

Strategic orientation, innovation capabilities and market performance: an empirical study on SMES in Tehran province of Iran

Hassan Sharifi

Master student of management science and engineering, Zhejiang University, China

*Gang Zheng **

Associate Professor, Deputy Head of Department of Innovation, Entrepreneurship and Strategy, School of management, Zhejiang University, China.

**Corresponding Author*

ABSTRACT

Companies' strategic orientation is suggested as the model to study business strategies. This factor affects the organization's innovation capabilities and strategies, which can lead to better performance. This study examines the impact of strategic orientations on innovation capabilities and performance in Small and Medium Enterprises. The study uses descriptive, survey and correlative method. The study population consist of all senior managers, marketing managers and R&D center managers (if there were any) in the small and medium enterprises . The Data is collected through the survey in which tests strategic orientation, innovation capability and market performance of the SMEs in Tehran province. The reliability and validity of questionnaire was validated and all research data was tested and analyzed. These findings suggest the positive impact of market orientation on innovation capability, entrepreneurial orientation on innovation capability, the technology orientation on innovation capability, and the innovation capability on market performance. Also the result of the mediatory test shows that innovation capability would have mediatory impact in the relation of domestic marketing and market performance. As a result, the hypothesis was confirmed. In the present study, based on the literature review, the conceptual model has been developed based on the deferent factors effecting the innovation and market performance. It has been illustrated that the market orientation, entrepreneurial orientation and technology orientation would have positive effect on the innovation capability and also innovation capability would have positive impact on market performance. Also it was considered that innovation capability has mediatory role in the relation between strategic orientation and market performance.

Keywords: Market performance, Strategic Orientation, Innovation capability, entrepreneurship orientation; SMEs;

Introduction

Globalization in recent years, has forced firms, along with their domestic and traditional markets, to begin to seek new opportunities in international markets. Meanwhile, Exporting because of fewer obligations than other methods of entering foreign markets like joint ventures, etc., would be more attractive

(Tutar et al, 2015). Nowadays, in many organizations, innovation has become the most important trigger of gaining competitive advantage (Rais, 2011). Increasing the importance of innovation is partly due to the globalization of markets. This global competition forces firms to produce distinct products and services and constantly expand the innovation capabilities. Introducing new products would help firms to keep their margin higher and investment in innovation would keep their costs lower. In fact, as the competition atmosphere is rising in the world, the innovation would define the survival of a firm in any market and of course firms should believe in competition as the prerequisite (Morgan and et al., 2009). Firm's managers have different view point about the strategic manners so that they would apply different strategies. Strategic orientations would be offered as pattern to study the commercial strategies. Therefore it will affect the Innovation Capability and firm's general strategy and would be used to create better and more effective manner which will lead to better performance (Kumar, 2011).

In this regard, Smirnova et al (2011) said that, marketing researches basically would focus on market orientation and the concept of marketing, but also there were a plenty of the researches which would accept applying other strategies like innovation orientation, technology orientation, entrepreneurial orientation, quality orientation, cost orientation and efficiency orientation. These researchers claim that firms can optimize their performance by accomplishing market orientation with strategic approaches suitable for their situation and organizational features. In addition, Innovation Capability is an strategic act which will lead to generating new ideas. Firms that have higher capability for innovation will have better respond to environmental demand and develop the new abilities which will lead to better competition advantage and better performance (Mian, 2010). Although there are a lot of evidences to show that strategic orientation and Innovation capability's existence in the firm or in an organization, but they don't know how to apply them to improve the performance and catch better marketing advantage. (Hoseini, Moghadam, 2012).

