

STRATEGIC ORIENTATION, INNOVATION AND PERFORMANCE OF NEW SMES

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RESUMEN

Despite the important role of new SMEs in an economy and the specific features that these organizations hold compared to larger and long standing firms, no prior study has addressed the research of the influence of strategic orientations on innovation and performance among these firms. Since new SMEs are companies with a high mortality risk, it is very important to study the key drivers for its success. Thus, in the present research we develop and test a model where market orientation is key to enhance business performance, entrepreneurial orientation is critical to improve innovation, and innovation is an important driver for new SMEs performance. However, although learning orientation fosters market and entrepreneurial orientations, it is not directly linked neither to innovation nor to business performance, thus LO has a less relevant role than MO or EO in the success of new SMEs.

Palabras clave:

Strategic orientations, Market orientation, Learning orientation, Entrepreneurial orientation, Innovation, Business performance, SMEs, New ventures

1. INTRODUCTION

From a Resource Based View (RBV) perspective, the strategic orientation of the firm has been considered an important organizational capability (Zhou et al., 2005). By a firm's strategic orientation we understand the strategic direction implemented by this firm to create the proper behaviors for the continuous superior performance of the business (Gatignon and Xuereb, 1997). Market orientation (MO), Entrepreneurial orientation and Learning orientation (LO), are considered three key strategic orientations since they have revealed important drivers of organizational performance (Kirca et al., 2005; Wiklund and Shepherd, 2005). However, although it has been proposed that the relationship between a firm's strategic orientation and performance depends on the organizational size (Keskin, 2006; Pelham, 1999) or on the firm's age (Bretzel et al., 2009; Kakati, 2003) the simultaneous effects of these three orientations on performance has only been previously analyzed among big and mature organizations (Hult and Ketchen, 2001), no prior research has done so among new SMEs.

On the other hand, innovation has also been regarded as a critical organizational capability to compete in the marketplace (Ireland and Hitt, 1999; Rosenbusch et al., 2010). Innovation, either process or product innovation, has also some particular features for SMEs (Porter, 1980), especially for new SMEs (Rosenbusch et al., 2010).

The main objective of the present research is to study the joint effects of three key strategic orientations, market, entrepreneurial and learning orientation on innovation and on business performance among new SMEs. We focus on new SMEs because they have a fundamental contribution to the economic development (Shane and Venkataraman, 2000). However, due to their small size and their lack of market experience, new SMEs usually have important survival problems (Watson et al., 1998) and most of them fail in the first years of their operations (Laitinen, 1992).

In summary, the present research has the following objectives:

- a) To formulate a theoretical model that describes the relationship among MO, EO, LO, Innovation and performance among new SMEs.
- b) To test this model within a sample of newly established SMEs.

The paper is organized as follows. In the next section the theoretical framework is reviewed. The model and the hypotheses related to it are then exhibited. A description of the methodology, the measures and the sample used is then performed. Later on, empirical results are presented and analyzed. The paper concludes with a discussion, a review of the main conclusions, implications, limitations and the future research directions.

2. THEORETICAL BACKGROUND

2.1 NEWLY CREATED SMEs

Whereas new and mature SMEs both share their limited size and owner dependence, only new SMEs, as a necessary condition, are constituted by their young age, a pronounced growth orientation, and the innovativeness of their product or service (Bretzel et al., 2009). By definition, new ventures are still young, so in an earlier phase of their development, and have not established internal processes and external reputations or relationships (Bretzel et al., 2009).

At the beginning of their existence new SMEs face huge struggle for survival (Runyan et al., 2008). Due to the uncertainty they face and the limited market experience they possess, they are in a more vulnerable position than mature companies (Watson et al., 1998). Moreover, while new ventures draw on resources that are less specialized, but flexibly deployable, mature firms have a specialized resource base that enables them to efficiently operate in given market conditions (Rosenbusch et al., 2010).

In addition, new SMEs have different management conditions than mature companies (Rosenbusch et al., 2010). For instance, they have the disadvantage of bringing together a group of people who previously had not worked together, and who have to take many new decisions very quickly to respond to market needs and expectations (Pelham, 2000).

Since there are important differences between new and mature companies, a separate study of new SMEs' success factors is completely justified.

2.2 STRATEGIC ORIENTATIONS, INNOVATION AND THE RBV

Strategic orientations can be defined as strategic directions implemented by a firm to create the proper behaviours for the continuous superior performance of the business (Gatignon and Xuereb, 1997). The strategic orientation of a firm shape how an organization perceives the environment (Kohli and Jaworski, 1990; Lumpkin and Dess, 1996), sets its goals, allocates resources, structures the value creation process and builds organizational as well as dynamic capabilities (Rosenbusch et al, 2010). From a Resource Based View (RBV) theory, the firm's strategic orientation has been considered a critical organizational resource (Hult and Ketchen, 2001; Zhou et al., 2005). Since strategic orientations are valuable, scarce, imperfectly tradable and difficult to imitate resources, they can turn into a significant source of competitive advantage (Hult y Ketchen, 2001).

Market orientation (MO), Entrepreneurial orientation (EO) and Learning orientation (LO) are three strategic orientations with significant implications for business performance (Kirca et al., 2005; Wiklund and Sheperd, 2005). Market orientation means the firms' adoption of the marketing concept (Kohli and Jaworski, 1990), so it is considered "the very heart of modern marketing management and strategy" (Narver and Slater, 1990, p. 20). MO measures precisely the firm's ability to interact with its customers and to react to their competitor's actions (Narver and Slater, 1990) and from a RBV standpoint it has been considered an important firm capability (Baker and Sinkula, 1999a).

