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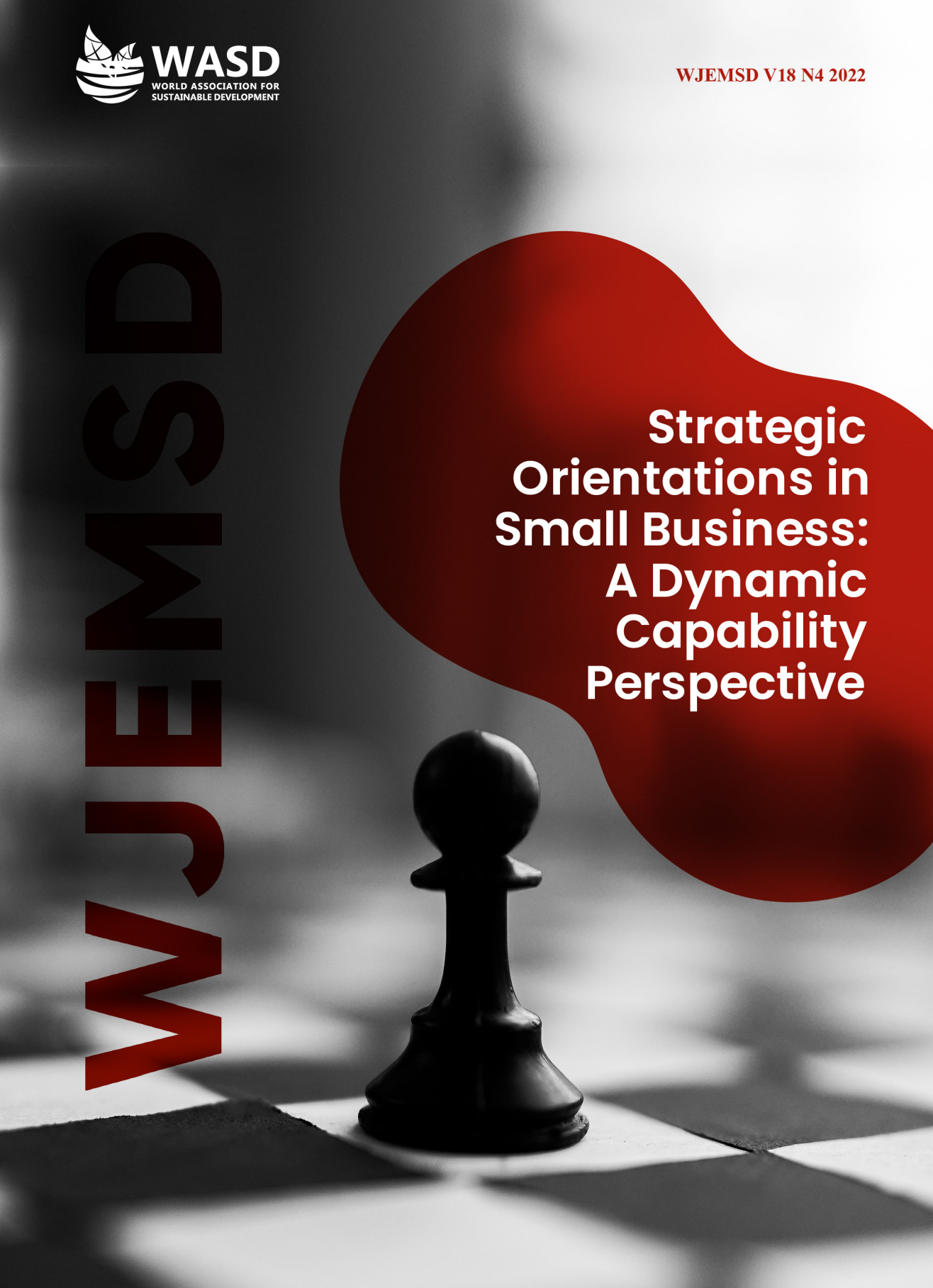

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RESEARCH PAPER

Strategic Orientations in Small Business: A Dynamic Capability Perspective

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ABSTRACT

PURPOSE: The main issue investigated in this empirical study is the relationship between strategic orientations as well as their role in impacting firm performance during economic instability. The respective moderating and mediating roles of dynamic capabilities and competitive advantage are also explored.

