



Market orientation in the context of SMEs: A conceptual framework[☆]

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ABSTRACT

A number of studies in the marketing literature have examined the construct of market orientation (MO). These studies generally show a positive link between MO and organizational performance. This paper examines MO specifically in the context of small and medium sized enterprises (SMEs). An in-depth review of the extant literature is used to develop a conceptual framework by exploring the major antecedents of MO, the MO–Performance relationship, and the key mediators and environmental moderators of this relationship. This paper also examines several studies on SMEs with respect to various aspects of this framework and offers suggestions for future research in order to understand more thoroughly how MO influences SME performance.

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1. Introduction

In a general sense, MO pertains to an organizational culture that emphasizes aspects such as customer orientation, competitor orientation, interfunctional coordination, and responsiveness as keys to organizational success (Kohli and Jaworski, 1990; Narver and Slater, 1990). Although the MO–Performance relationship has been the focus of many studies, efforts to synthesize existing findings to better understand this relationship in the context of smaller organizations have been virtually nonexistent. Past research shows some key differences between SMEs and larger organizations (Acs and Audretsch, 1987; Coviello et al., 2000) and one can expect the role of MO in SMEs to be quite distinct from that in larger organizations.

The primary objective of this paper is to formulate a conceptual framework to examine MO in the context of SMEs. Such a framework could help us better comprehend the role of MO and its influence on SME performance. The MO literature is used to identify constructs of particular relevance to SMEs. Increased emphasis is given to the antecedents of MO and the mediators and moderators of the MO–performance relationship. Following the discussion of the conceptual framework, this paper examines SME research in relation to the framework and offers suggestions for future research. Prior to development of the conceptual framework, the next section examines the significance of the SME context for MO.

2. Relevance of the SME context

Firm size is an important consideration with respect to the competitive advantage of organizations. Larger firms are known to have advantages such as economies of scale, bargaining power with suppliers and distributors, brand name recognition, experience curve effects, and monopoly power to set prices above the competition (Fiegenbaum and Karnani, 1991). Larger firms also have access to key resources (Ettlie and Rubenstein, 1987). In contrast, smaller firms often face many obstacles, termed “liability of smallness” by Aldrich and Auster (1986). Additionally, smaller new ventures could have the added burden of the “liability of newness” leading to higher mortality rate among these organizations (Stinchcombe, 1965). In spite of these liabilities SMEs are often highly market oriented and known to compete effectively with larger organizations, making it valuable to gain a better understanding of MO in the SME environment.

With respect to characteristics, several differences between SMEs and their larger counterparts can be noted. For example, SMEs tend to be intrinsically more innovative, especially in the early stages of the industry lifecycle (Acs and Audretsch, 1987; Audretsch, 2002). Smaller firms are also likely to have more customer contact (Coviello et al., 2000), a greater propensity for action (Chen and Hambrick, 1995) and more output flexibility than larger firms (Fiegenbaum and Karnani, 1991). Such differences could be significant for studying the role of MO in smaller firms.

SMEs and larger organizations are also likely to differ with respect to resources. Firm resources include a variety of elements (assets, capabilities, information, etc.) and these resources are often the key to sustained competitive advantage and superior performance. Hult et al. (2005) use a resource-based view (RBV) to examine the interrelationship between MO and elements such as information processing

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and organizational responsiveness. [Olivarrieta and Friedmann \(2008\)](#) consider knowledge-related resources to provide a key link between MO and firm performance. It is possible that SMEs may be quite distinct from larger organizations in terms of how they integrate various elements such as information processing, knowledge, and responsiveness into a unique strategic resource. While they may not have as many resources as larger firms, this ability to develop unique strategic resources could be a key distinguishing feature of SMEs. The synergistic effect of MO in conjunction with these elements could therefore be instrumental to understanding the role of MO in SMEs.

3. The conceptual framework

Since the conceptual framework discusses MO in the context of SMEs it might be useful to first briefly review the definition of SME and the nature of MO. In the United States, the Small Business Administration (SBA) Table of Small Business Size Standards uses a varying definition of small business based on the NAICS code of the firm. For example, while a masonry contracting firm is considered a small business if its annual revenue is \$13 million or less, a soft drink manufacturer is not considered a small business unless it has 500 or fewer employees, regardless of revenue. On the other hand, in Europe, the definition of an SME appears to be more consistent across industries with the upper limit for an SME being set at 250 employees and revenues no greater than €50,000,000 or a total balance sheet value of €43,000,000 or less. More details regarding SME definition are available in websites such as www.sba.gov/size and <http://ec.europa.eu/enterprise/sme>. For purposes of this paper an SME can be generally considered as a firm with fewer than 500 employees. Revenue considerations are not directly relevant to the conceptual framework in the paper although the guidelines mentioned above could be useful for conducting future empirical work based on the proposed framework.

