

ENTREPRENEURIAL ORIENTATION, INNOVATIVENESS CAPABILITY, MARKETING CAPABILITY, AND FIRM PERFORMANCE

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This paper examines impact of entrepreneurial orientation, innovativeness capability and marketing capability on firm performance. Test of 323 sample firms in HCMC shows that both innovativeness capability and marketing capability may improve the firm performance. Finally, entrepreneurial orientation is important to improvement in innovativeness capability and marketing capability of the firms although it doesn't affect directly the firm performance.

Introduction

As a WTO member when the globalization takes place at a high speed and competition becomes keener and keener, Vietnam faces both opportunities and challenges. One of the challenges is the fiercer competition in the domestic market. To survive and develop, local enterprises must enhance their competitiveness because it is the key to success. To build their competitive advantage, local enterprises must secure appropriate resources. Thus, one of urgent problems to local enterprises is how to identify, cultivate and develop dynamic capabilities needed for competition on the domestic market, and then, on the international one.

At present, many conceptual studies of dynamic capabilities in various fields aim at discovering factors that could produce dynamic resources for companies. However, there are not many reality-tested studies of these problems. And researchers still call for more studies of this aspect in order to

build an overall picture of factors producing dynamic capabilities for firms (Barney et al., 2001). To contribute to this effort, the paper tries to examine three factors of dynamic capabilities that can affect the firm performance. They are entrepreneurial orientation, marketing capability, and innovativeness capability. Precisely, the paper explores (1) impacts of the entrepreneurial orientation on marketing capability and innovativeness capability; and (2) impacts of marketing capability and innovativeness capability on the firm performance. Next sections of the paper are: (1) theoretical basis and research model; (2) methodology; (3) research results; and (4) Implications of the research and conclusion.

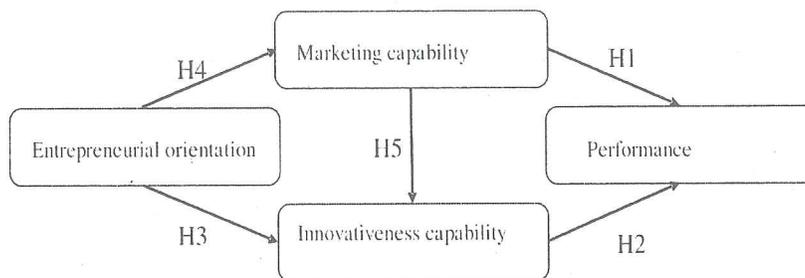
Theoretical basis and research model

Dynamic capability is defined as "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments" (Teece, D. J., G. Pisano, et al. 1997, 516). The dynamic capabilities are re-

sources that are Valuable, Rare, Inimitable and Nonsubstitutable, or VRIN for short (Eisenhardt & Martin 2000). The paper examines roles of three factors of the dynamic capabilities - entrepreneurial orientation, marketing capability, and innovativeness capability - to the firm performance. In the paper, the firm performance is defined as degree by which the firm achieves its objectives (Cyert & March 1992). The corporate business objectives reflect themselves in various aspects, such as profit, increases in market share, sales and other strategic objectives; and the firm performance is estimated based on degrees of achievement of these objectives (Hult et al. 2004).

The research model is as follows:

Figure 1: Research model



Marketing capability of the firm

The marketing capability of the firm shows itself in effort to watch and respond constantly to changes in the market, including customers, competitors and macroeconomic environment (Homburg et al., 2007). To do so, the firms should gather from various sources information about their customers, competitors and the macroeconomic environment; and interpret its meaning with a view to turning it into useful knowledge needed for decision making process (Nonaka & Takeuchi 1995).

The firms should keep building good relations with their partners, such as suppliers, distributors and authorities (Krasnikov & Jayachandran 2008). Thus, quality of relations between partners in transaction process, such as customers and brand names, the firm and suppliers, and the firm and distribution channels, etc. play an important role in estimate of corporate marketing capability. The quality of relations could be generally estimated through efforts of the firm to secure good

relations with trading partners (customers, suppliers, distributors, and related authorities). Establishing and maintaining high-quality relations are central to marketing operations of the firms, especially when competition moves from the one between firms to the one between marketing networks. With such features, the marketing capability comprises four components:

- Customer responsiveness: showing the firm's response to changes in customers' needs and expectations.
- Competitor responsiveness, or competitive reaction, shows observation by the firm of business operations of its competitors.
- Responsiveness to the change of the macro-environment, or adjustment to environment, reflects the firm's watch on changes in the macro-environment with a view to grasping business opportunities and barriers.
- Quality of relations with partners, or relationship quality, represents the degree of quality by which the firm achieves when building relations with customers, suppliers, distributors, and related authorities.

