

Relationship between Strategic Orientation and Organizational Performance in Born Global: A Critical Review

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Abstract

Existing empirical evidence on relationship between strategic orientation and organizational performance is mixed; moderators and mediators are therefore introduced. Since the relationship may differ from one organization to another in various background, this article offers a critical literature review in the context of born global and explores relevant empirical literatures from direct effect on strategic orientation and organizational performance to moderating effect and mediating effect. Besides, dimensions and measurement of constructs are discussed and further research directions are provided finally.

Keywords: Strategic orientation, Organizational performance, Relationship, Born global

1. What is strategic orientation and its dimensions

Strategic orientation is a concept widely used in the research field of strategic management, entrepreneurship and marketing. A firm's strategic orientation reflects the strategic directions implemented by a firm to create the proper behaviors for the continuous superior performance of the business (Narver and Slater, 1990). Related researches on strategic orientation are either conducted in a holistic approach or a subdivision approach, that is, strategic orientation is an integrative concept consisting of its own dimensions or strategic orientation is a mix covering entrepreneurial orientation, marketing orientation and learning orientation.

Entrepreneurial orientation explains a firm's new entry and the procedures, practice and decision-making activities, with its aim to improve the value of products and service in respond to customers which may lead to excellent performance. Lumpkin and Dess explored 5 dimensions of entrepreneurial orientation, including autonomy, proactiveness, aggressiveness, risk-taking and innovativeness (Lumpkin and Dess, 1996). Most scholars selected the last 4 dimensions in empirical research, as autonomy is measured in the individual level of 'employee', while others can be measured in firm level. Narver and Slater (1990) defined market orientation from the perspective of culture. It is regarded as the most effective way to build organizational culture which is helpful to create excellent value. MKTOR scale is frequently used in empirical research, which covers 3 dimensions (customer orientation, competition orientation and trans-department coordination) in 14 questions.

Information access, distribution, and interpretation within an organization are influenced by learning orientation. Baker and Sinkula considered learning orientation as a value, which is especially important to knowledge-creating and knowledge-using within an organization, and strengthens staff learning conscious by institutional constraints, norms; as the ability and process to promote organizational learning in behavior. It is also pointed out that learning orientation consists of 3 dimensions, namely, commitment to learning, shared vision and open mindedness (Baker and Sinkula, 1999).

2. Relationship between strategic orientation and organizational performance

The relationship between strategic orientation and organizational performance is influenced by many third-party variables, and the different effects of third variables may lead to different performance levels. Therefore, researches on the complex relations should be conducted in specific context (Lumpkin and Dess, 1996). It has already been examined in the context of large established companies (e.g. Jantunen et al., 2005), the context of SMEs (e.g. Wiklund and Shephend, 2005), industry cluster context (e.g. Dai and Li, 2006), international background (e.g. Zahra and Garvis, 2000), family business background (e.g. Martin and Lumpkin, 2003). The empirical results of their relationships are however not entirely consistent. This article followed the main line of 'direct effect, moderating effect and mediating effect' and aimed at exploring reasons for inconsistency of empirical results, and provided a critical review in the framework of born global.

2.1 Measurement of constructs: strategic orientation and organizational performance

2.1.1 Measurement of strategic orientation

When measured in empirical research, strategic orientation is frequently subdivided into entrepreneurial orientation, market orientation and learning orientation. Early studies mainly focus on direct relationship between strategic orientation and organizational performance until Slater and Narver pointed out that the learning orientation could only improve organizational performance by taking advantages of market orientation (Slater and Narver, 1995). With the introduction of moderating variables and mediating variables, more scholars have begun to examine indirect relationship between strategic orientation and organizational performance in empirical researches.

