Market Orientation and Innovation Capabilities : Does it Impact the Performance of Small Businesses ?

*** M. I. M. Hilal**

Abstract

The major objective of the study was to examine the impact of market orientation and innovation capability on the performance of small businesses in the Eastern Province of Sri Lanka. It was observed that many small businesses have emerged and are in existence after the prolonged war in the Eastern part of Sri Lanka and their sustainability should be secured. Therefore, it was essential to conduct a study on the market orientation and innovation capabilities of these small businesses. A sample of 234 executives, managers, or proprietors of small businesses which comprised of confectionaries, small restaurants, small textiles, and ice cream makers for selling were taken for the study. Analysis revealed that market orientation was lacking in the small businesses. In the case of market orientation, analysis revealed that business firms were not responding to the competitive actions. They were also lacking in competitive advantage based on customer needs. Analysis explained that the proprietors or managers did not discuss the competitors' strengths and weaknesses to formulate competitive strategies. Small businesses were also found to be in need of marketing skills, especially marketing planning and adopting market orientation. This implies that customers' behavior of products marketed by small businesses in the region should be well understood. The study recommended that the small businesses need to conduct training in marketing for proprietors, managers, and executives of small businesses in the region.

Keywords: **market orientation, innovation, marketing, performance**

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Small businesses are the agents for industrial change and innovation and are vital for generation of employment (Birch, Haggerty, & Parsons, 1993). Small ventures are also a source of wealth creation and economic growth (Storey, 1994). In Sri Lanka, many industries are under the purview of small and medium scale industries, and the SME section has been identified as a vital strategic growing sector and contributes to the development of the country in terms of generating employment, income, and poverty alleviation. Small and medium enterprises are the backbone of the country, and contribute to approximately 75% of the total number of enterprises and immensely provide 45% of the employment. They also contribute 52% to the gross domestic production of the country.

Market orientation is defined as an "organizational culture that most effectively and efficiently creates the necessary behaviour for the creation of superior value for buyers and thus constitutes superior performance for the business" (Narver & Slater, 1990, p. 21). Many studies suggested positive associations between market orientation and business performance (for example, Kirca, Jayachandran, & Bearden, 2005 ; Sin, Tse, Yau, Chow, & Lee, 2003). Many studies also suggested that market - oriented organizations would enjoy sustainable competitive advantage.

Innovation is adoption of new methods of production, modification in products or services, or processes or

* *Senior Lecturer in Marketing Management,* Faculty of Management & Commerce, South Eastern University of Sri Lanka (SEUSL), Oluvil, Sri Lanka. E-mail : mujahidh@seu.ac.lk

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business practices. Innovation capability refers to improving and managing technology in force that may exist for changing the current products or services. According to researchers (for example, Romijn & Albaladejo, 2002), innovation capability helps achieve competitive advantage and it impacts positively on the greater performance of the organizations.

It is observed that many small businesses have emerged and are in existence after the prolonged war in the Eastern Sri Lanka. Therefore, it is paramount to examine the market orientation and innovation capability of small businesses and the impact on their performance. This will further help improve their performance and enable them to avoid early shutdown of businesses. For a firm to be successful, firms should be market oriented and be innovative in their products within the competitive dynamic environment. Hence, it is essential to study the market orientation adoption and innovation capabilities of these small businesses. Thus, the objective of the present study is to examine the impact of market orientation and innovation capability on the performance of small businesses in the Eastern Province of Sri Lanka.

Review of Literature and Hypotheses Development

Many researchers have tried to identify the relationship between market orientation and firm performance. While market orientation has direct and indirect influence on firms' performance with the support of management and employees, market orientation helps achieve customer satisfaction and retain customers (Chen & Quester, 2009). Market orientation may be an important aspect in service firms like banking firms. A study conducted in the banking industry found that commercial banks were market oriented and further revealed that adoption of market orientation in private banks significantly differed from market orientation adopted in public banks (Sharma & Verma, 2017). Market orientation also enhances the economic performance of an organization by incorporating brand orientation (Luckenbach, Baumgarth, Schmidt, & Henseler, 2017).

Frösén, Jaakkola, Churakova, and Tikkanen (2016) indicated that interfunctional coordination is important in a declining economy and competitor orientation is very hard to be important during a downturn. Market orientation positively influences performance via innovation. This was confirmed by Wang and Miao (2015) by investigating the relationship of market orientation of sales force on creativity, innovation, implementation, and sales performance. Wang and Miao (2015) also found that dependence of customer and competitor orientation on sales innovation was different. Innovative organizational culture with an ingredient of market orientation positively impacted the sales performance of the organization (Wang & Miao, 2015).

