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Entrepreneurial orientation, market orientation, network ties, and performance: Study of entrepreneurial firms in a developing economy

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ABSTRACT

Entrepreneurial orientation (EO), market orientation (MO) and network ties are typically modeled as separate antecedents of performance. However, the boundary conditions for such models are under-explored, as is their applicability to developing economy settings. Accordingly, drawing on institutional and social capital theories, the current paper argues that the performance benefits of EO and MO are complementary, and vary across different levels of social and business network ties. Using primary data gathered from entrepreneurial firms operating in Ghana, the study findings indicate that aligning high levels of EO and MO improves business performance, and particularly so when social and business network ties are well developed, since under these latter conditions, the performance benefits of aligning EO and MO are greatest.

1. Executive summary

Developing economies are experiencing massive institutional transformations, which present substantial opportunities and challenges for entrepreneurial firms attempting to grow their businesses. Furthermore, many developing economies are moving to market-based policies as a way of stimulating economic growth and reducing poverty. In doing so, most industrial sectors in such economies are experiencing rapid structural changes, increased environment uncertainty and unbalanced growth. These dynamics have inevitably shaped the managerial assumptions and the decision-making processes of many entrepreneurial firms, including decisions regarding how to pursue entrepreneurial opportunities and how customer value is created and delivered. As such, firms' entrepreneurial orientation (EO) and market orientation (MO) activities take on instrumental relevance in such economies.

However, the strategic orientation literature is not yet clear whether it is appropriate for firms to invest in EO and MO in challenging conditions, such as those experienced by developing economies. More specifically, the paybacks for leveraging complementarity between entrepreneurial- and market-oriented activities are not well understood in the context of developing economies. Furthermore, it is not yet clear whether this approach will be effective under different institutional frameworks and whether their effectiveness is conditioned by social and business network contexts. Thus, the purpose of this study is to examine whether entrepreneurial firms accrue performance benefits by simultaneously aligning high levels of both EO and MO and, of particular relevance for firms operating in a developing economy context, whether those potential benefits are enhanced for

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businesses with strong social and business network ties. A sample of 203 entrepreneurial businesses operating in Ghana was used to test the hypothesized relationships.

We argue and find that it is the high levels of both orientations that maximizes performance in entrepreneurial firms operating in a less developed economy. Greater levels of EO are required for greater innovativeness and new market creation. However, these entrepreneurial activities also entail significant uncertainties and risks, especially in Ghana, where business infrastructure, such as supply chain arrangements, commercial law enforcement, energy and transportation facilities, is under-developed. While stronger MO is critical for a rapid response to current market needs and preferences, it also carries the risk of structural inertia and a tendency for firms to de-emphasize greater innovativeness; something that can be important in Ghana. Thus, the high certainties and adaptiveness of MO is required to complement the high uncertainties and risks of EO in less developed economies. We conclude that for an entrepreneurial firm operating in a developing country, such as Ghana, EO and MO are instrumental in enhancing business success most effectively when high levels of both orientations are leveraged.

Second, the results also reveal that social processes outside the borders of the firm, in the form of social network ties and business network ties, further maximizes the performance benefits of aligning high levels of EO and MO. The indication is that the development of social and business network ties increases the impact of complementary strategic orientations on firm performance among entrepreneurial organizations operating in a developing economy.

As in most developing economies, business-supporting systems in Ghana are weak with under-developed legal and regulatory institutions, meaning that commercial laws and regulations are not strictly enforced by government officials. As a result, exclusive reliance on entrepreneurial proclivity, market information and formal codes of contract may not be sufficient for entrepreneurial business success. Thus, the current study shows that entrepreneurial firms operating in Ghana are able to facilitate the performance benefits of their entrepreneurial-and-market-oriented efforts by building strong ties with governmental agencies and managers in other business organizations. Thus, while it is possible that network ties are less important in more advanced economies, they are critical in explaining variations in performance outcomes of strategic orientation activities in a less developed market, such as Ghana.

The study's findings provide important insights for developing economy entrepreneurial business managers. Firstly, they indicate that an integrative approach to EO and MO yields greater returns than a disaggregate approach. An implication of this is that entrepreneurs should design strategies that encourage efforts to develop simultaneously high levels of entrepreneurial-oriented and market-oriented activities. Second, the study shows that efforts to develop social and business network ties maximize the benefits of these complementary strategic orientations on performance in institutionally-challenged conditions such as those in Ghana; hence we encourage entrepreneurs to leverage their external network ties to earn greater rewards for their entrepreneurial- and market-oriented activities. There are implications for policy too, since it may be possible for emerging market governments and developmental agencies to promote education and training programs to help entrepreneurs understand how to develop greater levels of EO and MO and how to cultivate stronger external network ties.

2. Introduction

During periods of economic reform, developing economies experience massive and multifaceted transformation of their institutional environments, including changes in social structures, governmental involvement in economic transactions, and in the nature of enterprise ownership (North, 1990; Williamson, 2009). These transformations have presented substantial opportunities and challenges for entrepreneurial firms to leverage their capabilities for growth (Li et al., 2008). Many developing economies are moving to market-based policies as a way of stimulating economic growth and reducing poverty. In doing so, most industrial sectors in such economies are experiencing rapid structural changes, including the opening of their economies to foreign direct investments (with associated global competitive pressures), increased environment uncertainty and unbalanced growth (Chironga et al., 2011; Goedhuys and Sleuwaegen, 2010). These dynamics have inevitably shaped the managerial assumptions and the decision-making processes of many entrepreneurial firms, including decisions regarding how to pursue entrepreneurial opportunities and how customer value is created and delivered (Webb et al., 2011). To this end, firms' entrepreneurial orientation (EO) and market orientation (MO) activities take on instrumental relevance in such economies (Atuahene-Gima and Ko, 2001).

Firms' entrepreneurial- and market-oriented efforts are internal firm capabilities that, it is argued, can boost the success of entrepreneurial firms in challenging environments (Lee et al., 2001; Webb et al., 2011). However, the universal performance benefits of these strategic orientations are in question (Morgan et al., 2009; Stam and Elfring, 2008), and it remains unclear as to whether investing in EO and MO is appropriate for all businesses all of the time. More specifically, the paybacks for leveraging complementarity between entrepreneurial- and market-oriented activities are under-researched (Cadogan, 2012; Hakala, 2011; Li, 2005), and the institutional frameworks under which they are most effective remain less understood (Chung, 2012; Lau and Bruton, 2011). Accordingly, there is a pressing need to more clearly delineate the boundary conditions of these orientations; that is, to identify when they are least and most effective management tools (Cadogan, 2012; Hakala, 2011; Sundqvist et al., 2012), and to determine the extent to which their effectiveness is conditioned by social and business network contexts (Chung, 2012; Stam and Elfring, 2008). Similarly, empirical tests of the potential business performance outcomes of EO and MO are heavily biased to data originating in developed nation settings, meaning that the benefits or costs of investing in these strategic orientations in less developed societies are unknown. Thus, we ask the question: how do entrepreneurs' networks of social and business ties influence the performance benefits of a combination of strong EO and MO in entrepreneurial firms operating in a developing economy? By answering this critical question, and by highlighting the importance of how an entrepreneurial firm can exploit its