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The Effects of Strategic Orientations on Innovation Capabilities and Market Performance: The Case of ASEM

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Abstract

In this study, the term *strategic orientation* that was developed within the scope of competitive advantage theories in the literature is analysed through the case of ASEM (Furniture Market of Sakarya). Throughout the study, the status of ASEM members is defined and the relationship of the strategic orientation of the firms with their innovation strategies is determined. This study has been conducted for defining the status of *strategic orientation* of the firms (market orientation, entrepreneurial orientation and technology orientation) in using innovation capabilities. Within the study, a model has been developed under the assumption that strategic orientations have positive effects on market performance and creating customer value through innovation capabilities. The data is collected through a survey that tests strategic orientations, innovation types and market performance for SMEs in ASEM. The findings suggest that proactive market orientation, proactive entrepreneurial orientation and technology orientation are positively related in innovation capabilities. In addition, innovation capabilities play a key role between strategic orientation and market performance.

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1. Introduction

Strategic orientation of a firm cannot be discussed without the internal and external environment which it operates in. There is a direct relationship among business strategies, market uncertainty, technological turbulence and competitive intensity. Under such market conditions where environmental uncertainties are lower; turbulence is

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relatively less and stability is higher while the risk taking tendencies of firms strengthen (Lukas, Tan and Hult, 2001). *Strategic orientation* that was developed by Kohli and Jaworski (1990) and carried forward through various studies by Noble et al. (2002) is now discussed with its components - *market orientation*, *technological orientation* and *entrepreneurial orientation*. The need for firms to behave strategically in a global competition environment in order to compete or to gain competitive advantage while trying to maintain it are important in realizing these firms' level of sensibility. In a destructive competition environment, how can competitive advantage or superiority be achieved? The first answer that comes to mind is that if firms carefully analyze market dynamism and display market-oriented, high entrepreneurial tendency and innovative strategy or strategic innovation, they may maintain their assets and competitive advantages (Jaworski and Kohli, 1993). One of the important tools of enterprises with improved entrepreneurship competence that ensure competitive advantage is the ability to display innovative strategy. Basically, the entrepreneurial orientation and market orientation of the firms' mean that they are strategic oriented. Strategic orientation is the philosophy of enterprises which represents their attempts to reach higher performance and shows how a job may be performed with a set of values and beliefs (Gatignon and Xuereb, 1997).

Today, in the intensely competitive environmental conditions, firms need to develop less bureaucratic and more flexible innovative strategies in order to adjust to market dynamism (Wheelen and Hunger, 2005:9). Strategic management, which states the firm's *raison d'être* (mission) and thoughts on future (vision), basically represents an understanding that aims to reveal the firm's *raison d'être*, current works, goals that it wants to achieve in the future (Bryson, 1995: 5). The questions of what and to whom they will be produced, in which markets they will be sold are important from the point of strategic management (Eren, 1997:27). When the answers to these questions are analyzed closely, the importance of innovation strategies in the adjustment to market dynamism is understood better.

In an environment where uncertainty and turbulence are increasing on a daily basis, adjusting to change and conditionally, being a leader for change requires innovation strategy. Innovation strategy is basically a strategic flexibility approach and represents the firm's strategy in adjusting to current conditions and not showing the strategic gap in any case. What is the main purpose of the firm within this scope? Which opportunities have strategic importance in reaching the main purpose? Which threats or barriers prevent reaching the main purpose? Which weakness may be overcome by which opportunities? Questions like these, when combined with market dynamism, may only be answered with innovation strategy. Innovation strategy, in its simplest terms, is choosing the most proper one amongst possible alternatives and developing the most convenient action type possible in the current conditions. ¹When something happens out of the plan, innovation strategy leads the activities so that the enterprise gets closer to the determined goal. Innovation strategy which frames strategic management is the activity that involves the required policies and processes, determining a new location and drawing a route that will end with the same goal.

2. Literature Review

Market orientation means the goal and culture of the firm is focused on creating value for customers (Narver et al., 1998), the creation of value becoming an institutionalized culture and becoming institutionalized. Market orientation is being aware of the expectations and needs of the customers, understanding and satisfying them, arouse their feeling of being worthy and all of the organizational activities towards the institutionalization of this understanding (Kohli and Jaworski, 1990). Essentially, the term market orientation is a culture which supports the creation of values in the market and is oriented by the market in order to gain competitive advantage. Market oriented firm culture is to sensitize all activities of the firm to the changes in the market and to be reproduced. The mentioned sensitivity also requires to be consolidated by the innovation strategy. Otherwise, a strict decision won't demonstrate the ability to be adequately functional against market dynamism. Being market oriented requires being more sensitive about the opportunities against the competitors whose market orientation level is lower (Micheels and Gov, 2010:7). Since the term market orientation mainly includes introducing new or different things in order to respond to market conditions, it may be perceived as a type of innovative behavior (Jaworski and Kohli, 1993: 56). With this qualification, market orientation creates a constant and proactive position with respect to satisfying the needs of the customer while at the same time, since it emphasizes the increased usage of knowledge in the firm; it increases the

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