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The impact of market orientation on small firm performance: a configurational approach

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# **Revisiting the Impact of Market orientation on small firm performance: A Configurational approach**

## **Abstract**

### **Purpose**

In this study, we examine the influence of market orientation on small firms' performance. We theorize that the association between market orientation and small firm performance provides an incomplete picture in a competitive environment. The application of configuration approach which involves simultaneous consideration of market orientation, strategic flexibility, and competition intensity is crucial to examine driver of firm performance.

### **Design/methodology/approach**

The sample of our research consists of 272 small firms from an emerging economy, India. Ordinary least square regression has been used to investigate the hypothesized relationships.

### **Findings**

We noted that the three-way interaction between market orientation, strategic flexibility, and competition intensity elucidates variance in small firm performance over and above a contingency model and a direct relationship.

### **Originality/value**

The strategic management and marketing literature suggests that relationship between market orientation and performance are ambiguous. The findings offer insights to managers regarding the appropriate use of strategic flexibility in leveraging the benefits of market orientation in a highly competitive environment. Furthermore, by collecting data from the context of an emerging economy, India, we attempt to strengthen the applicability of market orientation in different contexts.

**Keywords:** Market Orientation, Strategic flexibility, Small firms, Configuration theory

## 1. Introduction

Research on market orientation has progressively grown since Kohli and Joworski (1995) theorized this construct as a critical strategic orientation. Extant research suggests that investment in market orientation – firm-level strategic posture permits organizations to scan and understand customer needs and quickly respond to external change (Bhattarai *et al.*, 2019). Market-orientated firms develop a lasting relationship with customers via market intelligence generation and market sensing capabilities (Bıçakcıoğlu-Peynirci and İpek, 2020). Notwithstanding growing attention to market orientation in academic literature, empirical research on the outcomes of market orientation are still unclear (Gupta *et al.*, 2019). Market orientation (MO) is often criticized as a resource-consuming strategic posture resulting in overcommitment of constrained resources in an uncertain environment (Tsai *et al.*, 2008; Grewal and Tansuhaj, 1995). As strategic posture, MO might result in too much focus on customers' current and may restrict firms from investing in new emerging technologies (İpek and Bıçakcıoğlu-Peynirci, 2020; Atuahene-Gima, 1995). In fact, previous studies have found differing effect of MO on performance in different types of external environment. As an illustration, in highly competitive environment due to price competition, existence of product alternatives propel organizations to be more market oriented (Kasim *et al.*, 2018). Therefore, ambiguity remains whether the market orientation is an appropriate strategic orientation or hypothesized relationship is more complex than the main effect (Shoham *et al.*, 2005).

Moving forward, prior research reveals that market-oriented firms need to invest in complementary organizational capabilities to reconfigure this market knowledge in rapidly changing external environment (Bamel & Bamel, 2018). As market-oriented firms need to search for new opportunities and quickly adapt to external environmental changes (Evans, 1991), the investment in dynamic capabilities is crucial (Zhou *et al.*, 2019). The investment in dynamic capabilities allows market-oriented firms to satisfy current customers' need and simultaneously be alert about new market opportunities by disseminating newly generated market-related intelligence within the organization (Wilden *et al.*, 2019). Accordingly, the potential value of an investment in market orientation is contingent upon investment in organizational dynamic capabilities (Hult and Ketchen, 2001; Atuahene-Gima, 1995; Barreto, 2010).

While the investment in market orientation and organizational capabilities is particularly relevant in a competitive environment (Grinstein, 2008), relatively few studies examine their relevance in the context of firms of varying size (Verdú-Jover *et al.*, 2006; Kasim *et al.*, 2018). Smaller firms are intrinsically adaptive due to their flat structure, size, and close relationship with customers (Nemkova, 2017). Prior literature posits that market oriented small firms can employ new generated market knowledge to gain entry into new markets (Puppim de Oliveira and Jabbour, 2017). They play key role in economic development of emerging economies by contributing over 60% of employment (Puppim de Oliveira and Jabbour, 2017). Nonetheless, small firms in emerging economies are often confronted by limited access to resources, R&D capabilities, comparatively lesser market power, and lack of formalized marketing programs (Blankson, Motwani, & Levenburg, 2006; Chaudhary, 2019). They lack slack resources to absorb potential losses due to risky investments in competitive environment (Celuch *et al.*, 2007). Accordingly, given small firms' importance to emerging economies, it is pertinent to clarify the fit between the market orientation, dynamic capabilities, and competitive environment in small firms (Pérez-Luño *et al.*, 2016; Teece, 1997).

Succinctly, we noted the following gaps in the literature. First, the dominant approach in extant market orientation research beyond the main-effect-only approach has been applying contingency models that capture two-way interaction (Didonet *et al.*, 2020). Existing research is sparse on the linkage between organizational and strategic marketing activities (Johnson *et al.*, 2003). Second, limited studies have investigated effect between market orientation, organizational capabilities, and external environment on performance. Because firms function within unique competitive environments, therefore impact of strategic orientation on the firm performance likely to vary (Harris, 2001; Kirca *et al.*, 2005). Finally, clarity on the effect of strategic orientation and strategic flexibility in the context of competitive environment is also limited. Hence, our study tries to fill the research gap by addressing the following questions: (i) Does market orientation influence a small firm's performance?; (ii) Is market orientation-small performance relationship moderated by access to flexible capabilities (Strategic flexibility)?; (iii) Does the configuration of market orientation, strategic flexibility, and environment-related factors (Competition Intensity) results in small firm's performance?

To answer the above-cited research questions, we followed the following steps. In the first step, we reviewed extant literature on MO and strategic flexibility. Based on our review, we

developed our theoretical hypothesis. Then, we empirically examined our hypotheses based on the data collected from 272 Indian SMEs. The findings support our prediction that a configuration of MO, strategic flexibility, and competition intensity results in improved firm performance. Our study has the following implications. First, the current understanding on the outcomes of market orientation is ambiguous. We use the configuration approach in the contingency and main effect models. Second, we argue that insights on the implication of market orientation may be achieved by analyzing joint impacts of organizational capabilities and the external environment (e.g., Ellis, 2006). Based on the strategic fit paradigm that postulates fit between the firm's organization-specific capabilities and strategic posture is crucial (Vorhies and Morgan, 2003; Zajac et al., 2016), we theorize that fit between strategic orientation, organization capabilities, and external environment undergirds small firm's performance (Kearney *et al.*, 2018).