Empirical studies have shown that the various dimensions of entrepreneurial orientation are mutually independent. This is evidence that relationships between strategic orientation and organizational performance are inconsistent in different contexts. Lumpkin and Dess held that the dimensions of entrepreneurial orientation are not co-vary, but each can vary independently (Lumpkin and Dess, 1996). A single dimension measurement method might ignore that different dimensions maintain unique contribution to the overall concept of entrepreneurial orientation, and it cannot effectively describe and identify the rich connotation of entrepreneurial process. It therefore limits the explanatory power of entrepreneurial orientation on different types of entrepreneurial activities. Domestic Chinese scholars also confirmed that dimensions of innovativeness, proactiveness and risk-taking are mutually independent. As market orientation and learning orientation each has a widely accepted measurement scale of high reliability and validity, studies on independence of their dimensions are rare.

2.1.2 Measurement of organizational performance

The definition and measurement of organizational performance in different empirical researches vary. Scholars selected concepts of different levels of performance according to the objective in empirical study, including operating performance (e.g. Jaworski and Kohli, 1993); financial performance (e.g. Zahra and Covin, 1995); international performance (e.g. Arbaugh, 2003; Knight, 2000); export performance (e.g. Thirkell and Dau, 1998; Yeoh and Jeong, 1995); long-term performance (e.g. Wiklund, 1999; Rueker 1992); new product performance (e.g. Kwaku et al., 1995; Matsuno et al., 2000); innovation performance (e.g. Stam and Elfring, 2008).

Due to the distinction on the nature of industry and mode of profit, it is difficult to set a general indicator to measure organizational performance. Measurement of performance should be based on different purposes and use different performance indicators. Anderson insisted that the measurement of performance depends on the environment, strategies and objectives. That is, to measure organizational performance with a single indicator does not apply to all organizations.

Performance could be evaluated in both subjective and objective methods. Three types of indicators have been generally adopted in organizational performance studies: growth, profitability and market share expressed by either financial or non-financial indicators. Since financial indicators of performance measurement are even more thin, especially in the changing competitive environment, non-financial performance should be considered in order to fill the gap in case of insufficient information (Dess and Robinson, 1984). Covin and Slevin (1991) pointed out that enterprises engaged in entrepreneurial activities had more emphasis on growth rate and profit margin which can be estimated by financial indicators of sales growth and return on investment (Covin and Slevin, 1991). Wiklund investigated the relationship between entrepreneurial orientation and performance, using sales growth, employee growth, sales growth compared with competitors and market value growth, as a measure of growth performance (Wiklund, 1999); gross margin has been selected as a benefit of financial indicator. Dess, Lumpkin and Covin regarded sales growth, profitability, return on investment and overall performance as

performance measurement, which required managers to assess results by comparing with competitors within the past five years (Dess, Lumpkin and Covin, 1997). Due to differences arising from the definition of organizational performance and measurement, it could be another reason led to the inconsistent results in empirical researches on relationship between strategic orientation and organizational performance.

2.2 Empirical Path

2.2.1 Bivariate relationship model

Bivariate study is the most primitive and simplest model to study direct relationship. Empirical results indicated significant positive correlation (e.g. Zahra and Covin, 1995 and Baker and Sinklua, 1999), weak correlation (e.g. Lee et al., 2001) and no correlation (e.g. Sapienza and Grimm, 1997 and Slater and Narver, 2000).

<Insert Figure 1 here>

2.2.2 Moderating effect model

Moderator explains how the dependent variable affected by independent variables. Moderating effect means that the causal relationship between two variables could vary with different values of moderators. Moderators are selected as environmental factors (e.g. Slater and Narver, 1999); organizational innovation (e.g. Xie and Han, 2005), employee's education level (e.g. Chow et al., 2003), strategy formation (e.g. Covin, Green and Slevin, 2006); ownership type, industry type and organization size (e.g. Zhang yang et al. 2006); ownership concentration (e.g. Wei zelong et al. 2008); social capital (e.g. Stam and Elfring, 2008); perceived environmental uncertainty (e.g. Dickson and Weaver, 1997); social culture and value (e.g. Knight, 1997; Kotey and Meredith, 1997); international strategy (e.g. Knight, 1997; Kotey and Meredith, 1997); ability to integrate resources, environmental dynamism (e.g. Zhu Xiumei, 2008); competitive advantage (e.g. Wright et al., 2000); market volatility (e.g. Kaya et al., 2007); competitive environment and firm size (e.g. Pelham, 1999). <Insert Figure 2 here>