Entrepreneurial orientation and marketing orientation have a complex relationship. The relationship is shaped by network ties of a firm and produces good performance outcome (Boso, Story, & Cadogan, 2013). In a study about entrepreneurial orientation and hotel performance by Vega - Vázquez, Cossío - Silva, and Revilla - Camacho (2016), the authors posited that entrepreneurial orientation had an impact on the market orientation and assisted in providing a good value for customers, making a differentiation and subsequently, firms were able to enhance their performance. Hence, the authors inferred that the hotel industry could energize its financial strength further by adopting market orientation (Vega - Vazquez et al., 2016).

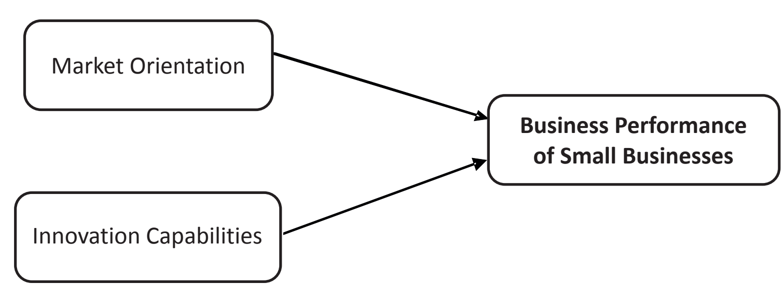
Although, a positive relationship between market orientation and firms' performance has been confirmed by many researchers, there are few studies that contested a positive relationship between market orientation and firms' performance. For example, Franklin and Al - Kassem (2012) found that customer orientation and competitor orientation partially influenced the market performance of hotels in Saudi Arabia.

Although Blankson and Cheng (2005) indicated that there were four dimensions of market orientation, Gray, Matear, Boshoff, and Matheson (1998) explained the five dimensions which are used to measure market orientation of a firm. Gray et al.'s (1998) model of measurement included customer orientation, competitor orientation, inter functional coordination, responsiveness, and profit emphasis. This study emphasized that focusing on market orientation helped benefit customers and organizations if managers paid greater attention to all five dimensions of market orientation. While many studies found a positive association between market orientation and firms' performance (for example, Kirca et al., 2005; Sin et al., 2003), Pulendran, Speed, and Widing (2003) identified that adoption of market orientation produced better outcomes than organizations adapting to market orientation to some extent. This was also confirmed by Nwokah (2008) that implementation of marketing concept was successful for performance of the organization. Kirca et al. (2005) and Cano, Carrillat, and Jaramillo (2004) also supported that market orientation caused positive influence on firm performance. Rauch, Wiklund, Lumpkin, and Frese (2009) further indicated that organizations' profitability and performance were the end result of the market orientation adoption (Rauch et al., 2009). Thus, literatures showed that market orientation will have a positive relationship with the firms' performance.

Innovation is another important factor that influences the performance of small businesses. Customers buy more of the product if it is with innovative features and of good quality. This means that when an organization has innovation, there will be more demand and it will have a positive impact on the performance of organizations. In order to safeguard organizations' future in a dynamic competitive environment, firms must innovate in three aspects such as product, process, and market. Product innovation is a source of income. Process innovation is to help an organization to maintain and safeguard the quality that will help reduce cost. Market innovation is improving marketing mix and serving the target market along with identifying potential markets (Johne, 1999). Marketing innovation results in good performance as it assists in identifying a competitive advantage in line with previous competitive advantage by analyzing various firms' marketing factors (Ren, Xie, & Krabbendam, 2010).

If an organization wants to respond to the market changes, it should be innovative (Swami & Porwal, 2005). When firms have innovation speed, they obtain enhanced product performance. Thus, the bond between market orientation and new product performance is well mediated by innovation (Carbonnel & Escudero, 2010). Competitive advantage due to the product performance is also achieved through the innovation of the organization (Carbonell & Rodriguez, 2006 ; Chen, Reilly, & Lynn, 2005). Many organizational related variables such as using manpower as a source of new product ideas, accepting new product proposals, and formal training policy significantly contribute to the innovativeness in firms (Avlonitis, Kouremenos, & Tzokas, 1994). Hence, it is evident that firms' innovative capability positively relates to the performance of businesses. The Figure 1 depicts the conceptual model of the study.