Lumpkin and Dess (1996) define entrepreneurial orientation (EO) as "... the methods, practices and decision making styles managers use to act entrepreneurial. These include such processes as experimenting with promising new technologies, being willing to seize new product-market opportunities, and having a predisposition to undertake risky ventures" (p.136). EO has also been regarded as an important firm capability (Runyan et al., 2008; Zhou et al., 2005).

Learning orientation is an organizational feature that affects a firm's proclivity to value learning that encourages changes in basic organizational norms and values; learning orientation is a consequence of a proactive behaviour towards organizational learning (Baker and Sinkula, 1999a). Learning orientation has to do with the development of knowledge in the organization to reach market opportunities (Sinkula, 1994; Slater y Narver, 1995). Several authors have regarded LO as another important firm capability (Farrell et al., 2008).

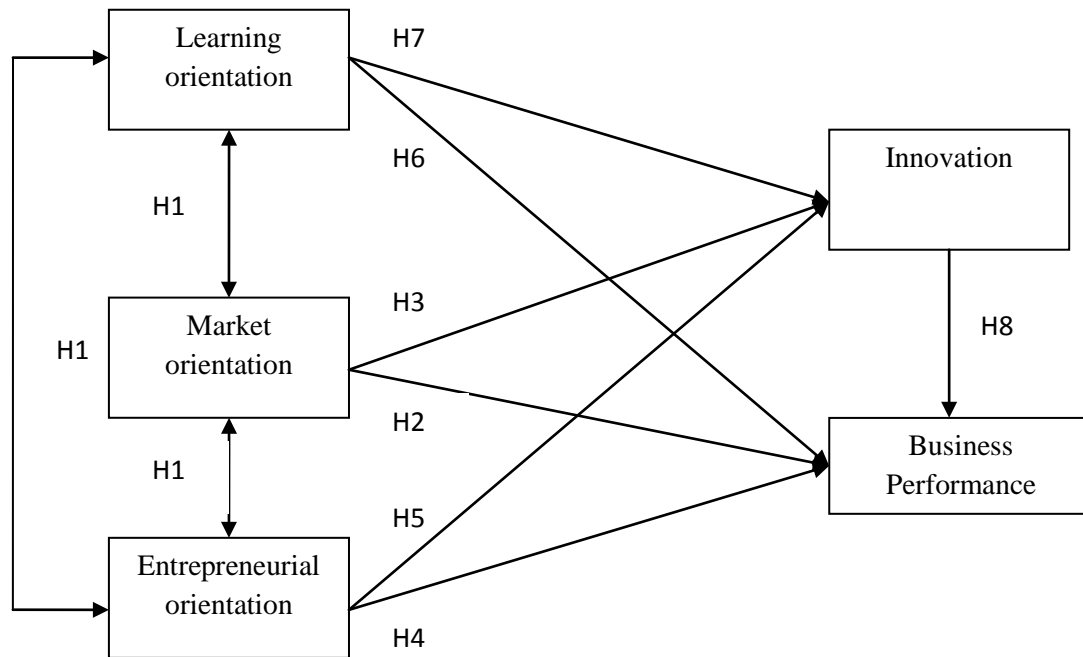
Innovation may be roughly defined as the generation, acceptance and implementation of new ideas, processes, products or services (Baker and Sinkula, 2002). Innovation has not to be confused with "innovativeness," which refers to a firm's openness to new ideas as a part of a firm's culture (Hult and Ketchen 2001; Hurley and Hult 1998; Verhees and Meulenbergh 2004). Innovation is considered by many researchers and managers to be fundamental for firms to compete effectively in domestic and international markets (Ireland and Hitt, 1999). Innovation is particularly critical for new SMEs, since small firms are at more risk to failure in the early years of operation (Runyan et al., 2008). Therefore, to study how firm strategic orientations influence innovation may be especially relevant among new SMEs (Renko et al., 2009).

3. THEORETICAL MODEL AND HYPOTHESIS

3.1 MODEL DEVELOPMENT

Our model suggests that, among new SMEs, MO, EO and LO are strategic orientations strongly correlated. Moreover, the model proposes that, when MO, EO and LO are considered simultaneously among new SMEs, only MO has a direct link with business performance and only EO a direct relationship with Innovation. Finally, in this context Innovation should be directly connected to business performance. The present model suggests that in new SMEs, whereas MO is the most relevant orientation to enhance business performance, EO is a critical orientation to improve Innovation, and Innovation is an important driver for new SMEs performance (see Figure 1)

FIGURE 1
Theoretical model



3.2 HYPOTHESIS FORMULATION

A growing number of researchers suggest that, although they are different orientations, there is a closed relationship among MO, LO and EO (Day, 1994; Grinstein, 2008).

Several studies have empirically showed the link between MO and LO, either in large organizations (Farrell, 2000; Santos et al., 2005) or in SMEs (Keskin, 2006; Mavondo et al., 2005). For new ventures we postulate that market information (either customer or competitor information) promotes organizational learning development, thus in this case MO should be related to LO (Day, 1994). Inversely, in order to effectively use organizational learning to exploit opportunities from the environment, new ventures need to identify previously such opportunities based on the market knowledge that MO offer them (Hebel, 2007).

