

# Strategic Orientation and Performance of Small Businesses in South Africa

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**Abstract:** *Motivation:* Most studies on strategic orientation have focused on financial performance while neglecting social and environmental performance. In this era of sustainable development, the performance of SMEs is better measured using the triple bottom line approach (financial, social and environmental). Studies that examine the effect of strategic orientation on the sustainable performance of SMEs are scarce.

*Novelty:* The aim of the study is to explore the impact of strategic orientation on the sustainable performance of SMEs. While extant studies have explored the effect of strategic orientation on the financial performance of SMEs, this study used the sustainable measure of performance that included financial, social and environmental indicators.

*Methodology and Methods:* The study followed the quantitative research design and a self-administered questionnaire was employed during the data collection process. Data was collected from one hundred and forty SME owners in a cross-sectional survey. The participants of this study were in the retail, service and manufacturing sectors.

*Data and Empirical Analysis:* The Pearson correlation and regression were used for analysis. The Pearson correlation results indicated a positive correlation between strategic orientation and sustainable performance, while the regression analysis showed that strategic orientation has a positive impact on the sustainable performance of SMEs.

*Policy Considerations:* South Africa is a signatory to the Paris Agreement on Climate Change and the United Nations' Sustainable Development goals. The sustainable performance of SMEs can help to achieve these goals. The findings of this study can help small business owners to continuously acquire strategic orientation education for themselves and their employees. Agencies that support small businesses should organise seminars to train and educate SME owners on strategic orientation and sustainable performance.

**Keywords:** Strategic orientation, sustainable performance, Resource-based theory Small and medium enterprises, South Africa.

## 1. INTRODUCTION

Small and medium enterprises (SMEs) face many challenges that negatively impact on their performance. The challenges faced by SMEs in developing countries are similar to those of their counterparts in developed countries (Cant, 2012; Chimucheka and Mandipaka, 2015; Turyahikayo, 2015). Although SMEs have a major role to play in economic development, it must be noted that their failure rate is very high (Adeniran and Johnston, 2011; Fatoki and Smit, 2011). The study examines the relationship between strategic orientation and the sustainable performance of SMEs. Strategic orientation has developed through a blend of strategic management and entrepreneurship literature (Simmons, 2010), and can be understood as a cognitive understanding and interpretation of the external environment and internal resources. It represents the priority of resource allocation with long-term growth and shareholders' wealth as the ultimate objective (Lau and Bruton, 2011). The underlying assumption in strategic orientation is that substantive

strategic beliefs underpin the strategic actions taken by the firm. These beliefs concern the basic thinking of the organisation in domains such as the scope of activities the firm is to pursue, where the firm is to operate, and how it is to operate (Hakala, 2011). These philosophical underpinnings of strategic orientation, in turn guide the strategic choices of the firm in many domains (Al-Barghouthi, 2014). Strategic orientation is a well-regarded and much-used concept in business literature concerned with firm performance (Kumar *et al.*, 2012). Strategic orientation is the strategic direction implemented by a firm to create the proper behaviours for the continuous superior performance of the business. Recent studies on strategic orientation suggest the importance of considering the complexity of the relationship between strategic orientation and firm performance (Baker and Sinkula, 2009). Lately, firms are becoming more aware of the importance of sustainable performance reporting. A growing number of companies are keen to adopt a broader and more comprehensive performance measurements model for their business (Hakala, 2011). As a result, many firms have expanded their traditional financial performance measurement to a sustainable performance model that incorporates environmental and social initiatives

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(Hubbard, 2009). Traditional performance focuses mainly on profitability, and has been criticised as a historically focused lagging indicator that serves only the interest of shareholders (Slaper and Hall, 2011). For this reason, sustainable performance indicators that focus not only on profitability, but also social and environmental performance have been adopted as the most capable and comprehensive measures of firm performance (Lozano, 2012).

## 2. LITERATURE REVIEW

### 2.1. Definition of Small, Medium and Micro Enterprises in South Africa

The National Small Business Act of 1996, as revised in 2003, defines a small business as “a separate distinct entity including cooperative enterprises and non-governmental organisations managed by one owner or more, including branches or subsidiaries if any is predominately carried out in any sector or subsector of the economy mentioned in the schedule of size standards (Government Gazette, 2019). The number of employees is one of the indicators that is used to classify SMEs in South Africa. For the sectors focused on in this study, a micro enterprise will have between 0 and 10 employees, small enterprises between 11 and 50 employees, and medium enterprises between 51 and 250 employees (Government Gazette, 2019).