In this regard, considering the continuous environmental changes, competition between different SMEs, customer's exceptions, technology developments, market orients and customer orients of the SMEs; managers would try to increase its profitableness based on designated strategic orientation and innovation capabilities. Therefore we would check and analyze different strategic orientations which would be a lead to firm's behavior in market and the potential of better performance, and importance of the existence of Innovation Capability as a practical mechanism to actualize the strategic orientations. Then practically evaluate the impacts of innovation capability on the relation between strategic orientation and SME performance. As the managers are responsible for organizational strategies and check the customer service and also controlling the employees, so this research was done in the managers' level. Therefore this study is about to answer this question that the innovation capability has which kind of impact on the relation between strategic orientation and market performance.

Literature Review

Strategic orientation

Strategic orientation that was developed by Kohli and Jaworski (1990) and followed by various studies by Noble et al. (2002) is now discussed with its components - market orientation, technological orientation and entrepreneurial orientation (Tutar, 2015). The strategic orientation of the company (business) has drawn wide attention from writers and researchers in the fields of management, marketing and entrepreneurship. Strategic orientations are principles that effect on firm's activities directly and create behaviors that reinforce the performances and perpetuate which lead to company survival. These principles could be applied actively and effectively to guide the organization's activities. It has been argued that intangible resources such as strategic orientation of management team, is vital to the success of the company. In addition it is seen to strategic orientation as a source to create ability and competitive advantage. Marketing strategy literature provides evidences show that the strategic orientation of the company to be one of the most important determinants of firm performance. Literature considered the strategic orientation from three perspectives: Narrative perspective, classification perspective and comparative perspective. Viewpoint of this study is a comparative view that seeks evaluation strategy through multiple features or common dimensions to all companies. So in other words, this strategy is a company's relative emphasis on each dimension of strategic orientation. This view overcomes on experimental limits and narrative perspectives and classification and in which strategic orientation will not be considered for classification as a strategy.

But rather it is seen on the lines and between specific dimensions. So according to advantages of comparative perspective, this approach has been chosen in this research (Mazhari, 2010).

Market orientation

As we know, today's company's success depends on further understanding of customers and competitors and other factors affecting the market. (Raju, 2011). Customer needs and customer demands are constantly changing and only if you understand these changes, the company can be successful. Market orientation means the goal and culture of the firm is focused on creating value for customers (Narver et al., 1998). Market orientation is being aware of the expectations and needs of the customers, understanding and satisfying them, arouse their feeling of being worthy and all of the organizational activities towards the institutionalization of this understanding (Kohli and Jaworski, 1990). Also it should be mentioned that since the term market orientation mainly includes introducing new or different things in order to respond to market conditions, it may be perceived as a type of innovative behavior (Jaworski and Kohli, 1993: 56). With this qualification, market orientation creates a constant and proactive position with respect to satisfying the needs of the customer while at the same time, since it emphasizes the increased usage of knowledge in the firm; it increases the innovativeness of the enterprises and performance of the new product (Olavarrieta and Friedman, 2008: 624). The reason why the innovative enterprises always have strong market orientation is that the success of innovation and new product in firms is seen as a result of being oriented mainly by the market (Baker and Sinkula, 2007: 329).

On the other hand competitors also seek to attract more customers to their own and in this way they won't ignore of any attempt. As well as market condition changes and their rules also can effect on institution success in one market .Understanding and predicting these factors and providing the right solution in dealing with them, will play a key role in the success of the institution in the target market. Hence, market trends and customer needs are the first features of new marketing. (Shin et al., 2010). Successful managers are the ones who make their organization keep pace with the day. This sync is possible when employees and managers accept the market orientation as a culture and attitude.

In market orientation, customer satisfaction forms the core activity of the company and all companies activities should be used to satisfy the needs of customers. Understanding the needs and expectations of our customers and respond to changes in the market also plays a key role in the success of the company. As noted, the most important and effective concept on marketing is human need that constantly are vital for related analyzes market data fundamentally and is defined as follows (Shin and others 2010):

Requirements or human needs, is the feeling state that makes exclusion in person which that exclusion causes suffering and deprivation for him. In the meantime, the manufacturers are trying to establish a link between their production and the needs of people and try to produce goods that meet the needs of customers and be consistent with their demands. This success occurs when the result is to produce goods that comply fully with the demands of customers in this case such a commodity called "Ideal Product".

