

# THE CONSEQUENCES OF STRATEGIC ORIENTATION OF THE FIRM ON BUSINESS PERFORMANCE

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## *Abstract:*

*This study aims to develop a conceptual model used for empirical testing of strategic orientation and the effects of the strategic orientation on organizational performance. As the strategic orientations addressed by organizations vary by organizational environment, the main objective of strategic management research has been to determine and understand performance differences between firms. The present research used the results obtained by interviewing 121 large companies in Romania, and by using simple linear regression, we tested the existence of strategic orientation in these companies and its effects on organizational performance. This research confirms the presence of strategic orientation at firm level and its positive effect on performance. The major contribution of this study is that it complements the empirical data in existing literature around the effects of strategic orientation on organizational performance.*

*Key words: strategic orientation, financial performance, market effectiveness*

## **Introduction**

Strategic management literature contains numerous studies analysing the different methods on how organizations must operate, methods intended to provide a guide for managers to achieve performance. Lately, strategic management concentrated on the development of theoretical concepts and empirical testing of relationships that are rooted in these concepts. Thus, this trend materialized by conceptualizing and measuring the strategic orientation construct and other constructs derived from it. At the beginning, the relationship between the theoretical

definitions and results obtained from measuring the constructs has been weak. In the meantime, different measurement scales were discovered that developed complementarity between theoretical research and the empirical results. Strategic orientations' potential to influence customer satisfaction, market effectiveness and current profitability (Matsuno and Mentzer, 2000; Miles and Snow, 1978; Noble, Sinha and Kumar, 2002; Santos et. al, 2005; Song, Di Benedetto and Nason, 2007) of an organization is the main target for which this construct has been analysed for more than two decades. The effect of Strategic orientation on firm performance was

analysed through numerous theoretical and empirical papers (Covin and Slevin, 1989; Hurley and Hult, 1998; Miles and Snow, 1978; Venkatramen, 1989). Strategic orientation of the company was analysed in different perspectives and correlated with different constructs, analysis meant to be applicable to as broad a spectrum as possible of the many existing business within a market. Research dedicated to strategic orientation is focused on delineating the dimensions of strategic orientation, aiming to identify the factors that influence the strategic decision-making processes. The theoretical foundation for this delineation is represented by the theoretical study of Miles and Snow (1978), which proposed four strategic archetypes, aimed at aligning organizational strategy with variables that occur in the process of implementing the strategy. Although top managers always try to formulate coherent strategies to provide a guideline, the results of these decisions are often very difficult to predict. Based on this argument Blumenritt and Danis (2006) present the existence of intentional strategies, meaning strategies that follow an appointed course, and emergent strategies, which are based on a strategic line and reach an unexpected point. The manner of strategic decision-making, processes, and choosing a type of strategic orientation are influenced by the characteristics of managers. Identifying and measuring these variables are key issues in the area of strategic management, because they influence processes and strategic choices (Esteve et al., 2009; Jabnoun, Khalifah and Yusuf, 2003). Otherwise, Hitt et al. (1997) say that in newly industrialized countries prominent competitive pressure is felt. Thus, these countries present significant differences between

strategic orientations applied by organizations. These differences can be explained in light of national culture, ideology and the way in which public and institutional policies are applied. Companies that have global level adversaries must attach great importance to these differences if they are to be successful, to form alliances with organizations from these countries or to open branches in these countries, while managers develop unique cognitive models to interpret and process complete sets of information hailing from the institutional context. These cognitive models or strategic orientations are used to integrate small pieces of information in a single complex rationale during the decision-making process. Criteria that are the basis for the choice of a type of strategic orientation include: the geographical area from which the manager hails, industry attractiveness during the process of strategic decision making, increase of the market share, profitability, and research – development, production and management capabilities. Identifying the factors that affect performance is a critical issue, being a main research topic in this field (Esteve et al., 2009; Pleshko, 2007). Variables that mediate the way in which strategic orientation affects performance are as follows: implementation of competencies, organizational learning and innovation (Noble, Sinha and Kumar, 2002; Zhou et al., 2005).