### 2.2. Sustainable Development

The Brundtland Report (1987) describes sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. Since the release of the Brundtland Report in 1987, the concept of sustainable development has been playing a critical role in policy making. Sustainable development can be traced back to the concept of sustainable societies which appeared in 1974 (Rui-Dong *et al.*, 2017). To achieve the vision of sustainability, some international political agendas are in place. The outcome document of the World Summit on Sustainable Development, (the Johannesburg Plan of Implementation) identifies three overarching objectives of, and essential requirements for sustainability worldwide, i.e. “(1) poverty eradication, (2) changing unsustainable patterns of production and consumption, and (3) protecting and managing the natural resource base of economic and social development” (Rui-Dong *et al.*, 2017). The three

overarching aims, and essential requirements of sustainable development have been reaffirmed by the Future We Want, the outcome document of the United Nations Conference on Sustainable Development held in Rio 2012. The three main pillars of sustainable development include economic growth, environmental protection, and social equality. While many people agree that each of these three ideas contribute to the overall idea of sustainability, it is difficult to find evidence of equal levels of initiatives for the three pillars in policies of countries worldwide (Slaper and Hall, 2011). Sustainability is an often mentioned goal of businesses, however, measuring the degree to which an enterprise is sustainable or pursuing sustainable growth is not easy. The triple bottom line (TBL) goes beyond the traditional measure of profit and shareholder value to include environmental and social dimensions. The comprehensive performance measures that take into consideration the interrelated dimensions of profits, people and planet is an important tool to support sustainability goals (Elkington, 1988, 2018; Slapper and Hall, 2011).

### 2.3. The Resource-Based Theory

The Resource-based theory (RBT) by Barney (1991) explains the origin of the competitive advantage of a firm and supports the idea that intangible resources are the core assets that ensure the performance of a firm (Liu *et al.*, 2010). The central point in achieving competitive advantage and superior performance is the management of the company's strategic resources (Barney *et al.*, 2011). The RBT is one theory in the field of strategic management that provides a strategic framework to explain and predict the basis of competitive advantage and firm performance (Barney *et al.*, 2011). The RBT asserts that performance difference across firms is a result of different resources and capabilities that they control (Murray, Gerald and Masaaki, 2011). The RBT plays a critical role in strategic orientation research. Scholars frequently argue that strategic orientations can be leveraged for competitive advantage and performance outcomes (Cadogan *et al.*, 2009; Dionysus and Arifin, 2020).

### 2.4. Strategic Orientation

Strategic orientation describes the underlying principles that are reflected in various activities, processes and strategic directions undertaken by the firm to achieve superior performance (Cadogan 2012; Hong *et al.*, 2013). It is an option that can create

capabilities dynamically in a constantly changing business environment, and enables companies to respond quickly to these changes (Al-Barghouthi, 2014). According to Eitrem and Oberg (2018), strategic orientation refers to how a company responds to factors in the business environment. Therefore, such orientation is often portrayed as a predictor of high performing firms (Liu *et al.*, 2011). Strategic orientation is commonly used as a generic umbrella term to describe a number of different constructs such as market orientation, entrepreneurial orientation and learning orientation (Hakala, 2011).

#### **2.4.1. Strategic Orientation and Financial Performance**

Previous studies have found a link between firms' capability to implement strategic orientation and performance. Altuntaş *et al.* (2013) conducted a study on healthcare providers in Turkey through a combination of email survey and telephone interviews with 74 companies. They found that there is a significant positive relationship between strategic orientation and firm financial performance. Ho (2014) also found that strategic orientation positively influences financial performance, especially in industries with a high level of competition, such as technology. In the context of SMEs, Abiodun and Kida (2016) conducted a study of 238 companies in Nigeria. The study found a significantly positive relationship between strategic orientation and financial performance. Rauch *et al.* (2009) argue that firms are likely to benefit from strategic orientation and increase their financial performance. Rauch *et al.* also suggest that the direct effect of strategic orientation on firm performance is influenced by the size of the business. A study that focused on SMEs in South Korea demonstrates that strategic orientation has a positive impact on financial performance (Lee and Lim, 2009). Thus, the following is hypothesised: **Hypothesis 1:** There is a significant positive relationship between strategic orientation and financial performance.