Doing so, we heed the call for research on the configuration model affecting strategic orientation – firm performance relationship (Wilkund and Shepherd, 2003). Third, we empirically examine the theoretical arguments that competition intensity determines the efficacy of fit between strategic posture, i.e., market orientation and strategic flexibility. We highlight the crucial role of strategic orientation and organization capabilities, which has received attention in small firm literature. Second, we argue that it is crucial to investigate the role of strategic flexibility as an organizational capability in enhancing the efficacy of MO in the context of a highly competitive environment (Martín-de Castro, 2015; Zhou et al., 2005). Third, our topic is highly relevant for practitioners as small firms employ strategic orientation to gain competitive advantage (Hernández-Linares *et al.*, 2018).

The structure of study is as follows. In Section 2, we review existing research on market orientation and strategic flexibility. Section 3 elucidate the theoretical model and hypotheses. Section 4 presents the methodology and results. Finally, discussion, academic and managerial implications, and future research directions are presented in Section 5.

## **2. Literature Review**

### **2.1 Market Orientation and Small firms**

In a fast-changing business environment, it is appropriate for firms to be alert, interpret new ideas, and transform them into market actions (Cohen and Levinthal, 1990). In recent times, few studies have reviewed the consequences of market orientation using meta-analyses

(Bıçakcıoğlu-Peynirci & İpek, 2020) and narrative reviews (Gupta *et al.*, 2019). The review of the literature reveals that scholars have employed varied perspective market orientation construct (Lafferty & Tomas M. Hult, 2001); such as "customer orientation" (Gatignon & Xuereb, 1997), "competitor orientation" (Jaworski & Kohli, 1996), "market intelligence" (Jaworski & Kohli, 1996), and "culture" (Baker & Sinkula, 1999). Specifically, marketing orientation focuses on customers' needs and generating profits by ensuring customer satisfaction (Faroque *et al.*, 2020). Market orientation is the ability of the firm to evaluate, understand, and satisfy consumer needs (Gatignon & Xuereb, 1997). Likewise, firms need to gather new knowledge about the customers, disseminate collected information, and implement external changes (Grewal and Tansuhaj, 1995). Kohli *et al.* (1993) theorized market orientation as the creation of information related to customers and disseminating same within the organization. Market orientation as a dynamic capability allows firms to monitor the external environment and respond promptly to new market opportunities (Narver *et al.*, 2004). In brief, MO as set of processes allows organizations to do adaptive learning (Baker & Sinkula, 1999).

As mentioned above, even after several studies, the relationship between market orientation-firm performance remains ambiguous. While studies by Kirca *et al.* (2005) found a positive relationship between market orientation and firm performance, but the studies by Langerak, Jan Hultink, & Robben (2004) found no relationship between these two constructs. While market orientation as strategic orientation enable firms initiate improvements across the business functions to create customer value, too much focus on customers' current needs may hinder investment in breakthrough innovations, negatively influencing long-term firm performance (Kok & Biemans, 2009; Pérez-Luño *et al.*, 2016). Accordingly, the idea that market orientation is universally advantageous may perhaps be simplistic. High market-oriented firms may invest resources to satisfy immediate customers rather than investing resources to identify the emerging customer (March, 1991). Thus, there is a need to explore the alternate mechanisms underlying MO-firm performance relationship assumptions.

## **2.2 Strategic flexibility**

Notably, while knowing customer's requirements and competitor moves is essential, transforming these market intelligence insights into relevant knowledge and firm performance requires a different set of capabilities (Ozkaya *et al.*, 2015). We adopt the firm's dynamic

capabilities to delineate that help firms manage changes in the external environment (Teece, Pissano, & Sheun, 1996). Particularly in a highly competitive environment, dynamic capabilities' role is further enhanced as firms have to pay close attention to competitors' actions and make a substantial investment in learning about competitors' moves and changes in customer needs (Alkhafaji, 2011; Rahman *et al.*, 2021). In the last few years, marketing and strategy literature have witnessed an increasing interest in the concept of strategic flexibility, bestowing the firm's ability to proactively respond to the external environment and manage environment uncertainty (Aaker & Mascarenhas, 1984). The review of the literature shows that strategic flexibility is linked to “coordination flexibility” and “resource flexibility”. The investment in flexible resources and the ability to redeploy resources allow firms to handle uncertainties related to competitors' moves and manage market uncertainties (Sanchez. 1995).

**Table 1. Description of study variables**

<b>Key Concept</b>	<b>Definition and References</b>	<b>Study Variable</b>	<b>Operational Definition and References</b>
<b>Strategic Orientation</b>	“Market orientation is knowledge-producing behaviour allowing firms to learn and adapt”.	<b>Market Orientation</b>	Market orientation is the ability of the firm to gather information about customers and competitors (Vorhies and Morgan, 2005). It allows organizations to track the needs and wants of customers.
<b>Dynamic capabilities</b>	As a dynamic capability strategic flexibility allows reconfigure resources and achieve competitive advantage (Tan & Wang, 2010).	<b>Strategic flexibility</b>	Strategic flexibility implies flexibility in the application of resources (Zhou & Wu, 2010)

### ***Theory and hypotheses***



In this section, we develop our hypotheses in the following sections. We first theorize the baseline effect of market orientation on small firm performance, followed by our hypothesis on moderating role of strategic flexibility and competition intensity.

### **2.3. Market Orientation and Firm Performance**

Jaworski and Kohli (1993) defined “market orientation as the generation, dissemination, and application of customers and competitor-related knowledge”. There is an agreement in the literature that firms open to new market information will achieve higher competitive advantage, since they are better positioned to acquire, interpret and use newly generated knowledge related to customers (Rakthin, Calantone, & Wang, 2016). First, the knowledge generation activities enable firms to scan the external environment, understand the implications of technology trends, government regulations, and prompt responsiveness to meet short-term customer needs (Chaudhary, 2019). Second, knowledge dissemination allows linkage between knowledge generated outside the organization with the firm's existing knowledge structure by reconfiguring and combining existing internal knowledge with newly acquired market intelligence (Chaudhary, 2019). Lastly, knowledge application compasses the conversion of newly reconfigured knowledge to create new products and services. Summarily, market orientation results in continued learning, anticipating industry trends reduced perceptual gap about markets, and greater operational effectiveness (Chang *et al.*, 1999; Gruber-Muecke and Hofer, 2015). **In particular, the role of market orientation is much more enhanced in the context of small firms. First, the small firms are reluctant to introduce formal market research and long-term market planning in their programs (Keskin, 2006). Second, as small firms face scarce resources, they need to develop relationships with customers to gain repeat orders and market share (Didonet *et al.*, 2020). We argue that the market orientation empowers small firms to be more responsive to customer needs, resulting in improved performance.** Accordingly, we hypothesize:

*H1: Market orientation positively impacts firm performance*

### **2.4 Market Orientation and Firm Performance: Moderating role of strategic flexibility**

In the perspective of market orientation, Morgan *et al.* (2009), asserted that although market orientation allows the generation and dissemination of market intelligence, but small firms still require additional capabilities to manage knowledge generated through market intelligence. Market-oriented firms need to continuously refine their existing product offering and develop new products for emerging needs (Newman, Prajogo, & Atherton, 2016). Extant

research posits that the firm's dynamic capabilities involve coordinating and reconfiguring organization resources and capabilities to support value creation for a firm's stakeholders (Kurt & Hulland, 2013). One such dynamic capability is strategic flexibility, which encompasses flexible resources and organizational processes (Zhou & Wu, 2010). Zahra et al. (2008) conceptualized strategic flexibility as "the degree to which a firm is willing to change its strategy in response to opportunities, threats, and changes in the external environment" (p. 1043). The investment in flexible resources and capabilities allows market-oriented firms to quickly reposition themselves and change the game plan when current strategies to serve customers are no longer attractive (Harrigan, 1985). Notably, in the context of resource-constrained small firms, access to flexible resources and their subsequent deployment is extremely crucial (Verdú-Jover et al., 2006). As customer requirements and competitors' offering changes continuously, small firms must also make appropriate modifications and restructure their offering to market (Chang *et al.*, 1999). Strategic flexibility permits small firms to pursue new market opportunities generated through market intelligence concurrently with existing activities (Das, 1995). Small firms can cope with environmental changes by repositioning existing strategies (Nemkova, 2017; Javalgi et al., 2005). In short, strategic flexibility is a dynamic capability that allows firms to identify new markets market changes, recognize new opportunities, do timely commitment, and promptly analyze existing resource commitment in a rapidly changing environment (Shimizu and Hitt, 2004).

Accordingly, we hypothesize:

*H2: The interaction between market orientation and strategic flexibility positively affects a small firm's performance.*

## **2.5. Market Orientation and Firm Performance: Moderating role of Competition Intensity**

Competitive intensity signifies the extent of interfirm rivalry within a particular industry. Prior market orientation research has emphasized the crucial role of competitive intensity for a precise understanding on the impact of the market orientation (González-Benito et al., 2014). The findings of previous studies propose that highly market-oriented firms are expected to develop unique customer solutions that weaken competitors' actions. As competitors may capture the value of new product innovations introduced by the market-oriented firm, competition intensity is likely to affect firm market orientation's performance benefits. Intense competition strengthens the need to gather and scrutinize rival actions and customer needs. In particular, the

competitive environment forces small firms to efficiently recognize changing customer needs and competitors' actions to make incremental changes in their product offerings (Pérez-Luño *et al.*, 2016). As a result, a highly competitive environment presents market-oriented small firms with an opportunity to pursue new market opportunities and address unmet customer needs (Slater & Narver, 1994). Accordingly, given the crucial role of market orientation in a competitive environment, we argue that competitive intensity influences market orientation's impact on firm performance. Thus, we hypothesize:

*H3: Competitive environment moderates the relationship between market orientation and small firm's performance.*

## **2.6. The configuration of Market Orientation, Strategic flexibility, and Competition Intensity**

Extant research also suggests that the configuration approach may be useful to explain performance determined by fit among the variables (Yu *et al.*, 2019). The literature review notices the key role of unique configuration of strategic orientation, firm-level capabilities, and environmental context as a driver of performance. First, a highly competitive environment characterized by cut-throat competition and price wars requires continuous assessment and reorganization of resources and capabilities to align with the market environment (Kettunen *et al.*, 2015). As an illustration, Atuahene-Gima (1995) contends that market-oriented strategies are more likely to be successful while addressing unpredictable customer needs and competitors' moves in the fast-changing external environment. Second, the high competitive intensity may require small firms to invest in market intelligence or conserve resources to sustain themselves (Calof, Wright, & Dishman, 2008). This implies that positive performance implications are dependent on the fit between market orientation and the intensity of competition. Third, in the competitive situation, market-oriented small firms may also be at risk if they either have inadequate access to resources or make overinvestment in resources (Alpkan *et al.*, 2007). The insufficient resources to transform and exploit market intelligence may lose the opportunity to competitors, thereby adversely impacting the firm performance (Rakthin *et al.*, 2016). On the contrary, too much investment in flexible resources may result in resource lock-in, which will also be a critical issue for small businesses having resource constraints (Celuch, Murphy, & Callaway, 2007). Finally, the value of market knowledge is also uncertain due to rapid customer preferences, competitors' strategies, and innovation (Hogarth-Scott *et al.*, 1996). In short, examining the isolating effects of strategic flexibility and competition intensity as contingencies

may downplay the complex impact of interaction and overgeneralize the conditions under which market orientation affects a small firm's performance. Therefore, we theorize that the linkages between market orientation, strategic flexibility, and level of competitiveness influence firm performance (Dreyer and Grønhaug, 2004; Bowman and Hurry 1993), leading us to hypothesize:

H4: *Small firm performance is explained by configurations of market orientation, strategic flexibility, competitive intensity*

Figure 1 illustrates the hypothesized model.

<<Add Figure 1 >>

### **3. Research Methodology**

#### **3.1 Sample**

We collected primary cross-sectional data to establish association between study variables (Dhir *et al.*, 2021; Malik *et al.*, 2021). We performed onsite visit survey of 800 Indian SMEs (herein defined as firms with more than five and less than 250 employees) engaged in automotive components service and reselling. These firms were randomly chosen from the web database of the Indian automotive manufacturers. The survey was carried out between December 2015 to March 2016. India is selected as the study context as prior research shows that the strategic orientation affects small firm performance in India (Gupta and Batra, 2016). The automotive industry in India, one of the fast-growing sectors, is chosen as our study's context (Pillania, 2008). Single industry selection also eliminated the confounding effect of different industries (Li *et al.*, 2008). The questionnaires were administered in English.

Following the above definition, owners of SMEs also performing the role of CEO were chosen as respondents for the following reasons. First, as SME owners, CEOs face limited intervention from external stakeholders in their operational and strategic decision-making (Wales *et al.*, 2013; Cao *et al.*, 2010). Second, as a key informant, the CEO has a good overview of their firm's capabilities and external environmental contingencies (Engelen *et al.*, 2014). Third, existing literature suggests that self-reports by the CEO are valid and reliable (Covin and Slevin, 1989). Following Dilman (2000), we met the small firm's CEO personally with our invitation letter explaining the study's research purpose and summary. Moreover, to avoid the socially desirable answers, we administered the survey anonymously. Though no monetary incentives were offered to the CEO, and they have no obligation to fill the questionnaire, we offered to

provide an individualized research report to participate in the survey. We made two follow-up visits after the first visit to improve the response rate. We received responses from 272 firms that completed the survey. Following Armstrong and Overton's (1977) methodology to evaluate non-response bias, we observe no differences between late and early respondents on small firm performance ( $p > 0.05$ ).

