Examination of the Effects of Market Orientation on Performance: Innovativeness as a Mediator

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Abstract

The main purposes of this research were to identify not only the effect of market orientation (with its dimensions) and innovativeness on company performance, but also the role of innovation as a mediator in the relationship between market orientation (also its dimensions) and performance. Data were collected by using self-administrated questionnaire applied to a convenience sample of 150 firms. Regression and mediation analyses were performed to test the hypotheses. The main findings demonstrated that market orientation and its dimensions (out of customer orientation) had dual mechanism, which means direct effect and indirect effect via innovativeness as a mediator, on performance. Innovativeness was found to contribute to the company performance in terms of both its direct and mediator effects. The findings were evaluated, and suggestions were presented for future research and practice.

Keywords: Market orientation, innovativeness, performance, customer orientation, competitor orientation, and interfunctional coordination orientation

Introduction

The concept of market orientation (MO) is suggested as one of the major contributions for both marketing and business literature. MO provides a superior competitive advantage for business (Udriyah et al.2019; Baker and Sinkula, 2009; Yýlmaz et al.,2009;Mengüç and Auh, 2006: Jawarski and Kohli, 1993).In literature, common views demonstrate the positive direct effect of MO on performance; however, nonsignificant or negative effects are determined in several previous researches (Kirca et al., 2005).Thus, a consensus is not observed for this effect. Furthermore, innovativeness is found to significantly contribute to the relationship between MO and performance in several recent studies (Riswanto et al., 2020; Uzkurt et al., 2016). In spite of these studies, a research gap about the mediating role of innovativeness in the relationships between dimensions of MO and performance is observed.

The fact that previous studies have given mixed results regarding firm performance effect of MO. Furthermore, limited and mixed results for the role of innovation as a mediator in the relationship between MO dimensions and performance, has made it necessary to examine for ensuring apparent knowledge of MO dimesions-innovation-

performance chain. Thus, the purposes of this study were to investigate whether MO, its dimensions and innovativeness have any effect on firm performance. Specifically, it also examined whetherinnovation has a mediation effect on the relationship between MO, its dimensions and firm performance.This study hopes topresent additionalknowledge about performance effect of MO. The main contribution expected from the study to provide a contribution for filling the research gap in determining the role of innovation as a mediator in the each performance effect of MO dimensions.

The rest of the paper startswith a brief literature review and develops into the researchhypotheses. These are followed by methodology of the research and the results of the study. Finally, the discussion and conclusion sections are presented.

Background and Hypotheses

Market Orientation

MO has two widely accepted approaches in the literature. Firstly, Narver and Slater (1990: 21) propose cultural based approaches and determine MO as "the organization culturethat most effectively creates the necessary behaviours for the creation of superior valuefor buyers and, thus, continuous superior performance for the business". The authors examine MO with three behavioral dimensions such as: customer orientation (CUSO), competitor orientation (COMO), and interfunctional coordination orientation (INFCO).CUSO refers to creation of a superior value for the targeted customer continually. Narver and Slater (1990: 21-22) define COMO as "seller understands the short-term strengths and weaknesses andlong-term capabilities and strategies of both the key current and the key potential competitor" and INFCO is determined as "the coordinated utilization of company resources in creating superior value for target customers".

Secondly, Kohli and Jaworski (1990: 6) suggest behavioural approaches and define MO as "the organization-wide generation ofmarket intelligence pertaining to current and future customer needs, dissemination ofintelligence across departments, and organization-wide responsiveness to it".

MO as a strategic orientation has positive association with superior performance according to the wide acceptance in the litetaure. Many previous research claim that MO has apositive effect on performance (Riswanto et al., 2020; Udriyah et al.2019; Yadav et al., 2019; Vega-Vazquez et al, 2016; Bulut and et al. 2009; Agarwal et al., 2003; Matear et al., 2002; Slater and Narver, 2000; Slater and Narver, 1994; Kohli and Jaworski, 1990), while some of them do not

confirm this effect (Uzkurt et al., 2016; Kajalo and Lindblom, 2015; Polat and Mutlu, 2013; Greenley, 1995). Additionally, Jaworski and Kohli (1993) claim that MO is related to performance when performance is measured by judgmental measure while it is not related to performance when objective measure is used. The performance effect of all MO dimensions have been found by Bulut et al. (2009), whereas weak relationships between these variables and performance have been investigated by Nwokah (2008). CUSOhas also been found to be statistically effective on sales growth but not on profitability (Danışman and Erkocaoglan, 2008). Also, Deshpande et al. (1993) assert that CUSO is not related to performance according to the Japanese managers. Thus, mixed results observed for the performance effect of MO. Considering the common previous findings, following research hypotheses are developed:

H1: MO will have a positive effect on firm performance.