This study was generated and structured as follows. In the first part of the work, we have achieved critical review of existing literature on strategic orientation and the consequences of strategic orientation on performance. The next part, research hypothesis and used methodology are presented, following with a discussion on the

results of the tested model. The final part of the paper presents the findings, limitations and managerial implications of the research and offers suggestions for following research directions.

### **Literature review**

#### **Strategic orientation**

The strategic orientation of the company was analysed in different perspectives and correlated with different constructs, analysis designed to provide applicability to as broad a spectrum as possible of the many existing business models within a market. Research dedicated to resource-based perspective (Blumenritt and Danis, 2006 Paladino, 2008) was focused on how firms develop distinctive sets of capabilities, assets that, over time, become a source of competitive advantage. Based on the principle of the equifinality, companies' resources, capabilities and competencies are expected to be heterogeneous. These resources, capabilities and skills are obtained through well-organized processes and possess the characteristic of being unique and difficult to imitate by competitors. Because of this, resource-based perspective determines that a firm's resources and unique capabilities are the deciding factors towards the type of strategic orientation and performance (Barney, 1991; Paladino, 2008). Studies of this construct showed that market orientation is an organizational resource that shapes the strategic model of an organization. The results of these studies show that market orientation influences a multitude of the strategies' dimensions, which in turn affect performance (Pleshko, 2007; O'Reagen and Ghobadian, 2005; Santos et al., 2005). Based on resource-based perspective,

the studies of Venkatraman, Morgan and Strong (1998) and Santos et al. (2005) argue that market orientation is a promoter of competitive strategy. They measure the market orientations' degree of influence on strategy using the following six dimensions proposed by Venkatraman (1989): aggressiveness, analysis, defensiveness, futurity, proactiveness and riskiness and also analyse the dimensions' effect on performance. Thus, organizations do not simply react to their environment, but they interact with the environment dynamically through strategic actions taken by company managers. Thus, the key for acquiring the appropriate type of strategic orientations is that top managers align resources, organizational capabilities and competencies to the threats and opportunities that arise in the organizational environment. Subsequent research promotes the industry-based perspective. Within this perspective we find the idea that the strategic direction of an organization is determined by competitive forces existing inside the industry within which the organization operates. More recent studies develop perspective based on establishment and habits. This perspective shows that strategic differences, especially in emerging economies, are mainly determined by the formal or informal role of social rules (Zhou et al., 2005). Based on these insights, research has examined the possible determinants of strategic orientation. On the one hand is the influence of environmental factors (Jabnoun, Khalifah and Yusuf, 2003) and variables present within the organization, and on the other hand strategic orientation is determined by institutional influences. Analysis of these variables generated results that shows that the path to successful

strategic management is represented by the ability achieve complementarity between internal and external factors (Blumenritt and Danis, 2006) influencing organizational competitiveness, in a manner that will ensures performance. The external factor with one of the strongest influences is the competition. The positioning towards the competition in a global market requires a deep understanding of the decision making processes and of the behavioural attributes of managers from different countries (Hitt et al., 1997). On the other hand, institution level differences among different countries, determines the existence of organizational objectives. Understanding these differences is important towards understanding the strategic organization of competitors, of strategic partners in the case of international alliances and managers in business units or international subsidiaries. Business environment is also a determining factor towards forming a strategic orientation within the organization (Jabnoun, Khalifah and Yusuf, 2003; O'Reagen and Ghobadian, 2005; Zhou et al., 2005). Studies show that strategic orientation depends significantly on the influence of environmental factors. Examples of such environmental factors with a strong influence on the strategic orientation are: market uncertainty and technological environment turbulence. Factors within the organization that determine the strategic orientation were categorized into: organizational structure, culture and leadership factors. Thus, formalization positively affects strategic orientation, while decentralization negatively affects it. Organizational culture provides benefits towards the development of market orientation and technological

orientation. The institutional factors that provide the strongest influence in formulating and implementing strategic orientation are changes in social, economic and cultural institutions. These factors (laws, rules, regulations) have an even greater importance in emerging economies. Other research examines the organization's direction and strategy in terms of regional integration. Strategic orientation is considered to be the basic orientation for a company. The processes that companies use to change environmental conditions occurring due to the free market, towards obtaining performance are influenced by the context of regional integration because of the characteristics of the macro environment that impact strategy. There are, however, a number of control levers: rationing, acquisition of technology and production automatization, superior product quality and internationalization (Wright et al., 1995) to model influences hailing from regional integration.

