

The Dynamic Trio: Market Orientation, Innovativeness and Psychological Business Performance

¹Gurpreet pal Kaur, ²Harpreet Singh Bedi

¹Research Scholar, Lovely Professional University, Punjab, 144401

profgurpreetpalkaur@gmail.com

²Professor, Mittal School of Business, Lovely Professional University, Punjab, 144401

profharpreetbedi@gmail.com

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Abstract

Considering market orientation and innovativeness as a continuous effort put into the development of the business performance of all kinds, scholarly interest in these concepts has consistently enhanced in the past few decades. The objective of the current study is to ascertain how the constructs of market orientation and innovativeness affect the performance of SMEs. 343 SMEs in the Punjab state of India were surveyed for the study. The results show market orientation and innovativeness are positively related to psychological business performance. Market orientation and innovativeness constructs provides considerable ideas for the development of new products, along with up-gradation of the existing product. The results of this study emphasise the necessity for managers to foster a creative culture inside the company while also taking into account how market orientation and innovation affect the psychological performance of the company. The study makes a significant academic contribution for future researchers and management practitioners to ponder upon.

Keywords: Market Orientation; Consumer Psychology; Innovativeness; Business Performance; Strategy

1. Introduction

Market Orientation and Innovativeness are now recognised as the key drivers of organisational success and expansion. These competitive strategies generate the appropriate behavior to create improved value for the consumer and assure enhanced long-term benefits for businesses. The role of market orientation and innovativeness has been amplified in the business with the emergence of a globally competitive, digitalized, and inconsistent business environment. Moreover, the way clients consume products has altered as a result of Covid-19. 76% of customers indicated in the Mckinsey survey (2020) that they use their money wisely by spending on essential products only. Also, this crisis has put forward several challenges on the business such as a change in consumer demand patterns, and uncertain market conditions. It enhances the necessity of firms to be market-oriented and innovative.

The extant literature also advocated the importance of market orientation and innovativeness in the business with its strong impact on business performance (Deshpande, Farley & Webster, 1993; Slater & Narver, 1994; Han, Kim, & Srivastava, 1998; Menguc & Auh, 2006). Market orientation and innovativeness improve the business performance by creating efficiency concerning a product, promotion, pricing, and distribution in the firm. It urges the business to produce innovative products and services to ensure better decision-making and customer satisfaction.

The conventional practice was to initially develop the product and then discover the market for it. The product was served in the market without any previous research regarding consumer needs. This could be a great idea in a few cases but in most cases, it causes inventions to fail in the market. As nowadays, customers are well-informed and need diversity and better quality in products. The business has to be considerate towards customers' needs, else they would lose the sale to competitors. Thus, businesses need to adopt a market orientation and innovativeness approach to explore consumers' needs before starting the product development process. Producing products as per previously identified customers' needs enhances the chance to succeed in the market. Besides, the various challenges posed by the covid-19 pandemic on the business, the importance of these two constructs has been hyped. Thus, businesses are compelled to look for and grab the opportunities to meet the needs of consumers and other stakeholders, along with the adaption of new market conditions.

This study attempts to provide a unique perspective of market orientation and innovativeness constructs by assessing the effect of these constructs on business performance. It proposes the best practices to address the Covid-19 crisis. Also, puts forward that how market orientation- innovativeness relationship destined to better business performance.

2. Theoretical Framework

2.1 Market Orientation

Market orientation is the salient construct in the business, strategic planning, and management domain. It is to understand and satisfy customers and other related stakeholders (Narver & Slater, 1990; Day, 1994; Naidoo, 2010). As per Narver and Slater (1990), market orientation is "the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business". It is the business strategy that positions customers at the core in product development activity. This approach explores customers' needs and preferences to design products/services for them. Kohli and Jaworski (1990) described the market orientation construct from a market intelligence perspective and define it as, "the organization-wide generation of market intelligence, dissemination of the intelligence across departments and organization-wide responsiveness to it". It is the manner in which the firms acquire and uses customers' information, frame and implement a strategy in response to customer needs and wants.

Market Orientation is a strategy stance taken by a corporation in which information is gathered from both internal and external sources and distributed across the organisation. It indicates the firm's tendency towards intelligence generation and dissemination as regard to customers and competitors, as well as, responsiveness to it. Intelligence Generation comprises of obtaining information about customers' needs and preferences, along with the effect of exogenous factors i.e., competitors, technology, government, regulations, etc on it. It is generated collectively by all the departments in the organization. Market Intelligence Dissemination concerns with effective communication and dispersal of generated intelligence all over the business via formal and informal methods. Responsiveness implies taking action in reaction to intelligence that has been produced and shared. These actions include response designs (i.e., plan development) and response implementation (i.e., plan implementation). All departments are collectively responsible for it.