Theories of market orientation also point out that responsiveness to changes in customers, competitors and macro-environment is the key to success for the firm (valuable, e.g. Srivastava et al., 2001). Market responsiveness is an element of the corporate culture that is not always found in all firms (rare) and each firm work out its own way of market responsiveness based on its resources. This firm can't imitate the way of responding of others (inimitable). Failure to respond to changes in the market, however, means that the firm is to be eliminated (nonsubstitutable). Market responsiveness acquires all VRIN attributes, therefore, it can be seen as a factor of the corporate dynamic capabilities.

Previous studies prove that the market responsiveness affects both directly and indirectly the firm performance. For example, the study by Homburg et al. (2007) shows that customer and competitor responsiveness is in directly proportional to the firm performance. The research by Nguyen & Barrett (2006) shows that the market respon-

siveness (part of the market orientation) affects indirectly (through process of internalizing knowledge) the firm performance because the market responsiveness has a close relation with the process of gathering information from various possible sources, transforming and employing the information for the firm's decision-making target.

Similar to the market responsiveness, the relationship quality is connected with the firm performance (being rare and valuable). Realities show that the firm profit comes mainly from existing customers, but not all firms could realize this (being inimitable and nonsubstitutable). Research by Nguyen et al. (2007), for example, shows that the relationship quality impacts directly the firm performance. Thus, the relationship quality is a factor that produces the firm dynamic capability because it meets the VRIN criteria. In other words, the marketing capability is a factor that creates the firm dynamic capability. And thus we come to the hypothesis H1: there is a positive relation between marketing capability and firm performance.

Innovativeness capability and entrepreneurial orientation

Entrepreneurial orientation is a widely-researched factor (Keh et al. 2006 for example) and there are various views on the entrepreneurial orientation. Based on opinion by Hult et al. (2006) the entrepreneurial orientation in this paper includes two principal components: risk-taking attitude and proactiveness in doing business. The risk-taking ability shows commitment by businesspersons when investing a big resource in business plans with high profitability, and the proactiveness reflects the ability to respond to market demand.

The innovativeness capability is an instrument for achieving innovations and inventions. And it represents desire of the firm to get rid of inappropriate practices and habit and pursue innovative ideas needed for competition. This may be a reaction to changes in external or internal environments, or a pioneering act that directs the market. When the business climate changes, the firm should generate changes based on the innovativeness capability to acquire competitive advantages and improve the business performance (Hult et al., 2004).

The firm with high entrepreneurial orientation always keeps a close watch on the market to discover opportunities or business barriers (Keh et al., 2007). This helps improve the market responsiveness of the firm. In other words, the firm with high entrepreneurial orientation has high market responsiveness. In addition, firms with high entrepreneurial orientation always take a proactive and pioneering approach in efforts to work out and implement new ideas, products, or production process in order to either deal with external and internal environment, or win a pioneering advantage. Thus, the entrepreneurial orientation enhances the corporate innovativeness capability. Both factors are valuable, rare, nonsubstitutable and inimitable (VRIN criteria), and therefore we have:

- Hypothesis H2: there is a positive relation between innovativeness capability and firm performance.

- Hypothesis H3: there is a positive relation between entrepreneurial orientation and corporate innovativeness capability.

Many studies demonstrate that the entrepreneurial orientation has a close relation with marketing capability of the firm. For example, Keh et al. (2007) shows that the entrepreneurial orientation impacts directly ability to gather and employ information. Moreover, firms with high entrepreneurial orientation always watch the market to become pioneers in serving the customers and responding to competitors and macro-environment (Alvarez & Busenitz 2001). This helps improve the quality of relationship between customers and trading partners. Thus, we reach the hypothesis H4: there is a positive relation between entrepreneurial orientation and marketing capability of the firm.

