

Exploring the Mediating Effect of Responsive Market Orientation between the Relationship of Entrepreneurial Orientation and Firm Performance

Anshuman Sharma, Zaheer Ahmad Khan, Vikas Arya

Abstract The purpose of this paper is to investigate the mediating effect of responsive market orientation (RMO) on the relationship between entrepreneurial orientation (EO) and performance in small and medium-size enterprises (SMEs) in Oman. The study specifically investigates whether there is a mediating effect of responsive market orientation in the hypothesized relationships. A field survey was used to collect data from 175 SMEs. Structural equation modelling (SEM) was used to conduct a confirmatory factor analysis and Andrew Hay's process macro was used to compute the mediating effect of RMO on the relationship between EO and SME's performance. While the results indicate a significant relationship between entrepreneurial orientation and performance, responsive market orientation was found to be the mediator in the relationship (i.e. between EO and performance). The study underscores the importance of entrepreneurial and responsive market orientation for managers and owners of SMEs in Oman in order to compete and grow in regional market of GCC.

Key words: Entrepreneurial Orientation, SMEs, Performance, Responsive market orientation.

I. INTRODUCTION

Small and medium enterprises (SMEs) play a significant role in the overall growth and development of countries; they ensure job creation, substitution of imports, efficient use of local resources and an overall participation in enhancing economic development (Ong, et al.,2012). GCC countries have emphasised the importance of economic diversification in their long range economic and social development strategies, but they are far behind their diversification targets (Hvidt, 2013). The primary aim of diversification strategies of GCC countries is to build a private-sector driven economy operating in a wide range of profitable sectors as a sustainable source of job creation, and in turn contributing to the national GDP.

In 2008, the GCC declared a common market status; this brought about good business opportunities for SMEs in Oman, especially as regards the regional market. According to a report published by the Central Bank of Oman (2014), Omani SMEs have yet to grow to a level where they become potential contributors to the national economy as anticipated by the government and policy makers. According to Hertog (2013), SMEs in Oman contribute about 16% of the GDP, which in global terms, is a limited contribution compared to

those in emerging economies. Riham (2012) indicated that there is a great potential for growth, but the SME sector in Oman continues to be small and undeveloped. The current economic climate brings the biggest challenge for firms to attain and sustain a competitive advantage. The rapid changes in business environment characterize the market as a dynamic market. Marino et al., (2008) argued that unprecedented changes are affecting emerging economies and provoking challenges to companies operating in such environments.

Entrepreneurial orientation (EO) and market orientation (MO) are two main strategic capabilities to help a firm to sustain with a competitive advantage (Kohli, 1990; Zahra et al., 1999). Both MO and EO combined provide strategic behavioural traits in order to deal with economic environment (Escribáet al., 2008). Largely researchers in the past have agreed on the importance of strategic orientation, but there is no univocal. While some researchers consider both MO and EO as being joint contributors to organizational capabilities in attaining competitive advantage, others argue that each firm has a certain degree of EO that transcends other orientations of a firm per se (Bhuiyan et al., 2005 ; Schindehutte et al.,2008).

However, most of the studies on the relationship between entrepreneurial orientation and firms' have associated performance with factors such as profitability, sales growth, and new product introduction. Some researchers even went on to examine the degree to which the intensity of competition actually affects the relationship between MO, EO and organizational performance (Narver et al., 2004; Tsering, 2016). However, studies on the mediating effects of responsive market orientation (RMO) have rarely been seen. Most of the previous studies measured market orientation (MO) to conceptualize the relationship between MO and performance, and they have pointed out different perspectives of proactive market orientation (PMO) and responsive market orientation (RMO). However, examining the mediating role of RMO orientation within the conditions of economic hardships, and in the context of a particular regional market is not evident in literature.

