ABSTRACT
Performance of Small and Medium Enterprises (SMEs) has been considered as one of the most important driving force behind economies of both developed and developing countries due to their multiple contributions. In most of the developing countries, the performance of the SMEs is a key issue today. Strategic orientation of SMEs is one of the most critical factors for their success. The SMEs in developing countries are considered less strategically oriented than those of developed counties. But most of the studies in developing counties have focused the effect of single strategic orientation coupled with other factors on SME performance. This study proposes a research model of SME performance based on strategic orientation for developing countries. The proposed model suggests significant interaction between three major strategic orientations and SME performance in developing countries. An interaction among market orientation, entrepreneurial orientation, learning orientation and SME performance has been incorporated into the model. The model contributes for better understanding of complex interactions between strategic orientations and SME performance in developing countries.

Key words: - Strategic Orientations, SMEs, Performance

1. Background
For many years, Performance of SMEs has been the main focus of many researchers. It has been considered one of the most important critical factors behind economic success of both developed and developing countries due to their multiple contributions in economic growth, employment generation and innovations (Kongolo, 2010; Asian Productivity Organization, 2011). The importance of SMEs to economies in different aspects is being continuously indicated by number of researchers (eg. Ghobadian and Gallear, 1996; Ladzani and Vuuren, 2002; Piech, 2004; Griffin and Ebert, 2006; Asian Productivity Organization, 2006, 2011)

According to (Ghobadian and Gallear, 1996) SMEs are the most dynamic businesses in any country. They play a key role in achieving socio-economic goals. SMEs exert a strong influence on the economies of all nations (Ladzani and Vuuren, 2002). They are also considered as vehicles for innovation and technology diffusion (Piech, 2004). SMEs create new products, processes and ideas through innovation and add more vigour to the market place (Griffin and Ebert, 2006). They are the engines of economic growth, cornerstones for creativity and innovation, and seedbeds of entrepreneurship (Asian Productivity Organization, 2006). In most of the countries, SMEs contribute more than 75 percent of the national Product (Asian Productivity Organization, 2011). Accordingly, the importance of high performed SMEs for any country and economy is obvious.

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2. Problem
In most of the developing countries, performance of SMEs is one of the key issues since they are less productive and faces many constrains (Davidsson, 2004). More than 90% of enterprises in the Asian productivity organization (APO) member countries are SMEs and they account for about 75 percent of the Gross Domestic Product. But in many countries they face the constraints of technological backwardness, lack of human resource skills, weak management systems and entrepreneurial capabilities, unavailability of appropriate and timely information, insufficient use of information technology, poor product quality. As a result, there exists a low level of performance (Asian Productivity Organization, 2006, 2011).

3. Literature Review

3.1 Firm performance
Generally firm performance refers to the success of the firm. Alchian and Demsetz, (1972) defined it as “the comparison of the value created by a firm with the value owners expected to receive from the firm”. According to Flapper, Fortuin, and Stoop, (1996) it is “the way organization carries its objectives into effect”. Studies in firm performance have extended into two main streams March and Sutton, (1997). The first is to investigate the ways of improving the firm performance and the second is to study the predictors of firm performance. Consequently, firm performance has widely been studied as a dependent variable in organizational research (Rogers and Wright, 1998; March and Sutton, 1997). Most of the studies which used performance as a dependent variable have attempted to explain the variation of the performance of SMEs (Carton and Hofer, 2010; Brush and Vanderwerf, 1992).

3.2 Strategic Orientation and Firm Performance
Commonly, strategic orientation refers to umbrella term covering different constructs such as market orientation (MO) Entrepreneurial Orientation (EO) and Learning Orientation (LO). Barney, (1991); Hoq and Chauhan, (2011) have indicated strategic orientations as organizational resources which can improve the success of SMEs. Some other researchers consider strategic orientations as dynamic capability that represents the organization’s ability to integrate and built internal and external competencies (Teece, Pisano and Shuen, 1997; Zhou, Yim, and Tse, 2005). There are other authors who consider orientations as elements of the organizational culture (Nobel, Sinha and Kumar, 2002). This view characterised the concept as a set of attitudes, values and behaviours of the organization. It is very clear that different authors and have viewed strategic orientations through different lenses and it is very critical for the success of SMEs what so ever the lenses which it is viewed through.