Entrepreneurship Orientation

Entrepreneurial orientation is a firm's tendency towards searching for new market opportunities, strengthening and restoring its current market status (Hult and Ketchen, 2001: 901). This orientation involves being highly proactive against market opportunities, tolerant to risks and sensible to innovations. Entrepreneurial orientation reflects a mentality that consists of decisions, application and continuous searching which creates new business opportunities. Entrepreneurial orientation is an understanding that requires being highly proactive against market opportunities and market dynamism, tolerant to risks and flexible against changes. In addition; being pacesetter for change, taking risks and making innovations are distinguishing qualifications of entrepreneurial orientated firms. Being more proactive against new opportunities and being able to behave properly to innovation strategies against the mentioned opportunities are requirements of entrepreneurial orientation.(Tutar, 2015).

Multiple definitions of entrepreneurship are presented in various books and articles and from the perspective of multiple experts are substantially similar to each other. Mackenzie and Dykambv (1986) believe that entrepreneurial activity may include the development of a new product to create an effective process. Jennings and Yang (1990) defined corporate entrepreneurship as the development of new products or markets. Kuratko and Horensby (1990) describe the corporate entrepreneurship as the creation of new

businesses within the corporate framework. Ariella believes that entrepreneurship has three dimensions, including innovation, the development of products, services or processes and risk appetite. **Technology Orientation**

Technology orientation is the ability of an enterprise to constitute a strong technologic infrastructure and use it in developing new products. Technology orientation means that a firm is able to use its ability to produce technology and its technological knowledge in responding its customers' needs and claims, and even, for predicting those (Gatignon and Xuereb, 1997). Technology orientation is paid attention particularly with the centrality of knowledge and human wisdom and his ideas in order to exploitation from idea and escrow repetitive and uncreative tasks to machines and also increasing efficiency and free up human skills in recent decades. Since IT technology is outlined as axis of community and organizations development so designing of its structure needs thoughtfulness and reflection with providing a suitable model and evaluating available models in internal and external organizations.

Technologies that are made by confluence of electronics, data processing and communications-Telecom, resulted in the elimination of gaps and putting the computer and users together as well as mechanization systems of communication and increasing data transfer capabilities. This has provided decentralization and the creation of mainlines and increases the speed and quality of decision-making and efficient management. Applying information technology (IT) in organizations promises a fundamental change in all fields. Just as today's world cannot be considered without electricity industry, today's world cannot be imagined without information and communication technology (ICT).

Innovation Capability

innovation means a strategic understanding based on adopting a new tool, policy, program, process, product or service which are produced internally or produced from external resources and may be considered as new in the organization (Drucker, 2003). Innovative strategies of the firms are the vision to transform any innovation to product that could be presented to the market, to bring it to a position that creates new markets and have competitive advantage. A firm becoming a market builder means that it is capable of orientating the customer and has the opportunity to be a leader in the market (Becherer et al., 2008).

The creativity is manifested and had reached the stage of action, i.e. creativity means the creative ideas realized in organizations (Bui, 2001). Innovation is providing product, process and new services to the market. Innovation is the use of mental ability to create an idea or new concept (Fung, 2009). Innovation is a new and creative product that is provided by an organization.

Creative products can be software such as a variety of services (such as education, health services, administrative services, etc.) and hardware such goods (such as industrial products, pharmaceutical products, food products, etc.). (Ardakani, 2010). as it can be seen the definitions of creativity and innovation have conceptual elements s like a new beginning and being for the first time, and also being useful.