Traditionally, the marketing literature has considered MO to be a key part of organizational culture. [Narver and Slater \(1990\)](#) view MO as being made up of three components: customer orientation, competitor orientation, and interfunctional coordination. [Kohli and Jaworski \(1990\)](#) identify intelligence generation, intelligence dissemination, and organizationwide responsiveness as the dimensions of MO. Based on these earlier works, this paper supports the view of MO being comprised of four dimensions—the three dimensions suggested by [Narver and Slater \(1990\)](#) supplemented by the responsiveness dimension of [Kohli and Jaworski \(1990\)](#). Both approaches have some

advantages, and other researchers have used such an integrative approach before ([Hult et al., 2005](#)).

The conceptual framework proposed in this paper is shown in [Fig. 1](#). This framework identifies key antecedents and consequences of MO and also the major environmental moderators of the MO–Performance relationship in the SME context. While essentially viewing MO as being part of the organizational culture, the framework also acknowledges that MO leads to specific organizational behaviors which could be instrumental in the link between MO and performance. These mediators could be significant for understanding SME performance.

This framework is developed from a comprehensive literature review and the primary intent is to identify the constructs that could be most beneficial to examining the differences between SMEs and larger organizations. While the constructs in the proposed framework might not in themselves be unique it is felt that the applicability of many of the constructs and the strength and/or nature of the relationships among the constructs might differ significantly between SMEs and larger organizations. These differences are brought out clearly in the next section which applies the conceptual framework to SMEs and examines key differences between SMEs and larger organizations. The rest of this section outlines the conceptual framework and the rationale for the inclusion of specific constructs within the framework.

3.1. Antecedents of MO

The major antecedents of MO can be divided into two categories—Structural variables, which include the objective aspects of the organization ([Aiken et al., 1980](#)), and Cultural variables, which reflect the norms and shared values of organization members ([Deshpandé and Webster, 1989](#)).

3.1.1. Structural variables

[Jaworski and Kohli \(1993\)](#) identify three structural antecedents of MO. These include formalization (existence of formal rules and regulations), centralization (extent to which authority is limited to the top executives and not shared or delegated), and departmentalization (number of departments into which activities are segregated or compartmentalized). Greater levels of these structural levels are generally seen to impede MO within organizations. Although past results have been mixed ([Hurley and Hult, 1998](#); [Jaworski and Kohli, 1993](#); [Matsuno et al., 2002](#)) structural variables provide a fairly

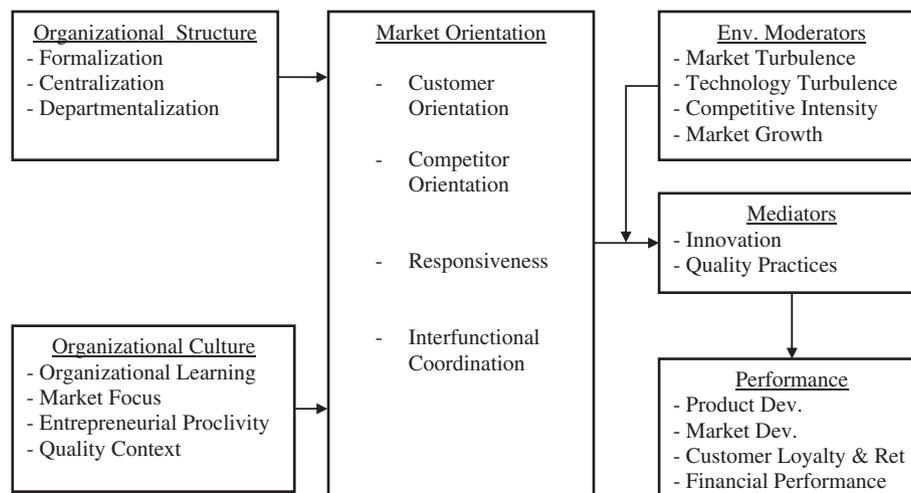


Fig. 1. Conceptual framework to examine differences in MO between SMEs and larger firms.

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