#### **2.4.2. Strategic Orientation and Social Performance**

According to Audretsch *et al.* (2018), large companies tend to be more successful than SMEs mainly because they plan strategically to obtain a competitive advantage. Through strategic orientation, firms can highlight their development and growth choices, look intensely into their prospects and strategically plan to fully exploit the opportunities offered (Makinde and Agu, 2018). Masocha (2018) states that social performance relates to the firm's

actual accomplishments in enhancing and sustaining the standards of living without disregarding environmental issues. Corporate social responsibility (CSR) has become an integral part of business practice over the last decade (Servaes and Tamayo, 2013). In fact, many corporations dedicate a section of their annual reports and corporate websites to CSR activities, illustrating the importance that they attach to such activities. Servaes and Tamayo (2013) pointed out that companies implement social responsibility activities and other strategies that allow them to improve their reputation and restore stakeholders' confidence. Busch and Hoffmann (2011) emphasise that the stakeholder theory, referred to as good management theory, is about doing good to those that the firm interacts with in order to create the enabling environment for the business firm to gain competitive advantage and grow. This approach assumes that a strategic orientation is needed for a firm to be socially responsible and profitable (Matuszak and Róžańska, 2017). It is hypothesised that: **Hypothesis 2:** There is a significant positive relationship between strategic orientation and social performance.

#### **2.4.3. Strategic Orientation and Environmental Performance**

During the last few decades, ecosystem degradation has grown to become a major topic among several actors in society, such as politicians, NGOs, consumers and businesses. In this debate, much responsibility is placed on businesses, which together with consumers are often key players on the road towards increased environmental sustainability (Haddock-Fraser and Tourelle, 2010; Sandhu *et al.*, 2010). It seems that the corporate sector is increasingly becoming aware of the social and environmental aspects of their operations. However, while this is the case among larger companies, research indicates that SMEs are lagging behind (Cassells and Lewis, 2011; Brammer *et al.*, 2012). An important role in achieving the sustainability of a business is played by environmental protection. Environmental sustainability should have the long-term perspective considering the evolution of business systems and feedback, the necessity to be flexible and adaptable, with constant attention on local and global conditions, and respecting the living nature and biological diversity (Moldan *et al.*, 2012). Environmental sustainability synthesises the economic growth and environmental protection in a way that means investments in resources saving and natural capital preservation with achieving benefits from the development of new cleaner sustainable

technologies and production. Pursuing green economic growth is becoming a strategic business opportunity for enterprises to cope (Li, 2014). In this context, the development of green innovation has become an inevitable choice to low-carbon development, transformative economic growth mode, and ecological civilisation. Green innovation may reduce the negative impact of economic activities on the environment through strategic innovation in products, processes, society, institutions or organisations (Borghesi *et al.*, 2015). Many enterprises choose to use strategic green innovation as an effective means to achieve sustainable competitive advantages. Thus, it is hypothesised that: **Hypothesis 3:** There is a significant positive relationship between strategic orientation and environmental performance.

### 3. RESEARCH METHODOLOGY

This study followed the quantitative research design and a self-administered questionnaire was employed during the data collection process. The participants in the survey were SMEs in Polokwane in the Limpopo Province of South Africa. Because there is no database of SMEs in the study area, the participants were conveniently sampled. The questionnaire was divided into three sections (1) biographical details (2) strategic orientation and (3) sustainable performance. Table 2 depicts the measurement of variables. The cover page of the questionnaire contained information about the aim of the study and voluntary and anonymous participation. The questionnaire was pre-tested with twenty SME owners in a pilot study. Pearson correlation and regression was used for analysis. The questionnaire items were based on the five-point Likert Scale with “1 strongly disagree and 5 strongly agree” and adapted from previous studies (Ghazali *et al.*, 2017; Wang *et al.*, 2019).

## 4. RESULTS

### 4.1. Biographical Details

Three hundred questionnaires were distributed and one hundred and forty questionnaires were returned. The response rate was 46,67%. The results of the Kolmogorov-Smirnov assured the normality of the data.

Table 1 depicts the biographical details. The results indicate that the majority of the participants in the survey are male, have been in business for between two and five years and in the 31-40 age bracket, operated in the service sector and employed 0 and 10 employees.