Figure 1. Conceptual Model



The following hypotheses are formulated :

- **H_1:** Market orientation of small businesses is positively associated with the performance of small businesses.
- **H_2:** Innovation capabilities of small businesses are positively associated with the performance of small businesses.

Methodology

The study is a deductive approach as hypotheses are formulated based on a conceptual framework which is supported by previous literatures and tested. Since the study involved primary data, survey method of data collection was used under research strategy. With the view to meet the objectives of the research, quantitative methodology was used. The time horizon is cross sectional as data were collected in specific period of time. Multiple regression was used as multivariate technique to analyze the data.

Convenient sampling method was adopted for this study. Therefore, managers or executives or proprietors of small businesses in the Eastern Province of Sri Lanka were taken for the study. For data collecting purposes, I could draw 350 proprietors or employees from the Eastern province of Sri Lanka, who were given the questionnaires. Out of the total questionnaires, 234 questionnaires were received duly filled. The study was conducted from March - December 2018. The items in the questionnaire were adopted from Zehir, Kole, and Yildiz (2015) and from Morgan, Zou, Vorhies, and Katsikeas (2003). The questionnaire was prepared in three languages such as English, Sinhala, and Tamil. All items under variables were measured using a 5 - point likert scale. The questionnaires were administered in three districts : Ampara (93 respondents), Baticaloa (72 respondents), and Trincomalee (69 respondents) in the Eastern province of Sri Lanka.

Analysis and Results

The demographic profile of the respondents is depicted in the Table 1. Factor analysis was conducted for bringing the data into one variable. The variable - Market Orientation had four factors, Innovation Capability had two factors, and Business Performance had two factors. All extracted factors were more than 0.5. I averaged the

Table 1. Demographic Profile of the Respondents

Characteristics	%
Sex	
Male	73.3
Female	26.7
Age (in Years)	
< 26	-
26-35	26
36-45	32
46-55	24
Above 55	18
Income (Monthly)	
Income Below ₹ 50,000	41
Income Between ₹ 50,000 - ₹ 100,000	39
Income Above ₹ 100,000	20
Qualifications	
Less than GCE OL	6
Between GCE OL - GCE AL	29
Degree	39
Postgraduate	20
Other	6

Table 2. KMO and Cumulative Variances

Variables	KMO	Cumulative Variances
Marketing Orientation	0.597	80.834%
Innovation Capabilities	0.510	67.320%
Business Performance	0.500	75.381%

variables using computation method in SPSS. The KMO and cumulative variances are given in the Table 2.

All values of KMO are more than or equal to 0.5, which means that the sample was adequate for factor analysis. Further, cumulative variances are also given in Table 2, which shows that the data are well represented for analysis.

Correlation results of the analysis are depicted in the Table 3. The correlation coefficient between Market Orientation and Innovation Capabilities is below 0.85, which shows the existence of discriminant validity among

Table 3. Correlation Analysis

		Correlations		
		Market Orientation	**Innovation**	**Business Performance**
Market Orientation	Pearson Correlation	1	.129*	-.290**
	Sig. (2-tailed)		.049	.000
	N	234	234	234
Innovation	Pearson Correlation	.129*	1	.792**
	Sig. (2-tailed)	.049		.000
	N	234	234	234
Business Performance	Pearson Correlation	-.290**	.792**	1
	Sig. (2-tailed)	.000	.000	
	N	234	234	234

