agreement of this construct of items, we developed an initial survey. Specifically, we measured strategic orientation as a cultural dimension using a seven-item instrument. Respondents were asked to rate the degree to which each statement accurately described the strategic orientation of their organization (using a five-point Likert scale where 1=strongly disagree, and 5=strongly agree).

### Content Validity

In order to develop a measure of strategic orientation, it will be necessary to establish initial content validity. Two separate studies were completed to develop comprehensive scales for strategic orientation. In study 1, respondents of a large service organization completed our survey instrument to measure unique constructs for strategic orientation. Specifically, respondents were asked to agree/disagree using the five-point Likert scale in terms of how a particular statement related to the cultural constructs. We achieved a 67% response rate yielding 447 usable responses. We found encouraging internal reliability and dimensionality results from this initial survey. We measured internal reliability using the Cronbach's alpha score. Specifically we found that the measure of strategic orientation (.90) exceeded Nunnally's (1967) stringent threshold of 0.70.

### Criterion-Related Validity

In order to assess replicate the content validity of our measures from study 1 and to assess the criterion-related validity of our strategic orientation measure, we conducted a second study. In study 2, we collected data from employees in a technology-based organization using the same measures from study 1. We surveyed these participants across the organization instead of relying upon the perception of the top management team. We also collected performance data across 43 profit centers and included demographic information based on the existing firm-performance literature, to provide some possible linkages to control variables. Demographic items collected information on the respondents' tenure at the company, length of time on current job, age, and level in the organizational hierarchy.

We collected survey data for culture and performance using mail surveys. Our response rate was 45 percent, yielding 117 responses. Consistent with Study 1, we assessed the internal reliability of our strategy-orientation measure of culture using Cronbach's Alpha with a reliability measures of .90 and .91 respectively.

### Control Variables

Three contextual control variables were identified based on previous research. Specifically, the control variables used were company size, company age, and industry performance. First previous research indicates that there is a relationship between organization size and the strategy in a firm (Chen & Hambrick, 1995; Kreiser et al., 2010). Company size was measured by the total number of employees within the organization. Organization size can have an impact on SMEs and impact areas of strategy, innovation, and structure (Chen and Chen, 2003). Also, organizational size may attribute to different allocation of resources that affect the overall strategy of the firm. Large-firms have access to a larger amount, and more diverse resources than SMEs (Brouthers and Nakos, 2004).

Organization age may also account for variance in the results. As firms proceed through growth processes, newer companies may be able to face problems less strategically and tactfully than older organizations with more experience and resources to address problems. Different organizational skills are developed as an organization's age increases which results in the need for different decision making and strategies (Chandler and McEvoy, 2000; Kazanjian, 1988). Lastly, as organizations age, they establish specific ways of completing tasks that form routines, thereby affecting the strategic process of the organization (Ranger-Moore, 1997).

Industry classification may also impact on strategic orientation and SMEs. Some industries are more likely to encompass stronger strategic structures accounted for by industry differences (Brouthers and Brouthers, 2003; Erramilli

and Rao, 1993). Additionally, industry-level performance is commonly used as a control variable when assessing firm-level performance across industries (Hart & Banbury, 1994; Reinartz, Krafft, & Hoyer, 2004). For example, firms in high-growth industries should be expected to achieve higher growth rates than firms in low-growth industries. Therefore, industry growth rate is used as a control variable.

### Dependent Variables

Clearly, strategic management and entrepreneurship researchers suffer from a lack of consistency defining firm-level performance. However in terms the culture-performance literature, much of the research focuses on financial performance (e.g., profit growth), while the remainder examines market performance (c.f., Christenson & Gordon, 1999) or process outcomes, such as successful value innovation (Gatignon & Xuereb, 1997; Ogbonna & Harris, 2002; Wiklund & Shepherd, 2003). Given that the financial performance measures are accepted in the culture-performance literature, we measure firm performance in terms of profit growth over a five-year period, return on investment and return on assets, to recognize financial performance as a multidimensional phenomenon. We felt it was necessary to measure performance longitudinally, as strategic orientation evolves over time and therefore would have a dynamic effect on firm performance.