**Table 1: Biographical Information of the Respondents**

Biographical characteristics	Frequency (N=140)
<b>Gender</b>	
Male	73
Female	67
<b>Age of the owner (year)</b>	
Below 20	2
20-30	39
31-40	65
41-50	26
Above 50	8
<b>Business sector</b>	
Service	52
Retail	42
Manufacturing	46
<b>Business Categories</b>	
Close corporation	19
Sole proprietorship	41
Partnership	43
Private	37
<b>Age of the firm (year)</b>	
0-1	6
2-5	53
6-10	42
11-15	29
16+	10
<b>Number of employees</b>	
None	6
0-10	59
11-50	47
51-250	28

### 4.2. Descriptive Analysis

Table 2 shows the mean and standard deviation of respondents' answers. The scale mean for strategic orientation is 3.73. Thus, the majority of SMEs that participated in the survey have good practices of analysis dimension, defensive dimension, aggressive dimension, futurity dimension, proactiveness dimension and riskiness dimension and ultimately a good strategic orientation practice. In addition, the Cronbach's alpha coefficients for all the constructs used to measure

Table 2: Descriptive Statistics of Strategic Orientation

Dimensions	Questions	Mean	Standard deviation
Analysis dimension	Before making a key decision, my business completely analyses the situation	3.69	1.09
	In my business, the information systems are fundamental in making decisions.	3.84	1.03
	<b>Average</b>	<b>3.77</b>	<b>1.06</b>
	<b>Cronbach Alpha</b>	<b>0.76</b>	
Defensive dimension	My business makes significant modifications in its service processes.	3.89	0.93
	My business applies cost control systems to monitor its performance.	3.69	0.99
	<b>Average</b>	<b>3.79</b>	<b>0.96</b>
	<b>Cronbach Alpha</b>	<b>0.768</b>	
Aggressiveness dimension	My business sets prices below those of the competition.	3.54	1.09
	My business sacrifices benefits in order to gain market share.	3.67	1.06
	My business cuts prices to increase its market share.	3.75	1.08
	<b>Average</b>	<b>3.65</b>	<b>1.09</b>
<b>Cronbach Alpha</b>	<b>0.83</b>		
Futurity dimension	My business formally tracks important general market trends.	3.98	0.95
	My business makes forecasts about the key indicators of its activity.	3.67	1.08
	My business studies the way to achieve future competitive advantage.	3.57	1.03
	My business uses long-term criteria to assign its resources.	3.82	1.03
	<b>Average</b>	<b>3.76</b>	<b>1.02</b>
<b>Cronbach Alpha</b>	<b>0.80</b>		
Proactiveness dimension	My business constantly looks for new business opportunities.	3.91	1.03
	My business is always ahead of its competitors.	3.71	1.12
	My business is usually one of the first business to launch new services.	3.56	1.12
	My business constantly seeks new opportunities related to its present operations.	3.67	1.05
	<b>Average</b>	<b>3.71</b>	<b>1.08</b>
	<b>Cronbach Alpha</b>	<b>0.76</b>	
Riskiness dimension	My business's operations can generally be considered "low risk".	3.67	0.94
	My business chooses "tried-and-true" low-risk operations.	3.82	1.03
	My business tends to support projects with guaranteed returns.	3.53	1.10
	My business seems to make conservative decisions, and not major decisions.	3.67	1.10
	<b>Average</b>	<b>3.67</b>	<b>1.05</b>
<b>Cronbach Alpha</b>	<b>0.88</b>		
<b>Strategic orientation</b>		<b>3.73</b>	

strategic orientation are above 0.70 indicating a satisfactory internal consistency of measures.

Table 3 illustrates the results of sustainable performance based on financial, social and environmental indicators. The Cronbach's alpha coefficients for all the constructs are above 0.70

indicating a satisfactory internal consistency of measures.

#### 4.3. Correlation Analysis and Regression Analysis

Table 4 depicts a positive correlation between strategic orientation and sustainable performance,