So different scientific discoveries of scientific theories (theories and hypotheses), inventions and literary and artistic works such as the discovery of new chemical elements, Newton's laws of motion, calculus, quantum mechanical theory of Planck, Einstein's relativity theory, cognitive theory of Piaget , the general theory of systems, theory of infinitely particles of arithmetic, pattern structure of DNA by Watson and Crick, the Schrödinger equation, Mona Lisa by Leonardo da Vinci, the painting style of cubism, Ferdowsi, Hafez's sonnets, Shakespeare, the invention of the steam engine, invention of the light bulb, radio and television, the telephone, invention of the airplane, invention of the transistor, invention of the Internet, creating and designing new products, solving problems of quality and productivity of organizations and hundreds of thousands of such expressions of creativity and innovation. The term of innovation is defined as the equivalent word in the following forms (Chen, 2004).

Market performance

Marketing manager of firms in order to formulate strategies and marketing plans in fields such as market segmentation, target market selection, positioning, determining the marketing mix, etc. require comprehensive tool of pathology and fault finding. Available tools have seen from particular angle to the marketing tools. For example marketing managers can provide some programs to manage the company's products by reviewing and analyzing product life cycle and can formulate programs to manage Product

portfolio only through models and portfolio models (Stanley et al., 2001). Therefore, there is always empty place of comprehensive tool of fault finding that considers all areas of marketing process in developing strategies and marketing action plans.

Today's business environment is strongly influenced by rapid technological change and competition between firms and continuous change of demands and needs of our customers. With increased competition, and diversity of needs and desires of our customers the organization should be thinking to achieve competitive advantages (Tutar, et al, 2015). Create and maintain a competitive advantage requires some competencies that make value for customers by relying on the capabilities of the organization. The important factors that could improve the performance of firms are the marketing capabilities. Marketing capability enables the company to acquire its value added for goods and services with competitive application accordingly.

Market's performance is defined as a managerial- social process by which individuals and groups act through the production and exchange of goods with each other to meet their needs and desires. Marketing term should be defines and interpreted as its old meaning, only selling. New meaning of this term is to meet the needs of the customers. Today's companies are face with an intense and growing competition and the reward will be for the companies that understand customer demands the best way possible and provide maximum benefit to their target customers.

Within the market, this is the marketing skills that distinguish professional companies from unprofessional companies. Competitive advantage is created in long-term for the company with the competence and capabilities that are superior to the competitors (Abbas Rostami, 2014).**Empirical research background**

Mehrabi(2013) in Investigating the impact of strategic orientations in the development of the new product showed that technological turbulence does not have a positive impact on technology orientation. In assessing the customer orientation impact on customer acceptance, technical performance and profitability, it was determined that the customer orientation had a positive effect on all three variables and the technology orientation had no positive effect on customer acceptance and profitability. But the positive effect was observed between technology orientation and technical performance.

Mazhari er, al, (2013), In the study the relationship between strategic orientation, service innovation and market performance, has concluded that companies that seek to develop the services innovation capability should implement customer orientation, competitor orientation and cost orientation or a combination of these orientations.

Reis(2011), In study the impact of market orientation on the organizational performance, with emphasis on the mediatory role of the market-based resources, had showed that all direct relation between that model variables were significant. Also research findings demonstrated that market orientation; considering the human resurses, reputation and credit, innovation and capability to contact with customer; had great impact on the firm's performance.

Javanmard (2010) in study the impact of market orientation and strategic competitive advantage on SMEs' performance, showed that customer orientation and competitive orientation and inter-task coordination have a positive impact on strategic competitive advantage.

Tutar et al, (2015) in study the effect of strategic orientation on innovation capability and market performance has showed market orientation, entrepreneurial orientation technology orientation has significant impact on the innovation capability. Furthermore, innovation capability has key role in the market performance. Kumar(2012), in an study for the strategic orientation, innovation patterns and SMEs performance had showed that the SMEs mainly have reactive and defensive approaches and only few SMEs would innovate successfully. Altanding et al(2011) in the alignment of strategic direction and the impact on organizational performance has compared the effect of the alignment of strategic orientation on performance and effect of the organization's life and size on performance and have shown that the effect of the alignment of manager's strategic orientation on the performance would be more significant than other two factors. Firms that have reached to such a alignment would have better performance rather than the not yet reached firms.