### **3.2. Measures and Instrument Development**

The items evaluating constructs were taken from previously developed scales. However, these were amended to context of small firms, wherever appropriate. We captured market orientation employing the five-items scale employed by Engelen *et al.* (2014). The items of the scale include "Ability to gather information about customers and competitors compared to most important competitor" and "Ability to analyze our market information compared to most important competitor". The strategic flexibility measuring reconfiguring resources and flexible resource allocation was using existing scale by Zhou and Wu (2010). The sample items are "Reconfiguring chains of resources the firm can use in developing, manufacturing, and delivering its intended products to targeted market", "Redefining product strategies in terms of which products the firm intends to offer and which market segment it will target", and "Redeploying organizational resources effectively to support the firm's intended product strategies". By employing the four items' subjective scale of Dvir *et al.* (1993), we captured subjective firm performance compared to competitors, accomplished financial objectives, achieved sales targets, created future sales orders, and leveraged new opportunities. We captured competition intensity using Gatignon and Xuereb (1997). Firm size and age were controlled as extant research suggest that larger and older firms are positioned to identify and satisfy customers' needs (Grinstein, 2008). We also controlled market turbulence as extant literature argues that dynamic capabilities are more valuable in a turbulent market environment as they allow small firms to deal with uncertainty by reconfiguring resources and capabilities.

## **4. Results**

The mean, standard deviation, and correlation are exhibited in Table 1. Following prior studies, we employed OLS regression to validate hypotheses. OLS regression analysis is appropriate to test the universal, contingency, and configurational models (Wiklund and Shepherd, 2005). To negate issues of multicollinearity, we mean centered all control variables and independent variables. Firstly, we included control variables, i.e., firm size, firm age, and

**market turbulence.** These control variables explained 10% of the variance in the dependent variable. After that, we explored the main effect of market orientation on firm performance. The results reveal a positive relationship between market orientation and performance ( $\beta = 0.1$ ,  $p < 0.05$ ). In step 3, we included strategic flexibility and market turbulence as independent variables. In step 4, we examined the contingency model by adding interaction terms. We find that none of the hypothesized moderating relationships is statistically significant. Finally, in step 5, we add three-way interactions in our model. The findings are found to be significant ( $\beta = -0.22$ ,  $p < 0.05$ ). The findings reveal that interaction of market orientation, strategic flexibility, and competition intensity is significant. Our empirical results plotted the three-way interaction of market orientation, strategic flexibility, and firm performance (Figure 2).

We take the following steps to verify the robustness of our findings. First, responding to the call of reporting effect size in organizational research (Paterson *et al.*, 2016), we performed power analysis employing G\* Power (Erdfelder, 2009). We calculated the sample size for our hypothesized model. The minimum sample size at 0.95% power level was 77, much below our sample size of 272. The power was found higher than 0.99, validating the significance of the findings. Second, following suggestions (Podsakoff *et al.*, 2012), we pretested our questionnaire with ten small businesses to negate common method concerns. We applied the Harman single factor test, with the first factor accounting for 25.76 % of the variance. **Third, we employ PROCESS MACRO from Hayes *et al.* (2017) to retest our model. We test two-way interaction (Model 1), followed by three-way interaction (Model 3). We find significant three-way interaction supporting our reported results.** Following Echambadi and Hess (2007), we check our findings' robustness, drawing a random sub-sample of 90% of our dataset. The regression coefficient remains significant, demonstrating that multicollinearity is not a concern.

## **5. Discussions**

We attempt to build on existing literature underlying the role of strategic orientation in developing competitive advantage for small firms. The extant literature is inconclusive about market orientation- firm performance relationship in different environmental and organizational contexts (Gatingnon & Xeurb, 1997). Moreover, the existing moderation and mediation model does not exhibit conclusive evidence. Therefore, recent studies have called for research on successful organization configurations (Deutscher *et al.*, 2015). Specifically, we draw on configuration theory to investigate the combined effect of market orientation, strategic flexibility,

and competitive intensity influence firm performance. Building upon the "strategic fit" paradigm, we develop theoretical arguments concerning how strategic flexibility as dynamic capability facilitates the market orientation–performance relationship in the competitive environment. Our findings shows that examination of the direct market orientation–performance relationship and moderators may not capture the complexity of the relationship. In fact, the fit between market orientation, strategic flexibility, and competitive intensity results in significant differences in small firms' performance. Although the main and moderating effects are essential, firm performance is significantly affected by the fit between strategic orientation, strategic flexibility, and competition intensity.

Our findings indicate that flexible firms are more efficient in exploiting market orientation in a benign environment. In such an environment, the investment in flexible resources allows market-oriented small firms to work on future and unstated needs of customers, thereby improving firm performance (Bartz and Winkler, 2016). However, surprisingly, during high competition intensity, lower investment in strategic flexibility will improve firm performance. The probable reason is that the investment in flexible resources in a highly competitive environment may increase spending, resulting in poor short-term performance (Kurt and Hulland, 2013). Therefore, to deal with resulting price wars in a highly competitive environment, small firms should invest more in efficient resources rather than flexibility and offer value-added solutions (Theodosiou et al., 2012).

The results have following academic implications. First, the findings support the relationship between market orientation and firm performance relationship along with moderating role of competitive intensity. Contrary to our expectations, the enabling role of strategic flexibility is not supported. Second, the findings support the configuration approach to firm performance rather than reliance on the main and contingency effect. While we expected that market orientation affects small firms' performance, the effect is most potent in a stable environment with investment in flexible resources. The findings are aligned with Jacobson's (1992) contention that firms need to realign investment in flexible resources in an uncertain environment. As firms in emerging economies face a complex environment, the role of flexible resources is enhanced (Das, 1995). Succinctly, our empirical results of the configuration effect of market orientation, strategic flexibility, and competition intensity align with our hypothesis.

Second, the study also expands existing research on market orientation by investigating its implications in emerging economies. Specifically, the results indicate that small firms in a resource-constrained emerging economies do benefit from investment in market intelligence generation and dissemination activities. The fastest-growing emerging economies, along with China, India has witnessed growth in the last couple of decades post-liberalization. Importantly, this growth is supported by a large number of small firms present across the nations. However, insufficient research exists in the Indian context regarding factors responsible for improving these firms' performance. Nonetheless, questions remain whether the study's findings are universal or specific to India and other emerging economies.