Being competent in the acquisition, circulation, and proceeding of first-hand market information, market-oriented firms easily adjust in varying market circumstances. These firms consider the expressed and implied needs of customers, which precedes the employment of innovation opportunities that are linked with the firm's current domain and existing knowledge and experience (Slater & Narver, 1995, Atuahene-Gima & Ko, 2001). By this means, firms lead to swift improvement in the internal and external business environment, effective innovation, and the latest technology adaption. This innovative culture assists the firm to cater new customers' requirements, developing new and upgraded products, and opening up new business processes.

2.2 Innovativeness

Innovativeness is considered as the fundamental approach to create potential in the firms and stimulate the linkage between market orientation and performance. It is the ability of an individual or a business to innovate (Hurley & Hult, 1998). Innovativeness is the process wherein new ideas are acquired, sorted, financed, developed, amended, processed, implemented, and commercialized. It is "the ability of a firm to take quick advantage of scientific or technological discoveries, commercializing them in ways that translate the discoveries into added-value goods and services for their customers" (Bradmore, 1996). It involves using existing knowledge to produce new knowledge (Popadiuk & Choo, 2006). It entails the creation, acceptance, and application of innovative concepts, practises, services, or amenities. As per Knight (1997), "innovativeness is the pursuit of creative or novel solutions to challenges confronting the firm, including the development or enhancement of products and services, as well as administrative techniques and technologies for performing various organizational functions in an effective and efficient manner". It entails an organization's ongoing efforts to consider novel concepts for technical processes, organisational procedures, and administrative systems. (Calantone, Cavusgil, & Zhao, 2002).

Innovativeness can take many forms, from the straightforward use of new advertising promotion to the application of cutting-edge technology techniques (Lumpkin & Dess, 1996). Technical innovation and administrative innovation are the two categories that Damanpour (1987) used to categorise innovation. As per Damanpour (1987), "A technical innovation can be the implementation of an idea for a new product or a new service or the introduction of new elements in an organization's production or service operations." It is an organization-wide factor that includes Product and Process Innovations. Product innovation measures a company's capacity for developing and then introducing new products or services or demonstrating an improved version of those that have already been made accessible. It covers topics including determining the customer's needs, translating those needs into novel or improved products and services, testing novel products, and commercialising them (Feldman & Florida, 1994). While process innovations involve the use of new or significantly enhanced delivery or manufacturing techniques that have an impact on all facets of economic output and society (Bedi, 2016a). According to Crossan and Apaydin (2010), it is typically done to lower the cost or improve the quality of the

product. In line with product and process innovation, innovation culture is remarked as a foundational element to understand and implement innovativeness in the firms. Such culture boost employees' innovation capacity, risk tolerance capability and encourages personal growth and development (Menzel, Aaltio and Ulijn, 2007).

Innovativeness encourages the development of products and services accompanied by novel technologies and management practices concentrating on the organization's operations like production, marketing, sales, and distribution (Zahra & Covin, 1994; Viz & Bedi, 2016). It forces a business to adapt to consumer demands and boosts the organization's competitiveness (McGrath, 2001). It makes it easier for firms to adapt to industry shifts swiftly, which provides cushions against risk and volatility. Innovativeness makes the existing business processes less time-consuming, less costly, and more sustainable. It also provides an opportunity for newcomer firms to gain a foothold in the established market. Thus, it offers great opportunities regarding growth and expansion in new areas.

2.3 Effect on Business Performance

Market Orientation and innovativeness are considered as an essential determinant of business performance. Various researchers demonstrated the direct relationship of market orientation with business performance (Jaworski & Kohli, 1993; Narver & Slater, 1990; Slater & Narver, 1994, 1998; Pelham & Wilson, 1996; Day 1994b). As per them, market orientation in business firms leads to the collection and processing of optimum market information. It instigates such firms to predict the market requirements precisely and swiftly, leading to a quick and suitable response. The literature also advocated the positive relationship between innovativeness and firm performance through various studies regarding the development of a new product, process improvement, adopting and disseminating technology (Han et al, 1998; Irwin, Hoffman, & Lamont, 1998; Calantone et al., 2002). It fabricates products, services, processes, and systems to utilize it to meet consumer requirements and also, assist the firm in its growth and profitability improvement (Naman & Slevin, 1993). However, some studies supported the linkage between market orientation, innovativeness, and business performance (Deshpande et al., 1993; Atuahene-Gima, 1996; Han, Kim, & Srivastava, 1998; Menguc & Auh, 2006). By making use of market orientation and innovativeness concepts, firms can develop capabilities for high performance and for gaining competitive advantage.