Considering the above theoretical review, the research's main hypothesis was developed as below:

- 1- Market orientation has a positive relation with innovation capability.
- 2- Entrepreneurial orientation positive relationship with innovation capability.
- 3- Technology orientation has positive relationship with innovation capability.
- 4- Innovation capability has positive relationship with market performance.
- 5- Innovation capability has mediating role in the relation between strategic orientation and market performance.

Research conceptual model

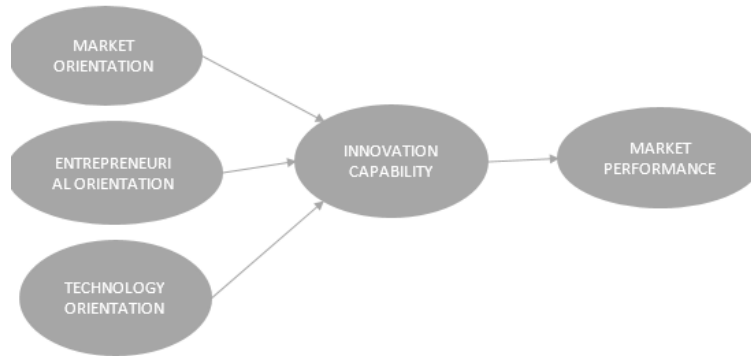


Figure 1. Research conceptual model (based on Tutar et al 2015)

Research Methodology

Considering the purpose of this study, this research would be applied study. The research design is descriptive one in the form of correlation specifically based on structural equation modeling. It is descriptive because it offers a picture of existing situation and it is co-relational because it investigates the relation between variables in the considered model. The statistic population in the present study includes all top managers R&D center managers (if there was any) and related experts in SMES in Tehran province of Iran. Here I should mention that we have checked many companies for this study. Most of them didn't have any R&D department and just few of them had such a department. Even if they had, it was just very basic one just to check the simple production procedure and some simple changes in the products. These firms were mostly the non-R&D based firms which have specific market and situation. Anyhow, we mostly interviewed the manager and for those that had R&D center, also the R&D manager was interviewed. In the present study, based on carried out research, the statistic population size equals to 450 individuals. With the use of Cochoran formula, the statistic sample size has been determined 207 individuals. To measure the questionnaire questions, Likert 5-point scale has been used, which is widely used in the studies especially behavioral science, the questionnaire has been designed based on 5-point Likert range. In which the number 1 shows strongly opposed and 5 shows strongly agreed. To analyze the research hypothesis, questionnaires' reliability was first checked using Cronbach's alpha coefficient. This coefficient for all conceptual models' variables was more than 0.7, the obtained numbers shows the validity and reliability of the research structures (table 1)

Table 1: Cronbach alpha coefficient

Variables	Alpha cronbach	Total Alpha cronbach
\Market orientation	0.855	0.866
Entrepreneurial orientation	0.842	
Technology Orientation	0.892	
Innovation capability	0.839	
Market performance	0.812	

Analyzing the research hypothesis

To analyze the hypotheses, first the distribution of research data was examined. This research to test the normality has been applied the Kolmogorov–Smirnov test. The test result has been illustrated in table

2. Table 2: test the normal distribution of the variables

Variables	Kolmogorov–Smirnov	(α)	Significance level
Market Orientation(MO)	1.502	0.05	0.74
Entrepreneurial Orientation(EO)	2.332	0.05	0.69
Technology Orientation (TO)	1.381	0.05	0.523
Innovation capability (IC)	0.701	0.05	0.704
Market Performance(MP)	0.605	0.05	0.410

To analyze the hypothesis, structural equation modeling using Lisrel software was used and path analysis.