H2: Each dimension of MO will have a positive effect on performance.

H2a: CUSO will have a positive effect on firm performance.

H2b: COMO will have a positive effect on firm performance

Hc: INFCO will have a positive effect on firm performance.

Innovativeness

Innovativeness is determined as an orientation in firm level through innovation and demonstrates intention to participate in innovative behaviour (Menguc and Auh, 2006). Many previous research exhibit that MO has positive effect on innovativeness (Uzkurt et al.,2016; Dibrell et al., 2011; Menguc and Auh, 2006; Matear et al., 2002; Han et al., 1998) and also innovativeness have effect on performance (Uzkurt et al., 2016; Agarwal et al., 2003). It is also argued that each dimension of MO covers continuous innovation (Tajeddini et a, 2006; Narver and Slater;1990) and the dimensions of the MO have positive effect on innovativeness (Tajeddini et al, 2006). However, opposite findings are also observed in the literature thatINFCO (Alhakimi and Mahmoud, 2020; Han et al., 1998) andCUSO (Alhakimi and Mahmoud, 2020) have no significant effect on innovativeness. Therefore, following hypotheses are presented as:

H3: MO will have a positive effect on innovativeness.

H4: Each dimension of MO will have a positive effect on innovativeness.

·H4a: CUSO will have a positive effect on innovativeness.

·H4b: Competitior orientation will have a positive effect on innovativeness.

·H4c: INFCO will have a positive effect on innovativeness.

H5: Innovativeness will have a positive effect on performance.

Organizational innovativeness is more possible in market-oriented companies, which is a key factor for superior performance (Han et al., 1998). Combination of MO and innovativeness produces superior competitive advantages, meaning challenges for the competitors to achieve, which motives higher performance (Menguc and Auh, 2006). Some recent findings have not supported the mediation effect of innovation in relationship between MO and performance(Yadav et al., 2019); however,common findings indicate that innovativeness is a mediator in the relationship between MO and performance (Riswanto et al., 2020;Uzkurt et al., 2016; Menguc and Auh, 2006; Agarwal et al.,2003; Matear et al., 2002; Han et al.,1998). Therefore, it is expected that MO encourages innovativeness, which in turn, higher performance. As to the relationships between its dimensions and performance, limited attention is observed in the literature (Bamfo and Kraa, 2019; Cheng and Krumwiede, 2012). It is found that innovation mediates the performance effect of CUSOandINFCO while no mediation effect occur in the relationship between COMO and performance (Bamfo and Kraa, 2019).Meditor role of service innovation is defined for the performance effect of MO dimensions (Cheng and Krumwiede, 2012). Hence, following hypotheses presented as:

H6: Innovativeness will mediate the relationship between MO and performance.

H7: Innovativeness will mediate the relationship between performance and(the dimensions of MO)

·H7a: CUSO,

·H7b: COMO,

·H7c: INFCO

Method

Sample

The SME firms in Eastern Mediterranean Region of Turkey that focus on technology and research and having university-industry cooperation formed theworking universe of this research.Convenience sampling method, which is suggested as quite useful method in this research subject (Deshpande and Farley, 2004), was performed.

Data were collected through questionnaires filled out by the manager of the firms during February-May of 2019. Initial versions of the questionnaire were experimented with 35 participants as a pre-test to ensure that participants express their opinions accurately and eliminate possible misunderstandings, semantic and measurement problems. It demonstrated that participants could fill out the form by themself accurately and easily. After necessary revisions,self administrated questionnaire methods were used. In addition, reminder e-mails were sent to the firms in order to increase the response rate. Thus, these efforts produced 150 convenient questionnaires for analysis.