The marketing capability is a form of dynamic capability that helps the firm achieve its objectives. The marketing capability helps the firm carry out marketing programs more effectively: responding quickly to customers' needs, competitors and macro-environment, and creating relations of high quality with business partners. This capability will help the firm grasp changes in the market, thereby adjusting its goods and services to these changes. Thus we have the hypothesis H5: there is a positive relation between marketing capability and innovativeness capability.

Methodology

This research comprises an initial research and official quantitative one. Unit for analysis is a firm. Targets for the research are members of directorate of various HCMC-based firms. The initial research includes direct interviews with 96 firms. Probing interviews with 11 firms aimed at adjusting terms. Objective of the initial research is to form a rough estimate of scales of concepts under consideration. The scales are evaluated initially through the Cronbach's alpha coefficient and the EFA. Results show that all scales meet requirements and they are also used in official research.

The official research is carried out through direct interview and questionnaires sent to firms after they agree to answer them. The research aims at testing measurement model, theoretical model and hypotheses. Scales are tested by coefficient of reliability and CFA. Size of convenient sample in use is $n = 323$. The samples comprise 163 (50.5%) firms employing less than 100 laborers, and 160 (49.5%) firms employing more than 100 laborers. Regarding the ownership, the samples comprise 33 state-owned firms (10.2%), 130 joint stock companies (40.2%), 131 limited companies (40.6%), and 29 private businesses (9%).

Measurement: In this research, there are two unidirectional concepts (firm performance and innovativeness capability) and two multidirectional concepts (marketing capability and entrepreneurial orientation). The firm performance is measured by five observed variables and the innovativeness capability by three observed ones (Keh et al., 2007). The marketing capability is measured by 28 observed variables according to Homburg et al. (2007), comprising customer responsiveness (eight variables), competitor responsiveness (nine), adjustment to the environment (seven), and relationship quality (four). Finally, the entrepreneurial orientation is measured by six observed variables (Keh et al., 2007): proactiveness (three) and risk-taking ability (three). All scales take a form of seven-point Likert scale that varies from 1 (strongly disagree) to 7 (strongly agree).

Research result

a. Evaluating the scales by CFA:

- Marketing capability scale: CFA results show that the model is compatible with market data:

$\chi^2[334] = 825.92$ ($p = .000$); GFI = .847; CFI = .927; and RMSEA = .068. The result also show that CFA weights of all observed variables are greater than .50 (the smallest is .64), affirming unidimensionality and convergent validity of components of the marketing capability scale. Next, correlation coefficient of components of the concept of marketing capability is smaller than the unit. Thus, these components have their own discriminant validity in the same concept.

- Entrepreneurial orientation scale: CFA results show that the model reaches the compatibility: $\chi^2[8] = 20.69$ ($p = .008$); GFI = .979; CFI = .985; and RMSEA = .070. The CFA-weight of all observed variables are great (the smallest is .58), confirming the unidimensionality and convergent validity of the two components of the entrepreneurial orientation scale. The correlation coefficient between two components of proactiveness and risk-taking ability is smaller than a unit, confirming their discriminant validity.

- Critical model: Item-total correlation is used for the scale of entrepreneurial orientation and marketing capability in the critical model. CFA results show that the model reaches the compatibility: $\chi^2[70] = 159.72$ ($p = .000$); GFI = .933; CFI = .961; and RMSEA = .063. The results also show that the CFA weight of all observed variables are great (the smallest is .56), confirming the unidimensionality and convergent validity of the components of the entrepreneurial orientation and marketing capability scales. Next, the results show that correlation coefficient of concepts is smaller than the unit, confirming the discriminant validity among concepts.

- Composite reliability and variance extracted: The results show that most concepts of unidimensionality and components of multidimensionality concepts meet requirements in terms of composite reliability ($\geq .70$) and variance extracted ($\geq .50$), except for three concepts – customer responsiveness ($\rho_{vc} = .46$), relationship quality ($\rho_{vc} = .44$), and innovativeness capability ($\rho_{vc} = .46$) – that have small variances extracted. However, their values are still acceptable.