3.3 Entrepreneurial Orientation and Firm Performance

3.4 Market Orientation and Performance

Reijonen, and Komppulab, (2010) showed that the dimensions of MO are success factors in SMEs. Hoq, and Chauhan, (2011) found that MO positively related to firm performance in Bangladesh hostile business environment. Lin, Peng, and Kao, (2008) examined the effect of MO on firm innovation and performance and found positive relationship. Frishammar, and Andersson, (2008) claimed that strategic orientations has a limited effect on international performance of Swedish SMEs. Merlo & Auh, (2009) examined positive relationship between MO and performance and the relationship is influenced by marketing sub units. Mavondo, Chimhanzi, and Stewart, (2005) found that MO affects different types of innovation performance. Kaya and Seyrek, (2005) in a study of manufacturing firms in turkey shown that level of EO should be selected based on the level of MO. Izquierdo, and Samaniego, (2007) conducted a study in Spanish firms. The study investigated effect of MO, on social effectiveness of non-for Profit organizations. Results indicated that effect of different strategic orientations differ according to the organizational goals. Fritz, (1996), found that market orientation has a significant importance in corporate management success. Berry, (1996) in a study in a sample of high-tech firms in UK found that firms gradually grow when they shift from TO to MO. Barrett, Balloun, and Weinstein, (2005a) found that effect of MO depend on the nature of the industry or market. Tzokas et al. (2001) found that MO improves the organizational competencies of SMEs. Slater and Narver, (2000) found that MO has positive and significant effect on firm performance. Voss and Voss, (2000) proved that MO is not important when the firms have non profit goals. Shaw, (2000) claimed that successful German companies in UK characterised with MO. Schindehutte et al. (2008) proped that MO will influence how firms perform. Zhou, Yim, and Tse, (2005) shown that MO leads the technology based innovations. Paladino, (2009) claimed that higher level of MO increase the financial performance while low level of MO
3.5 Learning Orientation and Performance


4 Strategic Orientation Based Model of SME Performance

Existing literature reveals that Strategic orientations have been used in many prior studies to explain the performance of SMEs. But prior researchers have used different orientations separately or combination of two orientations as predictors of SME performance (eg. Ledwith & Dwyer, 2009; Li et al. 2008; Gao et al. 2007; Kropp et al. 2006; Santos-Vijande et al. 2005). As Hakala and Kohtamaki; (2011); Kropp et al. (2006) pointed out that the effect of orientations on performance has been investigated individually or single orientation coupled with other factors.

Strategic orientations have been considered as organizational resources (Hoq & Chauhan, 2011; Barney, 1991). Valuable and unique resources are the source of the competitive advantages in SMEs (Amit and Schoemaker, 1993; Barney, 1991). Hoq and Chauhan, (2011) and Immyaxai and Takahashi, (2009) argue that lack of resources and capabilities in SMEs is a barrier for them to develop their own markets and to use the experience, economies of scale and scope for achieving competitive advantage. Recent research findings have concluded that interrelation among different strategic orientations provides sustainable competitive advantage for organizations (Hult et al. 2004) and firms that continue balancing different strategic orientations perform better (Bhuian et al.,
2005 Nobel, et al. 2002). It is also evident that strategic orientations are very important for the organizations in developing countries (Keskim, 2006). Dharmasiri, (2009) emphasized the importance of strategic orientation for the success of the organizations in developing countries. Chandrakumara et al. (2011) also have suggested the need of investigations of the impact of mixed orientations on firm performance in developing countries.

Accordingly, based on the available literature, it can be argued that strategic orientations qualify as predictors of SME performance in a research model. Three strategic orientations, EO, MO and LO which are very important for SMEs have not previously been studied in a single research model. Therefore these three orientations are incorporated into the proposed research model and three direct paths from selected strategic orientations to the firm performance are proposed. Schematic representation of the proposed model is depicted in the figure 1. The model hypothesizes that EO, MO and LO are positively related to firm performance.

Figure 3.1
Research model

5. Conclusion

By considering the role of strategic orientation of SMEs in developing countries, it is obvious that understanding of the relationship among entrepreneurial orientation, market orientation, learning orientation and firm performance is very important. The research model proposed in this paper integrates these three strategic orientations into a model. As practical implications of the study, SME owners and managers will be able to focus on the level of different strategic orientations of their organizations in order to improve the performance. In addition, policy makers and planners in entrepreneurial education in developing countries can use findings to foster the strategic gesture of potential and actual entrepreneurs. This paper proposes a theoretical model which incorporates only direct relationships between strategic orientations and firm performance. Further understanding of the proposed direct relationships will pave the way for future researchers to study more complex models which include possible mediating and moderating relationships.

References


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