The most of participant firms were in informatics sector (29.33%), which was followed by software (12.67%) and agriculture (9.33%) sectors respectively. The firms established in 2016 (19.33%) had the biggest share while years of 2015 and 2017 (18%) had the second biggest shares. Thus, the participant firms were relatively newly established companies. Morover, a large part of them had 6-9 employees (55.30%), while a very small portion had 50 and over employees (2.70%).

Questionnaire and scale

The questionnaire form as a research instrument consisted of two sections: items related to research variables and demografic variables of the firms. The participants were requested to express their agreement degree with a total of 25 items and 3 demografical questions about their firms. The research variables of innovativeness and MO were measured by using 5-point Likert scale, with '1: certainly disagree'…'3: neither agree nor disagree'… and '5: certainly agree'. As to performance, '1 means strongly bad … '3 means neither bad nor good…and '5 means strongly good'.

The measures used were taken from previous research which used well-established scales to enable appraisement of the research variables. The scale of innovativeness was taken from Yılmaz (2009); MO scales as multi-dimensional scales that included three dimensions namely, CUSO, COMO, and INFCO, were measured using the scales fromBulut et al. (2009). Finally, scales for performance covering both financial and nonfinancial statementswere taken from both Bulut et al. (2009) andKüçükkancabaş et al. (2009). Like many previous research (Uzkurt et al, 2016; Küçükkancabaş et al.,2009; Mengüç and Auh, 2006; Despande et al., 1993), each participant was requested to asses their firm's current business performance relative to its major competitors because of strong correlation between objective measures and subjective responses (Küçükkancabaş, 2009).

Data analysis

SPSS 20 software was used for data analysis. The simple linear regression analysis and mediation analysis recommended by Baron and Kenny (1986) were conducted to test the hypothesis. The authors assert the following requirements for mediation:

1. The independent variable significantly affects mediating variable,

2. The mediating variable significantly affects thedependent variable, and

3.Whenthe mediating variable is added in the regression analysis as an independent variable, the effect of the independent variable on the dependent variable disappears (full mediation) or decreases (partial mediation).

Furthermore, Sobel test (Sobel,1982) was performed to satisfy the requirement about the confirmation of the significance of the mediation effect (Preache and Leonardelli, 2012).

Limitation

This research has some constraints. The sampling method and sample size used in the resaerch prevents generalization of the findings.

Results of Analyses

The descriptive statistics of the research variables were presented in Table 1. The means of them ranged from 3.041 to 4.565. Hence, the participant firms were innovative, market oriented,interfunctional coordination oriented, and had also medium level performance and competitior orientation. Moreover, they had relatively higher level CUSO. Additionally, the correlation coefficients ranged from 0.271 to 0.900 which demonstrated positive strong, medium and weak level correlations between the research variables. However, there was no correlation between CUSO and performance, as seen in the Table 1.

Table 1.Descriptive statistics of the research variables

Variables	Mean	Std. Dev.	INNOV	MO	PERF	CUSO	COMO	INFCO
INNOV	3.900	0.518	1	.521**	.328**	.469**	.393**	.471**
MO	4.161	0.482	.521**	1	.233**	.900**	.803**	.867**
PERF	3.041	0.676	.328**	.233**	1	.071	.271**	.296**
CUSO	4.565	0.549	.469**	.900**	.071	1	.603**	.653**
COMO	3.755	0.552	.393**	.803**	.271**	.603**	1	.561**
INFCO	4.001	0.576	.471**	.867**	.296**	.653**	.561**	1

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

1: certainly disagree…5: certainly agreefor INNOV, MO, CUSO, COMO, and INFC; 1: strongly bad… 5: strongly good for PERF(performance)

The results about validity and reliability of the scales were illustrated in Table 2. Cronbach α coefficients were calculated for determining scale reliability. All the calculated α coefficients exceeded 0.70, which is the requirement for a reliable scale (Hair et al., 2011).Factor analysis was performed to examine the validity. The KMO-Barlett test demonstrated thateach KMO value exceeded 0.70 and all of the Barlett test values were significant.No items were eliminated as all the factor loading values exceeded 0.5 (Coskun et al., 2015). The results also indicated that MO has three sub-dimensions, titled CUSO, COMO and INFCO, which aresimilar to previous studies (Bulut et al., 2009; Narver and Slater, 1990). The percentages of variance for MO, innovativeness, and performance were 69.168%, 59.460%, and 70.595%, respectively. Therefore, the scales used in the research had enough validity and reliability.