Empirical research has consistently reported a significant correlation between EO and MO (Becherer and Maurer, 1997; Hult and Ketchen, 2001; Slater and Narver, 1998). The rational for this correlation resides on that market-oriented and entrepreneurial firms both strive to satisfy expressed and latent customer needs, pursue market expansions as they are identified, and capitalize on emerging opportunities (Baker and Sinkula, 2009; Grinstein, 2008). Furthermore,

in SMEs the combined efforts of MO and EO contribute both to satisfy present customer's needs and to identify new needs (Baker and Sinkula, 2009). MO is especially important for entrepreneurial firms because at their early stages it enables them to learn on, and adapt to the environment, quickly reacting to opportunities and threats (Becherer and Maurer, 1997). According to Slater and Narver (1995), MO and EO provide the foundation for organizational learning. Similarly, Liu et al. (2002) consider that EO promotes organizational learning and learning values like teamwork, openness, etc. Entrepreneurial firms instil flexibility, and allow individuals and team the freedom to exercise their creativity and to champion promising ideas (Lumpkin and Dess, 1996). Individuals are motivated and inspired to learn in such environments and tend to demonstrate a higher level of commitment to learning (Drucker, 1999). Hence, EO creates a fertile internal environment for organizational learning to take place. The more entrepreneurial a firm, the more learning-oriented it is, the more likely it installs values that promote commitment to learning, open-mindedness, and shared vision (Wang, 2008). According to previous considerations we posit:

H1: In the context of new SMEs Market, Entrepreneurial and Learning orientation are three correlated constructs.

Most of the empirical evidences obtained until the present show a direct and positive link between MO and performance (Baker and Sinkula, 2009; Kirca et al., 2005). In SMEs specifically, it is contended that customer orientation is likely to be a vital determinant of success because such firms generally lack the financial resources to explore other sources of business profitability, such as research and development, competitive advantage, low cost leadership or skilled staff to develop effective planning strategies, thus, a strong market orientation culture may be here a source of competitive advantage (Pelham, 1999). Since small firms and new ventures frequently share their limited size, resulting in scarce resources, this reasoning can be transferred to the context of new ventures (Brettel et al., 2009). Considering that new ventures are usually characterized by a lack of formal planning and processes as well as uncertain environments (Pelham 2000), an organization-wide market orientation can provide a consistent guideline for objectives, decisions, and activities, thus it should enhance organizational performance (Brettel et al., 2009). So, we posit:

H2: In the context of new SMEs, Market orientation is directly related to business performance.

Some studies suggest that MO is likely to enhance innovation because it involves doing something new or different in response to market conditions (Kirca et al., 2005). However, Baker and Sinkula, (2009), in a recent research among SMEs, although they predicted a significant positive MO–innovation success relationship, the hypothesis was not supported. Similar results were obtained in another current research among new ventures (Renko et al., 2009). A common feature of these two investigations is that they simultaneously modelled the effects of MO and EO on innovation. As a consistency check with prior research, Baker and Sinkula, (2009) run another SEM model without EO. This model included MO, innovation success, profitability, and the three covariates. In this model, the results were highly consistent with prior research; there was a significant positive MO–innovation success relationship. According to this empirical evidence we posit that when MO and EO are modelled simultaneously, given the strong relationship among EO and innovation, the relationship between MO and innovation vanishes. Thus we hypothesized:

H3: In the context of new SMEs, and when EO and MO are considered in the same model, market orientation is not directly related to innovation.

Businesses with high EO can target premium market segments, charge high prices, and “skim” the market ahead of competitors, which should provide them with larger profits and allow them to expand faster (Rauch et al., 2009). Thus, conceptual arguments suggest that EO leads to higher performance. Although empirical research reports independent direct effects of both MO (Baker and Sinkula 2002) and EO (Covin and Slevin 1986) on profitability, when the effects of EO and MO have been modelled together simultaneously, the direct effect of EO has

disappeared (Baker and Sinkula, 2009). The former could be even more intense among new ventures (Lee et al., 2001; Stam and Elfring, 2008). From Baker and Sinkula's perspective, it is possible that firms with strong EOs but weaker MOs are more likely to engage in innovation activities that are not grounded to careful assessments of customer demand and product markets, so they do not lead to a superior performance (Slater and Narver, 1998). Therefore we posit:

H4: In the context of new SMEs, and when EO and MO are considered in the same model, Entrepreneurial orientation is not directly related to business performance.

It has been suggested the existence of a strong interrelationship between innovation and entrepreneurship (Lumpkin and Dess, 1996), because an important value-creating entrepreneurial strategy is to invent new goods and services and commercialize them (innovation) (Rauch et al., 2009). Thus, EO promotes the development of new products and new companies, and it works as an orientation for management when launching those new products or new companies into the market (Lumpkin and Dess, 1996; Naman and Slevin, 1993). Recent research among SMEs have shown the strong link between EO and product innovation or innovation success (Baker and Sinkula, 2009). Moreover, many studies among new companies have demonstrated that the entrepreneurial efforts to adopt creative attitudes, without fear to the risks involved on those attitudes, promote organizational innovation among firms (Kakati, 2003), thus:

H5: In the context of new SMEs, Entrepreneurial orientation is directly related to innovation.