This paper attempts to address this research gap on the mediating effects of RMO on the relationship between EO and performance of SMEs, in a regionally integrated market. Omani SMEs are facing many challenges in the economic slowdown among the oil price crises. Generally when firms respond to market changes through a strategic orientation, responsive market orientation (RMO) actually helps the

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Dr. Anshuman Sharma, Assistant Professor), Department of Marketing, College of Business Administration, Ajman University, UAE
(Email: a.sharma@ajman.ac.ae)

Dr. Zaheer Ahmad Khan, Assistant Professor), Department of Business and Economics, Mazoon College, Muscat, Sultanate of Oman.
(Email: zaheer@muc.edu.om)

Vikas Arya, Assistant Professor), Rajalakshmi School of Business, Chennai (INDIA).
(Email: vikas.aryaa@yahoo.in)

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firms to increase their performance. This research aims to examine the mediating role of RMO on relationship of EO and performance of firms in Oman.

II. LITERATURE REVIEW

Entrepreneurial Orientation:

Entrepreneurial Orientation (EO) is a behavioural, which shows an organization's entrepreneurial spirit in terms of its plans and activities. Processes, structures and organizational behaviour go onto reflect EO. According to Lumpkin et al. (2009), entrepreneurial behaviour reveals new technologies and processes, and makes an organization conscious of the current market trends, thereby assisting in the valuation of new capabilities for better performance. Early researchers (e.g. Miller, 1983; Miller and Friesen, 1982) explained the concept of EO by highlighting three dimensions: i.e. innovation, proactiveness and risk-taking tendency. In order to anticipate future trends and actions, while the management commits resources to projects in uncertain situations, entrepreneurs create new product or service through innovation, proactiveness, and their risk-taking tendency (Covin and Slevin, 1991; Kraus et al., 2012; Mahmood and Hanafi, 2013). Most of the academic contributions (e.g. Morris and Paul, 1987; Covin and Slevin, 1989; Miles and Arnold, 1991; Naman and Slevin, 1993; Kemelgor, 2002) recognised and differentiated the composite nature of entrepreneurship through these three key components (i.e. innovativeness, risk-taking and proactiveness). Wiklund (2006) argued that there are number of factors influencing the management framework of a firm for its proactive, innovative and risk-taking actions.

Entrepreneurial orientation actually facilitates firms to recognize opportunities and start new ventures thereof (Lumpkin et al., 2009). Innovativeness as a dimension to EO refers to creativity and inspiring new ideas for developing products and processes (Miller and Friesen, 1982). The frequency of introduction of new product lines, change in product lines and development of products or services, measures innovativeness (Knight, 1997); in order to exploit new opportunities efficiently, innovativeness thereby is a significant predictor of EO (Ledwith and Dwyer, 2008).

Proactiveness, as a dimension of EO refers to a behavioural pattern of taking initiatives. While anticipating new opportunities and thereby ensuring a first mover advantage Lumpkin and Dess (1996) and Knight (1997) suggested that the functional role of new approach of business along with a competitive posture is the real measure of proactiveness. On the other hand, some researchers (Kyläheikoet al., 2012; Zehir and Karaboga, 2015) argued that proactiveness actually characterizes behavior of a firm as a strategic choice, to posture them in the competitive market. Proactive attitudes of a firm lead it towards opportunity recognition, while offering a strategic choice in order to become the beneficiary of greater potential opportunities.

Knight (1997) further identified that aggressive and wide-ranging posture of entrepreneurs to exploit prospects in effect measures the risk-taking attitude of firms. Similarly, Lumpkin and Dess (2001) explained that bold actions such as venturing into unknown markets, deploying majority of

resources to ventures with uncertain outcomes, along with heavy borrowing reflects a risk-taking tendency. According to Quince and Whittaker (2003), the extent to which individuals demonstrate their risk-taking tendency is arguable; risk-taking behaviour represents entrepreneurial orientation of a firm, and it does become an effective dimension if embodied holistically within the organizational culture (Renet et al., 2014).