2.2.3 Mediating effect

Mediators could reveal the internal reason between independent variable and dependent variable. Among empirical researches on relationship between strategic orientation and organizational performance, mediators are selected as market orientation (e.g. Matsuno et al., 2002; Blesa et al., 2003; Baker, sinkula and Noordewier, 1997), network strategy (e.g. Stam and Elfring, 2006), innovation (incremental innovation and breakthrough innovation) (e.g. Yang et al., 2009), product innovation (e.g. Engelland et al., 2000), absorptive capabilities (e.g. Lin Jun et al., 2009), ambidexterity ability (e.g. Zhang yuli et al., 2009), organizational learning (e.g. Li Jingyan, 2008) and learning orientation (e.g. Rhee et al., 2010).

<Insert Figure 3 here>

3. A critical review form born global perspective

Studies on Born Global stand at a cross-research field of small and medium enterprises and international entrepreneurship. Oviatt and McDougall (1994) first defined born global as 'a business organization seeking resources and selling products for gaining competitive advantages from multi-national markets ever since the beginning' (Oviatt and McDougall, 1994). In earlier related researches on born global, entrepreneurial orientation, market orientation, learning orientation are regarded as core drivers for international growth, and few empirical work were done on relationship between Strategic orientation and firm performance. It is mainly because on one hand that the study is on its way of early exploration, on the other hand, most samples in empirical research are coming from large and medium enterprises and the rapid internationalization of SMEs is still beyond the considerations of scholars.

In this research, we take 1994 as a starting year and conduct an 'abstract' searching within database 'Ebscohost, Emerald, Elsevier Science, ABI, and Google academic', using 'born global', 'international new venture', 'global start-up', 'international entrepreneurship' as a keyword respectively. Based on the results, strict selection criteria were performed as follows: (1) removing duplicate search results in different databases; (2) setting time frame from 1994 (included) to 2010; (3) literature published in English language; (4) academic papers, including both theoretical and empirical works; (5) closely associated with the definition of 'born global' (excluding irrelevant literature); (6) literature published in SSCI journals; (7) papers have been cited properly for academic reasons. Based on above criteria, 7 articles out of 101 samples on 'strategic orientation and organizational performance' are selected as follows.

<Insert Table 1 here>

Empirical studies indicate that the relationship between strategic orientation and organizational performance in

born global background continued to show either direct relationship or indirect relationship intervened by moderator and mediator. Based on these empirical researches, this paper is trying to critical review existing literature from three aspects: research objective, research methods and constructs measurement.

3.1 Research objective

McDougall and Oviatt (1994)'s definition of born global has been widely accepted, but different scholars hold various views on characteristics of born global. The debates are summarized as follows:

3.1.1 Debates on 'the beginning of establishment'

Knight defined 'beginning' as starting export business within first 3 years of establishment (e.g. Knight, 1997). This view was accepted by most scholars (e.g. Madsen et al., 1999; Moen, 2002; Andersson and Victor, 2003). Some other scholars proposed standards of '6 years' (e.g. Carter, Stearns, Reynolds and Miller, 1994) and '8 years' (e.g. Biggadike, 1979). Currently, the mainstream view is represented by American scholars McDougall and Oviatt, which is generally agreed as '6 years or less' (e.g. Shrader et al., 2000; Zahra et al., 2000).