### **The consequences of strategic orientation of the firm on business performance**

Research in the field of strategic management has addressed the way in which strategic orientation should be considered, taking into account the results of several perspectives. Choosing to pursue a strategic behaviour or another occurs when the environments differ from the settings presented and validated over the years. Thus, a clarification of the consequences on performance of strategically oriented organizations is required. Strategic orientation represents the sum of all directions that influence the company's marketing strategy and all the strategic

implementation activities (Noble et al., 2002). Most studies focused on the construct of strategic orientation were based on data obtained from companies that operate in western countries. Therefore, difficulties appeared when trying to transpose and apply the results and patterns evidenced by these studies on businesses that are working in different environments. Thus numerous studies (Jabnoun, Khalifah and Yusuf, 2003; Kirca et al., 2005; O'Reagen and Ghobadian, 2005) demonstrate that the effects of strategic orientation are based on the dynamics of the competitive environment. Because of this environment dynamic, studies completed in developed economies are largely ambiguous. An aid for deeper understanding of strategic orientation may also be organizational culture, that was defined during research as a pattern of values and shared ideas that help employees understand how the organization functions, thus ensuring a guide for their behaviour in relation to the company. Competition strategy at firm level is conditioned by the level of market orientation of an organization, because this orientation stimulates competitive aggression. The most well-known and widely accepted approach to market orientation in literature is Venkatraman's research (1989). This study defines aggressiveness as a dimension of strategic orientation designed to determine the position taken by a company to allocate resources towards improving its market position faster than its competitors (Noble, Shinha and Kumar, 2002; Morgan and Strong, 1998; Wong and Saunders, 1993; Venkatraman, 1989). The dimension that measures how the company dedicates its resources towards solving its problems is the analysis dimension. This also refers to

a tendency to look deeper for the root of a problem and seeking to generate the best alternatives solutions (Noble, Shinha and Kumar, 2002; Morgan and Strong, 1998; Wong and Saunders, 1993; Venkatraman, 1989). On the other hand, defensiveness reflects the degree of a company's defensive behaviour relative to its competitors. Defensive behaviour is usually defined by methods to reduce costs and streamline processes (Noble, Shinha and Kumar, 2002; Morgan and Strong, 1998; Santos et al., 2005; Wong and Saunders, 1993; Venkatraman, 1989). Another dimension proposed by this approach in the orientation towards the future. This dimension represents the way in which key company level strategic decisions are taken in relation to their long term effects on organization goals. This dimension actually analyses how a company seeks efficient solutions: long term or short term efficacy solutions. Proactivity shows an organization's proactive behaviour in the context of emerging industries, in relation to the fashion in which market opportunities are identified and way of providing a response to dynamic environment changes (Noble, Shinha and Kumar, 2002; Morgan and Strong, 1998; Santos et al., 2005; Wong and Saunders, 1993; Venkatraman, 1989). The dimension of risk-taking involves measuring how the company dives into resource allocation, decisions, choice of products they develop and choosing markets in which to function (Noble, Shinha and Kumar, 2002; Morgan and Strong, 1998; Santos et al., 2005; Wong and Saunders, 1993; Venkatraman, 1989). The way in which these dimensions are implemented effects performance. Research based around this perspective shows that improving production and streamlining

other execution operations will contribute to the delivering of quality products at a convenient price to the market, which will then attract customers, and thus, production orientation will help some organizations achieve a higher level of performance. Another type of strategic orientation approached by numerous companies is oriented towards sales. These companies rely on the fact that subjecting customers to aggressive sales techniques and marketing efforts will increase the sales volume, thus maximizing short-term sales, even if long-term relationship with the client will deteriorate. Because of the lack of investment in customer value generation, the sales orientation will have a negative impact on long term performance. Wong and Saunders (1993) collected data on the kind of strategic orientation and the strategic directions followed by organizations. The study results show that strategic objectives represent a dimension which is meant to determine whether an organization is prone to either profit or sales orientation. It also shows the degree to which the company is proactive, defensive or content with its current status. Strategic targeting determines the pattern or the way the organization follows to going to generate profit. There is the possibility of having a market effectiveness identification behaviour by reducing the variety of products on the market and cost savings, or the company may choose a proactive behaviour in relation to competition by entering and conquering new market segments or markets. Forming strategic orientation is a different action from implementing it, although they are both determined by management, but at different levels? Formation and implementation of strategic orientation is done through