Market responsiveness and entrepreneurial orientation:

Market responsiveness refers to actions on how a firm reflects alertness, and proactive reactions to changes in market forces. According to Wei et al., (2014), market responsiveness indicates the extent to which firms respond to market signals, impending market opportunities and threats. Market responsiveness (MR) as an organizational competence enables an organization to translate and respond to market information coming from customers, suppliers and other sources (Homburg et al., 2007; Garrett et al., 2009). Therefore, market responsive firms do recognize the need to act based on market stimuli, and possesses the ability for those actions through their business strategies. Shimizu and Hitt (2004) argued that 'recognition' and 'action' abilities emerge through an organization's overall strategic response capability. Responsiveness to market dynamics serves as a driver of survival and sustainable growth with competitive intensity, and thereby reflects an organization's dynamism through its capabilities. Market responsiveness also encourages proactive experimentation, innovation and risk-taking abilities (Saeedet al., 2014). Activate experimental learning under strategic entrepreneurial posture creates new knowledge and solutions. A multi-level learning helps organizations to demonstrate entrepreneurial orientation for increased performance (Kreiser, 2011; Brettel and Rottenberger, 2013). A responsive proactive strategy helps the firms to create new insight into new opportunities. The product innovation varies with market orientation and customer orientation helps the firm to introduce new to the world products.

Regional Trade Integration:

Apart from political reasons, economic integration in one way or another does facilitate economic integration among GCC member states. The unified economic agreement framed in the 1980s, approved in 2001, the GCC Free Trade Area had been implemented (GCC, 2003; GCC, 2007), whereby the GCC economic integration committee has introduced several integration strategies including customs union and GCC Common Market. GCC Custom Union is established purposely just to enhance economic cooperation, especially in the trade activity between countries by reducing tariffs, duties and removing trade barriers (Gulf Cooperation Council Majlis al-A'lá, 2003).

Intraregional GCC trade streams remain relatively small despite good marketing opportunities offered through regional integration. According to Houcine Brougham (2008), intraregional trade increased by about 30 per cent per annum during the period 2004–2008, but that is still not

its maximum potential compared other trading blocs such as ASEAN (23 per cent), NAFTA (41 per cent), and EU-15 (57 per cent). The volume of intra GCC trade is reflecting weak complementarities among GCC member states (World Bank, 2010). The GCC has established unified GCC technical standards covering some 3,000 products, harmonised, and reduced customs administrative procedures and clearance requirements as well.

III. THEORETICAL BACKGROUND AND CONCEPTUAL FRAMEWORK

The cognitive constraints of behavioural theory of the entrepreneurial firm (BTEF) explain how businesses generate opportunities and employ context specific business approach to exploit opportunities. Based on BTEF, the study considers the prominent dimensions of EO (Miller, 1983; Covin and Slevin, 1991) to affect performance of firms. Intangible capabilities of an organisation such as customer connectivity and building enduring relationships or trust with targeted customers do play a vital role in enhancing its performance. Hult and Ketchen (2000); Voola, and O'Cass (2010) recognized market orientation as an ability that facilitates serving target customers and monitoring competitors more efficiently.

The resource based view (RBV) theory by Wernerfelt (1984) is adopted as theoretical background of the study. According to Barney (1991), an organisation's resources, which could be considered as assets are: attributes, information, knowledge and capabilities; while Grant (1991) categorised resources as human, physical, technological and capital. Both researchers used the RBV theory as a base to predict and explain organisational behaviour to achieve competitive advantage and to earn superior performance. Firms use their physical, human and organisational assets for developing long-term competitive advantage through superior firm performance. The researchers however agreed that MO and EO are contributors for creating a distinctive advantage, affecting the performance of a firm (Bhuiyan et al., 2005).