## **RESULTS**

We collected data on strategic orientation and firm performance from employees in 21 SMEs, in order to test our hypotheses. We used hierarchical OLS regression modeling to test the extent to which strategic orientation impacts SME. Additionally, we controlled for demographics of respondents, as previous research has argued that employees' perception of culture are impacted by their level in an organization (Kristof-Brown et al., 2005). Before any regression results were interpreted, a complete set of diagnostic procedures was completed to ensure that this modeling technique was appropriate for these data. Specifically, data were checked for normality, patterns in residuals such as heteroscedasticity, and outliers (cf. Weinzimmer, Mone & Alwan, 1994).

### **Descriptive Statistics and Correlations**

We conducted a correlation analysis and reported the Pearson correlation coefficients in Table 1. Table 1 also provides a summary of the statistics including the mean and standard deviations for the dependent, independent, and control variables. The correlation coefficients revealed no significant correlations between the independent variable of strategic orientation and control variables,

suggesting a low probability of multicollinearity in the regression models. Means, standard deviations and correlations of variables are presented in Table 1.

**TABLE 1**  
**MEANS, STANDARD DEVIATIONS, CORRELATIONS**

Variable	Mean	SD	1	2	3	4	5	6
1) Revenue Growth	0.57	0.67	-					
2) Profit Growth	2.94	5.04	.54**	-				
3) ROA	0.80	2.91	-.065	-.39**	-			
4) Industry Growth	0.04	0.25	.11**	.27**	.14**	-		
5) Company Age	59.56	31.94	-.10*	.30**	.30**	.11**	-	
6) Company Size	251.78	179.69	-.18**	-.46**	.17**	-.14**	-.17**	-
7) Strategic Orientation	3.32	0.72	.20**	.21**	-.32**	-.05	-.05	.01

Notes: N= 857, \*p<.05 \*\*p<.01

## Regression Analysis

Tables 2-4 report the hierarchical OLS regression results to investigate if there are relationships between strategic orientation and the measures of revenue growth, performance growth, and ROA. Specifically, using a hierarchical OLS regression we are able to estimate extent to which strategic orientation impacts SME performance and the criterion-related validity among variables. First, we tested hypothesis 1a by regressing our performance metric of revenue growth on our control variables and strategic orientation. Results from Table 2 show a significant positive association between strategic orientation and revenue growth ( $p<.01$ ), providing support for H1a. This suggests that a strong strategic orientation is positively linked to revenue growth. Second, we tested hypothesis 1b by regressing our performance metric of profit growth on our control variables and strategic orientation. Results from Table 3 show a significant positive association between strategic orientation and profit growth ( $p<.01$ ), thus supporting H1b. This suggests that a strong strategic orientation is positively linked to profit growth. Finally, we tested hypothesis 1c by regressing our performance metric of ROA on our control variables and strategic orientation. Results from Table 4 show significant negative relationship between strategic orientation and ROA ( $p<.01$ ). This negative relationship suggests that there is a negative association between strategic orientation and ROA in the firm; supporting H1c.

**TABLE 2**  
**HIERARCHICAL REGRESSION RESULTS FOR REVENUE GROWTH**

	Model 1	Model 2
<b>Control Variable</b>		
<b>Industry Growth</b>	.13**	-.14**
<b>Company Age</b>	-.15**	-.26**
<b>Company Size</b>	-.18**	-.16**
<b>Strategic Orientation</b>		.20**
<b>F</b>	14.53**	20.70**
<b>Adj. R<sup>2</sup></b>	.11**	.13**
<b>Change R<sup>2</sup></b>		.07**
Notes: N= 613, * p<.05, **p<.01		

