The Mediating Effect of Market Orientation on the Relationship between Entrepreneurial Orientation and Performance

NURSEL SELVER RUZGAR1, AKIN KOCAK2, BAHADTIN RUZGAR3
1Faculty of Science, Department of Mathematics, Ryerson University
350 Victoria St., Toronto, Ontario, CANADA, M5B 2K3.
nruzgar@ryerson.ca
2Faculty of Political Science, Ankara University
Cemal Gürsel Cad. 06590 Cebeci- Ankara, TURKEY
kocak@politics.ankara.edu.tr
3Marmara University (retired from Banking and Insurance School)
85 Amsterdam Avenue, Toronto, Ontario, CANADA, M4B 2C3
bahadtinruzgar@gmail.com

Abstract: - In last two decades, researchers have explored different models to examine the relationships among the market orientation, entrepreneurship and performance. In this paper, it is aimed to determine the mediator effect of responsive and proactive market orientation on the relationship between entrepreneurial orientation and firm performance. It is argued that entrepreneurial orientation is antecedent of both type of market orientation. Therefore, responsive and proactive market orientation enhance the entrepreneurial orientation and performance relationship. This study was conducted with 720 small and medium-sized enterprises in Ankara, Turkey. The results indicated that entrepreneurial orientation and responsive market orientation have positive and significant impact on performance, whereas proactive market orientation has negative effect. In addition, while the responsive market orientation mediate the relationship between entrepreneurial orientation and performance, proactive market orientation has a negative impact on the relationship.

Key-Words: - Entrepreneurial orientation, Responsive market orientation, Proactive market orientation, Mediator effect test, SMEs.

1 Introduction
Irrespective of size, businesses in market economies are operating in an environment characterized with rapid change, shorten lead-time and rampant entrepreneurial activities. In this economic climate, the biggest challenge of firms is to achieve and sustained competitive advantages. It is generally accepted that market orientation and entrepreneurial orientation are the two main organizational capability to achieve and sustained competitive advantages [1, 2, 3, 4].

In the literature, there are three main research streams; considering entrepreneurship as an antecedents to market orientation; considering entrepreneurship as a mediator between firm's market orientation and performance; and considering both market orientation (MO) and entrepreneurial orientation (EO) as organizational capabilities. Some researchers argued all three research streams are jointly contributed to achieve competitive advantages while some others argued all firms have some degree of EO so that EO transcends the other firm orientation [5, 6]. In this paper, unlike the previous research streams, it is argued that EO leads better firm performance, and MO mediates the relationship between EO and firm performance. There are numbers of researches on the relationship between EO and performance and MO and performance. Both of them are associated with superior performance in one or more of
profitability, sales, growth, and new product success. However, research on the mediating effect of MO on the relationship between EO and performance rarely seen.

The majority of researches on the relationship between MO and performance is based on either conceptualization of Narver and Slater or Kohli and Jaworski [1, 2]. For example, in one, it was pointed out that MO has two different perspective; responsive market orientation and proactive market orientation, [7]. In the case of literature, there are limited number of researches on this perspective of market orientation. Therefore, this research is based on whether MO has mediator effect on the relationship between EO and performance, and the two MO perspectives have same mediator effect.

2 Conceptual Framework and Hypotheses Development

2.1. Entrepreneurial Orientation

The concept of EO refers to firm-level processes, practices, decision-making styles, and strategic orientations that help a firm to gain a competitive advantage and exhibit superior performance [8, 9]. EO is an expression of an entrepreneurial firm’s entrepreneurial mind-set as an organization which has an influence on strategic processes and performance [10]. EO mainly represents a response of firms to future or potential market needs [11]. However, it is defined an entrepreneurship-oriented firm as one that “engages in product marketing innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations.” [12]. Based on this definition, measures of entrepreneurship orientation from innovativeness, risk-taking and proactiveness was used [13]. Innovativeness refers to the seeking of creative, unusual or novel solutions to problems and needs. These solutions take the form of new technologies and processes, as well as new products and services. Risk taking involves the willingness to commit significant resources to opportunities having a reasonable chance of costly failure. These risks are typically calculated and manageable. Proactiveness is concerned with implementation, with doing what is necessary to bring an entrepreneurial concept to fruition. It usually entails considerable perseverance, adaptability, and tolerance of failure [14, 15]. It is argued that entrepreneurial orientation has a significant impact on performance and this impact increases in the long run [16-20].

Therefore, the following hypothesis is proposed; 
H1: EO has a positive impact on firm performance.