Test of theoretical model and hypotheses by SEM

Similar to the test of CFA model, the Item-Total correlation is used for components of the two

multidimensional scales (entrepreneurial orientation and marketing capability). Checking distribution of item-total correlation coefficients show that they are not much different from normal distribution, therefore the ML estimation is also used for estimating parameters in the SEM model. The SEM results show that this model is compatible with market data: $\chi^2[34] = 160.39$ ($p = .000$); GFI = .933; CFI = .961; and RMSEA = .063. It's worth noting that the Heywood phenomenon didn't take place when estimating CFA and SEM models and all standards errors are smaller than |2.58|.

Table 1: Regression coefficient of relations (standardized)

Hypothesis	Relation between concept	Estimation (standard error)	t-value	p-value
H1	Marketing capability → Performance	0.39	4.37	0.000
H2	Innovativeness capability → Performance	0.27	2.89	0.004
H3	Entrepreneurial orientation → Innovativeness capability	0.56	3.23	0.001
H4	Entrepreneurial orientation → Marketing capability	0.67	4.99	0.000
H5	Marketing capability → Innovativeness capability	0.30	2.04	0.041

Estimation results (standardized, Table 1) show that relations according to hypotheses all have statistical meanings ($p < 5\%$), that is, all hypotheses (from H1 to H5) about relations concepts included in the model are acceptable. The results also prove that, of factors that create dynamic capabilities for the firm (entrepreneurial orientation, marketing capability, and innovativeness capability), the marketing capability plays the most important role in changes in the firm performance ($\beta_{total} = .47$). The entrepreneurial orientation

doesn't produce direct impact on the performance but it affects greatly the marketing capability and innovativeness capability, therefore, its total impact (by indirect impact) on the performance is considerable ($\gamma_{total} = \gamma_{indirect} = .47$). Next, the innovativeness capability also affects remarkably the performance ($\beta_{total} = \beta_{direct} = .27$).

Implications and conclusion

The research results can help companies and trading authorities understand more exactly the role of dynamic capabilities and the firm performance and then, work out measures to foster and develop corporate dynamic capabilities thereby creating a competitive advantage when integrating into the world market. Benefits from the research are as follows:

Firstly, the results show that marketing capability produces forward effects on the firm performance and innovativeness capability. The latter, in its turn, has forward effects on the firm performance. In other words, the marketing capability affects both directly and indirectly the firm performance and it is the biggest impact on the performance. This conclusion affirms the role of the marketing capability and innovative capability on the corporate success and development. To improve the competitiveness, therefore, the companies should cultivate and develop the marketing capability by investing more intensively in marketing knowledge and skills, and encourage the innovativeness capability.

Secondly, the result proves that the entrepreneurial orientation impacts the innovativeness and marketing capabilities and affirms the role of the entrepreneurial orientation in the firm. Although the entrepreneurial orientation only affects indirectly the firm performance (through marketing and innovativeness capabilities), the sum of these impacts equals the one by the marketing capability on the firm performance. The role of the entrepreneurial orientation is very important because it helps improve other dynamic capabilities, such as the marketing and innovative ones. To enhance the competitiveness, the firms should pay full attention to the entrepreneurial orientation by hunting, recruiting and training managers with

high entrepreneurial orientation.

Results of the research are also meaningful to trading authorities in HCMC, such as Departments of Technology, Industry, and Commerce and associations of businesspersons and managers. These organizations can use this research and its results to carry out follow-up researches within their own programs. For example, they can use features of dynamic capabilities and way of carrying out this research to estimate the corporate competitiveness, and design and implement their researches on specific industries. By doing so, the organizations can draw intangible factors that creates the corporate competitiveness. Combination of intangible and tangible factors can serve as a basis for carrying out annual estimation and working out appropriate programs to support the companies.

This research still has its own shortcomings. Firstly, it only examines HCMC-based companies. Secondly, it only carries out general tests and fails to explore individual industries or lines of products. These industries may differ from one another in the role of dynamic capabilities in the competitiveness and business performance. Thus, the follow-up researches should test the model in different provinces and industries. Finally, this research only examines three principal dynamic capabilities. The follow-up ones should explore other capabilities in order to build a generalized model of dynamic capabilities that can create and improve the corporate competitiveness and performance ■

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