functional diversity and coordination between functions. (Menguc and Auh, 2005). Generating strategic orientation of an organization represents all actions taken by an organization based on successful communication and interpretation, adoption and implementation of information. Implementation of strategic orientation, on the other hand, represents the effective operationalization of the creation stage of strategic orientation, the competence of the organization to execute, control and evaluate its marketing strategy. Thus, a large functional diversity and coordination is important for the forming step of strategic orientation and a low functional diversity and functional coordination are needed for the implementation phase of the strategic orientation. Communication, coordination, collaboration and idea clarity are aspects that improve coordination between different functions. (Narver and Slater, 1990). Thus, strategic orientation can be achieved only if the company develops a high degree of empathy, quality communication, and the ability to reach consensus and integration across multiple functions within the organization. Empirical studies (Covin and Slevin, 1989) are designed to provide managerial support towards existing limitations among these theoretical typologies. There are factors that should determine the type of action or choice of type of strategic orientation. These factors include environmental factors, purchasing power of existing clients, competitive factors and political factors. The results of more recent studies (Zhou et al., 2005) show that turbulence generated by the above listed factors may attract negative effects on organizations but there are situations where these can

bring benefits. The turmoil in the technological environment, for example, has a positive effect on the increase for both technological and organization market originating innovation.

### **Hypothesis**

Literature founded around the concept of strategic orientation, based on the work of Miles and Snow (1978), affirms that successful organizations successfully interact with the environment in which they operate. This performance is largely due to the strategic orientation that the firm adopts. Following the implementation of this orientation, these companies normally cannot collapse. The study by Matsuno and Mentzer (2000) shows that strategic orientation of an organization can be considered as a moderating factor in the relationship between market orientation and performance. A meta-analysis of the literature on market orientation and that on resource based perspective proposes (Song, Di Benedetto and Nason, 2007) and identifies theoretical and empirical arguments on the type of strategic orientation, marketing capabilities and, also, of the positive influences of these capabilities on performance. Other studies which validate the influence of strategic orientation on performance differences between organizations are (Noble, Sinha and Kumar (2002), Santos et. al (2005). On this basis of these arguments, we expect that these assumptions to be validated:

H1: Strategic orientation positively influences organizational performance

H2: Strategic orientation positively affects customer satisfaction

H3: Strategic orientation positively influences a company's market effectiveness

H4: Strategic orientation positively influences current firm profitability

### **Method**

#### ***Sample and data gathering***

The results of this research were generated as a result of processing a database consisting of 1800 companies that operate in Romania. Characteristics of the firms present in this database are: a number of employees greater than 10 (medium and large companies) and conduct activities in various fields. The step following the generation of the database was sending invitations by e-mail to the top management of the 1,800 companies to fill in the online questionnaire. Two weeks after sending the first invitations, email reminders were sent. Because the number of results was small, in the final stage we approached the sample members by phone, inviting them to participate in this study. As such, a sample consisting of 121 companies was obtained.

#### ***Measures and measurement models***

For the data measuring process we used scales recognized and validated by previous research. To measure company strategic orientation we used the scale of Santos et al. (2005) and to establish the level of organizational performance we used the Vorhies and Morgan (2005) scale. Psychometric properties of the scales of measurement are acceptable,  $\alpha$  Cronbach surpassing the acceptability level for all of the constructs. Construct validity was verified using exploratory factor analysis. The medium variant extracted from each construct exceeded the squared correlation for each pair of constructs, and thus was confirmed the validity of the discriminant. (Fornell and Larcker, 1981).

## Results

The scales used for this study are at an acceptable level, Cronbach's  $\alpha$  ranging between 0.648 and 0.746 for

the strategic orientation dimension and to 0.816 for firm performance, as is displayed in Table 1.