The results of regression analysis, as presented in Table 3, demonstrated that MO, COMO, and INFCO had positive significant effect on performance ($\beta = 0.326$, $p < 0.01$; $\beta = 0.332$, $p < 0.01$; $\beta = 0.347$, $p < 0.01$, as shown in model 1, 3, and 4 respectively). However, CUSO had no significiant effect on performance ($\beta = 0.087$, $p > 0.01$), as seen in model 2. Therefore, H1 was supported while H2(b,c) was partially supported. Moreover, the regression results given in model 5 pointed out that innovativeness was significantly affected by MO ($\beta = 0.560$, $p < 0.01$), which supported H3. Also, CUSO, COMO, and INFCO had positive significant effect on performance ($\beta = 0.443$, $p < 0.01$; $\beta = 0.369$, $p < 0.01$; $\beta = 423$, $p < 0.01$, as shown in model 6, 7, and 8, respectively) as its dimensions had positive significant effect on innovativenessseparately. Hence, H4 indicating the effect of each MO dimensions on innovativeness was supported. Furthermore, innovativeness had significant positive effect on performance $\beta = 0.428$, $p < 0.01$, as given in model 9, that's why H9 was supported.

Table 2. The Results of Validity and Reliability

	Factor Analysis	Cronbach α
MO	KMO:0.820, Chi-square: 1617.179 p<0.01; % Variance: 69.168%	0.929
CUSO	Factor Loading	
		(CUSO' α:0.914)
CUSO1	0.698	
CUSO2	0.744	
CUSO3	0.785	
CUSO4	0.812	
CUSO5	0.790	
CUSO6	0.729	
		(COMO' α: 0.845)
COMO		
COMO1	0.805	
COMO2	0.772	
COMO3	0.701	
COMO4	0.720	
		(INFCO' α:0.862)
INFCO		
INFCO1	0.705	
INFCO2	0.714	
INFCO3	0.738	
INFCO4	0.776	
INFCO5	0.654	
Innovativeness	KMO:0.729,Chi-square: 339.665p<0.01; % Variance: 59.460%	0.824
	Factor Loading	
INNOV1	0.821	
INNOV2	0.842	
INNOV3	0.735	
INNOV4	0.695	
INNOV5	0.753	
Performance	KMO:0.824,Chi-square: 453.906 p<0.01; % Variance: 70.595%	0.894
	Factor Loading	
PERF1	0.826	
PERF2	0.900	
PERF3	0.836	
PERF4	0.831	
PERF5	0.805	

Table 3. Results of regression analysis

	β	SE	p		β	SE	p
Model1 R^2=0.054				Model5 R^2=0.272			
Constant	1.684	0.470	0.000	Constant	1.570	0.316	0.000
MO	0.326	0.112	0.004	MO	0.560	0.075	0.000
Dependent:PERF				Dependent:INNOV			
Model2 R^2=0.005				Model6 R^2=0.220			
Constant	2.643	0.464	0.000	Constant	1.879	0.315	0.000
CUSO	0.087	0.101	0.389	CUSO	0.443	0.068	0.000
Dependent:PERF				Dependent:INNOV			
Model3 R^2= 0.073				Model7 R^2=0.155			
Constant	1.796	0.368	0.000	Constant	2.514	0.269	0.000
COMO	0.332	0.097	0.001	COMO	0.369	0.071	0.000
Dependent:PERF				Dependent V.: INNOV			
Model4 R^2=0.087				Model8 R^2=0.222			
Constant	1.653	0.373	0.000	Constant	2.206	0.264	0.000
INFCO	0.347	0.092	0.000	INFCO	0.423	0.065	0.000
Dependent:PERF				Dependent:INNOV			
				Model9 R^2=0.107			
				Constant	1.373	0.399	0.001
				INNOV	0.428	0.101	0.000
				Dependent:PERF			

The results of mediation analyses steps which determine whether innovativeness has a mediation effect on the relationship between the performance and MO and also its dimensions were shown in Table 4.

The results in the each first step demonstrated that all the independent variables (MO, CUSO, COMO, INFCO) had a significant effect on the mediating variable (innovativeness) separately which fulfilled the requirement (a). As seen in the second step, innovativeness (mediating variable) also had a significant effect on performance (dependent variable), which satified the requirement (b). Additionally, the results of third steps pointed out that performance was affected by MO, COMO, and INFCO separately, while it was found that CUSO has no significant direct effect on performance.

Table 4. Results of mediation analyses

Innovativeness will mediate the relationships between	Step1	Step2	Step3	Step4	Results
H6: MO and performance	MO-INNOV R^2: 0.272 β: 0.560 p: 0.000 SE:0.075		MO-PERF R^2: 0.054 β: 0.326 p: 0.004 SE:0.112	MO,INNOV-PERF R^2: 0.113 MO INNOV β: 0.119 β:0.370 p: 0.353 p:0.002 SE:0.128 SE:0.119	fully mediated
H7a: customer oreintation and performance	CUSO-INNOV R^2: 0.220 β:0.443 p:0.000 SE:0.068	INNOV-PERF R^2: 0.107 β: 0.428 p: 0.000 SE:0.101	CUSO-PERF R^2: 0.005 β: 0.087 p: 0.389 SE:0.101	CUSO, INNOV-PERF R^2: 0.116 CUSO INNOV β: -0.131 β:0.493 p: 0.228 p:0.000 SE:0.108 SE:0.115	fully mediated
H7b: competitiors orientation and performance	COMO-INNOV R^2: 0.155 β: 0.369 p: 0.000 SE:0.071		COMO-PERF R^2: 0.073 β: 0.332 p: 0.001 SE:0.097	COMO,INNOV-PERF R^2: 0.131 COMO INNOV β: 0.205 β:0.342 p: 0.047 p:0.002 SE:0.102 SE:0.109	partially mediated
H7c: INFCO and performance	INFCO-INNOV R^2: 0.107 β: 0.423 p: 0.000 SE:0.065		INFCO-PERF R^2: 0.087 β: 0.347 p: 0.000 SE:0.092	INFCO, INNOV-PERF R^2: 0.133 INFCO INNOV β: 0.213 β:0.316 p: 0.039 p:0.006 SE:0.102 SE:0.114	partially mediated

The requirement of (c)was also fullfilled for all the relationships, as seen in each fourth step. The β coefficient forMO (dependent variable) (β:0.119, p:0.353) disappeared when innovativeness (the mediating variable) as an independent variable was added in the regression analysis, which demonstratedthe full mediator role of innovativeness. Thus, H6 denoting that innovativeness will mediate the relationship between MO and performance

was supported.The CUSO'sβ coefficient also disappeared when innovativeness(as an independent variable) was included in the regression analysis, which pointed to full mediation. So, innovativeness fully mediated the relationship between CUSO and performance, that's why H7a was supported. Additionally, when innovativeness (as an independent variable) was included in the regression analysis (seperately), the eachβ coefficient for COMO (dropped from β = 0.127 of the regression analysis) andINFCO(dropped from β = 0.134 of the regression analysis) declined. These declines in the βs for these two orientations exhibited that the innovativeness was a partial mediator in each given relationship. Therefore, both H7b and and H7c were supported.

Furthermore, the Sobel test results confirmed the mediation analysis. Hence, innovativeness hada mediation effect inthe relationship between performance andMO(z = 3.685; p< 0.01), CUSO (z = 3.552; p< 0.01), COMO (z = 3.284; p<0.01), and INFCO(z = 3.551; p< 0.01) separately.

Discussion and Conclusion

This study confirmed the thought that both MO and innovativeness are the basic drivers for stimulating the company performance. MOwas found to affect performance both directly and through innovation. The results supported dominant findings specifying the positive performance effect of MO in the literature (Riswanto et al., 2020; Udriyah et al.2019; Yadav et al., 2019; Slater and Narver, 2000; Slater and Narver, 1994; Kohli and Jaworski, 1990). Thus, an increase in the MO and innovativeness is likely to encourage company performance. Furthermore, innovativeness mediates the relationship between MO and performance, which issimilar to previous studies (Riswanto et al., 2020; Uzkurt et al., 2016; Menguc and Auh, 2006; Agarwal et al., 2003). Thus, being market oriented drives innovativenesswhich, in turn, accounted for better performance.

COMO and INFCOwere also found to have positive direct effect on performance, which confirmed the previous researches (Turan and Er, 2017; Bulut et al., 2009). Hence, both high level of COMO and INFCO lead to better company performance. Additionaly, the results for the mediation role of innovativeness has provided evidence for not only the relationship between COMO and performance but also the relationship betweenINFCO and performance. Therefore, these dimensions would individually lead to innovativeness, which, in turn, accounted for an advancement in company performance.

Notably, one of the main results of the research showed that the CUSO does not have a direct effect on company performance. This surprising result was compatible with some of the prior research (Deshpande et al. (1993),Uzkurt et al., (2016),Turan and Er, (2017),Nwokah, (2008); Greenley, (1995)). Some of the explanations have been provided about this unexpected results in the literature, which are also accepted in this research. Firstly, overstressing CUSO could be observed by some companies. This overstressing may lead to perform customer relationship exccessively and exaggeratedly, which produces superflous costs and customer fatigue for these companies (Uzkurt et al., 2016). Secondly, even if some companies favour the significance of this dimension of MO in principle, they could not implement its main principles effectively in practice (Nwokah, 2008). Thirdly, according to the Greenley (1995), who proposed the lagged relationship between MO and performance, MO does not have a direct effect on performance. The author has claimed that the inflence of MO on alternative measures of performance is likely to vary based on the differentiation in environmental circumstance. Moreover, CUSO as a long term investment should be considered in the long run. When permanent and major changes occur in customer needs, making substantial modification will be required. The required modifications call for costs spread over the long term (Greenley, 1995). Finally, Kohli and Jaworski (1990) claimed that it is beneficial when the benefits of it surpass the cost of required resources.Additionally, considering characteristics of the participant firms which are small sized business and were founded in recent years, the improvement in performance will take over time for the participant firms. As previously mentioned, the participant firms already have moderate performance level. Therefore, additional necesssary time is requried for observing positive effectiveness of CUSO on performance.The findings also indicated that CUSO has no statistically significant direct effect on performance;however, the relationship between CUSO and performance is statistically significant thanks to innovativeness as a mediator.Therefore, being customer oriented leads to innovativeness, and this innovativeness results in higher performance.This causal cycle can be considered as a sign that the innovativeness as a mediator, should be taken into consideration for gaining clear understanding about the relationships between the CUSO and performance.

This paper gives some suggestions for both future research and practice. MO and innovativeness determined as basic motivators for performance while their impact should be examined in the longidutional study. They should also be investigated on a sectoral basis. Moreover, exploring why CUSO has not an effect on performance, when positive contribution of it occurs and under which conditions are nesseary for each sector seem to be very fruitfull research areas and worth to be studied.Furthermore,

aforementioned causal cycles can be considered as an indicator of the need to pay attention to innovativeness as a mediator for detailed analysis of the relationships between CUSO and performance in future research.As to practice, considering the providing of competitive advantages, firms should encourage their ability regarding the being market oriented in spite of the additional time to see the positive influence of customer focus on performance. Customer oriented firms are more likely to gain competitive advantages based on the providing superior customer value. In addition to the notion that "being market oriented can never be a negative"suggested bySlater and Narver (1994:54), it is suggested that being market oriented is valuable since it compensates for the spent time and cost. COMO and INFCO as MO dimensions and innovativeness must also be emphasized for stimulating and improving company performance. Furthermore, combination of MO and innovativeness should be considered not only as organizational culture but also strategic approach having managerial support for administrative practices.

Consequently, MO (also its dimensions) is the one of the main strategic approach creating competitive advantages by considering the major findings indicating positive direct effect and indirect effect (via innovativeness) of MO on performance. This paper has confirmed the strategic power of innovativeness for company success in terms ofnot only its direct effect on performance but also its indirect effect as a mediator on how MO and its each dimensions affected performance.

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