**Table 3: Descriptive Statistics of Sustainable Performance**

Dimensions	Questions	Mean	Standard deviation
Financial performance	Our sales have increased during the last 3 years.	3.82	1.20
	Our market share has increased during the last 3 years.	3.92	1.11
	Our profit growth rate has increased during the last 3 years.	3.75	1.12
	<b>Average</b>	<b>3.81</b>	<b>1.14</b>
	<b>Cronbach Alpha</b>	<b>0.85</b>	
Environmental performance	My company has a comprehensive policy towards environmental friendly practice.	3.83	0.93
	My company has improved the use of eco-friendly materials.	3.77	0.93
	My company has increased use of recycled goods.	3.76	1.06
	Our processes reduce energy, waste and pollution.	3.75	1.01
	<b>Average</b>	<b>3.78</b>	<b>0.98</b>
	<b>Cronbach Alpha</b>	<b>0.80</b>	
Social performance	My company has developed a process to improve health, safety and complaint handling.	3.93	0.95
	The innovations introduced by my company have reduced rate of return and recall from our customers.	3.85	0.93
	There is improvement in safe and fair labour practices of my company.	3.87	1.01
	My company has developed a new social sustainability plan.	3.80	0.97
	Customer satisfaction with our product/services has increased during the last 3 years.	3.79	1.06
	The rate of return and recall from our customers has reduced during the last 3 years	3.97	1.06
	Staff turnover has reduced during the last 3 years.	3.84	1.01
	The employees' satisfaction has increased during the last 3 years.	3.75	0.99
	<b>Scale mean</b>	<b>3.85</b>	<b>1.00</b>
	<b>Cronbach Alpha</b>	<b>0.77</b>	
<b>Sustainable performance</b>		<b>3.81</b>	

**Table 4: Correlation between Strategic Orientation and Sustainable Performance**

Sustainable performance		Strategic orientation
Financial performance	Pearson Correlation	0.517
	Sig. (2-tailed)	0.000
Environmental performance	Pearson Correlation	0.614
	Sig. (2-tailed)	0.002
Social performance	Pearson Correlation	0.552
	Sig. (2-tailed)	0.000
N		140

Correlation is significant at the 0.05 level (2-tailed).

which is highlighted by financial performance ( $r=0.517$ ,  $p<0.05$ ) environmental performance ( $r=0.614$ ,  $p<0.05$ ), and social performance ( $r=0.552$ ,  $p<0.05$ ). Table 5

shows the results of the regression. The results ( $B=0.214$ ,  $p<0.05$ ) indicate a significant positive relationship between strategic orientation and financial

**Table 5: Linear Regression Results on Relationship between Strategic Orientation and Sustainable Performance**

Variable	Unstandardised	Standard			Sig.
	B	error	Beta	t-value	
Financial performance	0.870	0.314	0.214	2.770	0.006
Environmental performance	1.631	0.282	0.415	5.776	0.000
Social performance	0.544	0.200	0.219	2.712	0.008

SIG&lt;0.05.

performance. Furthermore, the results ( $B=0.415$ ,  $p<0.05$ ) and ( $B=0.219$ ,  $p<0.05$ ) indicate significant positive relationships between strategic orientation and environmental and social performance. Overall, the results show that strategic orientation positively impacts on the sustainable performance of SMEs.

## 5. DISCUSSION

The study examined the impact of strategic orientation on the sustainable performance of SMEs South Africa. The results of Pearson correlation showed significant positive relationships between strategic orientation and sustainable performance measures. The findings of this study are consistent with previous research that has observed a positive relationship between strategic orientation and sustainable performance of SMEs. Abiadun and Kida (2016) conducted a study of 238 SMEs, and found a positive and significant relationship between strategic orientation and firm performance. Jennifer *et al.* (2009) conclude that there is a significant positive relationship between strategic orientation and SME performance. The findings of this study are strengthened by research conducted by Laukkanen *et al.* (2013), which observed a positive relationship between strategic orientation and the performance of SMEs. The results of the study further concur with Hoq and Chauhan (2011), who conducted a study on SMEs in Bangladesh and found that strategic orientation is positively related to firm performance. Chandrakumara *et al.* (2011) further showed similar results that strategic orientation positively effects the performance of SMEs. The results of the study are supported by Fauzul *et al.* (2011) that there is a significant positive relationship between strategic orientation and performance.

## 6. CONCLUSION

The findings of the study indicated a significant positive relationship between strategic orientation and sustainable performance. The study has some policy contributions. The findings this study can help

individuals and businesses, government and non-governmental to understand how to create a sustainable organisation. SME owners need to be strategically oriented and acquire strategic orientation knowledge for themselves and their employees. Furthermore, SME owners need to be able to develop policies that support strategic orientation and sustainable performance. Policy makers in the area of entrepreneurial education in South Africa can use these findings to foster the strategic posture of potential and actual entrepreneurs. Agencies such as Small Business Development Agency (SEDA) and Small Enterprise Finance Agency (SEFA) should organise seminars to train and educate SME owners on strategic orientation and its implementation in their businesses. Universities should include strategic orientation as a course under entrepreneurship in order to provide a better understanding of this orientation to graduates. The study focused on SMEs in Polokwane. Therefore, care should be exercised in generalising the findings of the study to all SMEs in South Africa.

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