3.1.2 Debates on 'the early internationalization'

McDougall used the ratio of overseas sales to total sales, and held that this ratio should exceed 5% (e.g. McDougall, 1989). Knight and Madsen claimed that this ratio should be up to 25% in the first 3 years ever since establishment (e.g. Knight, 1997; Madsen et al., 1999). Other methods also include the degree of sales concentration in overseas markets (e.g. Reuber and Fischer, 2002), the extent of internationalization (e.g. Preece, Miles and Baetz, 1998), the main business in overseas markets (e.g. Bloodgood et al., 1996), the growth of overseas sales (e.g. Autio, Sapienza and Almeida, 2000), the type of internationalization (e.g. Kuemmerle, 2002), as well as the results of internationalization (e.g. Mitchell, Shaver and Yeung, 1994). Given the availability of data, most empirical studies preferred the ratio method designed by McDougall, but the exact standard value vary from country to country, industry to industry and market to market.

3.1.3 Debates on 'the scale of enterprise'

Oviatt and McDougall (1994) mentioned that, born global companies are almost smaller organizations comparing with large multinational companies. Knight and Cavusgil (2005) pointed out that the born global companies are usually smaller than traditional multinational enterprise, and thus should be subscribed into the research field of small and medium enterprises. Rialp et. al. reviewed 38 literature during 1993-2003 in the field of international business, international marketing and entrepreneurship and pointed out that most scholars on born global focus on the SME sector (Rialp et al., 2005).

3.1.4 Debates on 'the industry'

Whether born global companies exist only in high technology industry or not is the focus. Knight, Bell and McNaughton (2001) insisted that born global is a common emerging phenomenon exists in all types of industry sectors and they confirmed their conclusion by conducting an empirical research in New Zealand seafood exporting company. While Saarenketo (2002) claimed that born global largely grew in knowledge and technology intensive industries, besides it might be found in traditional, non knowledge-intensive industries.

3.2 Research Methodology

Researches on born global have experienced more than 10 years, with gradually more empirical research taking the leading position. The past literature suggested that, regression analysis is universally applied when examining the relationship between strategic orientation and organizational performance. Among literature reviewed, only 1 article used cross-case analysis as its methodology.

3.3 Construct Measurement

3.3.1 Measurement of strategic orientation in born global

The measurement of strategic orientation follows previous maturity scales of entrepreneurial orientation, market orientation and learning orientation. The independence between different dimensions may lead to inconsistent results in empirical research on strategic orientation and organizational performance.

3.3.2 Measurement of performance in born global

In the context of born global, more emphasis were placed on export performance and international performance (e.g. Zahra and Garvis, 2000) using the measurement of sales growth, return on assets and profitability; McDougall and Oviatt (1996) using the ratio of overseas sales to total sales and foreign assets to total assets. Still, some scholars use the ratio of overseas sales to total sales and the ratio of overseas assets to total assets as performance indicators; others use the number of overseas subsidiaries, the portion of overseas employees, the

amount of foreign direct investment.

Jantunen et al. (2008) use subjective methods to measure performance. The advantages are that (1) It is easier for collecting data in subjective approach than in objective approach (Shoham, 1998). Existing studies show that managers are often reluctant to provide objective data on their own business. (2) Business managers prefer subjective way when evaluating performance, rather than objective measurement, which indicates that subjective methods is much more favorable. (3) Results coming from both subjective and objective indicators always show their positive correlation (Styles, 1998).

3.4 Future research directions

Entrepreneurship is an interesting and complex research area. The emerging of born global brought a brand new sight into SME entrepreneurship in the context of internationalization. Born global require a unified definition with both qualitative and quantitative criteria, because we need to know what is the nature of Born Global, instead of merely a description of the phenomenon of Born Global. Researches on Born Global could be conducted in diverse lens, for example Strategic Management, Organizational Behavior, Marketing and Social Network.

Further researches on the relationship between strategic orientation and organizational performance require the accurate measurement of these two constructs as a prerequisite. Although it has been widely recognized that the strategic orientation is subdivided into entrepreneurial orientation, market orientation and learning orientation, whether each orientation is a single dimension or multiple dimensions variable is still under discussion. In addition, comprehensive dimensions are still needed. These issues on relationship between strategic orientation and organizational performance are essential.