**Table 1**  
**Scale properties Cronbach's  $\alpha$  at construct and dimension level**

Construct and dimensions	Cronbach's $\alpha$
Aggressiveness	.731
Analysis	.746
Defensiveness	.602
Futurity	.724
Proactiveness	.683
Riskiness	.648
Firm performance	.816
Customer satisfaction	.802
Market effectiveness	.725
Current profitability	.686

During this research we tested four regression models to validate the assumptions made. The first model tests the direct effects of the strategic orientation dimensions: aggressiveness, analysis, defensiveness, futurity, proactiveness and riskiness on firm performance. The second model tests the direct effects of the dimensions of strategic orientation on customer

satisfaction. The third model tests the direct effects of the strategic orientation dimensions on the market effectiveness of the company. The last model tests the direct effects of the strategic orientation dimensions on the current profitability of the company. The results of testing these models are shown in Table 2 and Table 3.

**Table 2**  
**Results of testing the effect of all the dimensions of strategic orientation on performance**

Strategic orientation	Firm performance	
	$\beta$	p
Aggressiveness	.140	.060
Analysis	.221	.016
Defensiveness	.214	.012
Futurity	.205	.022
Proactiveness	.201	.010
Riskiness	-.049	.405



Testing of this model shows the following results. Four of the strategic orientation dimensions influence firm performance: analysis, defensiveness, futurity and proactiveness. The four dimensions have an approximately equal influence, the greatest effect being generated by the analysis dimensions. The aggressiveness dimensions of the strategic organization could exert influence in other conditions, possibly a higher sample size or another structure of firms in the sample.

Testing of the other three models presents the following result set: the four dimensions of the strategic orientation that influence performance have a direct and positive effect on customer satisfaction. The research shows that the analysis and

proactiveness dimensions have a higher impact on customer satisfaction. The futurity dimensions, together with the aggressiveness dimension of the strategic orientation, also influence market effectiveness. We note the existence of a relationship only between aggressiveness and market effectiveness as a dimension of performance, therefore that the influence of this dimension on firm performance is statistically insignificant. The only influence on current profitability is the defensiveness dimensions of the strategic orientation.

**Table 3**

**Results of testing the effect of all the dimensions of strategic orientation on customer satisfaction, market effectiveness and current profitability of the firm**

Strategic orientation	Customer satisfaction		Market effectiveness		Current profitability	
	$\beta$	p	$\beta$	p	$\beta$	p
Aggressiveness	.033	.665	.209	<b>.020</b>	.114	.240
Analysis	.293	<b>.002</b>	.124	.254	.154	.191
Defensiveness	.180	<b>.036</b>	.125	.214	.247	<b>.024</b>
Futurity	.184	<b>.042</b>	.216	<b>.043</b>	.125	.277
Proactiveness	.258	<b>.001</b>	.172	.063	.086	.387
Riskiness	-.050	.403	-.076	.283	.001	.987

### Conclusions

In this paper we aimed to analyse the influence of the dimensions of strategic orientation on firm performance and its size. The results of this analysis showed that only four of

the six dimensions of strategic orientation influence company performance and size. These four dimensions also influence the level of customer satisfaction supplied by the company. Thus, to increase the level of customer satisfaction provided, firms

should act primarily on the analysis dimensions of strategic orientation and secondly on the proactiveness dimensions. As such, the basis of designing a business strategy must consist of market data collection and analysis. The purpose of these actions is adaptability of the market strategy to the environmental conditions at any time. Secondly, the company's quick response to market signals materializes into opportunities that ultimately lead to increased customer satisfaction and overall performance. The company effectiveness is mainly influenced by the increase in the level of aggressiveness of the company. Thus, a temporary reduction in profit at the expense of improving the market

position, sacrificing profits to the detriment of sales growth will result in increasing sales, number of customers and market share. The same effect is generated by the rise of company proactiveness, such as pursuing technological developments that can generate new sources of competitive advantage. In case the company's desired performance indicator is profitability, they should focus on the dimensions of defensiveness. Increasing profitability can be achieved by carefully controlling costs, increasing effectiveness and improving the production costs.

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