Previous research on the relationship between learning orientation and performance has attained mix results (Baker and Sinkula, 1999b; Farrell, 2000; Santos et al., 2005). Santos et al., (2005) argue that the relationship between learning orientation and performance is not a direct relationship, but rather indirect through market orientation. Accordingly, learning orientation or the desire to develop knowledge is not enough by itself to have a significant impact on company's performance (Santos et al., 2005). In the case of new ventures, we hypothesized that learning orientation is not linked to performance because of the moderating effects of organization's age on the consequences of learning orientation (Sinkula, 1994). According to Sinkula (1994), the influence of age is explained by the effective and efficient supply of market information in older organizations. Innovative ideas may come from within the organization or from customers, suppliers, and other firms in the relationships. It takes time to establish these relationships; so younger firms are at a disadvantage. Therefore, although it has been identified a direct relationship between LO and performance among mature firms, this relationship has to be not significant when new SMEs are considered. Thus:

H6: In the context of new SMEs, Learning orientation is not directly related to business performance.

Several scholars have identified a direct relationship among learning orientation and innovation. For instance, Mavondo et al., (2005) found that learning orientation is strongly associated with all aspects of innovation (product, process and administrative) among medium size firms. Moreover, Keskin, (2006) also established that firm learning orientation positively influences product innovation among SMEs. However, for the particular case of new SMEs, we postulate that learning orientation is not related to innovation because the effect of a learning orientation is moderated by organization's age (Sinkula, 1994). The influence of age is explained by the more effective and efficient supply of market information in older organizations and also because older organizations are more experienced at selecting and employing information, so younger firms are at a disadvantage (Sinkula, 1994). Therefore, since older firms can use the information more efficiently, the relationship between learning orientation and innovation among older firms may be positive, while this relationship might become inexistent for younger ones (Calatone et al., 2002). Thus, we posit:

H7: In the context of new SMEs, Learning orientation is not directly related to innovation.

The greater the use of innovative products, the greater the competitive advantage of the firm, and the more difficulty the competitors will have in developing effective responses (Sandvik and Sandvik, 2003). In the case of SMEs, the introduction of innovative products, services, processes, or business models tailored to attractive niches is an additional opportunity to stand out from competition (Porter, 1980). In so doing, SMEs can benefit from high brand loyalty of buyers and a reduced price sensitivity of demand as a consequence of customers valuing the uniqueness of the innovation (Rosenbusch et al., 2010). Moreover, innovation is also recognized as a promising strategy for new ventures. Since new firms can be expected to be more flexible and agile than established SMEs, they have a prolonged time of operating under conditions of limited competition in case they pioneer innovations (Rosenbusch et al., 2010). So, in the case of new ventures, innovation should be positively linked to organizational performance (Li and Atuahene-Gima, 2001), thus:

H8: In the context of new SMEs, there is a positive link between innovation and business performance.

4. METHODOLOGY

4.1 SAMPLE AND DATA COLLECTION

A sample of firms from hotel and tourism sector was used, consisting mainly of hotels and restaurants. The sector was selected for its importance in Spain, since it employs more than 2.5 million people, approximately 12% of the total workforce, and makes about 11% of GDP. With more than 50 million foreign tourists received annually, Spain was the second European Union country in tourist arrivals and the first in revenues received¹, with more than 38 billion Euros.

From the SABI database for Spanish companies, SMEs were selected that had been established since 2001 to date, with a number of employees between 10 and 250. Companies with at least 10 employees were considered, to have a minimum of infrastructure and resources to enable them to perform certain actions for innovation. The database showed a total of 916 companies successfully assigned to the sector. 203 valid questionnaires were received, representing a 22.16% response. Table 1 shows the technical data of the study.

TABLE 1.
Technical characteristics

Population	New Spanish SMEs from the hospitality sector
Scope	National
Data collection method	Postal survey
Respondent	General Manager
Sample size	203
% of response	22.16%
Sampling error	6.13%
Confidence level	95% $z=1.96$ $p=q=0.5$
Work-field	Pretest: 09/2009. 1st mailing: 10/ 2009; 2n mailing: 11/2009 ²

4.2 MEASURES AND MEASURES VALIDATION

Likert scales of 7 positions are used to measure the different managerial skills (1 means strongly disagree, and 7 strongly agree). Market Orientation (MO) was assessed using the MKTOR scale, a scale with three components: customer orientation, competitor orientation, and interfunctional coordination (Narver and Slater, 1990). To measure Learning Orientation (LO) we use the scale proposed by Baker and Sinkula (1999a), also a three component's scale: commitment to learning, open-mindedness and shared vision. Entrepreneurial Orientation (EO) was measured with an adaptation of a one dimension scale from Naman and Slevin (1993). To

¹ Tourism Studies (IET) of the Ministry of Industry, Tourism and Trade.

² Through anovas was found that there are not significant differences in the results obtained in the different mailings.

measure Innovation (I), we used an adaptation of a one dimension scale from Baker and Sinkula (1999b). Finally, business performance (BP) was measured from 6 subjective criteria: return on investment (ROI), profit, sales, customer satisfaction, employees' satisfaction and the overall results, all in comparison with company objectives. Table 2 presents descriptive statistics for all the items.