Market-oriented firms always focus on their customer's present requirements and the modifications desired by them in the future. This valuable information directs the company's efforts in adding auxiliary features in product/services and developing new products/services. It paves the way to employment of innovation opportunities that are associated with firms prevailing field, knowledge, values, and other activities. It directs the firm's efforts in enhancing product/services development or inclosing supplementary features to existing products/services. It precedes the enormous purchases from current buyers along with attracting new ones. This signifies pleasing customers in competition, which causes an increase in market share.

Market orientation and innovativeness in the firm ultimately result in cost efficiency, product success, increased sales and profit, market growth along with end-user satisfaction. These constructs provide a competitive advantage to the firm by developing capabilities to quickly respond to environmental changes (Hurley & Hult, 1998). Innovativeness generates the need among customers, especially for the highly technological products. An example is the shift of cell phones from business accessories to common man daily use products. The domino effect of Innovativeness along with market orientation is me-too products, new to the world products, and line extensions. It enhances customer satisfaction and loyalty, competitive advantage, employee satisfaction, the improved financial performance of the firm.

Hypothesis 1: Market orientation is positively related to business performance.

Hypothesis 2: Innovativeness is positively related to business performance.

3. Methodology

Cross-sectional research methodology was used for this study. 343 SMEs in Punjab were selected as a purposive sample using a personal survey. Managers, senior level key executives, and promoters have been chosen as respondents to represent each organisation. The study takes into account SMEs with yearly turnovers ranging from Rs. 5 crores to Rs. 250 crore and investments between Rs. 1 crore to Rs. 50 crores.

To operationalize market orientation, thirteen item five-point scale developed by Kohli and Jaworski (1990) has been adapted which include intelligence generation, intelligence dissemination and Responsiveness. A fifteen item five-point scale has been adopted to study innovativeness. It consists of the innovation measures developed by Calantone et al. (2002); Wang and Ahmed (2004), Hurley and Hult (1998), Mavondo et al. (2005), Zahra et al

(1996), Rhee et al. (2010); Capon et al., (1992) It include product innovation, process innovation, and innovation culture in the firm. The study adapted the business performance measures developed by Vij and Bedi (2016) for "Subjective Business Performance Relative to Competitors".

IV. Result Analysis

A. Psychometric Testing

For the psychometric assessment of the latent variables of market orientation, psychological business performance, and innovativeness, confirmatory factor analysis has been used. Market orientation has been thought of as a second-order concept. The intelligence creation construct is loaded with five items, whereas the intelligence dissemination and response constructs are each loaded with four variables. Innovativeness is a concept that has been described as a second order factor, has been divided into three main categories: product innovation, process innovation, and innovation culture with five items loaded on each. Business performance is seen to be a second-order construct that combines internal and external performance. Sales Growth, Market Share, Competitive Position, Customer Satisfaction, and Return on Investment make up the first-order construct of external measurements, while Product Quality, Service Quality, Product Innovation, Process Innovation, and Employee Satisfaction make up the first-order construct of internal measurements.

Table 1: Indices and Psychometric Properties of Market-Orientation, Innovativeness and Business Performance

Parameter	Market Orientation	Innovativeness	Business Performance
Chi-square	176.147	195.655	90.584
Degree of Freedom	61	86	31
Normed Chi-square (Chi-square/df)	2.888	2.275	2.922
GFI	.932	.932	.951
AGFI	.900	.905	.912
NFI	.940	.938	.956
CFI	.960	.964	.970
RMR	.011	.011	.009
REMSA	.074	.061	.075
AVE	.573	.551	.752
CR	.785	.780	.820

Table 1 displays the measurement models' psychometric characteristics and model fit indices. The constructs all showed good model fit. The 3-point cut-off is met by normed chi-square. The goodness of fit indices AGFI, GFI, CFI, and NFI all surpass the 0.90 cutoff. RMR and RMSEA, which rate the poorness of fit, are below the 0.08 cutoff. Every single empirical indicator is significant. The high indexes for AVE and CR recognise the scale items' convergent validity and reliability.