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

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

Figure 2. Correlation Between Market Orientation and Business Performance

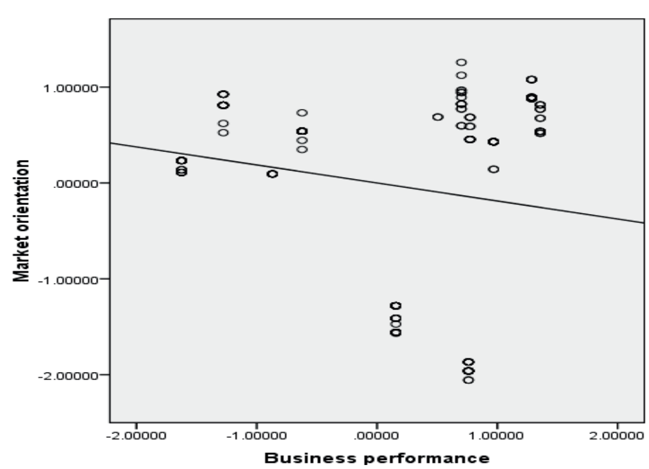


Figure 3. Correlation Between Innovation and Business Performance

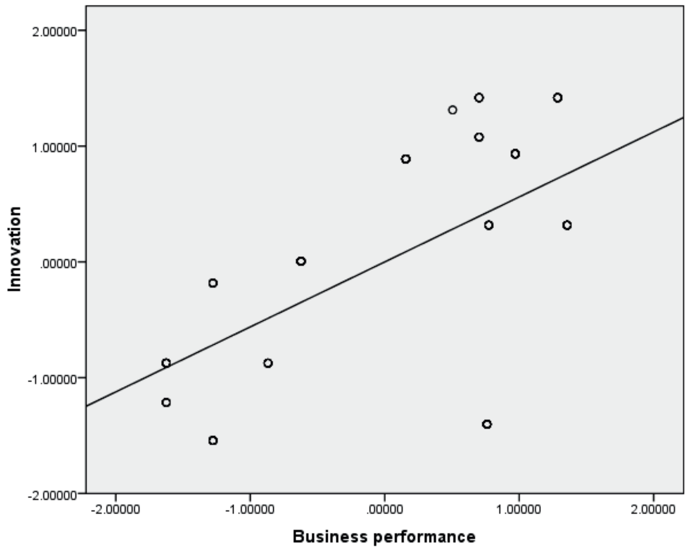
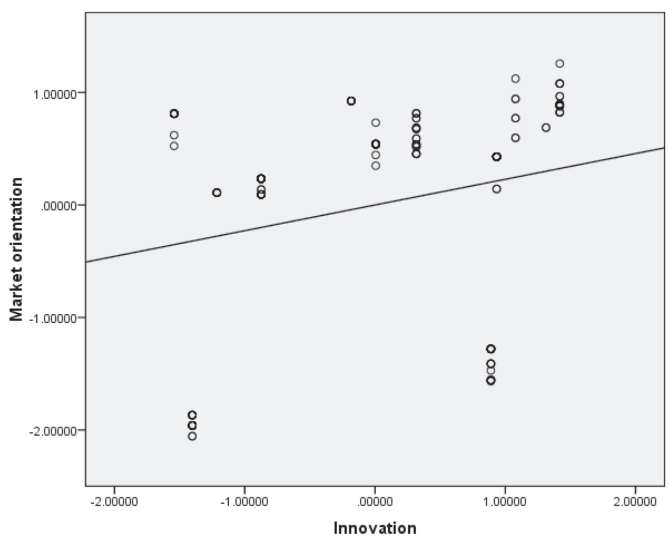


Figure 4. Correlation Between Market Orientation and Innovation



the variables under study. The associations between independent variables and dependent variable are examined with the help of scatter plots and correlation coefficients.

In the case of Market Orientation of small businesses in the Eastern part of Sri Lanka, it does not have a positive relationship with Business Performance (Figure 2). The association between Market Orientation and Business Performance is negative ($r = -.290, p < 0.05$).

In the case of Innovation Capability and Business Performance of small businesses in the Eastern part of Sri Lanka, the correlation is positive. This is shown in Figure 3. There is a positive association between Innovation Capabilities and Business Performance ($r = 0.792, p < 0.5$).

The study also observes that there is a positive moderate association between Market Orientation and Innovation Capabilities ($r = .129, p < 0.05$). This is explained in Figure 4.

The correlation analysis shows that although there is a strong association between Innovation Capabilities and Business Performance of the small businesses in the Eastern part of Sri Lanka, Market Orientation is not associated with Business Performance. However, this does not explain the causation of these independent variables. Innovation Capabilities positively impact the performance of small businesses in the Eastern part of Sri Lanka.

Hypotheses Testing : Multiple regression analysis was carried out and reveals that the model is the best fit. This means that dependent variables such as Market Orientation and Innovation Capabilities contribute to the overall model fit. However, Market Orientation does not significantly support the performance of the small businesses in the Eastern part of Sri Lanka. Multiple regression results are shown the in the Table 4.

According to the model summary, the R - square value is 0.420, pointing out that the variation in business performance of small businesses is explained by Market Orientation and Innovation Capabilities. The Durbin - Watson statistic is also not far from 2. The Table 3 indicates that the model is best fit with the probability value (p < 0.05). This means that this model can be utilized to figure out the Business Performance of the small businesses. Further, the findings show that Market Orientation does not significantly contribute to the small businesses' performance ($p < 0.05$, t = - 6.484) in Eastern Sri Lanka. Therefore, H_1 is not supported. However, the value of Innovation Capability of small businesses significantly contributes to the business performance ($p < 0.05$, t = 12.388) of the small businesses. As a result, H_2 is supported. Thus, the regression equation is as follows :

$$\textit{Business Performance} = 1.050\text{E} - 16 - 0.334\ \textit{(Market Orientation)} + 0.637\ \textit{(Innovation Capability)}$$

Since there is discriminant validity and VIF values are less than 5, it can be concluded that there are no multicollinearity issues among the independent variables.