TABLE 2.
Descriptive statistics

ITEMS	Mean	St de
MARKET ORIENTATION		
Customer Orientation		
Create customer value (OCLI1)	6,23	,878
Customer satisfaction objectives (OCLI2)	6,17	1,040
Customer commitment (OCLI3)	5,96	1,066
After-sales service (OCLI4)	5,75	1,113
Understand customer needs (OCLI5)	5,97	1,050
Measure customer satisfaction (OCLI6)	5,90	1,166
Competitor orientation		
Respond rapidly to competitors' actions (OCOM1)	5,27	1,316
Salespeople share competitor information (OCOM2)	5,22	1,328
Top managers discuss competitors' strategies (OCOM3)	5,23	1,159
Target opportunities for competitive advantage (OCOM4)	5,39	1,030
Interfunctional Coordination		
Information shared among functions (CFUN1)	5,49	,961
Functional integration in strategy (CFUN2)	5,98	1,050
All functions contribute to customer value (CFUN3)	5,74	1,064
Share resources with other business units (CFUN4)	5,74	1,021
LEARNING ORIENTATION		
Commitment to learning		
Managers basically agree that our business unit's ability to learn is the key to our competitive advantage (CAPR1).	5,98	1,005
The basic values of this business unit include learning as key to improvement (CAPR2).	6,08	,999
The sense around here is that employee learning is an investment, not an expense (CAPR3)	6,23	1,025
The collective wisdom in this enterprise is that once we quit learning, we endanger our future (CAPR4).	6,25	1,029
Our culture is one that makes employee learning a top priority (CAPR5).	5,77	1,000
Share vision		
There is a total agreement on our business unit vision across all levels, functions, and divisions (VCOM1).	5,59	1,155
All employees are committed to the goals of this business unit (VCOM2).	5,33	1,298
Employees view themselves as partners in charting the direction of the business unit (VCOM3).	4,74	1,370
We have a well-defined vision for the entire business unit (VCOM4).	5,06	1,184
Open-mindedness		
Managers encourage employees to "think outside of the box." (MAB1)	5,88	1,060
We are not afraid to reflect critically on the shared assumptions we have about the way we do business (MAB2).	6,14	1,063
An emphasis on constant innovation is not a part of our corporate culture (MAB3).	5,89	1,059
Original ideas are highly valued in this organization (MAB4).	5,89	1,089
ENTREPRENEURIAL ORIENTATION		
A strong emphasis in R&D, technological leadership, and innovations instead of in the marketing of tried and true products or services (OEMP1)	5,11	1,049
A strong proclivity for high risk projects (with chances of very high return) (OEMP2)	4,67	1,041
Typically adopts important changes and very fast (OEMP3)	4,73	1,044
Business changes have been constant and important (OEMP4)	5,20	1,204
Typically initiates actions to which competitors then respond (OEMP5)	5,15	1,155
Typically adopts a bold, aggressive posture against competitors (OEMP6)	4,71	1,152
INNOVATION		
New product introduction rate relative to competitors (INOV1).	5,12	1,060
Degree of differentiation among the firm's innovations and competitors' innovations (INOV2)	5,03	1,162
New product success rate relative to competitors (INOV3).	5,18	1,020
BUSSINESS PERFORMANCE		
Subjective return on investment (ROI) (ROIS)	5,01	1,121
Profit (RBFC)	5,00	1,132
Sales (RVTAS)	5,25	1,072
Customer satisfaction (RSCLI)	5,57	,943
Employees satisfaction (RSEMP)	5,21	,922
Overall results (RGLOB)	5,32	,938

For assessing the consistency of the components on the MO scale we developed a confirmatory factor analysis (see Table 3, Factor loading CFA1). Based on the results, 1 original item had to be dropped: OCLI_4. This item is eliminated due to two reasons that make difficult to

accomplish the convergent validity of the measurement scale containing them: i) because the factor loading is lower than 0.6 (Bagozzi and Yi, 1988; Hair et al., 2006); and ii) because the average variance extracted (AVE) is lower than 0.5 (Fornell and Larcker, 1981): 0.48 for customer orientation. Once the scale has been depurated, the scale accomplished all the dimensionality, reliability and validity requirements (see Table 3, Factor loading CFA2).

The reliability of the scale is proved because the composite reliability for the three dimensions is higher than 0.6 (Bagozzi and Yi, 1988). Convergent validity is proved because the factor loadings are significant and higher than 0.6 (Bagozzi and Yi, 1988; Hair et al., 2006) and, secondly, because the average variance extracted (AVE) for each dimension is 0.5 or higher (Fornell and Larcker, 1981).

TABLE 3.
CFA

DIMENSIONS	Factor loading CFA1 (CR: 0,85; AVE: 0,48)	Factor loading CFA2 (CR: 0,84; AVE: 0,515)
Customer orientation		
Create customer value (OCLI1)	0,659	0,651
Customer satisfaction objectives (OCLI2)	0,731	0,746
Customer commitment (OCLI3)	0,717	0,723
After-sales service (OCLI4)*	0,594	
Understand customer needs (OCLI5)	0,719	0,701
Measure customer satisfaction (OCLI6)	0,749	0,763
Competitor orientation	(CR: 0,86; AVE: 0,616)	(CR: 0,865; AVE: 0,617)
Respond rapidly to competitors' actions (OCOM1)	0,786	0,787
Salespeople share competitor information (OCOM2)	0,682	0,682
Top managers discuss competitors' strategies (OCOM3)	0,82	0,82
Target opportunities for competitive advantage (OCOM4)	0,844	0,844
Inter-functional coordination	(CR: 0,845; AVE: 0,578)	(CR: 0,845; AVE: 0,577)
Information shared among functions (CFUN1)	0,733	0,728
Functional integration in strategy (CFUN2)	0,818	0,824
All functions contribute to customer value (CFUN3)	0,753	0,754
Share resources with other business units (CFUN4)	0,735	0,731
CFA1: Chi-squared= 173.99; gl= 75; P= 0.000; RMSEA = 0.081; GFI = 0.895; CFI = 0.933; AGFI = 0.853		
CFA2: Chi-squared= 141.042; gl= 63; P= 0.000; RMSEA = 0.07; GFI = 0.906; CFI = 0.944; AGFI = 0.864		
CR: Composite reliability; AVE: Average extracted variance. * Deleted item.		