B. Hypothesis Testing

The relationship between market orientation and business performance has been examined using a structural model (see Figure 1) that has been constructed and tested.

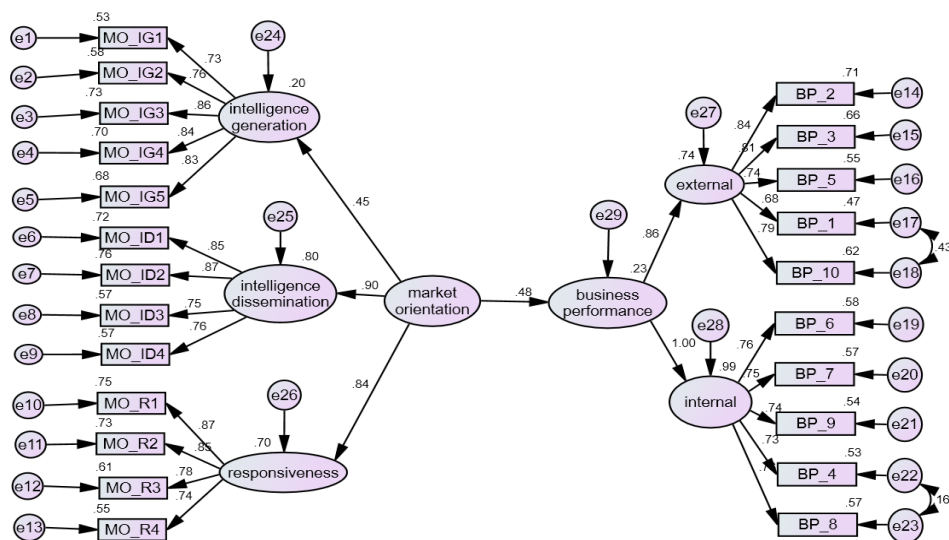


Figure 1: Structural Model of Market orientation – Business Performance relationship

The measurement model displays a Normed Chi-square value of 2.771, GFI values of 0.872, AGFI values of 0.842, NFI values of 0.900, CFI values of 0.925, RMR values of 0.021, and RMSEA values of 0.071. By the 3.0-point conservative cut-off, normed Chi-square is acceptable. NFI and CFI are greater than the threshold of 0.90. RMR and RMSEA are below the .08 threshold. The conservative cut off of .90 (Hair et al., 2008; Joreskog and Sorbom, 1993; Hooper et al., 2008) was extremely close to the GFI and AGFI of .872 and .842, respectively, but significantly beyond the progressive cut off of .80 (Brett and Drasgow, 2002). The theory-based model is said to reproduce itself through observable data, which is supported by all of the indicators. Market orientation significantly explains business performance with a positive and strong connection (beta coefficient of 0.48) and a sizable R-square of 0.23. The results offer sufficient proof in support of hypothesis 1.

A structural model (see Figure 2) has been developed and put to the test with the aim of studying the relationship between innovativeness and business performance.