Table 4. Multiple Regression Results

Predictive Variable	Beta	t	Sig.	VIF
Market Orientation	-.334	- 6.484	.000	1.055
Innovation Capability	.637	12.388	.000	1.055

Note. $F_{2,231}$ = 83.772, n = 234 ; R Square = 0.420, Adj. R Square = 0.415, p < 0.05, Durbin - Watson = 1.605, Constant = 1.050E-16

Discussion

Market Orientation has a negative effect on the business performance of the small businesses in the Eastern part of Sri Lanka. There may be many reasons attributed to this situation of small businesses. The findings suggest that discussion of strengths and strategies of competitors are lacking. For firms to be market oriented, competitive information on the strengths, weaknesses, and their strategies are essential for their strategy development, irrespective of big or small businesses. This also should be discussed by the top management of firms regularly. While the firms obtain all information with regard to the competitors, firms will also be able to understand customer needs and may develop or launch products which are with a competitive advantage. Hence, small businesses should be very competitive, for which there is a need for understanding the customer needs. Additionally, these small firms are lacking in grafting strategies that should be derived from creating value for customers.

Despite the fact that small businesses in Eastern Sri Lanka have some shortfalls in Market Orientation, the findings also show that small businesses mostly focus on customer satisfaction and formulate their business objectives accordingly. Furthermore, they are ready to fulfil customer needs and the managers of the small firms share their experiences, which may be successful or unsuccessful, across all employees and peers. Moreover, the findings also suggest that managers in small firms assist in transmitting informal information among all functions of the firms. This also shows that all managers in small businesses understand that all of them are attempting to create customer value.

Innovation Capability of small businesses significantly contributes to their business performance. The findings suggest that although these small firms perceive innovation as risky, they are very enthusiastic to introduce new products to the consumers who may timely need it. It is also suggested in the study that while having new product ideas, they also attempt to do operations in different ways.

Conclusion and Implications

The objective of the study is to examine the impact of market orientation and innovation capability of small businesses on their business performance in the Eastern region of Sri Lanka. The findings indicate that there was a dearth of market orientation in small businesses in the region. Small businesses in the region need revival in both marketing and human resources, although some of the factors under market orientation positively contributed to business performance. Innovative capabilities are also found to significantly contribute to the business performance of small businesses in Eastern Sri Lanka.

Small businesses are in need of marketing skills, especially marketing planning and adopting market orientation. This implies that customers' response/feedback to products marketed by small businesses in the region should well be understood. Specifically, small businesses in the area need to focus more on competitive orientation that may help them being competitive in the dynamic marketplace. They also need to understand competitors' strengths, weaknesses, and their strategies. The small businesses should get insights into how competitors are responding to the changing needs of the market, and the managers need to be trained in competitive intelligence generation. By understanding the competitors, it may be possible for them to differentiate their offers and enjoy a competitive advantage.

The findings of this study are in line with the study results of Pantouvakis, Vlachos, and Zervopoulos (2017), who emphasized that the positive impact of market orientation on business performance could be interrupted by rigorous competition in the marketplace. Hence, market orientation along with innovation capabilities are very much essential for small businesses to sustain and grow. Thus, market orientation is well connected with organizational culture of the firm (Crittenden, Crittenden, Ferrell, Ferrell, & Pinney, 2011) and it must be given priority to implement it to sustain the business in the intense competitive environment. The study also recommends training on marketing managerial aspects to the small businesses.

Limitations of the Study and Scope for Further Research

This study investigates the impact of market orientation and innovation capabilities on the business performance of small businesses in the Eastern part of Sri Lanka. The top management should commit towards adopting market orientation within the firm as the culture of the organization. The study has limitations in terms of generalization of the findings to all small businesses in the country. Data were collected only in the Eastern part of Sri Lanka and small businesses in other parts of the country are also well established. Therefore, future studies should be directed by considering businesses in other parts of the country too. The study results may also be affected due to respondents' bias, which can be addressed by taking a larger sample size in future studies.

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About the Author

Dr. M. I. M. Hilal is a Senior Lecturer in Marketing Management attached to the Faculty of Management and Commerce, South Eastern University of Sri Lanka, Sri Lanka. He has 16 years of experience in teaching and researching in marketing management.