METHOD: This quantitative study tested hypotheses of the 168 usable responses gathered from small businesses in the Tripoli area of Libya.

FINDINGS: The findings demonstrate the significance of strategic orientations in boosting the performance of Libyan small firms and underlined the moderating role of dynamic capabilities as mediated by competitive advantage.

PRACTICAL IMPLICATIONS: The study suggests that entrepreneurs in small business firms should utilise a mix of factors from entrepreneurial, learning, and market orientations through dynamic capabilities that improve performance, sometimes via competitive advantage.

ORIGINALITY/VALUE: This study is unique in extending the present theoretical knowledge of dynamic capabilities and their moderating role on the relationships between strategic orientations, competitive advantage, and firm performance.

KEYWORDS: *Dynamic capabilities; strategic orientations; entrepreneurial orientation; learning orientation; market orientation; competitive advantage*

INTRODUCTION

Strategic orientations are competitive strategies that help firms to adapt to the environment for a more favourable alignment that drives performance (Grinstein, 2008; Morgan and Strong, 2003). Small

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business entrepreneurship has been severely affected by the current economic crisis sweeping the globe. It is, therefore, well-timed to develop a more refined understanding of how the crisis in North Africa impacts business strategy and performance and *vice versa*. The current study takes place in Libya where things have quickly escalated into civil war, deepened by the current COVID-19 pandemic (Aljuwaiber, 2021; reliefweb, 2020). To address economic instability and crisis, firms configure their resources and dynamic capabilities (DC) to devise strategic orientations (SO) to adapt to the fast-changing environment.

Research is limited when it comes to how manifold strategic orientations simultaneously drive competitive advantage (CA) and performance, and seems to focus on more stable conditions (Aloulou, 2019; Hakala and Kohtamäki, 2011). There are numerous calls for the exploration of various moderators on the association between SO and firm outcomes (Ferreira *et al*., 2020; Lumpkin and Dess, 2001). Scholars have suggested the integration of entrepreneurial orientation (EO), learning orientation (LO), and market orientation (MO) contribute to competitive advantage and performance but are contingent upon internal or external factors (Lumpkin and Dess, 2001; Rauch *et al*., 2009). Because dynamic capabilities are an essential ingredient in challenging times and entrepreneurial firms need them to reconfigure competencies in a changing environment, the current study proposes DC as a possible moderator.

Firms develop DC to sustain CA to tackle new challenges by transforming resources. Therefore, the moderating role of DC was introduced in the current study to establish a specific environment that could impact proposed relationships. Entrepreneurial and market orientations engage explorative and exploitative capabilities, respectively, whereas learning orientation facilitates change (Hult *et al*., 2003; Morgan and Strong, 1998). Schumpeter (1934) introduced SO as a part of entrepreneurship for pursuing growth; since then, ample research has examined SO, with various outcomes (Baker and Sinkula, 2009; Buli, 2017; Gomes and Wojahn, 2017; Zahra *et al*., 2006). Therefore, this study aspired to reach the following three central objectives:

1) to examine the relationship between strategic orientations and their role in competitive advantage, and firm performance;
2) to determine the mediating effect of CA on the relationship between SO and FP;
3) to evaluate the role dynamic capabilities play as moderator in the relationship between SO and both CA and FP.

LITERATURE REVIEW

Theoretical Foundation

The research framework of the current study is underpinned by the resource-based view (RBV), knowledge-based view (KBV), and dynamic capabilities view (DCV). This approach is consistent with dynamic capability literature that calls for the integration of theories (Ambrosini *et al*., 2009; Schilke *et al*., 2018).

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The RBV assumes that a firm has unique resources, the tangible and intangible assets firms use to conceive of and implement their strategies (Barney, 1991). However, to understand how these resources generate competitive advantage, KBV studies knowledge assets as resources that create value. Second, DCV analyses the transformation of strategic capabilities to manage business environment changes. In line with KBV, it is important to be able to combine resources into tacit knowledge that can be a source of competitive advantage (Penrose, 1959); the harder it is to imitate these capabilities, the greater are the chances of benefitting from knowledge assets (Teece, 2004). The DCV can be seen as a dynamic evolution of the RBV (Leiblein, 2011). DCV highlights the proactive nature of DC and connects them to entrepreneurial attitudes that make them path-dependent and generated through learning, which creates sustainable competitive advantage. Managers instigate change that includes the recombination of assets and so must be innovative and risk-taking while adopting proactive steps that are vital for firm revival.

Strategic Orientations

Entrepreneurial Orientation (EO)

EO is concerned with the strategy-making processes that give businesses a footing for entrepreneurial decisions and actions (Rauch *et al*., 2009); these are considered a firm's intangible resources and capability. It can be anticipated that a more innovative, proactive, and risk-taking firm tends to outperform other firms, with lower EO dimensions in a competitive situation (Miller, 1983; Zehir *et al*., 2015). Similarly, past literature also revealed the more intense positive performance effect of EO during various types of disruptions and crises (Al Issa, 2020; Hughes and Morgan, 2007).

Learning Orientation

Learning orientation (LO), is the discovery of new information or development of new knowledge to influence organisational behaviour (Slater and Narver, 1995). LO is an organisational culture that promotes innovativeness because it shows the ability to learn and develop new knowledge to facilitate change (Hult *et al*., 2003). First, LO plays a strategic role in the renewal of a firm's business competitive strategy (Lumpkin and Lichtenstein, 2005). Second, it provides a strategic competitive shield between firms and their environment (Day, 1994). Third, it is forward-thinking and offers ways to minimise major environmental impact in a competitive market (Day, 1994). Fourth, learning orientation can be helpful in recognising new market opportunities (Lumpkin and Lichtenstein, 2005). Tacit knowledge could lead to a sustainable competitive advantage because it is not easily transferable or reproducible (Weber and Weber, 2007). There are mixed findings about the association between LO and both competitive advantage and performance (Gomes and Wojahn, 2017; Ratnawati *et al*., 2018).

Market Orientation

Market oriented firms (MO) address organisation-wide concerns for customer needs and competitor activities to take advantage of opportunities and avoid threats (Morgan and Strong, 1998). This kind

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of firm can surpass its competitors because it can create long term outstanding economic value for customers, as delineated in the theory of sustainable competitive advantage (Barney, 1991). Past studies have also shown a strong relationship between MO and performance (Rose and Shoham, 2002; Tajeddini and Ratten, 2020). Given the discussion above, the following hypotheses are put forth:

H1a: MO is related to LO
H1b: MO is related to EO
H1c: LO is related to EO
H2: SO is related to CA
    H2a: MO is related to CA
    H2b: EO is related to CA
    H2c: LO is related to CA
H3: SO is related to FP
    H3a: MO is related to FP
    H3b: EO is related to FP
    H3c: LO is related to FP
H4a: EO will mediate the effect of MO on CA
H4b: EO will mediate the effect of LO on CA
H4c: EO will mediate the effect of MO on FP
H4d: EO will mediate the effect of LO on FP

The Potential Mediator: Competitive Advantage

Much strategy research uses firm performance and competitive advantage indiscriminately (Powell, 2002; Strandskov, 2006). However, the two concepts have also been studied as distinct constructs (Durand, 2002; Powell, 2002). Competitive advantage signifies economic value creation by firms more than rivals while firm performance is involved with the value firms seize (Peteraf and Barney, 2003). It is argued that competitive advantage leads to superior firm performance but this is not guaranteed (Peteraf and Barney, 2003; Powell, 2001, 2002) and that firm performance can be achieved without competitive advantage (Ma, 2000; Sigalas and Papadakis, 2018). The fact remains that there is still a shortage in the number of studies that explore this relationship, especially in developing countries. Therefore, the following hypotheses are put forth:

H5: CA will mediate the effect of SO on FP
    H5a: CA will mediate the effect of MO on FP
    H5b: CA will mediate the effect of EO on FP
    H5b: CA will mediate the effect of LO on FP

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Dynamic Capabilities as Moderator

Entrepreneurial firms need dynamic capabilities to reconfigure competencies in a changing environment during economic instability. These firms need to manifest timely responsiveness and flexible product innovation, coupled with special management capabilities that efficiently redeploy internal and external competencies. However, research investigating the relationship between DC and firm performance yielded mixed results (Arend and Bromiley, 2009; Hernández-Linares *et al*., 2021; Teece *et al*., 1997) suggesting that other factors must be present in the model.

Likewise, past research showed that MO and EO are related to performance but examined together, EO effects were either lost or were still there (Baker and Sinkula, 2009; Matsuno *et al*., 2002). In strategy, DC has been suggested as a moderator (Coen and Maritan, 2011). Assertions that EO, MO, and LO are not universally applicable when combined, guide research to concentrate on possible contingent factors such as dynamic capabilities; this is the ability to integrate internal and external competencies to a changing environment. It appears that limited studies have explored the moderating effect of variables that exist inside the firm (Morgan and Strong, 1998; Wales *et al*., 2013). From the above discussion, the following hypotheses were formulated:

H6: DC will moderate the effect of SO on CA
- H6a: DC will moderate the effect of MO on CA
- H6b: DC will moderate the effect of EO on CA
- H6c: DC will moderate the effect of LO on CA

H7: DC will moderate the effect of SO on FP
- H7a: DC will moderate the effect of MO on FP
- H7b: DC will moderate the effect of EO on FP
- H7c: DC will moderate the effect of LO on FP

METHOD

The Population and Sample

The current crises in Libya have made the context of the study very real over the past few years, with civil unrest and the COVID-19 pandemic resulting in severe economic instability. Until recently, Libyan entrepreneurs were considered opportunity driven. However, this has most likely changed with the ongoing civil unrest following the events of 2011. These types of business owners conceivably spend less time analysing and strategising and are inclined to opt for the more practical tactics that yield immediate performance.

Data were collected by employing a simple random survey of small businesses in the Tripolitania region of Libya. A list of 1,200 small businesses was obtained from the Libyan Union of Chambers of Commerce, Industry, and Agriculture. The list was shortened to 500 (<25 employees), consistent with Rauch *et al*. (2009) who recommended verifying EO-FP relationships in small business.

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The result was a 33.6% response rate, with 168 usable responses (Saunders *et al*., 2009). Moreover, *a priori* G*Power analysis computed the minimum sample size to be 89 to detect an effective size of 0.15, with 0.95 power at the alpha level of 0.05 (McCrum-Gardner, 2010).

The sample was made up of trades (44.6%, n = 75), production (18.5%, n = 31), and services (36.9%, n = 62). A total of 48.20% (n = 81) were micro-companies that had 1-5 employees, and 51.8% (n = 87) were small companies with 6-25 employees. Most respondents were males (71.4%, n = 120) who mostly used their personal savings (51.2%, n = 86) followed by partnership capital (24.4%, n = 41). Most of the entrepreneurs were habitual with over 6 years in business (75%, n = 126) while the remainder were in a serious developmental phase classed as novice entrepreneurs (25%, n = 42) (Hmieleski *et al*., 2013).

Measures

All constructs were measured using the standard five-point Likert-like scale ranging from "strongly disagree" to "strongly agree", unless otherwise mentioned.

Entrepreneurial orientation: This measure had nine items and was adopted from Hughes and Morgan (2007) with an internal consistency value of 0.845. EO was operationalised as a multi-dimensional construct, made up of three first-order subordinate dimensions, namely risk-taking, innovativeness, and proactiveness (Lumpkin and Dess, 1996).

Learning orientation: This was measured using an adapted scale from Hult *et al*. (2003) employing four items that had an internal consistency value of 0.845. LO is operationalised as the process in which a firm accumulates and develops new knowledge that has the potential to influence the firm's behaviour.

Market orientation: A ten-item single dimension scale was adopted from Deshpandé and Farley (1998) and had an internal consistency of 0.816. MO was operationalised as a culture of prioritising customer value with an emphasis on responsiveness to market information (Narver and Slater, 1990).

Dynamic capabilities: This construct was measured using four items developed by Wu and Wang (2007) that had an internal consistency value of 0.845. DC was operationalised as "the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments" (Teece *et al*., 1997, p.519).

Competitive advantage: The measure was adopted from Sigalas *et al*. (2013), and had four items that had an internal consistency value of 0.893. CA was operationalised as firm competitiveness; this is the creation of more economic value compared to the firm's competitors (Peteraf and Barney, 2003).

Firm performance: This measure was adopted from Sigalas *et al*. (2015) and had an internal consistency value of 0.907. FP has attributes of the balanced scorecard's four perspectives, emphasising that CA and FP are not functionally the same.

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RESULTS

SPSS v20 and structural equation modelling by means of partial least square (PLS-SEM) were used to analyse all statistical procedures in the present study. The means and standard deviations are displayed in Table 1 in addition to Pearson correlations of the research variables. According to the results, correlations were significant between most variables. Also, to reduce measurement error, a pilot test was conducted on 40 respondents and the translation of the questionnaire was adjusted accordingly. All assumptions and measurement model evaluations for using PLS-SEM were observed. For common method variance, Harman's single factor test did not load to a single factor that accounted for the variance of 37.4%; this was below the cut-off value of 50%, thereby indicating the data's freedom from bias.

Table 1: Means, Standard Deviation, and Correlations Matrix

		Mean	SD	1	2	3	4	5	6	7
1	Gender	1.291	0.456							
2	Years in Business	1.756	0.431	0.365**						
3	MO	4.281	0.321	0.021	-0.284					
4	EO	4.089	0.486	0.115	0.061	0.536**				
5	LO	4.275	0.565	0	0.05	0.427**	0.712**			
6	CA	3.769	0.814	-0.011	0.167*	0.346**	0.622**	0.475**		
7	FP	4.169	0.685	-0.02	0.121	0.491**	0.594**	0.549**	0.686**	
8	DC	4.15	0.596	-0.047	0.085	0.008	0	-0.045	0.072	0.003

Note: ***Significant at .01 (2-tailed), **significant at .05 (2-tailed), *significant at .10 (2-tailed)
Source: Constructed by author

Measurement Model Assessment

Factor analysis loadings were verified for the research scales' items. The values of standardised factor loading ranged between 0.437 and 0.908. The average variance extracted (AVE) and composite reliability (CR) were processed to test for convergent validity and internal consistency (Fornell and Larcker, 1981). Convergent validity was established via higher AVE, but the lower AVE's (0.373 for SO, 0.470 for MO, and 0.410 for EO) were tolerated because composite reliabilities were above 0.6 (Fornell and Larcker, 1981). Discriminant validity was established using the Heterotrait-monotrait ratio (HTMT), as shown in Table 2.

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Table 2: Discriminant Validity (HTMT)

	CA	EO	FP	LO	MO
CA					
EO	0.757				
FP	0.861	0.727			
LO	0.489	0.738	0.588		
MO	0.653	0.896	0.785	0.67	

Source: Constructed by author

Structural Model Assessment

In this section, the researcher assessed the structural model through PLS-SEM's bootstrapping output at 5,000 sub-samples, showing mixed results for the hypotheses tested, as displayed in Table 3 and Figure 1. PLS-SEM output revealed the R^2 value for firm performance at 0.509 (R^2 adjusted 0.506) and 0.438 (R^2 adjusted 0.428) for competitive advantage. Next, the effect sizes (f^2) were assessed; these were 0.226 for SO and 0.317 for EO with FP, while it was 0.086 (0.018), 0.002 (0.172), and 0.031 (0.00) for MO, EO, and LO with FP (CA), respectively, with f^2 values of 0.02, 0.15, and 0.35 indicating small, medium, or large effects (Hair *et al*., 2017). Then, the Q^2 values were estimated at 0.420 (omission distance D = 5) for FP and 0.247 for CA, suggesting that the model had large predictive relevance for the constructs.

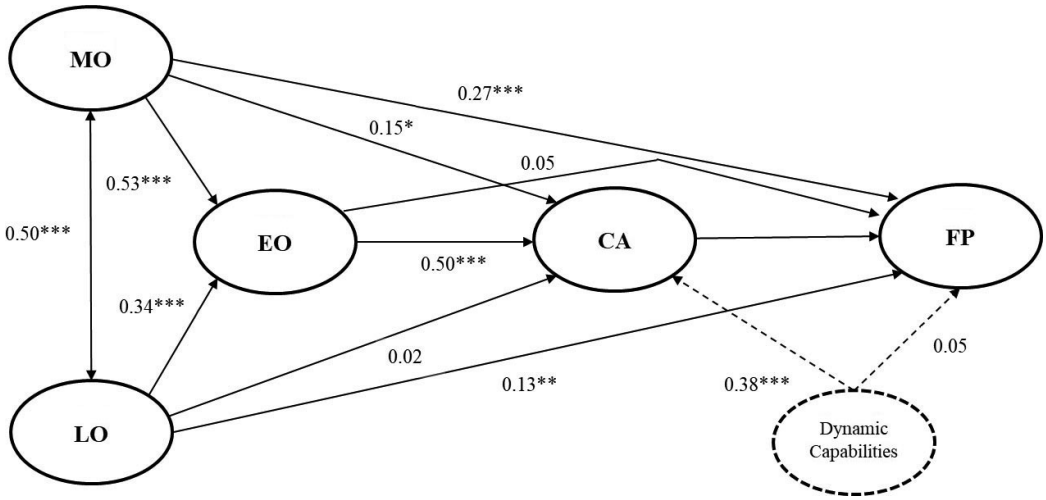

Figure 1: Structural Model Estimates

Note: ***Significant at .01 (2-tailed), **significant at .05 (2-tailed), *significant at .10 (2-tailed)

Source: Constructed by author

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Table 3: Structural Estimates

Hypothesis	Standard Beta	t-statistics	P Values	Decision
H1a. MO → LO	0.497	7.429***	0.000	Accept
H1b. MO → EO	0.531	7.923***	0.000	Accept
H1c. LO → EO	0.338	5.347***	0.000	Accept
H2. SO → CA	0.611	12.285***	0.000	Accept
H2a. MO → CA	0.147	1.737*	0.082	Accept
H2b. EO → CA	0.498	5.042***	0.000	Accept
H2c. LO → CA	0.018	0.220	0.826	Reject
H3. SO → FP	0.380	6.063***	0.000	Accept
H3a. MO → FP	0.271	3.083***	0.002	Accept
H3b. EO → FP	0.045	0.565	0.572	Reject
H3c. LO → FP	0.127	1.950*	0.051	Accept
H4a. MO → EO → CA	0.265	4.618***	0.000	Accept
H4b. LO → EO → CA	0.168	3.551***	0.000	Accept
H4c. MO → EO → FP	0.024	0.561	0.575	Reject
H4d. LO → EO → FP	0.015	0.543	0.587	Reject
H5. SO → CA → FP	0.291	6.503***	0.000	Accept
H5a. MO → CA → FP	0.074	1.719*	0.086	Accept
H5b. EO → CA → FP	0.252	3.970***	0.000	Accept
H5c. LO → CA → FP	0.009	0.220	0.826	Reject
H6. SO*DC → CA	0.484	1.799*	0.072	Accept
H6a. MO*DC → CA	0.432	4.020***	0.000	Accept
H6b. EO*DC → CA	0.411	1.076	0.282	Reject
H6c. LO*DC → CA	0.318	1.589	0.112	Reject
H7. SO*DC → FP	0.048	0.248	0.804	Reject
H7a. MO*DC → FP	-0.082	0.615	0.538	Reject
H7b. EO*DC → FP	0.102	0.554	0.579	Reject
H7c. LO*DC → FP	-0.047	0.333	0.739	Reject

Note: ***Significant at 0.01 (2-tailed), **significant at 0.05 (2-tailed), *significant at 0.10 (2-tailed)
Source: Constructed by author

DISCUSSION

Table 3 shows many positive correlations as predicted; however, some hypotheses were rejected. The associations between LO and CA, and between EO and FP, were not supported. Entrepreneurs in small businesses may feel that they do not possess the tacit knowledge because of their smaller size, lack of experience in business, and the hectic and constantly changing environment in crisis (Weber and Weber, 2007). EO had no effect on FP; this might suggest that EO may be quite a wasteful strategic

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posture since it needs a considerable investment of resources to develop and maintain (Baker and Sinkula, 2009; Covin and Slevin, 1991). An explanation is that EO, LO, and MO predicted, or they complemented each other (Baker and Sinkula, 2009). The results show that strategic orientations need to be managed in a way that is not wasteful in discovering their competitive strategy.

The second objective attempted to find out the mediating effect of CA on the SO-FP association. The corresponding hypothesis, H5, and its sub-hypotheses were supported; this was in line with previous studies (Kiyabo and Isaga, 2020; Peteraf and Barney, 2003). The only results rejected were the LO-CA association; therefore, the hypothesised CA mediating effect on the LO-FP association was also rejected. This is likely because when firms displaying EO are in uncertainty, they tend to fuse their innovative, proactive, and risk-taking stance with learning orientation to promote the creation of economic values more than rivals (Wang, 2008). These results also demonstrate how sometimes a competitive advantage is what a firm needs to accomplish before it can attain superior performance, especially at times of crisis such as currently experienced by small businesses in Libya.

The third objective of the study was to determine the moderating effect of DC on the relationship between SO and both CA and FP. The corresponding hypotheses, H6 and H7, were mostly not supported, although DC was found to moderate the relationship between total SO and CA. This asserts our understanding that DC can help firms handle the rapidly evolving environment by using capabilities to adapt and exploit opportunities.

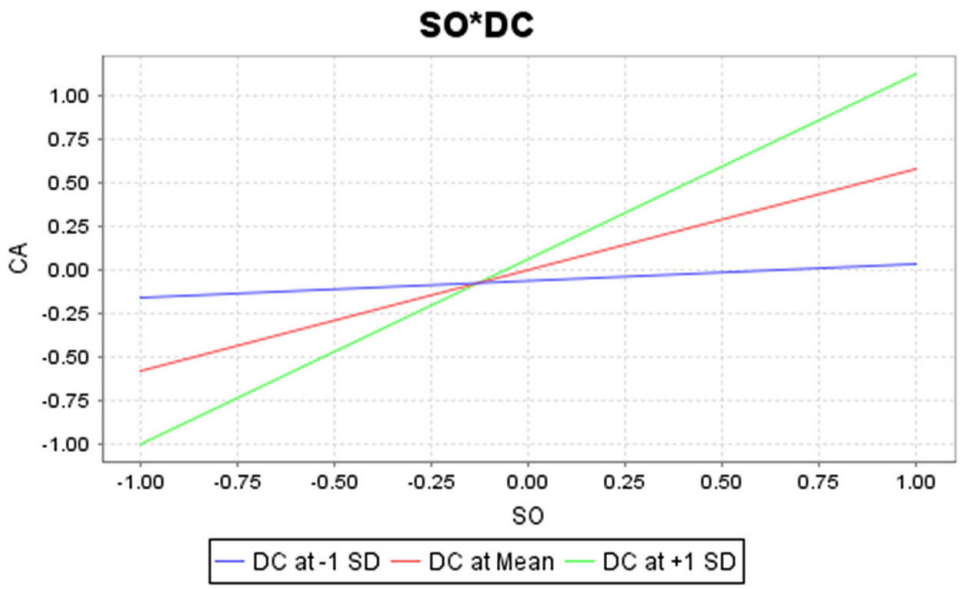

Figure 2: Interaction Effect of Dynamic Capabilities, Strategic Orientations, and Competitive Advantage

Source: Constructed by author

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Dynamic capabilities did not moderate the relationship between EO and CA or LO and CA, possibly because DC acts on the total SO as an aggregate multi-dimensional construct regarding its relationship with CA. However, it was not possible to observe moderating effects when investigated for individual strategic orientations. An exception was observed in the moderating effect of DC on the MO-CA association. The market-oriented firm understands changes in customer needs and responds to competitor moves in a timely manner, as evident in past research (Lettice *et al*., 2014; Pisano, 1994).

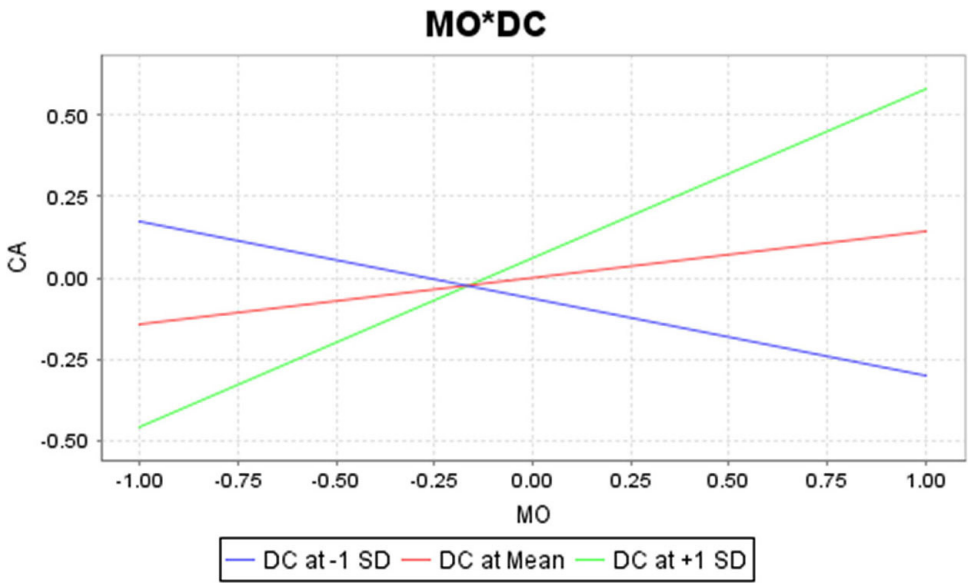

Figure 3: Interaction Effect of Dynamic Capabilities, Market Orientation, and Competitive Advantage

Source: Constructed by author

Figure 2 shows that higher DC levels entail a stronger relationship between SO and CA, while lower levels of DC lead to a weaker relationship between SO and CA. Figure 3 shows that higher DC levels call for a stronger link between MO and CA, while lower levels of DC mean a weaker connection between MO and CA. An explanation might be that during an economic crisis, firms might restrict their strategic options and dedicate resources to less risky pursuits instead of using up considerable resources on EO and LO. This explains the hidden moderating effect of DC, also consistent with the rigidity view (Al Issa, 2020; Staw *et al*., 1981). In line with past research (Teece *et al*., 1997), the moderating role by DC on the SO-FP association was not supported, perhaps due to other factors such as munificence, industrial complexity, and firms' size, age, or structure (Lumpkin and Dess, 2001). However, unless capabilities are heterogeneous, they cannot be a source of competitive advantage (Barney, 1991).

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CONCLUSIONS

Implications

Implications are established in this research from theoretical and practical contributions. The main contribution pertains to exploring performance during crises, which are limited. Further, most studies focused on established and larger businesses even though new and smaller ventures have a great need for unique and dynamic capabilities to survive and to successfully adapt for growth (Zahra *et al*., 2006). Also, the focus on firm-level variables and the close implication attached to the industry-level pragmatism makes this research practically useful; this is because the interpretation of the research findings is simplified and renders direct use to practitioners. Strategic orientations provide information about direct actions when allocating resources. Policy-makers and entrepreneurs are advised to focus resources on developing dynamic capabilities and entrepreneurial elements of their strategy (Covin and Slevin, 1989) with a balance between EO, LO, and MO during crises because strategic orientations compete in certain situations.

Limitations and Direction for Future Research

A limitation in the present research is related to the cross-sectional nature of the small data sample, focusing on small businesses. Therefore, the findings should be treated as indicative rather than conclusive. Future studies should examine additional moderators such as strategic leadership and how it relates to firm performance. Future research may benefit from exploring DCs as a multi-dimensional moderator construct to fully appreciate dimensional effects (Ambrosini *et al*., 2009). A larger sample frame should also be extended to cover the whole of Libya, and it would also be beneficial to compare findings among neighbouring countries such as Tunisia and Algeria.

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