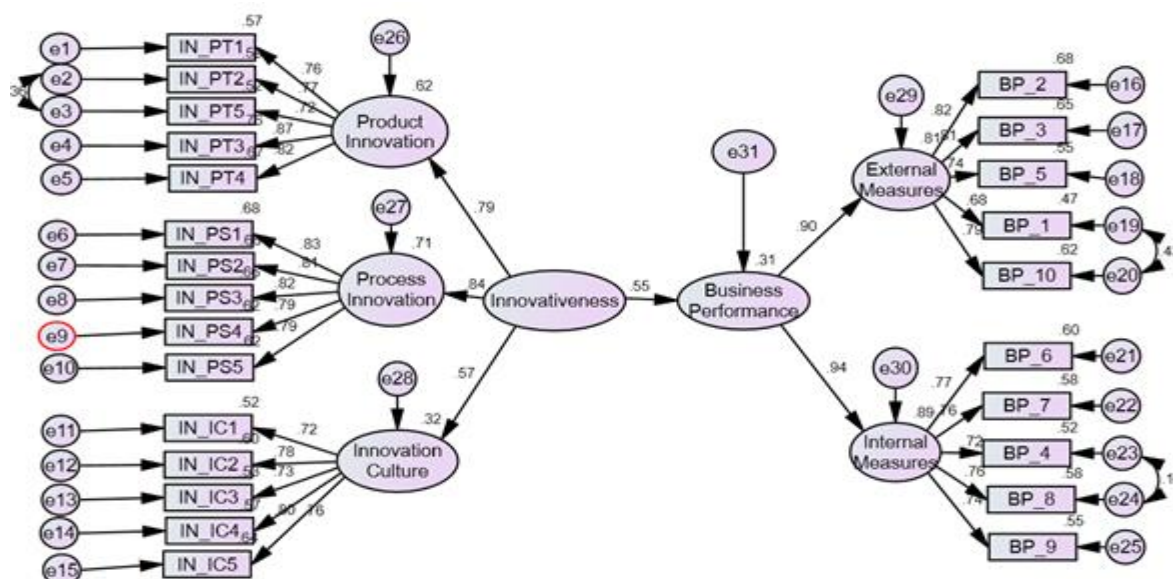


Figure 1: Structural Model of Market orientation – Business Performance relationship

The measurement model presents a Normed Chi-square values 2.510, GFI values 0.871, AGFI values 0.843, NFI values 0.903, CFI values 0.925, RMR values 0.017, and RMSEA values 0.066. Chi-square norms are acceptable under the 3.0-point conservative cutoff. The NFI and CFI are over the 0.90 cutoff. RMR and RMSEA fall within the .08 cutoff. The conservative cut off of .90 (Joreskog and Sorbom, 1993; Hair et al., 2008; Hooper et al., 2008) was much higher than the progressive cut off of .80 (Brett and Drasgow, 2002) but very near to the GFI and AGFI of .871 and .843, respectively. The theory-based model is backed by all of the indicators and is considered to reproduce itself through observable data. With a large positive and high association (beta value of 0.55) and a sizable R-square of 0.31, innovativeness considerably explains firm performance. The data are sufficient proof for hypothesis 2 to be true.

6. Discussion

This study reveal that the market orientation and innovativeness constructs have positive impact on business performance. The study observes market orientation and innovativeness as important strategic concepts in modern business. These constructs provide creative insight that assists the business firm to view various matters from a different perspective. These matters could be either designing and developing a new product/service, refreshing strategy, or various manners to stay ahead in the competition. This can lead to increased customer satisfaction, loyalty and ultimately, business success.

Market orientation and innovativeness are the critical skills required for achieving business success. These constructs not only result in new inventions in the firm but this synergy also enhances overall business performance. Market orientation improves performance by granting organizations a superior capacity to attract, understand, and retain customers (Day, 1994b). Innovativeness "pursues a coherent technology strategy to articulate its plans to develop, acquire, and deploy technological resources to achieve superior financial performance" (Zahra, 1996). Thus, the impact of market orientation on a firm's performance intensifies with innovativeness (Menguc & Auh, 2006). It results in satisfied and loyal consumers, innovative products, satisfied employees, and a competitive advantage to the firm.

The study allows a deeper understanding of market orientation and innovativeness constructs and enhances theoretical literature regarding it. It suggests these constructs as the crucial drivers of firm success. From a practical perspective, this study provides significant propositions for managers. It suggests the managers to design and implement strategies and organizational practices consistent with these constructs. It will provide them with various options to satisfy customers' needs on a sustainable basis and boost the firm's performance in a financial and non-financial manner. Moreover, market orientation and innovativeness offer managers to manage the Covid-19 pandemic crisis by providing operational efficiency and a crucial competitive advantage.

7. Limitations and Future Research

Finally, this study acknowledges some limitations, necessary to keep in mind. The present study is broadly based on the firms in general, ignoring its categorization as manufacturing, service, and other firms. The future study must include a wider range and category of firms. The prevailing research confines the casual linkage in-between the constructs i.e., market orientation, innovativeness, and psychological business performance. However, learning orientation and entrepreneurial orientation must also be involved in the model for future research. This study completely ignores the impact of environmental factors on market orientation, innovativeness, and business performance taxonomies. Future research must explore the manner environmental factors influence these constructs. Moreover, the age and size of the firm, industry type, technology, market, entrepreneurial style, management approach as the moderators of given constructs must be studied in future research which is ignored in the present study. It is expected that the research prospects unearthed in the present study will encourage further valuable discussion on the market orientation-innovativeness and performance linkage. The suggested study would shed more light on the idea, market orientation, innovativeness, and firm performance.

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