Third, on the methodological side, we obtained cross-sectional survey data from Indian small firms. As India is one of the emerging economies in the world, the role of strategic orientation in Indian firms remains under-researched (Chaudhary, 2019; Chaudhary and Batra, 2018). This raises critical questions about the generalizability of organizational theories to economies with institutional conditions markedly different from the developed economies. We attempt to respond to previous calls for empirical research in emerging economies (Gupta and Batra, 2016). Market orientation, as the strategic orientation construct, is applied across various geographies. We posit that inconsistencies in the relationship may be due to a lack of attention on interaction between market orientation, resources, and environment. Research in other geographies is recommended to validate the generalizability.

This study also provides several practical implications for SMEs looking at their firm performance by being more market-oriented. Small firm top management should understand that focusing only on market orientation will not improve firm performance. Instead, they need to adopt an integrative approach, including strategic flexibility, market orientation, and competitive intensity. Specifically, this study suggests that superior marketing and financial performance may be attained when firms' market capabilities are improved. Moreover, this study suggests that small firms' managers need to be more proactive, explore the market environment, search for new opportunities and incorporate flexibility elements into their firms' strategies to improve their firm performance. The findings show that fit between dynamic capabilities, strategic orientation, and competitive environment strengthen a small firm's performance. Finally, the current study also has implications for policymakers and government agencies focusing on entrepreneur development. The policymakers should facilitate SME firms by providing them with necessary



consultation and assistance to equip themselves with essential market orientation elements. This study suggests that more resources are needed to promote and operationalize market orientation among Indian SMEs.

## **6. Limitations and Research Directions**

The study has a few limitations and propose to be studied in future. The findings of the study are built on cross-sectional data. Cross-sectional studies provide a limited understanding of cause-and-effect relationships among variables (Singleton & Straits, 2012). Future research should focus on longitudinal-based data to find out interesting insights on how the results vary over time. Moreover, the study also opens multiple avenues for future research. There may be additional mediating variables that impact the association between market orientation and firm performance. Future studies can employ other moderators in the model proposed in the study, for example, knowledge-based resources. Finally, it is interesting to check whether market orientation and firm performance relationships vary across sizes. Therefore, future studies can be conducted with firm of different sizes, i.e., the number of employees and turnover. Such studies will provide useful insights to the management while developing market orientation practices in their firms.

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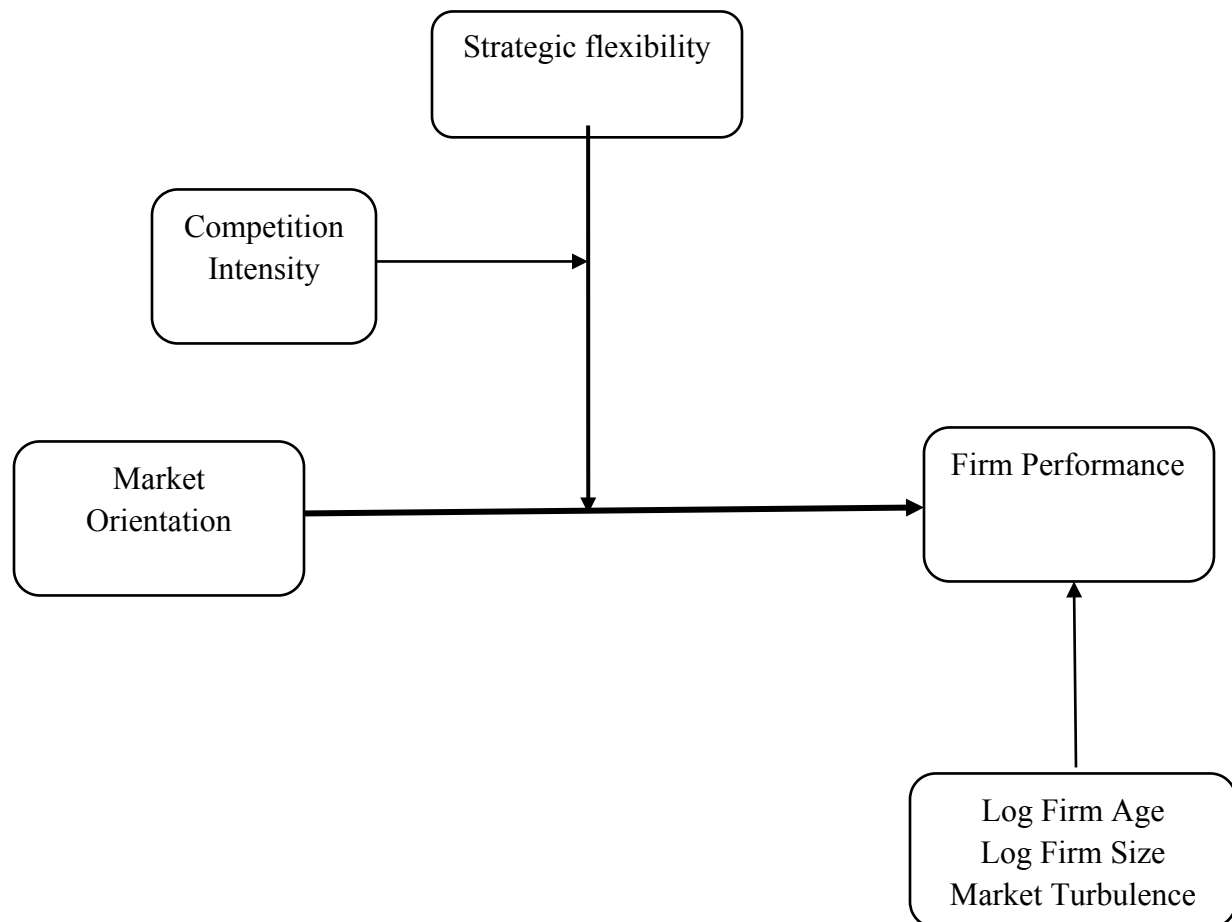
“Modeling the Dynamics of Strategic Fit : A Normative Approach to Strategic Change  
Stable URL : <http://www.jstor.org/stable/3094237> Accessed : 19-03-2016 16 : 33 UTC Your  
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**Figure 1**