2.2 Market Orientation

Market orientation (MO) has received considerable attention from researchers over the past twenty years, with two general perspectives emerging. The first perspective is a cultural perspective that centers on values and norms [2]. It was defined MO as “the organization culture that most effectively and efficiently creates the necessary behavior for the creation superior value for buyers and thus continuous superior performance for the business”. These authors have focused on three behavioral components: customer orientation, competitor orientation, and inter-functional coordination. The second perspective is behavioral in nature where market orientation is defined as “the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it” [1]. Hence, market orientation around the continuous collection of information regarding target-customer needs and competitor capabilities was positioned and the use of this information leads to create continuously superior customer value.

The relationship between market orientation and firm performance has been discussed in the literature. The vast majority of the studies suggest that being market orientated was associated with superior performance in one or more of profitability, sales, growth, and new product success [9, 21-25]. It was suggested that MO could comprise either responsive versus proactive behaviour [9]. Responsive market orientation finds the firm catering to suggested or compelled directions provided by customers. This perspective which reflects the empirical analysis on MO is the majority of research theme. From this aspect, proactive marketing finds the firm attempting to discover, understand, and satisfy the latent needs of customers. Therefore, the responsive market orientation ultimately could and would be imitated successfully, so just as superior customer benefits become parity benefit over time [9]. For any business to create and to maintain sustainable competitive advantages continually, it must increase its proactive market orientation continually. Proactive market orientation may also alert the firm to new market and technology developments and ideas that challenge existing cause effect relationship [26]. It was argued that when firms response to market changes with constantly
evolving customer needs which is responsive MO, firm’s performance would increase [27]. On the other hand, some researchers support the idea that only proactive MO has an impact on firm performance while some support responsive and proactive MO are independent [28, 29]. Depending on the explanations, firms can develop both orientations simultaneously. Based on the above, the hypotheses are:

H2: Responsive Market Orientation has a positive impact on firm performance.
H3: Proactive Market Orientation has a positive impact on firm performance.

2.3 The Relationship between Entrepreneurial Orientation and Market Orientation
Since an entrepreneurial orientation encompasses such as value and behaviors as innovativeness, risk taking, and competitive aggressiveness, entrepreneurial values may enhance the prospects for developing a breakthrough product or identifying an unserved market segment, both of which are fertile ground for developing competitive advantage [30]. Similarly, EO is antecedents of market orientation [31]. Moreover, since EO mainly represents a response of firms to future or potential market needs, it leads both responsive and proactive MO. Therefore, the following hypotheses are proposed [11].

H4: Entrepreneurial orientation is antecedents of responsive market orientation.
H5: Entrepreneurial orientation is antecedents of proactive market orientation.

Our proposed research model as follows:

![Figure 1: Proposed Research Model](image)

3 Methodology
3.1 Sampling and Measures
The empirical research was conducted using a sample of existing Turkish Small and Medium-Sized Enterprises (SMEs) located in Ankara. The sampling framework was constructed from a database provided by Small and Medium Industry Development Organization in Turkey. First, SMEs located in Ankara are determined from the list and among SMEs located Ankara, sample of 2,500 SMEs was selected randomly. Only 770 firm owner agreed to conduct the survey. Out of 770 survey, 720 surveys are usable response.

In this study, existing scales seen in the literature were adopted and 5-point- Likert type scale was used. Responsive and proactive market orientation were measured by originally developed scale [9]. Meanwhile, proactive market orientation scale was measured by 8 items and responsive market orientation scale was measured by 7 items. Entrepreneurial orientation was measured by developed scale [13]. Nine items are used to assess the key dimensions of entrepreneurial orientation; proactiveness, risk taking, and innovativeness. The performance is measured based on the perception of the respondent (changing profits, sales and return-on-investment in 3 years).

3.2 Analysis and Findings
The first stage of the analysis is the reliability test. It is found that all scales are above the accepted point of 0.7 (RMO: 0.85, PMO: 0.82, EO: 0.80, and P: 0.81). Since the scale is reliable for the sample, Confirmatory Factor Analysis (CFA) is applied to test validity. The results indicate that the goodness of fit statistics are all sufficient ($\chi^2$: 395.25 (df: 146, p: 0.000), with RMSEA: 0.049, SRMR: 0.046, NFI: 0.91, NNFI: 0.93, CFI: 0.94, IFI: 0.94, GFI: 0.95, AFGI: 0.93). So, the date is valid and reliable.