To determine the discriminant validity we follow Burnkrant and Page (1982). More precisely, we compare the goodness-of-fit of two measurement models for the Market Orientation scale: one that considers a perfect correlation between the three components (model with restriction), and one that does not consider this restriction. The adjustment of the model without restriction should be better than the model with a perfect correlation because it would show evidence of discriminant validity. Results indicated clearly the differences in favor of the unrestricted model in each of the parameters of fitness measures (see table 4).

TABLE 4.
Discriminant validity for the Market Orientation scale

Model fit	Restricted model	Unrestricted model
Absolute fitness measures		
χ^2 Statistic	191.749	141,042
Goodness of Fit Index (GFI)	0.884	0.906
Root Mean Square Error of Approximation (RMSEA)	0.097	0.078
Expected Cross-Validation Index (ECVI)	1.197	0.975
Incremental fitness measures		
Normed Fit Index (NFI)	0.869	0.904
Incremental Fit Index (IFI)	0.91	0.944
Comparative Fit Index (CFI)	0.909	0.944
Parsimony fitness measures		
Normed Chi-square	2.905	2.239
Akaike Information Criterion (AIC)	241.749	197.042

For assessing the consistency of the components on the learning orientation scale we follow the same steps. Based on the results, the original items can be maintained (see Table 5). Likewise, discriminant validity is also proved (see Table 6). Again, the adjustment of the unrestricted model is better than the model with a perfect correlation.

TABLE 5.
CFA

DIMENSIONS	Factor loading CFA (CR: 0,90; AVE: 0,65)
Commitment to learning	
Managers basically agree that our business unit's ability to learn is the key to our competitive advantage (CAPR1).	0,794
The basic values of this business unit include learning as key to improvement (CAPR2).	0,885
The sense around here is that employee learning is an investment, not an expense (CAPR3)	0,787
The collective wisdom in this enterprise is that once we quit learning, we endanger our future (CAPR4).	0,851
Our culture is one that makes employee learning a top priority (CAPR5).	0,704
Share vision	(CR: 0,908; AVE: 0,71)
There is a total agreement on our business unit vision across all levels, functions, and divisions (VCOM1).	0,782
All employees are committed to the goals of this business unit (VCOM2).	0,896
Employees view themselves as partners in charting the direction of the business unit (VCOM3).	0,875
We have a well-defined vision for the entire business unit (VCOM4).	0,818
Open-mindedness	(CR: 0,87; AVE: 0,62)
Managers encourage employees to "think outside of the box." (MAB1)	0,826
We are not afraid to reflect critically on the shared assumptions we have about the way we do business (MAB2).	0,867
An emphasis on constant innovation is not a part of our corporate culture (MAB3).	0,743
Original ideas are highly valued in this organization (MAB4).	0,725
Chi-square= 111.404; gl= 62; P= 0.000; RMSEA = 0.063; GFI = 0.921; CFI = 0.972; AGFI = 0.884	
CR: Composite reliability; AVE: Average extracted variance.	

TABLE 6.
Discriminant validity for the Learning orientation scale

Model fit	Restricted model	Unrestricted model
Absolute fitness measures		
χ^2 Statistic	154.575	111.404
Goodness of Fit Index (GFI)	0.898	0.921
Root Mean Square Error of Approximation (RMSEA)	0.083	0.063
Expected Cross-Validation Index (ECVI)	1.023	0.839
Incremental fitness measures		
Normed Fit Index (NFI)	0.915	0.939
Incremental Fit Index (IFI)	0.949	0.972
Comparative Fit Index (CFI)	0.949	0.972
Parsimony fitness measures		
Normed Chi-square	2.378	1.797
Akaike Information Criterion (AIC)	206.575	169.404

Once the MO and LO scales have been depurated, we developed a confirmatory factor analysis with all the constructs and items in our model. Table 7 and 8 allow us to rely on the measurement of the final items and constructs employed in our research: i) convergent validity is proved because the factor loadings are significant and higher than 0.6 (Bagozzi and Yi, 1988; Hair et al., 2006) and, secondly, because the average variance extracted (AVE) for each dimension is 0.5 or higher (Fornell and Larcker, 1981); and ii) discriminant validity is proved because the adjustment of the model without restriction is better than the model with a perfect correlation (see table 8).

TABLE 7.
CFA

MARKET ORIENTATION	(CR: 0,89; AVE: 0,75)
Customer Orientation	(CR: 0,84; AVE: 0,52)
Create customer value (OCLI1)	0,602
Customer satisfaction objectives (OCLI2)	0,712
Customer commitment (OCLI3)	0,776
After-sales service (OCLI4)	0,738
Understand customer needs (OCLI5)	0,78
Measure customer satisfaction (OCLI6)	0,602
Competitor orientation	(CR: 0,87; AVE: 0,63)
Respond rapidly to competitors' actions (OCOM1)	0,763
Salespeople share competitor information (OCOM2)	0,735
Top managers discuss competitors' strategies (OCOM3)	0,795