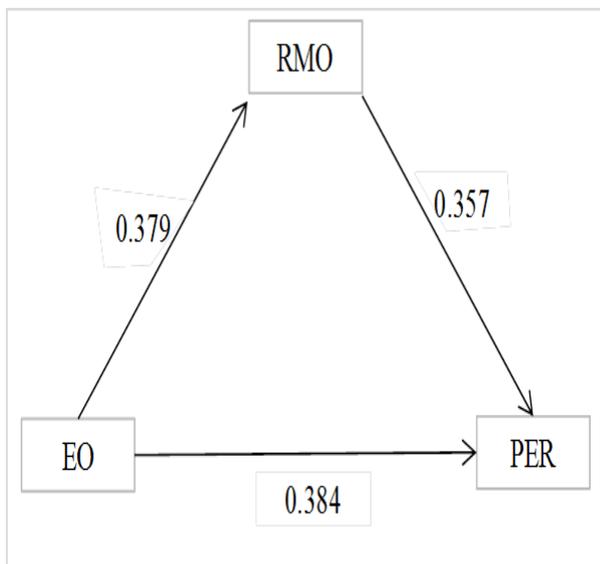
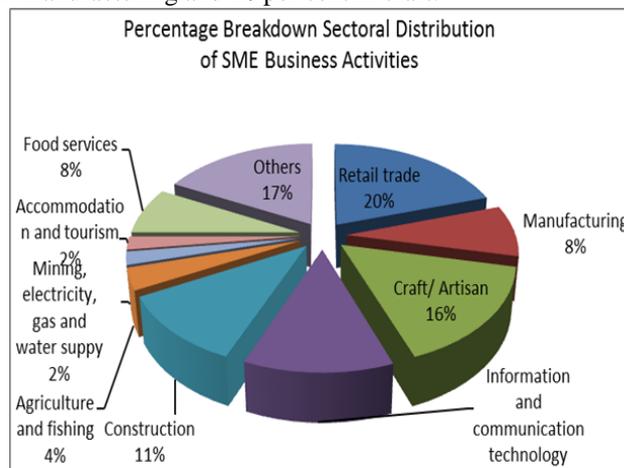


Figure 1: Research Model

IV. RESEARCH CONTEXT

According to Tim Callen (2014), in the last few years, GCC countries witnessed a growth in non-oil exports; Oman stands at third position after United Arab Emirates and Saudi Arabia. According to Bilal and Maqbali (2015), Omani SMEs are facing typical challenges in contextualizing the basic framework for development and they need support in preparing an appropriate environment for addressing finance, marketing and administrative challenges. Al Barwani (2014) refers to the reports titled "Financial Sector Assessment Program: Sultanate of Oman" by the World Bank (2010), wherein it reveals that SMEs in Oman contributed 20 per cent to domestic GDP and 40 per cent to the total workforce. In UAE, SMEs contribute 40 per cent of value-added productions to the economy, representing about 95 per cent of businesses and 42 per cent of workforce (Dubai SME, 2011). Omani SMEs need to invest in start-ups in order to realise its potential economic and social benefits (Khalfan et al., 2014). According to statistics from the Directorate General of SME Development, 117,000 SMEs constitute more than 90 per cent of the economy and around 20 per cent of domestic GDP. the main sectors of SMEs in Oman where 20 per cent SMEs are engaged in retail and trading activities, 8 per cent in manufacturing and 16 per cent in craft.



Source: Central Bank of Oman Occasional Paper: 1 August 2014

The Central Bank of Oman has imposed directives to banks for lending 5 per cent to SMEs besides incentives from Al Raffd Fund through Oman Development Bank (ODB). Apart from competition, SMEs in Oman are facing certain challenges including marketing, financial, technical and administrative.

Saudi Arabia and UAE are the biggest market opportunities whereas other countries are relatively smaller markets. High economic growth, liberalized market and rapid growth in population are the main characteristic of the GCC economies (Rouis and Tabor, 2012).

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V. HYPOTHESES DEVELOPMENT

Entrepreneurial Orientation and Performance:

During the last two decades, a large number of studies have examined the impact of EO on performance of firms. Researchers have argued that EO has a significant impact on performance and this escalates in the long-run (Zahra, 1991; Zahra, 1995 Lumkin & Dess, 1996; Wiklund, 2003). A meta-analysis of 51 studies by Rauch et al., (2009) revealed that the impact of EO on performance is moderately large. In view of previous studies, this research proposes the following hypothesis to assess the impact of EO on the performance of SMEs in Oman.

H1: EO positively influences the performance of the firms.

Responsive Market Orientation and Performance:

Researchers (Pelham, 2000; Lin et al., 2011) have identified that being market oriented has association with superior performance in view of growth in terms of sales, profitability and new product success. According to Narver (2004), firms demonstrate market orientation either as being proactive or reactive/responsive. Responsive market orientation would emulate successfully to satisfy customer needs in a changing business environment and helps in attaining a sustainable competitive advantage. Responsive market orientation alerts firms to new technology, and provides ideas to challenge the cause and effect relationship due to environmental dynamics (Atuahene et al., 2005). Firms attain better performance by responding to market changes and constantly evolving customer needs through RMO. Therefore, based on the evidence from literature, this study proposes the following hypothesis.

