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# The effects of entrepreneurial orientation and marketing information on the performance of SMEs<sup>☆</sup>

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## Abstract

In this study, we investigate the effects of entrepreneurial orientation and marketing information on the performance of small and medium-sized enterprises. We build and test a causal model using data obtained from Singaporean entrepreneurs and find support for most of our hypotheses. The results indicate that entrepreneurial orientation plays an influential role on the acquisition and utilization of marketing information, and also has a direct effect on firm performance. The utilization of information regarding marketing mix decisions (particularly the Promotion and Place elements) positively affects firm performance, and it partially mediates the relationship between entrepreneurial orientation and firm performance. The implications and future research directions are discussed.

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*Keywords:* Entrepreneurial orientation; Information acquisition; Information utilization; Marketing mix; Firm performance

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## 1. Executive summary

The literature indicates that entrepreneurial orientation (EO), with its three core dimensions of risk-taking, acting proactively and innovativeness, has a positive impact on firm performance. Previous research has found that firms with high levels of EO tend to constantly scan and monitor their operating environment in order to find new opportunities and strengthen their competitive positions. This suggests that the level of EO in the firm could be a predictor of the acquisition and utilization of information. In this study, we seek to examine how EO affects, both directly and indirectly, the performance of small and medium-sized enterprises (SMEs). Specifically, in addition to the direct impact of EO on firm performance, we also investigate how EO influences information acquisition (IA) and information utilization (IU), and whether IA and IU mediate the relationship between EO and firm performance.

From both practice and research, it has been found that many SMEs are interested in information on their customers and competitors in order to differentiate their offerings and positioning. More importantly, beyond acquiring information, entrepreneurs also need to *use* this information to aid in their marketing decision-making. Based on the marketing mix framework, we define marketing decision-making as decisions pertaining to the 4Ps (Product, Price, Promotion, and Place), which help entrepreneurs to better meet the needs of their customers and compete more effectively against their competitors. As the basic building-block of market orientation consists of the acquisition and utilization of information on customers and competitors to improve marketing decision-making, we expect both IA and IU to have positive impact on firm performance.

In order to test our research framework, we conducted a survey on SMEs located in Singapore. Using contact information from three business directories, we carried out a mass mailing of 2000 emails and 239 regular mails. Of these, we ended up with 294 usable responses. There is a wide spread of businesses in our sample, with the two top sectors being the Retail/Sales (20.1%) and Service (19.7%) sectors. Most firms in our sample are relatively small yet established, with 82% of them having fewer than 35 employees, and 66.3% of them being more than five years old.

The findings from our study show that the level of EO has both direct and indirect (partially mediated by IU) effects on firm performance. EO is a strong predictor of both IA and IU. To take full advantage of EO, in which creative, proactive and risk-taking actions are encouraged, SMEs should comprehensively and accurately acquire and utilize information about customers and competitors to enhance marketing strategy decisions.

Our empirical analysis also indicates that information must be used in order to benefit from it. In particular, we do not find evidence for the positive impact of IA on firm performance. However, we find a positive relationship between information utilization to make marketing decisions and subsequent firm performance. Specifically, we find that the use of marketing information relating to the Promotion and Place (distribution and location) elements have significant impact on firm performance. We conjecture that the Price and Product elements are less influential as (1) SMEs tend to be price-takers in the industry, with little ability to shift the price level for specific product categories or to actively change prices. We believe that there is also a trade-off between Price and Promotion elements, and (2) small firms may not have sufficient funding to invest heavily in R&D efforts to develop radically

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