The second stage of the analysis is to test the proposed model and the hypotheses by using LISREL 8.51 [32]. Based on the model fit measures, chi-square statistic of the proposed research model is 411.29 (p < .001, df = 147). For a good model fit, the ratio $\chi^2/df$ should be as small as possible. A ratio between 2 and 3 is indicative of a good or acceptable data-model fit [33]. The ratio in the study is 2.79. Moreover, as $\chi^2$ statistic is sensitive to sample size, RMSEA would be considered. RMSEA is relatively independent of sample size and thus perform well as indices of practical fit. Most of the commonly used incremental fit indices exhibit relative independence from sample size and thus are useful indices of practical fit [34]. In the literature, it was suggested that RMSEA values lower than .10 indicates a good fit to data, and $RMSEA$ values ≤ .05 can be considered as a good fit, values between .05 and .08 as an adequate fit, and values between .08 and .10 as a mediocre fit, whereas values > .10 are not acceptable [33, 35]. The RMSEA of the model
is .05 which is well within the acceptable range. Additionally, SRMR should be less than .05 for a good fit, whereas values smaller than .10 may be interpreted as acceptable [33]. SRMR of the studied model is .061 which is in acceptable range. Regarding the other goodness fit statistics, all the goodness fit statistic values are above the expected value of 0.90 (NFI:0.91, NNFI:0.93, CFI:0.94, IFI:0.94, GFI:0.94, AGFI:0.93) (Figure 2).

![Figure 2: Assessment of Path Coefficients](image)

The results show that EO has significantly positive effect on firm performance. Similarly, responsive MO has also significant positive effect on firm performance. On the other hand, the same result for the relationship between proactive MO and firm performance is not found. There is negative impact on firm performance. Since proactive MO require deep market research and produce new products, this might decrease performance in short term. Regarding H4 and H5, it is found that EO is antecedent of both type of MO (Table 1).

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Beta (t-value)</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>0.20 (3.07)</td>
<td>Support</td>
</tr>
<tr>
<td>H2</td>
<td>0.20 (3.31)</td>
<td>Support</td>
</tr>
<tr>
<td>H3</td>
<td>-0.21 (-4.03)</td>
<td>No Support</td>
</tr>
<tr>
<td>H4</td>
<td>0.64 (13.64)</td>
<td>Support</td>
</tr>
<tr>
<td>H5</td>
<td>0.39 (7.89)</td>
<td>Support</td>
</tr>
</tbody>
</table>

Since EO is antecedent of MO, it is also tested direct and indirect effect of EO on performance to understand the mediating effect of MO on relationship between EO and performance. The results indicate that both type of MO enhance the relationship between EO and performance. Therefore, it is argued that MO has a mediator effect on the relationship (Table 2).

<table>
<thead>
<tr>
<th>Total Effect of EO with PMO and RMO</th>
<th>Direct Effect of EO</th>
</tr>
</thead>
<tbody>
<tr>
<td>P</td>
<td>0.26</td>
</tr>
</tbody>
</table>

4 Conclusion
MO and EO attracted the attention of many researchers from different aspects; some examined the impact of MO or EO on firm performance, some determined the interaction effect of MO and EO on firm performance. Beside those studies, nowadays researchers are trying to find out the answer for the question “Which construct is antecedent of others?” or “Do they have equally impact on performance? Based on the studies in the literature, in this paper it was tried to determine the mediator effect of responsive and proactive market orientation on the relationship between entrepreneurial orientation and firm performance by survey technique.

The results show that there are four contributions of this study to the literature:

- This paper tries to increase understanding whether EO is antecedent of MO. Similar to findings in literature [31], the results show that EO is antecedent of MO. Therefore, it can be argued that all firms have an EO. In other words, while a company may or may not be market oriented, it has some level of innovativeness, risk taking, and proactiveness, even if the level is quite low [6].
- Knowing that EO has an impact on firm performance, in this study, in order to enhance,
the impact of MO on a firm performance was added to study. The results indicated that MO can mediate the relationship between EO and performance.

- The majority of previous studies took either Narver or Slater's construct or Kohli and Jaworski's construct into consideration. In this study it was used two MO constructs [7]. The results indicate that responsive and proactive MO has different mediation effect on EO-performance relationship.

- The majority of studies examined the impact of MO and EO on performance have been conducted western economies. Furthermore, the scales were developed in western-developed economies. Therefore, the forth contribution of the paper is to apply the scales in a developing country.

The results indicated that small business owner should focus on EO and responsive MO to increase sales, profit and return on investment in the short term. Proactive MO has a negative impact on performance in the short term. Moreover, proactive MO has no mediator effect on EO. It can be argued that EO and proactive MO could be same level construct.

The study has some limitations. The research focus on SMEs without any industrial difference and it was conducted under the assumption of age and education of owners has no impact.

For the future research, same construct should be tested in different countries to generalize the results and also a different construct might be tested such as EO and proactive MO are same level construct and responsive MO mediate them. The moderation effect of market conditions-competition has been left for the future studies.

References:


