



MARKET ORIENTATION AND INNOVATION: ARE THEY RELATED CONCEPTS?

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Abstract— The purpose of this study is to explore the relationship between two crucial strategies innovation and market orientation, a firm could adopt for the sustainable competitive advantage. By examining the three factors of market orientation and three types of innovation, this paper seeks to identify the key factor of market orientation that are related to innovation strategies of the firm. Correlation analysis was undertaken on data from a survey of 170 manufacturing firms in the commercial hub of Pakistan, Karachi Industrial area. A self-administered survey was carried out and information was obtained from the top management of the firms, who are involved in major organizational strategies with respect to marketing and innovation. Innovation was found to be positively correlated to market orientation (customer orientation, competitor orientation and inter-functional co-ordination). These findings further suggest that firm innovation and firm market orientation are strategic reactions to changes in the firm's competitive environment and therefore should lead to higher firm's performance.

Keywords- Market Orientation, Innovation; SMEs in Pakistan; Competitive Strategies; Manufacturing sector.

I. INTRODUCTION

The current business environment of the world presents many challenges to organizations to determine whether they meet the challenges and develop strategies to sustain their position in the competitive environment. Responding to the external factors and adopt products/services and marketing strategies is therefore crucial for an organization to justify their strong position in the marketplace [1], [2]

Small and medium-sized enterprises (SMEs) represent a large, diverse and important sector in both advanced market economies and economies in transition. UNIDO reports that SMEs make up over 90 per cent of businesses worldwide and account for between 50 to 60 percent of worldwide employment [3].

[4], argued that it is particularly necessary for SMEs in industrial establishments and export-oriented sector in developing or emerging countries to know which strategy would be effective under these global business environments? Peter Drucker answered this question far back in 1954, "that there is only one valid definition of business purpose and that

is to create a customer". It is the customer who determines what business an organization should engage in. As the purpose of the business is to create customers, any firm has only two and only two basic functions; marketing and [5]

Consistent with the argument of [6] to survive and succeed in the context of a global and competitive business environment, companies need to know their customers and the markets. They should be actively involved in a regular stream of innovations [7]. In this paper, an attempt has been made to examine the relationship of market orientation and innovation strategies of the SMEs in garments/textile sector of Pakistan to exactly know the behavior of the two vital strategies and their implications.

II. RESEARCH MOTIVATION

[8], found the positive relationship between market orientation and business profitability in big firms, and consistent with the same context, [9] documented the empirical evidence of positive relationship between market orientation and firm performance in large firms. Similarly, some recent studies also reported a positive and significant relationship between market orientation and firm performance [10], [11]. However, relatively less attention has been paid to this relationship between market orientation and innovation, as the marketing literature has only recently begun to acknowledge the role of innovation in the context of market orientation [12], [13] [14]. This study therefore, focused on market orientation and its relationship with innovation strategies in SMEs

III. LITERATURE REVIEW-CONCEPTUAL FRAMEWORK

Market Orientation

While there has been some differentiation in the literature on the use of marketing orientation versus market orientation, initially the term marketing orientation was adopted to refer to the implementation of the marketing concept as defined by [15]. The traditional emphasis of marketing orientation was customer oriented, focusing on consumer needs and making profits by creating customer satisfaction [2]. Market orientation, on the other hand, is a more recently utilized term for instituting the marketing concept. A basic set of definition



of concept (research design elements) for this study is discussed and derived from [8], [16]. [8], emphasized that market orientation is the organizational culture that most effectively creates the necessary behaviors for the creation of superior value for buyers (customer) and thus, continuous superior performance for the business. This philosophy basically is an implementation of marketing concept, creating superior value to customers through three combined behaviors; customer orientation, competition orientation and interfunctional coordination.

Customer Orientation: a set of organizational activities which ensue to learn and understand about the consumer behavior and able to increase the benefits to the target customers in response to consumer changing demands and satisfy their demands [9], [8].

Competitor Orientation: a set of organizational activities and behaviors to understand the short term as well as long term strengths and weaknesses of the existing and potential competitors [17], [18]. This behavior of the organization should, therefore, focus on to development of capacity to better perform than the competitors to ensure that target customers' current and future needs are met and satisfied [19], [8].

Interfunctional Coordination: is the set of activities and behavior that relies upon the interdependence of each functional area in the organization to ensure that the firm resources (human and martial) are utilized in such a way to create value and benefits to the customers or buyers [18]. This behavior also emphasizes that organization wide strategy should be developed to disseminate information about market and customers among all the employees and departments in the firm, which will result in developing better strategy to response to all market information and hence, effectively target the market through providing value and benefits to customers.

Innovation

[20], defined innovation as “application of ideas that are new to the firm to create added value, either directly for the enterprise or indirectly for the customers, regardless of whether the newness and the added value are embodied in products, processes, work organization or management, or marketing systems”.

This study focuses on the innovation that is more related to manufacturing firms, and therefore, the development of product innovation complemented by strategy and process innovation is considered important innovations activities in manufacturing firms, particularly in the textile sector. Innovation in manufacturing sectors can be better understood by the three dimensions proposed by [21], product innovation, strategy innovation and process innovation.

First, the innovation concept has frequently been researched from a product innovation perspective. This can be separated into voluntary product innovation and obligatory product innovation. Following those of [22], voluntary innovations are promoted and disseminated by the company

itself, whilst obligatory innovations are imposed by legal, competitive, and environmental forces, and they do not always meet with approval from the different collectives within the company. An example of this would be the need to review the composition or packaging of products for legal reasons when they are being introduced in new countries or in domestic markets.

Second, strategy innovation has been studied in-depth and two approaches can be identified, that are radical strategy innovations and incremental strategy innovations [22], [23]. The former is real changes for the organization and required significant changes in business practice, while incremental innovations may be carried out with minimum change, commitment and risk, maintaining the same strategy. Radical innovations are the least safe as they imply a greater proportion of experimentations, and interactive problem solving that requires greater flexibility and a higher learning curve from the organization's owners and managers. Incremental innovations are safer and imply a larger percentage of planning and execution, thus requiring greater efficiency and understanding.

Third, there is process innovation. The difference is that if product innovation is what we create, and strategy innovation is what we should do to create it, process innovation reflects what we have been available to do that. In summation, process innovations include among other aspects, issues relating to new skills and abilities, a greater concern for market orientation and the development of interdepartmental communication [21]. Usually process innovation leads products and strategy innovation, given that what we create (product innovation) is the result of what we “do” to create it (strategy innovation) and of what we “have” to do to create it (process innovation).

Market Orientation and Innovation

Traditionally, market orientation literature has identified positive relationships between market orientation and innovation-related aspects. [24], [25] and [16] suggested that market oriented behavior results in a higher degree of innovation, and therefore of success in the commercialization of new products.

[26] and [13] recommend the inclusion of innovation in the concept of market orientation and indicated that market orientation and innovation complement each other. In line with [9] conceptual framework of market orientation, they pointed out that market orientation has to do absolutely with new and different action plans in order to respond to market conditions. Similarly, [27], [28] obtained similar results. [27] concluded that both global market orientation and its different components have a positive and significant effect on technological and administrative innovations.

In turn, these innovations affect company profitability positively. [28] also showed empirically that the level of



market orientation has a positive effect on innovation in the financial sector. They also observed that the greater the company's market orientation, the higher the ratio of new products in comparison to its competitors. However, they added that although no direct effect on the profitability of innovations is observed, the company receives more media impact because of its degree of involvement in product innovation.

A recent study by [19], analysis the relationship between market orientation and one of the components of innovation; product innovation. The study concentrates on American industry and shows how product innovation varies proportionally with the company's involvement in market orientation. They observed that customer orientation increases the commercialization of new products, competitor orientation reduces the launching of extensions to a product and new product lines, and interfunctional coordination increases the commercialization of extensions to product lines.

Table 1 shows some of the recent studies that point to a positive relationship between markets orientation and innovation.

Table 1: Positive Relationship studies between Market Orientation and Innovation

Effects	Authors
New product Innovations	Atuahene-Gima (1995, 1996); Lukas and Ferrell (2000)
	Santos and Va'zquez (1997); Han et al. (1998); Hurley and Hult (1998); Lado et al. (1998)

Source: Alam (2009)

In conclusion, and based on [28] and [21] recent studies, market orientation influences and precede innovation, and as a result companies who is more market-oriented show a greater innovative flair. The above findings revealed positive direct relationship between firm performance and market orientation, positive relationship between innovation and market orientation, and a positive link between innovation and firm performance in large organizations.

Hypotheses

Does market orientation in SMEs of Pakistan drive innovation? The influences and effect or association of market orientation constructs on innovation have been recognized to be crucial. [26] made a recommendation for incorporating to construct related to innovation into research on market orientation. [24], viewed market orientation as continuous innovative behavior because market orientation involves innovative strategies and activities in response to changes in customer needs, particularly and market changes in general. However, [9] model of market orientation did not include the construct of innovation in their study.

Since market orientation of the firm focuses on the three important behavior of the organization, particularly to customer orientation, it is argued that firms tend to involve in innovation activities to respond to the customer demands through product or service innovation, offering more values and benefits to customer. Thus, the following hypothesis is proposed:

Hypothesis: Three factors of market orientation (customer orientation, competitor orientation and interfunctional coordination) of SMEs have significant association with three types of Innovation (product innovation, process innovation and strategy innovation).

IV. RESEARCH METHODS

The research design was a cross-sectional, field based study of 170 small and medium-sized manufacturer of textiles and garments business in the city of Karachi. A field survey method with structured questionnaire was developed and conducted to gather the primary data from the textile/garment firms in small and medium sized sector. This study used three main survey instruments of market orientation, innovation, and firm profile.

In applying the market-orientation concept to SMEs, the instrument was based upon the elements of [8], which view market-orientation as cultural and behavioral processes and the activities associated with creating and satisfying customers by continually assessing their needs and wants to increase business performance. Market orientation instrument is the original revised version of [8] business survey questionnaire. Fourteen original items were intended to measure small and medium sized owner/managers' level of market orientation. The items were borrowed and modified from the original work of [8]. These items were rated on a five-point Likert type scale.

To measure firm's innovation, a pool of items was included based on a scale proposed by [21]. These authors synthesize the innovation construct by using 24 items, distributed in four sub-scales, namely; innovation in products, innovation in processes, and innovation in strategy. In Table 2, alpha scores of all variables with completed response of 170 owner/ managers of small and medium sized firms in Pakistan are given. The dimensions of market orientation and innovation were computed and presented as summated average score measures for that specific variable.

Table 2: Positive Relationship studies between Market Orientation and Innovation

Variables	No. of Items	Cronbach's Alpha Scores
Customer orientation	7	.83



Competitor Orientation	4	.76
Interfunctional Coordination	3	.65
Product innovation	8	.90
Process innovation	9	.90
Strategy innovation	6	.84

V. RESULTS OF HYPOTHESIS

Positioning Figures and Tables: *Place figures and Hypothesis:* Three components of Market orientation of SMEs have significant association with the three types of innovation.

Hypotheses of this study examined the association and the nature of relationship among three components of market orientation and the three dimensions or types of innovation strategies in the SME textile/garments sector in Pakistan. Competitor orientation (COMPORIENT), customer orientation (CUSTORIENT) and interfunctional coordination (INTERCOORD) are all positively associated with the three types of innovation product innovation (PRODUCT INNOVATION), strategy innovation (STRATEGY INNOVATION) and process innovation (PROCESS INNOVATION).

Table 3: Hypotheses- Correlations analysis (N= 170)
Market Orientation-Innovations

	PRODUCT INNOVATION	STRATEGY INNOVATION	PROCESS INNOVATION
CUSTORIENT	.567**	.686**	.644**
COMPORIENT	.335**	.534**	.427**
INTERCOORD	.494**	.531**	.554**

** Correlation is significant at the 0.01 level (2-tailed)

Analysis of the data resulted from the Pearson correlation analysis (Table 3), indicates that hypothesis, customer orientation has significant association with product innovation (PRODUCT INNOVATION), strategy innovation (STRATEGY INNOVATION), and process innovation (PROCESS INNOVATION). The correlation statistics reveals that the strength of association of customer orientation is moderately high and positive with product innovation (R=.567). However the strength of association is found high and positive with strategy innovation (R=.686) as well as with the process innovation (R=.644). Therefore, customer orientation and its strength of association with product, strategy and process innovations are high and positive. This indicates that in the SME textile sector, customer orientation has a relatively stronger relationship with the three types of innovation in the firm.

In contrast, competitor orientation in hypothesis, despite displaying significant positive association with the

three types of innovation, the strength of association is small or low, yet definite between competitor orientation and product innovation (R=.335). However, competitor orientation has moderate and significant association with the other two types of innovation, process innovation (R=.427) and strategy innovations (R=.534).

While, competitor orientation on the other hand reports a significantly positive and moderate association with product innovation (R=.494), with strategy innovation (R=.531) and with process innovation (R=.554). Therefore hypotheses of this study are supported.

VI. DISCUSSION AND CONCLUSION

There are many previous studies indicating that market orientation and innovation adopted in the firms had a confirmed positive relationship, and market orientation also influenced innovation activities in the manufacturing and service firms [19], [29]. This study also hypothesized that there were significant association between the three behavioral components of market orientation and the three innovations strategies in small and medium sized textile/garments manufacturing firms. To examine the relationship, correlation matrix result indicated that three components of market orientation, that is, customer orientation, competitor orientation and interfunctional coordination had significant and positive associations with the three types of innovations strategies in the textile/garments manufacturing SMEs. However, the result also indicated that competitor orientation had relatively low but definite association with product innovation and significantly moderate association with the strategy and process innovation. In contrast to competitor orientation, interfunctional and customer orientation correlation statistics revealed that both of these market orientation components had significantly high association with all the three innovation strategies in the textile manufacturing SMEs. These results of correlation therefore signified that the increase of market orientation behavior leads to higher level of innovations in the SMEs. To determine which component of the market orientation had significantly effect in terms of causing variability onto overall level of innovation practice, it was practical to do the regression analysis to reveal the relationship between the variables, and to investigate which market orientation construct significantly estimated variance on firm's innovation activities.

According to these statistics, customer orientation and interfunctional coordination are two of the important internal resources or capability a firm must develop to benefit their customers through series of innovation strategies. Product innovation is recognized as one of the most realistic response against customer orientation. Firms with greater level of market orientation would certainly pose competent capabilities (process innovation) to develop new strategies (strategy innovation) and to create new products (product innovation). [6], argued that if the firms need to be more competitive in a relatively competitive environment, they have to be more customer oriented, have detailed perspective of the



market as well as being innovative. Since the present business environment is becoming more complex and more global oriented, it is therefore crucial for a business in SME manufacturing sector in developing economies, to engage in more innovations to avoid failure and sustain competitive advantage.

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