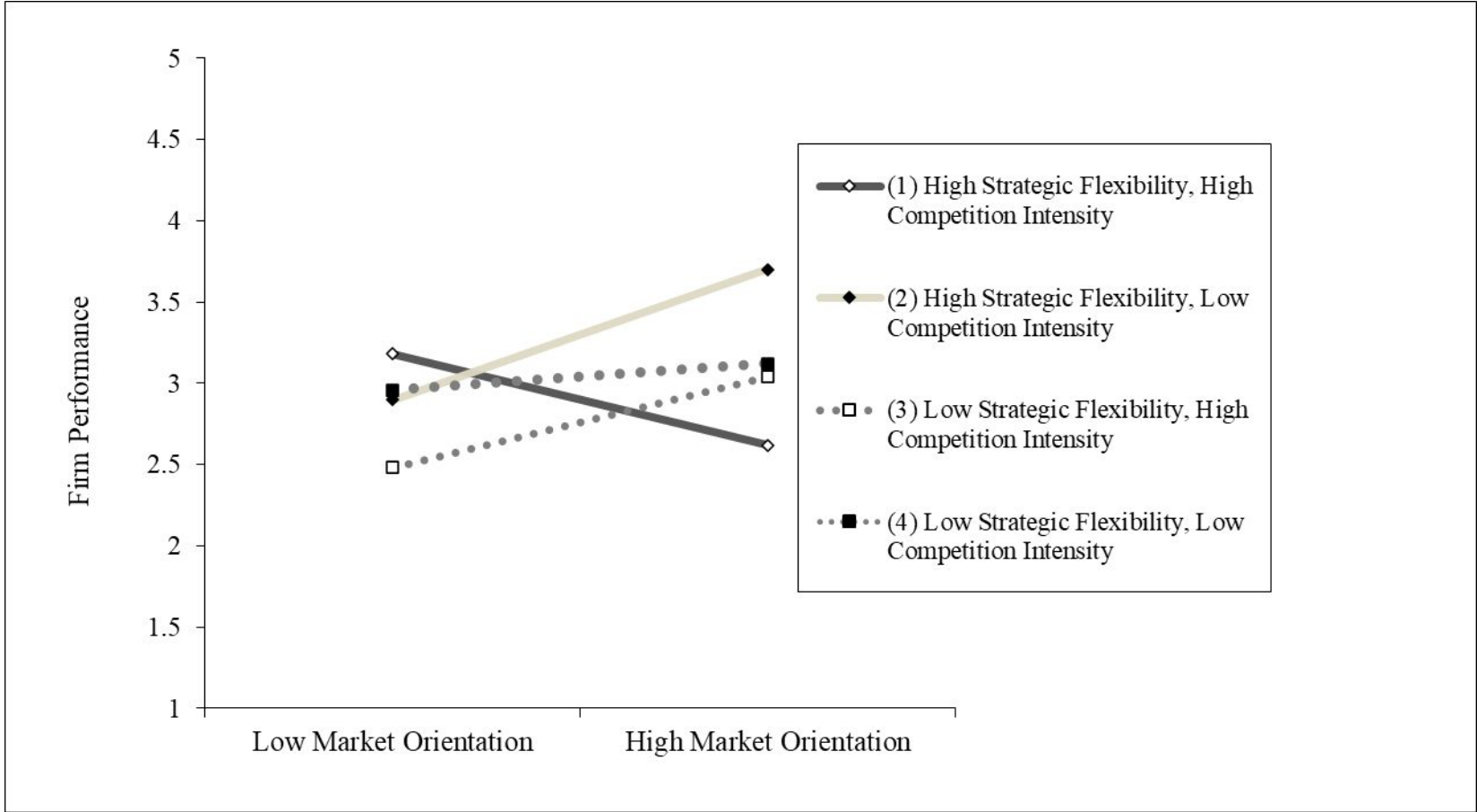
**Table 1: Correlation Table**

	Mean	Std. Dev.	1	2	3	4	5	6
Log Firm Age	2.13	1.04	1					
Log Firm Size	2.49	0.74	0.22**	1				
Market Turbulence	5.91	0.82	-0.12	-0.24**	1			
Competition Intensity	5.72	1.13	-0.11	-0.12	0.22***	1		
Market Orientation	5.57	0.83	0.02	0.10	0.11	0.11	1	
Strategic Flexibility	5.33	0.81	-0.12	.00	0.17**	0.30**	0.34**	1
Firm Performance	4.88	0.86	0.09	0.30***	0.05	-0.15*	0.18**	0.12*

**Table 2: Regression Analysis**

	<b>Step 1</b>	<b>Step 2</b>	<b>Step 3</b>	<b>Step 4</b>	<b>Step 5</b>
Log Firm Age	0.04	0.03	0.04	.03	0.04
Log Firm Size	0.32***	0.31	0.30***	0.29***	0.27***
Market Turbulence	0.26*	0.15*	0.16*	0.16*	0.19**
Market Orientation		0.12*	0.11	0.11	0.12
Strategic Flexibility			0.11	0.09	0.10
Competition Intensity			-0.18**	-0.19**	-0.17*
Market Orientation X Strategic Flexibility				-0.003	-0.06
Market Orientation X Competition Intensity				0.002	-0.12
Strategic Flexibility X Competition Intensity				-0.06	0.03
Market Orientation X Strategic Flexibility X Competition Intensity					0.22*
R Square	0.11	0.12	0.16	0.16	0.18
Adj. R Square	0.10	0.11	0.13	0.12	0.14
F value	9.62***	8.34***	7.16***	4.81***	4.96***

Figure 2: 3-way Interaction Plots



Dear Editor and reviewers, Thanks a lot for taking time from your busy schedule and giving us feedback to improve the quality of our research work. We have made the changes suggested by the distinguished reviewers. Kindly let us know if any other changes are needed in the manuscript. All the changes made in the revised manuscript are highlighted in red color.

## **Response to reviewer's Comments**

### **Reviewer 1**

**Comment:** Originality: Does the paper contain new and significant information adequate to justify publication? The introduction is unclear in its presentation of research gaps and prior findings which makes it difficult to evaluate the originality and importance of the study. Also, the utilization of theories for conceptualizing the model of the study needs to be further clarified. I would recommend that the introduction may be revised to discuss the importance of each study variable and the need to consider them jointly. The authors may refer to the following studies for their revision,

- Dhir, A., Talwar, S., Kaur, P., Budhiraja, S., & Islam, N. The dark side of social media: Stalking, online self-disclosure, and problematic sleep. *International Journal of Consumer Studies*.
- Malik, A., Dhir, A., Kaur, P., & Johri, A. (2020). Correlates of social media fatigue and academic performance decrement. *Information Technology & People*.

**Response:** Thank you for your valuable suggestion. We have revised the section as per suggestions and highlighted the changes in red color (Refer page 2).

**Comment:** Relationship to Literature: Does the paper demonstrate an adequate understanding of the relevant literature in the field and cite an appropriate range of literature sources? Is any significant work ignored?: The literature is well-cited but I would recommend use of more recent citations to improve the strength of arguments especially in context of the study. I would also recommend that the authors revisit sections 2.2 and 2.3 as the sub-headings are the same while the proposed hypotheses are different. The readability of the article may be improved by introducing a paragraph in the beginning of section 2 that explains the associations being investigated while invoking the theories used.