H2: Responsive Market Orientation (RMO) positively influences the performance of firms.

Mediating role of Responsive Market Orientation:

Some researchers (e.g. Matsuno et al., 2002; Liu et al., 2003) argue that entrepreneurship is an antecedent of market orientation and innovativeness, which in fact, requires firms to gather and analyse environmental information as a part of entrepreneurial strategy. Risk calculation facilitates firms to take actions in response to market opportunities and threats. According to Baker (2009), market orientation is an ideal climate to develop entrepreneurial processes for firms. Therefore, the study proposes the following hypothesis.

H3: Responsive Market Orientation (RMO) mediates the relationship between Entrepreneurial Orientation and performance

VI. METHODOLOGY & RESULTS

This research used the survey method, through a self-administered structure questionnaire for data collection. Researchers measured entrepreneurship by asking respondents to score based on their degree of agreement on seven-point Likert scales for six practices of entrepreneurial behaviour based on previous literature (Covin and Slevin, 1989) who covered the three main components of entrepreneurship, namely:

- (1) Innovativeness
- (2) Risk taking; and

- (3) Proactiveness

Responsive market orientation (RMO) was measured by using original scale developed by Narver et al. (1990) through a five-point Likert scale. RMO measurements include understanding customers' needs, assessing customer satisfaction, and providing superior quality or service (Deshpande et al., 1993; Jaworski and Kohli, 1993; Narver et al., 2004). For performance, subjective measures such as sales, profit and return on investment were measure (Jarvis et al., 2000; Naldiet al., 2007). Similar SMEs' performance indicators were used in different studies (Knight, 1997; Lin et al., 2008; Merlo and Auh, 2009; Wiklund and Shepherd, 2005). Availability of objective data from SMEs is difficult through their reported financial data. Secondly, SMEs are reluctant to disclose their information as well.

Upon completion of the questionnaire, researchers translated the questionnaire into Arabic, because most of the SME owners in Oman are having difficulty with English. This study used reverse translation method to ensure linguistic and semantic sanctity of the items used in this study. To ensure compressibility and face validity of the instrument, researchers conducted a small-scale pilot study with face-to-face interview, based on which, researchers did modify some of the problematic wordings of questions.

The study applied simple random sampling on the list of SMEs from Oman Chamber of Commerce and Industry. Finally, researchers sent an online version of bi-lingual questionnaire on Google form to 300 SME owners and managers in manufacturing, services and retail industry. Researchers received 194 responses, retained 175 usable instruments in the analysis and dropped 19 questions due to missing data and incompleteness.

To analyse the questionnaires' reliability, cronbach alpha was calculated. To test the validity of the instrument used, researchers conducted a confirmatory factor analysis using SPSS AMOS was tested through Baron and Kenny (1986) approach.

VII. FINDINGS AND DISCUSSION

Factor and reliability analyses:

The researchers conducted confirmatory factor analysis to test model fit and used Comparative Fit Index (CFI), Goodness of Fit Index (GFI), Normed Fit Index (NFI) and Root Mean Square Error of Approximation (RSMEA) model fit indicators recommended by Tabachnik and Fidell (2007). The results showed the model fit as. $\chi^2 (71, N=175) = 94.24$ $p < 0.05$, CMIN/DF= 1.327, CFI=0.976, GFI=0.929, NFI=0.931 and RSMEA=.043. The values of CFI, GFI and NFI are above 0.90, which is a good fit (Bentler & Bonnet 1980). The value of RSMEA is less than 0.05 and indicates a close fit (Browne & Cudeck, 1993).