**TABLE 3**  
**HIERARCHICAL REGRESSION RESULTS FOR PROFIT GROWTH**

	Model 1	Model 2
<b>Control Variable</b>		
<b>Industry Growth</b>	.16**	.15**
<b>Company Age</b>	.26**	.41**
<b>Company Size</b>	-.45**	-.54**
<b>Strategic Orientation</b>		.18**
<b>F</b>	104.46**	190.19**
<b>Adj. R<sup>2</sup></b>	.33**	.58**
<b>Change R<sup>2</sup></b>		.25**
Notes: N = 613, * p<.05, ** p<.01      DV=Profit Growth		



**TABLE 4**  
**HIERARCHICAL REGRESSION RESULTS FOR ROA**

	Model 1	Model 2
<b>Control Variable</b>		
<b>Industry Growth</b>	.16**	.15**
<b>Company Age</b>	.26**	.41**
<b>Company Size</b>	-.45**	-.54**
<b>Strategic Orientation</b>		.18**
<b>F</b>	104.46**	190.19**
<b>Adj. R<sup>2</sup></b>	.33**	.58**
<b>Change R<sup>2</sup></b>		.25**

Notes: N = 613, \* p<.05, \*\*p<.01

## DISCUSSION

This study helps unveil several darkened corners of the “black box” comprising the strategic orientation-SME performance relationship. First, in extending the work of Calori and Sarnin (1991) and Gatignon and Xuereb (1997), this study suggests a significant link between strategic orientation and SME firm performance. As argued by Calori and Sarnin (1991) and subsequently reinforced by this study, practices and management attributes that encourage adaptability and openness to the environment are positively correlated with organizational performance. This study suggests that SMEs cultivate an organizational attributes that emphasizes a boundary spanning, external strategic orientation. Furthermore, the presence of strategic orientation, as indicated by Gatignon and Xuereb (1997) contributes to a firm’s ability to synthesize and act upon environmental signals to generate a competitive advantage. Whereas strategic orientation generates superior business performance.

A second contribution of this study validates four hypothesized relationships between strategic orientation and SME performance with empirical support. Regarding hypothesis 1a, our findings suggest that revenue growth is positively related to the strategic orientation of the corresponding SME. Support for hypothesis 1b indicates that when a strong strategic orientation exists, it is plausible for competitive advantages to result in significant growth and financial performance. Hypotheses 1a and 1b confirm and extend findings from Goll and Sambharya (1991). When there is an emphasis on a strong strategic orientation in a firm, the relationship among these variables impacts firm performance (Goll & Sambharya, 1990). Although Goll and Sambharya (1991) determined a positive relationship between strategic orientation and firm performance in large manufacturing firms; this study identifies a positive relationship between

strategic orientation, and firm performance in SMEs dispersed among many industries.

Finally, this study contends that the employment of various performance measures will impact the strength and direction of the strategic orientation-SME performance relationship. Previous research indicates that a strategic orientation leads to competitive advantages, growth in new customers, and growth in sales (Achtenhagen, Naldi, & Melin, 2010). When a firm gains competitive advantages in respect to these aspects, it is probable that financial performance (e.g. revenue growth and profit growth) should also increase. Consistent with previous firm-performance research, this study positively linked revenue growth and profit growth to strategic orientation. However, hypothesis 1c indicated that SME ROA was negatively related to strategic orientation. Considering ROA is linked to firm inputs and outputs, our findings offer several extensions to the extant literature. First, if a firm is performing well then that firm will take fewer risks (Fiegenbaum & Thomas, 1988; Hitt, Hoskisson, Ireland, & Harrison, 1991). This is consistent with findings from Hitt, Hoskisson, Ireland, & Harrison (1991) noting that when financial performance increased, firms were more likely to act risk-aversely, leading to a negative relationship with ROA performance. Second, Chandler and Hanks (1994) argued that the relative size of the firm is linked to ROA. Accordingly, larger firms often have positive, significant relationships with ROA as larger firms have greater access to resources and higher capabilities than SMEs. In other words, larger firms can contribute more inputs into their products and services than smaller firms. Accordingly, this discontinuity leads to mixed conclusions about SME ROA and large firm ROA. Different markets and industries also may lead to differences between the ROA expected from SMEs and larger firms. For instance, Achtenhagen, Naldi, & Melin (2010) indicate that some measures of business growth have different predictors and that while some growth measures were speculated to be positively related to business growth, results showed that there was a negative effect on perceived ROA. Since larger firms have more resources to attribute to the strategy of the firm; the directionality between ROA in relation to firm size matches that of the findings in our study.