**Response:** Thank you for your valuable suggestion. We have revised the section as per suggestions and highlighted the changes in red color. As recommended by you, we have added recent citations. We have comprehensively revised the literature review section (Refer pages 4-6). Thank you once again for your feedback.

**Comment:** Methodology: Is the paper's argument built on an appropriate base of theory, concepts, or other ideas? Has the research or equivalent intellectual work on which the paper is based been well designed? Are the methods employed appropriate? The methods are well-explained for most part with scope for minor improvement. Since the data was collected between 2015 and 2016, the authors need to justify how this data is still valid in the current context as due to COVID the industry dynamics have changed. The importance and justification for the use of OLS regression also has to be discussed. The authors may include a sub-section in section 2 to discuss the relevance of the control variables used.

**Response:** Thank you for your valuable suggestion. We are happy that the methodology section meets your expectations. We have tried to answer the comments and highlighted the changes in red color (Refer page 12). You rightly pointed out data collected in the study was between the years 2015 and 2106. However, to control the effect of disruption in the external environment, we controlled market turbulence.

**Comment:** Results: Are results presented clearly and analysed appropriately? Do the conclusions adequately tie together the other elements of the paper?: The results are appropriately reported. But discussion should be expanded on what these results imply. Some of the discussion in current form would be more suited to theoretical implications. Similarly the first paragraph in implications is more suited to discussion.

**Response:** Thank you for your valuable suggestion. We made the changes suggested in the results section and highlighted them in red color. Specifically, we elaborated on three-way interactions.

**Comment:** Implications for research, practice and/or society: Does the paper identify clearly any implications for research, practice and/or society? Does the paper bridge the gap between theory and practice? How can the research be used in practice (economic and commercial impact), in teaching, to influence public policy, in research (contributing to the body of knowledge)? What is the impact upon society (influencing public attitudes, affecting quality of life)? Are these implications consistent with the findings and conclusions of the paper?: The conclusion should also address how the raised RQs were answered by the findings. Authors need to revise the implications significantly to clarify the theoretical and practical contributions. It would be more prudent to discuss theoretical and practical implications in separate sub-sections.

**Response:** As suggested by the esteemed reviewers, now the conclusion includes the answers to the research questions. The theoretical and practical implications have also been separated. In addition, we have thoroughly revised the discussion section (refer page 13-15).

**Comment:** Quality of Communication: Does the paper clearly express its case, measured against the technical language of the field and the expected knowledge of the journal's readership? Has attention been paid to the clarity of expression and readability, such as sentence structure, jargon use, acronyms, etc.: Minor typos observed so there is scope for some improvement but overall the quality is good. Please refer to journal guidelines for referencing and citation style.

**Response:** Thank you for your valuable suggestion. We are happy that reviewers found the language of the paper appropriate. As suggested, we have now changed the referencing and citation style as the journal guidelines.

## Reviewer 2

**Comment:** This article is well written and easy to read. I enjoyed reviewing this manuscript. There are minor issues that should be corrected.

- The linkage between the manuscript's objective and why the research was necessary was not well established?
- The introduction is still a description and does not contain critical and in-depth discussion. It does not provide the rationale and debate on The Impact of Market orientation on SME's performance.

**Response:** Thank you for your valuable suggestion. As suggested by you and reviewer 1, we have now revised the section as per suggestions and highlighted the changes in red color (Refer page 2)

**Comment:** Adequate references in the introduction part. No reference are provided in the opening of the paragraph, which undermines the literature validity. The author also needs to justify the importance of understanding the topic. The motivation of study thus needs to be rewritten to show stronger linkage. It would be nice to see a stronger connection between your findings and the theme of the Journal.

-Page 8, heading 2.3, where authors discuss innovation consider the following for the manuscript improvement.

**Response:** Thank you for your valuable suggestion. We have revised the section as per suggestions and included the suggested paper in the manuscript. In addition, we have modified the motivation of study. Based on your critical inputs, we have added the recent references. As suggested, we have also added recent references. The changes are highlighted in red color.

**Comment:** The methodology used for the study is acceptable but yet suffers from the following minor limitations. More importantly, the choice of the variables should be explained in light of the theory and the prior literature on the topic. At the moment, the authors do not provide any reference to prior studies measuring similar theoretical constructs. This should be particularly done to ensure the appropriateness and the robustness of both dependent and independent variables.

**Response:** Thank you for your suggestions. We have explained the choice of variable both of methodology in the literature review and methodology section (Refer page 11-12).

- What is not clear for me is what your overall research strategy is? Although it is valuable to provide a detailed description of the SEM method, it would be better to discuss this method's appropriateness to your specific setting.

**Response:** Thank you for the feedback. Following prior research (Wiklund and Shepherd, 2005), we employed OLS regression. In the first step, we examined direct effect followed by moderation. Finally, we tested three way interaction.

The discussion should be rather organized around arguments avoiding simply describing details without providing much meaning. A real discussion should also link the findings of the study to theory and/or literature.

**Response:** Thank you for your feedback and feedback from other reviewers. We have revised the discussion section with emphasis on the implications of the results.

-I have a serious concern about the way data is collected. The authors need to explain why they collected data from the CEO, is all the SMEs have the title of CEO? Or I expect authors will explain what does mean "personally contacted with CEO with invitation letter"? Is there any missing value were contain in the data set and how authors handle it?

**Response:** Thank you for the inputs. We collected data from the CEO (Founder/Current head) of SMEs. The data was collected during personal visits to SMEs. We collected data from 284 respondents. However, we considered completely filled 272 responses.

-If authors have used Process Model1 in SPSS and why authors perform three-way interaction? I might suggest authors re-run the model and rewrite the analysis part. The methodology part is very weak and it does not contain much-related information.

Response: Thank you for the inputs. First, we tested two-way interaction (Model 1), followed by three-way interaction (Model 3).

-Also, be clearer in stating which are the OLS you used, and how you analyze the data. Which software do you use and how you perform the moderator analysis? Which other papers use similar methods? Why authors did not use PLS and SEM for this data analysis Please include more detailed info.

**Response:** Thank you for your valuable suggestion. We are happy that the methodology section is able to meet your expectations. We have tried to answer the comments and highlighted the changes in red color.

**Comment:** Results analysis is very long, and it seems ambiguous. It cannot get the reader's attention. I suggest authors did not put more focus on writing literature, instead, support your results with the previously established literature and give your arguments. This should be particularly done to ensure the appropriateness and the robustness of both primary sources and secondary resources.

**Response:** Thank you for your valuable suggestion. We made the changes suggested in the results section and highlighted them in red color.

**Comment:** Discussion and Conclusion need to be rewritten as there are no previous references that can support your results. This section should also be extended.