The selection of organizational performance indicators and its measurement are complex issues. How to properly combine subjective and objective indicators, financial and non-financial indicators, growth and profitability indicators, in order to build a comprehensive performance evaluation system is the requirement for providing comprehensive and accurate study on relationship between strategic orientation and organizational performance.

From direct relationship to moderating effect and mediating effect, the research on relationship between strategic orientation and organizational performance in the context of born global is experiencing its initial stage, and the selection of moderator and mediator lack of diversification. The variability and uncertainty of international environment provide a broader platform and space for further research on this topic, which is no doubt full of mystery and allure.

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Table 1. Empirical research on relationship between strategic orientation and organizational performance in the context of born global

Literature	Source Journal	Methodology	Definition and measurement of strategic orientation	Definition and measurement of organizational performance	Relationship
McDougall and Oviatt (1996)	JBV	Regression	Strategic change; no*	International performance (overseas sales percentage, market share and return on investment)	Positive correlation
Zahra and Garvis (2000)	JBV	Regression	Entrepreneurial orientation; yes*	Financial performance (return on assets and sales growth)	Moderator: environmental hostile
Zahra et al. (2000)	AMJ	Regression	Market orientation and Learning orientation; no	Financial performance (sales growth and return on equity)	Moderator: International expansion, technological learning
Gleason and Wiggernhorn (2007)	JWB	Regression	Market orientation; no	Financial performance (profit margin)	Positive correlation
Kuivalainen et al. (2007)	JWB	Regression	Entrepreneurial orientation; yes	Export performance (sales, profit and sales efficiency)	Positive correlation
Jantunen et al.(2008)	JWB	Regression	Strategic orientation; no	International performance (sales, market share, profitability, market entrance)	Moderator: International growth strategy
Kocak and Abimbola (2009)	IMR	Cross-case	Entrepreneurial orientation, market orientation; no	Export performance (export volume)	Mediator: Learning orientation

*No = not distinguish dimensions; Yes= distinguish dimensions

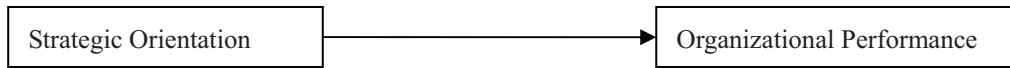


Figure 1. Direct effect

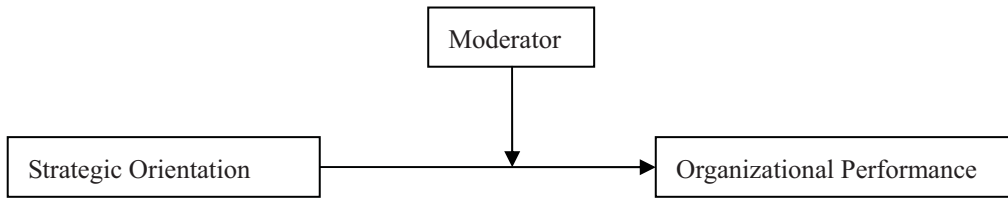


Figure 2. Moderating effect

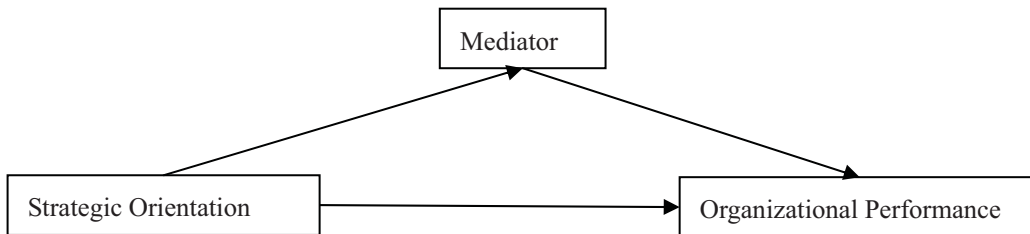


Figure 3. Mediating effect