## CONCLUSIONS

The present study sought to establish the construct and criterion-related validity of a measure of strategic orientation in SMEs and demonstrate the link of strategic orientation and firm performance. This study argued for different conceptualization of strategic orientation at a large organization versus a SME. In order to conceptually and operationally differentiate any discrepancies in literature, this study highlighted the differences between the constructs of entrepreneurial orientation and strategic orientation. Since previous research

indicates several consistent outcomes for firms that employ both strategic and entrepreneurial orientations, namely increased attainment of firm goals, the ability to adapt to changing environmental factors, and the emergence of a sustained competitive advantage (Covin & Slevin, 1991) it was important to distinguish each of these constructs.

Next, in order to develop the construct of strategic orientation for SMEs, we first established the content validity of our measure through an exhaustive literature search of the strategy and entrepreneurship literature. We further strengthened this content validity through inter-rater agreement about the items included in our measure and by establishing the psychometric properties of our measure in terms of its internal reliability and factor dimensionality. In study 2, we again replicated the internal reliability estimates, and we established tentative criterion-related validity of our measure. Our measure of strategic orientation predicted significant variability of performance at the firm level. In study three we were able to support our hypotheses relating strategic orientation to SME growth. Specifically we found evidence that strategic orientation is positively related to firm-level profit growth, return on equity and return on assets. Findings from this study provide support for previous research that has examined strategy's impact on firm performance (Aragon-Sanchez and Sanchez-Marin, 2005; Morgan and Strong, 2003). However, while researchers have provided numerous arguments for the impact of strategic orientation on performance, limited studies have found empirical evidence for the relationship between firm performance and strategic orientation as a cultural dimension in an SME context.

We also note some limitations in the present research. We conducted cross-sectional research using a single method of data collection (e.g., surveys). Although our firm performance measures were "hard" measures of performance gleaned from company financial information, all other data were collected via self-report surveys. Thus, we cannot exclude the possibility that some of our results occurred in part from this common method bias. However, previous research suggests that self-reported measures are accepted as a reliable source of data collection (Boyd, Dess, & Rasheed, 1993).

## **Managerial Implications**

Since our study did not discriminate between high-performance and low-performance firms, managers can use the findings from our study to assist performance improvement. Results from this study indicate that strategic orientation positively impacts multiple levels of performance. Not only does strategic orientation impact different levels of performance, this study focuses on SME performance and strategic orientation. This study was able to demonstrate that although strategic orientation could be a good predictor of financial performance metrics that due to the firm size and different industries and markets

encountered, that SME ROA may yield opposite results than expected due to the differences in strategic orientation the SMEs possess from larger firms.

### **Research Implications**

This study has attempted to provide a framework to empirically test the impact of strategic orientation on SME performance by using a multidimensional construct on multiple measures of performance. Given the relatively low adjusted  $R^2$  measures, future research may consider additional variables to control for firm performance, such as industry characteristics.

Also, determining differences between a firm's entrepreneurial orientation (which focuses on the pursuit of innovation) and a firm's strategic orientation (which focuses on the acquisition of information) may aid in further research and differentiate the key components of SME performance.

In conclusion, the present study sought to develop construct validity for strategic orientation and its effects on SME financial performance. In doing so, we attempted to establish critical facets of validity that allow researchers to answer a basic question: Does our measure assess what we say it measures? Through a comprehensive literature review of the strategic management literature on strategic orientation, we developed a measure of strategic orientation for SMEs. We established preliminary content validity of this measure in study 1. In study 2, we replicated study 1 and established criterion-related validity of our measure. Finally in study 3, we were able to empirically demonstrate the relationship between strategy orientation and SME performance. Our results encourage us to continue to refine our measure and seek to strengthen and expand the application of strategic orientation in an SME context.

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