Target opportunities for competitive advantage (OCOM4)	0,882
Interfunctional Coordination	(CR: 0,84; AVE: 0,57)
Information shared among functions (CFUN1)	0,721
Functional integration in strategy (CFUN2)	0,828
All functions contribute to customer value (CFUN3)	0,755
Share resources with other business units (CFUN4)	0,73
LEARNING ORIENTATION	(CR: 0,83; AVE: 0,62)
Commitment to learning	(CR: 0,89; AVE: 0,64)
Managers basically agree that our business unit's ability to learn is the key to our competitive advantage (CAPR1).	0,757
The basic values of this business unit include learning as key to improvement (CAPR2).	0,853
The sense around here is that employee learning is an investment, not an expense (CAPR3)	0,803
The collective wisdom in this enterprise is that once we quit learning, we endanger our future (CAPR4).	0,857
Our culture is one that makes employee learning a top priority (CAPR5).	0,718
Share vision	(CR: 0,91; AVE: 0,73)
There is a total agreement on our business unit vision across all levels, functions, and divisions (VCOM1).	0,761
All employees are committed to the goals of this business unit (VCOM2).	0,932
Employees view themselves as partners in charting the direction of the business unit (VCOM3).	0,852
We have a well-defined vision for the entire business unit (VCOM4).	0,869
Open-mindedness	(CR: 0,86; AVE: 0,61)
Managers encourage employees to "think outside of the box." (MAB1)	0,797
We are not afraid to reflect critically on the shared assumptions we have about the way we do business (MAB2).	0,799
An emphasis on constant innovation is not a part of our corporate culture (MAB3).	0,777
Original ideas are highly valued in this organization (MAB4).	0,751
ENTREPRENEURIAL ORIENTATION	(CR: 0,88; AVE: 0,56)
A strong emphasis in R&D, technological leadership, and innovations instead of in the marketing of tried and true products or services (OEMP1)	0,669
A strong proclivity for high risk projects (with chances of very high return) (OEMP2)	0,641
Typically adopts important changes and very fast (OEMP3)	0,758
Business changes have been constant and important (OEMP4)	0,804
Typically initiates actions to which competitors then respond (OEMP5)	0,767
Typically adopts a bold, aggressive posture against competitors (OEMP6)	0,849
INNOVATION	(CR: 0,89; AVE: 0,73)
New product introduction rate relative to competitors (INOV1).	0,848
Degree of differentiation among the firm's innovations and competitors' innovations (INOV2)	0,88
New product success rate relative to competitors (INOV3).	0,84
BUSINESS PERFORMANCE	(CR: 0,90; AVE: 0,63)
Subjective return on investment (ROI) (ROIS)	0,833
Profits (RBFC)	0,895
Sales (RVTAS)	0,847
Customer satisfaction (RSCLI)	0,653
Satisfaction of the employees (RSEMP)	0,624
Overall results (RGLOB)	0,867

Chi-square= 1242.107; gl= 748; P= 0.000; RMSEA = 0.057; GFI = 0.785; CFI = 0.915; AGFI = 0.752

CR: Composite reliability; AVE: Average extracted variance.

Since all the data came from the same respondents answering the same questionnaire format, common method bias could exist. Following the approach of other researchers (e.g., Joshi and Sharma, 2004), to assess whether a common method bias posed a threat to our data the Harman's one-factor test on the items was performed. If there is a substantial amount of common method variance, then either a single factor will emerge from the factor analysis, or one general factor will account for the majority of the covariance among the variables. In our case, common method bias was not a problem. The factor analysis resulted in 7 factors with Eigen value greater than 1, accounting for 68.14% of the total variance (and 2 factors with Eigen value higher than 0.9). The first factor accounted for 36.7% of the variance. Thus, common method bias does not pose threat to our data.

TABLE 8.
Discriminant validity

Model fit	Restricted model	Unrestricted model
Absolute fitness measures		
χ^2 Statistic	1447.700	1242.107
Goodness of Fit Index (GFI)	0.757	0.785

Root Mean Square Error of Approximation (RMSEA)	0.067	0.057
Expected Cross-Validation Index (ECVI)	8.187	7.268
Incremental fitness measures		
Normed Fit Index (NFI)	0.781	0.812
Incremental Fit Index (IFI)	0.882	0.916
Comparative Fit Index (CFI)	0.881	0.915
Parsimony fitness measures		
Normed Chi-square	1.91	1.661
Akaike Information Criterion (AIC)	1653.700	1468.107

5. HYPOTHESIS TESTING

Hypothesis 1 postulates that learning, market and entrepreneurial orientation are correlated. Based on the collected information, we can see how this hypothesis is confirmed in the expected way in Table 9.

TABLE 9.
Correlation and covariance among Market, Learning and Entrepreneurial orientation

			Correlation coefficient	Covariance
OM	<-->	OA	,812	0.220***
OM	<-->	OE	,526	0.172***
OA	<-->	OE	,606	0.246***

***sig < 0.01.

Figure 1 displays the estimated model through AMOS for testing the formulated hypotheses. Regarding the fit of the model, χ^2 is 1242.107 with 748 df ($p = .000$). χ^2/df is lower than 3 and higher than 1 (1.66); RMSEA, .057 (< 0.08) and CFI, .915 ($> .9$). Consequently, there is a reasonable fit between the model and the data.

Table 10 presents the hypotheses and the expected effect on the first two columns. Based on the estimations, their signs and significance levels, it is observed how all the hypotheses are confirmed in the expected way.