**Response:** As suggested by the esteemed reviewers, now the conclusion include the answers to the research questions. The theoretical and practical implications have also been separated. Refer:

**Comment:** Regarding language, the entire manuscript needs to be proofread by any professional editor. In the current form, there are mistakes regarding the use of the English language.

**Response:** Response: Thank you for your input and inputs from other reviewers. We have proofread the manuscript and corrected grammatical/typographical errors.

### Reviewer 3

**Comment:** Interesting article with some good potential. However, some revisions are needed. First, and most importantly, you should better justify and argue which are the main contributions of your paper, this is a central point also in the intro where I see much more elaboration on the key concepts (you may move them to the literature review).

**Response:** Thank you for your valuable suggestion. We have revised the section as per suggestions and highlighted the changes in red color.

**Comment:** Second, professional proofreading is needed.

Response: Thank you for your input. We have proofread the manuscript and corrected grammatical/typographical errors.

**Comment:** Third, the research gap is not 100% clear, why we need this study? what do we still do not know on the topic? Why we need to know it?

**Response:** Thank you for your valuable suggestion. We have made the changes in the introduction section and attempted to clarify the research gap.

**Comment:** Introduction should be better structured and expanded as benchmarking paper on the topic.

**Response:** Thank you for your valuable suggestion. We made the changes suggested in the introduction section and included more recent papers.

**Comment:** The conclusion section may be improved in 2 directions: a) implications are limited; b) theoretical and methodological contributions are scarce.

Building your discussion: I would suggest that a discussion section be more comprehensively developed that links back to your initial research questions and a clear statement of proposed contributions, once you have reframed your arguments and developed some propositions. What should we, as readers, take away regarding your study? What are the key theoretical contributions that are gained? How can these findings contribute to the literature stream associated with market orientation? What do we know about this literature stream now that we have read your study?

**Response:** As suggested by the esteemed reviewers, now the discussion, implication section include the suggested changes, and the theoretical and practical implications have also been separated.

#### Reviewer 4

**Comment:** Authors need to clearly communicate the gap in light of the small business context. problem is statement is not well supported from the introduction stage till the discussion stage. It looks more of a narration of strategic management literature without critically linking it with the business context.

**Response:** Thank you for your valuable suggestion. We have revised the introduction section as per suggestions and highlighted the changes in red color.

**Comment:** This is where authors have to interpret the literature also in terms of small business. In fact, a section on small businesses and their strategies so far would be better flowing. From the introduction itself, authors have jumped on market orientation construct as a strategic tool without proper discussion of the context and other potent strategic alternatives (like in RBV or Institutional Theories).

I would be more interested in seeing how the small business context is detailed for its uniqueness from industry and strategy perspective

**Response:** Thank you for your valuable suggestion. We have revised the literature review section and highlighted the changes in red color. Specifically, we applied dynamic capabilities as theoretical lens.

**Comment:** Discussion and results sections need to be elaborated more in line with the prior findings. This will help to better establish the findings for small business

**Response:** Thank you for your valuable suggestion. The discussion, result section is now related to the prior findings.

**Comment:** Implications for research, practice and/or society: This has a lot of scope for improvement, This is where authors have to build the story from the start to write better implications at the end. Implications have to be clearly grounded for small businesses and strategic inclinations put forward by the researchers. They can also check on social media handles like Twitter for new updates on small businesses and build a strong story in the introduction section.



**Response:** As suggested by the esteemed reviewers, now the discussion, implication section include the suggested changes, and the theoretical and practical implications have also been separated. Refer:

**Comment:** . Implications for research, practice and/or society: Does the paper identify clearly any implications for research, practice and/or society? Does the paper bridge the gap between theory and practice? How can the research be used in practice (economic and commercial impact), in teaching, to influence public policy, in research (contributing to the body of knowledge)? What is the impact upon society (influencing public attitudes, affecting quality of life)? Are these implications consistent with the findings and conclusions of the paper?: The conclusion should also address how the raised RQs were answered by the findings. Authors need to revise the implications significantly to clarify the theoretical and practical contributions. It would be more prudent to discuss theoretical and practical implications in separate sub-sections.

**Response:** As suggested by the esteemed reviewers, now the conclusion includes the answers to the research questions. The theoretical and practical implications have also been separated.

**Comment:** Quality of Communication: Needs to improve, use proofreading services

**Response:** Thank you for pointing out language issues. We have proofread the entire manuscript.

#### Reviewer 5

**Comment:** The introduction should have 1) a concise but full justification of the topic's importance both academically and practically, and 2) an explanation of the gaps both in research and practice. Please review appropriate literature in the introduction, with the gaps arising from that review. In fact, I must suggest to critically review the literature to show how the related literature supports the study constructs. This would help the authors better showcase the contribution of their study.

**Response:** Thank you for your valuable suggestion. We have revised the introduction section as per suggestions and highlighted the changes in red color.

**Comment:** The "Literature Review" section is a general discussion and does not show the critical and specific argumentation process to establish research hypotheses. In many places, claims are made, but references are not provided. The major concern is how the authors formulate the problem to establish the grounding for this research.

**Response:** Thank you for your valuable suggestion. We have revised the literature review section as per suggestions and highlighted the changes in red color. Refer

**Comment:** The methodology used for the study is acceptable but yet suffers from some limitations. More importantly, the choice of the variables should be explained in light of the theory and the prior literature on the topic. At the moment, the authors do not provide notable reference to prior studies examining similar theoretical constructs. This should be particularly done to ensure the appropriateness and the robustness of both dependent and independent variables. Also, it is not clear how the setting and sample has been selected. I am particularly curious to understand this. In addition, I would recommend providing a table with the sample construction, showing clearly how many observations did you lose during the processes as well as how many unique firms do you have in the final sample.

**Response:** Thank you for your valuable suggestion. Now, the variables are linked to prior literature. Important details like setting and sample collection about data collection have also been added.

**Comment:** Results and conclusion. The section devoted to the explanation of the results suffers from the same problems revealed so far. Your storyline in the results section (and conclusion) is hard to follow. Moreover, the conclusions reached are really far from what one can infer from the empirical results. The discussion should be rather organized around arguments avoiding simply describing details without providing much meaning. A real discussion should also link the findings of the study to theory and/or literature.

**Response:** As suggested by the esteemed reviewers, now the discussion, result section is related to the prior findings. Refer:

**Comment:** Finally, and importantly, I still find that the writing style is confounding with several misprints and grammatical errors. I would strongly suggest that the authors sent the paper to a professional proof-reader before submitting the revised paper to the journal.

**Response:** Thank you for pointing out language issues. We have proofread the entire manuscript.