Hypothesis test

Figure 2 shows the structural model of research assumption in the standard level and figure 3 shows that structural model of assumption in significant model.

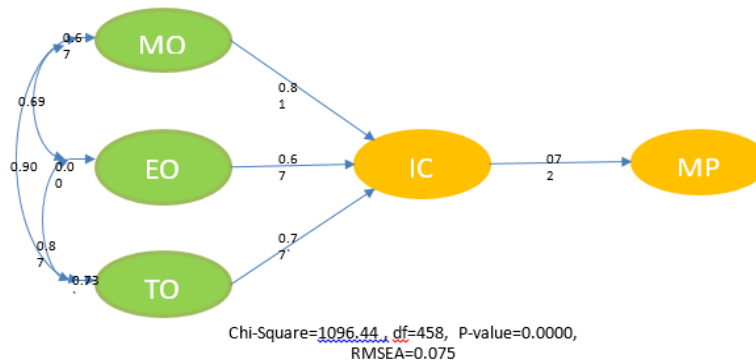


Figure 2: the general model of the sub-assumptions in standard situation

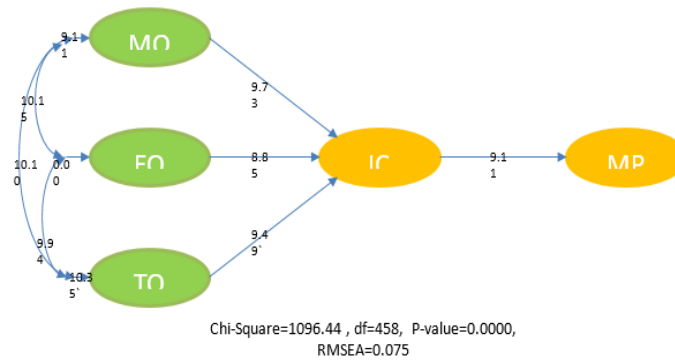


Figure 3: the general model of sub assumption in the significance situation

Considering the output of the figure 3, all coefficient are higher than 1.96, statistically are acceptable. Table 4 shows the results of the structural equation model analysis for analyzing the research hypothesis.

Table 4 the research hypotheses results

result	statistic	Beta coefficient	Hypothesis
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approved H1	9.73	0.81	Innovation capability ← market orientation
approved H1	8.85	0.67	Innovation capability ← Entrepreneurial orientation
approved H1	9.49	0.77	Innovation capability ← Technology orientation
approved H1	9.11	0.72	the Market Performance ← Innovation capability

Table 5 has the most important indicators among them. All the indicators suggest the model is fit with the data. Considering the Chi-square on freedom degree is less than 3, the RMSEA index is less than 0.08 and the rest of the indicators are at the acceptable level which shows that the model is fit. Moreover, the model and general framework in the present research is significant and approved.

Table 5 illustrates the amount of model fitness indices and results.

Table 5: model fitness indicators

Fitting indicator	The appropriate amount	The pattern value	Result
χ^2/d_f	<3.00	2.39	Fitting appropriate
GFI(Goodness of Fit Index)	>0.90	0.94	Fitting appropriate
AGFI(Adjusted Goodness of Fit Index)	>0.90	0.95	Fitting appropriate
RMR(Root Mean square Residual)	<0.05	0.011	Fitting appropriate
NFI (Normed Fit Index)	>0.90	0.95	Fitting appropriate
NNFI (Non-Normed Fit Index)	>0.90	0.94	Fitting appropriate
IFI(Incremental Fit Index)	>0.90	0.91	Fitting appropriate
CFI (Comparative Fit Index)	>0.90	0.94	Fitting appropriate
RMSEA(Root Mean Square Error of Approximation)	<0.08	0.079	Fitting appropriate

The mediator hypothesis:

Hypothesis (mediator): the innovation capability has an intermediate role in the relationship between the market performance and strategic orientation.

