

Effect of market orientation and innovation on business performance: Mediating role of competitive advantage

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Abstract

The goal of this study is to describe how market orientation and innovation help Small and Medium-Sized Enterprises (SMEs) in Bangladesh had improved their marketing performance. To do this, a sample of 350 managers and Operations Managers from SME Enterprises in Bangladesh was chosen by purposive sampling technique and studied using structural equation modeling (SEM). This research shows that SMEs' performance would improve if they identify and meet customer needs. Furthermore, a company's ability to build a competitive advantage based on innovation and market orientation is directly correlated to the degree to which the company places a high priority on its customers. The study also found that market orientation and innovation have substantial direct and indirect implications on business success through competitive advantage. This means that competitive advantage considerably moderates the effect of market orientation and innovation on marketing performance, suggesting that a stronger business performance is associated with improved competitive advantage. For business success, managers must invest in customer orientation and innovation performance.

Keywords Market orientation, Innovation, Competitive advantage, Marketing performance

Paper type Research paper

Introduction

Small and medium companies (SMEs) are a significant engine for sustainable economic development for a developing country via projected industrialization and steady economic advancement through value creation. SMEs are a major driver for sustainable economic growth for both developed and developing nations. Therefore, small and medium-sized businesses should be considered an engine of sustainable economic growth (Marwa, 2014). The ability of SMEs to develop, on the other hand, is heavily dependent on their capacity to make investments in the reorganization and extension of their business operations (Choudhury, 2015). Capital raising has always been a barrier for the



development and sustainability of SMEs.

Changes in technology, hardware, software, marketing expertise, and even political tensions between nations on the one hand, and initiatives along with quick business on the other, have led to new difficulties for small and mid-size manufacturing enterprises (Marwa, 2014). Businesses must think about how other similar businesses have dealt with the challenges of achieving their fundamental objectives (i.e., survival, expansion, and profitability) at different points in their existence. The performance of these businesses, like that of the country's other economic sectors, is contingent on many important and deciding variables, all of which need to be analyzed thoroughly. A country's specialty comes due to investing in any one innovation engine through its limited resources and capacity. That's a big deal in today's knowledge-based economy, where that kind of differentiation is crucial to success. Knowledge and innovation are both drivers of economic development; however, Capello and Lenzi (2014) discover that the advantages of knowledge are more concentrated in growth while the benefits of innovation (concept commercialization) tend to be broader.

Bangladesh is struggling to make the shift to a knowledge economy, and innovation is a key factor in this process. Despite the changes, businesses continue to focus on innovation, competitive advantage building, and customer value enhancement. Information about consumers, rivals, and the market as a whole is gathered and analyzed during all of these procedures, giving rise to the idea of market orientation. An organization's market orientation may be defined as its strategic stance toward gathering and disseminating data from both internal and external sources. According to Lewrick, Omar, and Williams, (2011), market orientation involves systematically collecting data and sharing it throughout the company. Organizational dedication and cooperation are essential throughout.

Market orientation and organizational learning have both been shown to provide competitive benefits in the marketplace (Farrukh & Waheed, 2015). The ability to adapt to a shifting market and provide exceptional value to customers through a steady stream of innovative offerings is Market Orientation (Jaworski & Kohli, 1993). In particular, their concept emphasizes the need of gathering and act on market data at all levels of an organization so that all relevant units may effectively adapt to changing market circumstances. It is often held that a firm's success may be improved with a focus on the market.

Review of the literature

Features of a company's performance include its reputation in the market, the quality of its suppliers, the efficiency of its operations, the quality of its personnel, and the relationship with the customers (Zulkiffli & Perera, 2011). For improved performance, small and medium-sized enterprises (SMEs) should familiarize themselves with the idea of market orientation (Amin, Thurasamy, Aldakhil, & Kaswuri, 2016). Every firm has an interest in understanding the market accomplishment of the items being sold, one of the indicators that are used to analyze whether or not the company's policy was successful is the marketing performance of the company. Business success is strongly correlated with an organization's focus on the market, as shown in both direct and indirect ways (Dubihlela & Sandada, 2014; Lee, Kim, Seo, & Hight, 2015; Amin, Thurasamy, Aldakhil, & Kaswuri, 2016). The success of a business may be assessed by looking at its marketing metrics with the promoted product; it may be used to evaluate the effectiveness of corporate strategy (Handayani & Handoyo, 2020). Weerawardena (2003) said a company's entrepreneurial efforts would create strong marketing performance if it promotes proactivity in its business operations.