In Step-1 of the mediation model, the regression of performance (PER) on entrepreneurial orientation (EO), ignoring the mediator- responsive market orientation (RMO) was significant, ($\beta=0.384$, $t=5.853$, $p < .001$). Step-2 showed that the regression of the mediator RMO on EO, was

significant ($\beta=0.379$, $t=5.762$, $p<.001$). Step-3 showed that regression of the PER on the mediator RMO was also significant ($\beta=0.357$, $t=5.383$, $p<.001$). Step-4 while controlling for mediator RMO, EO is still significant predictor of PER but β -value has been reduced. This shows that RMO mediates the relationship between EO and PER partially. In summary, there is a partial mediation between EO & PER of RMO. Table below summarizes the result of analysis.

Step	IV	DV	B	SE	t	p
1	EO	PER	0.384	0.63	5.853	0.000
2	EO	RMO	0.379	0.69	5.62	0.000
3	RMO	PER	0.357	0.66	5.383	0.000
4	EO	PER	0.29	0.72	4.216	0.000
	RMO		0.247	0.69	3.591	0.000

The results showed that EO does positively influence RMO and a firm's performance significantly. Hence, the outcomes supported H1, H2 and H3. The results further indicate that SMEs in Oman use the characteristics of EO as proactiveness, risk-taking and innovativeness in meeting the purposes of RMO, which mediates the relationship between EO and performance. Findings of the study also support the market knowledge standpoint that organizations with a strategic position of EO have greater market information and tendency to explore new market opportunities to perform better (Atuahene-Gima, 2005; Chen et al., 2012; Fernández-Mesa and Alegre, 2015). The results of the study are consistent with many of the previous studies. A number of recent studies also confirmed that market oriented and entrepreneurial oriented strategies positively affect performance of firms, especially in emerging markets (Gruber-Muecke & Hofer, 2015). Market orientation predicts a firm's performance as an antecedent to EO. Matsuno et al. (2013) also indicated that EO is likely to enhance a firm's performance when the level of market orientation (MO) is high. The outcomes of this study are also consistent with Haryanto and Haryono's (2015) findings, who reported that responsive market orientation (RMO) impacts organisational performance.

VIII. CONCLUSION AND IMPLICATIONS

The model used in this research is derived from existing research, whereby the entrepreneurship and responsive market orientation theories provide a useful enlightenment to understand the effect of entrepreneurial behaviour on the performance of SMEs in the local context of Oman. The outcomes of this study coincide with most of the earlier studies and add further value to understanding entrepreneurial behaviour in pursuit of responsive marketing orientation within the context of a regionally integrated market (that of GCC). The outcomes of this study confirm that RMO is not only associated with the performance of SMEs, but also mediates in the relationship between EO and organisational performance. Therefore, a responsive marketing approach is very essential for entrepreneurial orientation in enhancing the performance of the SMEs.

This study has evocative implications for managers and owners of SMEs in Oman in order to embrace a responsive marketing orientation within the context of dynamics of the GCC market. Therefore, this becomes essential for managers/owners of SMEs in Oman to place RMO as a

target setting while they decide the strategic positions by entrepreneurial behaviour. Notwithstanding the size of the firm, its management should invest in building entrepreneurial capabilities of their organisations. They should continue innovation, risk-taking and proactive attitude by serving customer needs.

The competitive business environment does bring about many challenges for organisations, but they have to embrace entrepreneurial orientation and also remain profitable. Omani SMEs specifically, are to not only remain profitable in existing markets but also grow in the regional market. Firms pursuing the expressed needs of customers in developing their products and services get better response from the market. A market-driven responsive orientation requires high integration between departments to commercialize innovative products. Therefore, entrepreneurial orientation determines strategic directions of firms to develop products and services in a timely manner to meet current market as well as customer's needs.

IX. LIMITATIONS OF THE STUDY AND SUGGESTIONS FOR FUTURE RESEARCH

As indicated earlier, this research focused on SMEs in general. This study is first of its kind to study the relationship of EO on performance of SMEs mediated by RMO; but this research did not include some important factors such as the role of organisational size. Comparison of size and type of activities is not contained within in the current study. This research partly addresses the gap and thereby calls for further research in this area in order to examine similarities or differences between small and medium firms in different sectors and context. The business environment such as market turbulence, technological turbulence and competitive intensity are also not contained. Therefore, to gain a similar level of understanding of the differences between small and large firms would be an imperative endeavour in further research on this topic.

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