TABLE 10.
Estimated coefficients

Hypothesis	Expectation				Estimation	S.E	CR (Est/SE)
H2	Positive	RO	<---	OM	1,107***	,302	3,666
H3	No significant	CI	<---	OM	-,135	,207	-,652
H4	No significant	RO	<---	OE	,194	,224	,866
H5	Positive	CI	<---	OE	1,096***	,129	8,478
H6	No significant	RO	<---	OA	-,406	,247	-1,642
H7	No significant	CI	<---	OA	,132	,186	,713
H8	Positive	RO	<---	CI	,337**	,167	2,024

***sig < 0.01; **sig < 0.05; * sig < 0.1.

6. CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

In the present research we have analyzed the effects of market, entrepreneurial and learning orientation on innovation and on business performance in new SMEs. Our results show that in new SMEs market orientation is directly linked to business performance among such firms. Many studies have provided empirical support for the positive link between market orientation and firm performance among big and long existing companies (Kirca et al., 2005; Narver and Slater, 1990), however, the effects of a market orientation on business performance among new SMEs have been much less investigated. MO should be even more important for new SMEs than for big and long established firms because serving the customer well should be the utmost important to new ventures (Kakati, 2003). Given that new SMEs have typical resource constraints which do not allow transaction marketing approaches such as large and established companies pursue, new SMEs rely on personal contact networks to develop the business and to obtain information, so for those organizations market orientation is a prerequisite for organizational success (Brettel et al., 2009).

Our results also show that entrepreneurial orientation is not directly related to business performance in new SMEs. Although some empirical research reports that EO is positively associated with performance (Wiklund and Sheperd, 2005), empirical findings are not altogether consistent. Lumpkin and Dess (1996) considered this relationship to be context specific. In the case of new ventures, EO is not directly linked to business performance perhaps because new ventures are often unsuccessful in translating an EO into higher performance due to their lack of strategic resources (Stam and Elfring, 2008).

The results attained also suggest that EO is directly related to innovation. As it was previously expected EO directly contributes to product innovation because a key dimension of EO is an emphasis on innovation (Lumpkin and Dess, 1996) and to promote the development of new products and new companies (Lumpkin and Dess, 1996; Naman and Slevin, 1993). The former should be even more important among new ventures because these firms have a high EO and thus an important proclivity to adopt creative attitudes to promote organizational innovation (Kakati, 2003).

Moreover, as it was expected, MO is not directly linked to innovation. Although a recent stream of research has found a positive relationship between MO and new product success (Baker and Sinkula, 2002; Gatignon and Xuereb, 1997), these empirical findings were attained without simultaneously analyzing MO and EO in the same model. As Baker and Sinkula (2009) hypothesized, due to the strong relationship between EO and innovation (Rauch et al., 2009; Zhou et al., 2005), when MO and EO are considered in the same model the effect of MO on innovation vanishes. Also as expected, although previous research has found that LO is linked to business performance among mature firms, the results obtained suggest that LO is not directly related to business performance when new SMEs are considered. We suggest that in younger organizations LO is not related to business performance because of the moderating effects of organization's age on the consequences of LO (Sinkula, 1994). In older organizations the effects of LO on the effectiveness and efficiency of market information supply is higher than in younger ones, thus in the later LO has no direct contribution to SMEs performance.

Again, as it was expected, in new SMEs LO is not related to innovation. Even though previous research among mature SMEs has shown a positive link between these two constructs (Keskin, 2006; Mavondo, 2005); when new SMEs are considered this relationship vanishes. Similar than when we analyzed the relationship between LO and business performance, the lack of relationship between LO and innovation probably lies on the moderating effect of organization's age on the consequences of a LO (Sinkula, 1994). According to this, younger organizations are less efficient and less effective at gathering market information and they have less experience at selecting and employing information (Sinkula, 1994). Given that information gathering is a key antecedent for innovation, very young firms are at disadvantage and in these organizations LO is able to promote innovation. Finally, our results also show that market, entrepreneurial and learning orientations are correlated constructs among new SMEs. A growing number of researchers suggest that, although they are different constructs, there is a closed relationship among these strategic orientations (Day, 1994; Grinstein, 2008). However, this correlation has not been previously analyzed among new ventures.

Some relevant strategic implications can be derived from our research. First of all, new SMEs should be aware of the key role of a MO on new SMEs performance. As we have previously seen, MO is the only strategic orientation directly linked to new SMEs performance. EO may enhance innovation but is not directly related to new SMEs performance. Moreover, in new SMEs LO is not directly related to business performance or to innovation. Thus, business performance among new SMEs depends on being customer and competitor oriented and presenting a functional integration, in other words, applying the marketing concept in the organization (Kohli and Jaworski, 1990). So the marketing concept is a critical antecedent for new SMEs performance. In addition, another strategic implication of the present research is that in new SMEs only EO is directly related to innovation. So, new SMEs that want to promote innovation among their organizations should instill a strong EO. The former means having a

proclivity to innovation, a proactive attitude and not being afraid from risk taking.

Although the present research has relevant contributions to the field, it has also some limitations that should be considered directions for future research. First of all we focus the study in only one industry and one country; future research should extend this analysis to other industries and countries. In addition, we interviewed only one person per firm; in future investigations information should be obtained from more than one respondent per organization. Moreover, organizational performance was assessed through subjective measures. Although it has been suggested that objective and subjective performance measures are highly correlated, in future research organizational performance should be assessed using objective instead of subjective performance criteria. Future research should also analyze the existence of potential moderators or mediators on the relationship between strategic orientations and performance, as well as on the relationship between strategic orientations and innovation. In addition, it would be of interest to analyze a sample of new and mature SMEs and run the same model to verify how much difference there can exist depending on organizational age.

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