Table 6: the significance regression coefficient of dependent and independent

Model steps		Non-standardized coefficient		Beta standardized coefficient	T-test statistic	Significance level
		B	Std. Error			
1	Constant	1.260	.135		9.355	0.000
	Strategic orientation	.426	.055	.368	7.736	0.000
2	Constant	1.189	.135		8.817	0.000
	Market performance	0.315	0.064	0.272	4.906	0.000
	Innovation capability	0.139	0.043	0.180	3.252	0.001

Variables*dependent variable: market performance

As it has been shown in table 6 the significant level to the two-step hierarchal regression model is less than 5%, it can be concluded that the innovation capability and strategic orientation interaction after adding to the model, is significant. Therefore, the innovation capability variable intermediate the impact of interior marketing variable on the market performance significant with 0.139 impact factor. Thus, the hypothesis has been approved.

Conclusion

As a conclusion here should be mentioned that based on the research findings, the impact of the market orientation on the innovation capability was found positive and significant. Also for the second part the impact of the entrepreneurial orientation on innovation capability was observed as positive and significant. In the third part the impact of technology orientation on innovation capability was considered as positive and significant. Next the impact of innovation capability on market performance was check and concluded as positive. Finally the role of innovation capability in the relation between strategic orientation and market

performance was tested and analyzed as mediatory role which was confirmed. Therefore the impact of the market orientation, entrepreneurial orientation and technology orientation on the innovation capability in Tehran province of Iran based on gathered data was confirmed. Also based on the gathered data and conducted analysis, the impact of innovation capability on the market performance and its mediatory role in the relation between strategic orientation and market performance in the Tehran province EMEs was concluded.

Results and Suggestions

The present research aimed to study the impact of the strategic orientations on the innovation capability and on the market performance in the SMEs. The results of this study were analyzed using path analysis method. The existence of empirical evidence about the impact of strategic orientations on innovation capabilities suggests that this orientation can be defined as an important mechanism in the development of market performance. The results of the research showed that the dimensions of entrepreneurial orientations have a significant effect on innovation capabilities. It is therefore suggested that always there should be some new services to pay attention to employees; new methods and processes of service should be presented to compete with competitors; the company regularly welcomes the staff's suggestions for developing innovative capabilities; in order to strengthen the innovation capability of every units and departments, there should be enough interaction with the research and development department; the business plans should be guided from the marketing research and in order to technologic developments; the company managers should have enough flexibility to adopt the situations with the staff's potential innovation abilities; the relevant corrective actions should be conduct in case of any customer's dissatisfaction; the managers should collect information from the customers on a regular basis; an organization internal cohesion and a basic shared commitment should be introduced for the innovative strategy and entrepreneurship; there should be a place for innovation in the market, in order to the market orientation which should led the market activities and modify the scientific and conceptual basis among the individuals; in order to recognize, maintenance and saving the intelligent and curious individuals, team work should be considered due to the innovation capability activities and applying knowledge in the market.

Considering the research limitations, the following suggestions can be considered by the future researchers: It has been suggested that the differences from the different demographic characteristics and descriptive statistics should be considered at the future research.

- Applying the experimental and longitudinal research method
- Strategic orientation and innovation capability alignment
- Study the obstacles and challenges in the entrepreneurial orientation
- Study the impact of technologic orientation on the market performance
- Design the market orientation development model in the SMEs
- Study the amount of support from the high level managers for the innovative abilities
- A qualitative research on the issue to study the effective factors on the innovation capability
- It is suggested to do a wider research to identify and rank the innovation capability
- Doing the research applying qualitative exploratory analysis and test them using fuzzy method
- It is suggested to repeat the research every year at the same companies.

The research has some limitations such as other research. Some parts of the research limitations come from the statistical society including, the carelessness of the sample respondents and the point that the study has been limited to the specific companies.

Another limitation is among the scientific limitations of the research, the extent theoretical concepts of the research, the small number of previous research in the area and the limitations of data collection.

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