Scholars in the field of marketing have created the notion of "market orientation" as a framework to study the processes by which businesses seek and gain a lasting advantage in the marketplace (Kumar, Jones, Venkatesan, & Leone, 2011). The idea of market orientation and the construction of metrics to gauge these have been developed in the literature to operationalize the effect of marketing on corporate performance (Narver & Slater, 1990). According to the literature (Kohli & Jaworski, 1990), market orientation is a culturally grounded, strategic leaning toward meeting consumers' wants and requirements. An organization's market orientation is predicated on the principle that it can best serve its customers by analyzing their needs and the needs of its competitors (Avlonitis & Giannopoulos, 2012). Powell (2001) says persistent superior performance is a dependent variable in strategy research, and the competitive advantage construct should only be employed if it explains how performance is obtained. Financial indicators can not imply a 'realistic' market advantage.

Companies with the ability to innovate and work together effectively have a better chance of boosting their performance. It is recommended that SMEs put their efforts into being more creative. The success of a business may benefit from innovation (Vazquez-avila, Sanchez-Gutierrez, & Mejia-Trejo, 2014). Innovation and financial success are inextricably linked (Herman, Hady, & Arafah, 2018). Innovation is crucial in a dynamic world. It is a key driver of economic development in nations. Individual, corporate,

regional, and national competitiveness depend on innovation. Innovations generate new methods to accomplish things or new goods and processes that produce money. When a corporation is seen as a bundle of resources, skills, and competencies, innovation transforms its inner capacities, making it more flexible, better able to learn, and exploit new ideas. This adaptability is key in shifting market situations. The use of innovation strategies is viewed as a method for achieving a greater and ultimately more long-lasting competitive advantage, in the sense that the effective incorporation of in-house technologies and externally sourced expertise will result in the production of a communally interactive and "causally uncertain" benefit, which competitors will be unable to simply replicate. A research conducted by Terziovski (2010), which explores the link between innovation and performance of wooden furniture manufacturing SMEs in Indonesia, reveals that innovation has a positive impact on the firm's performance. In addition, the findings of a study that was carried out in Kenya by Ndalira, Ngugi, and Chepkulei (2013) showed that innovation plays an important part in the expansion of small and medium-sized businesses (SMEs).

For a business to keep its competitive advantage over the long term, market orientation must be the overarching emphasis throughout the organization (Narver & Slater, 1990). Market orientation, according to Talaja, Miočević, Pavičić, and Alfirević (2017), boosts a company's competitive advantage, which in turn boosts the company's performance. Market orientation and competitive advantage interact favorably (Kamya, Ntayi, & Ahiauzu, 2010; Safarnia, Akbari, & Abbasi, 2012). To stay ahead of the competition, small and medium-sized enterprises (SMEs) need to invest in innovation (Abd Aziz & Samad, 2016). Many research (Herman, Hady, & Arafah, 2018; Abd Aziz & Samad, 2016; Bulankulama & Khatibi, 2014; Kamboj & Rahman, 2017; Wingwon, 2012) indicated that innovation contributed to a company's competitive advantage. Marketing success may be affected either directly by a company's competitive position or indirectly via a company's market orientation and the role of mediation played by competitive advantage (Kamboj & Rahman, 2017). A unique competitive advantage in marketing is also essential to marketing performance.

Because of noteworthy contribution of SME to GDP, small and medium-sized enterprises (SMEs) in Bangladesh are receiving special attention from policymakers, economic analyses, and financial professionals in the country. Despite this, small and medium-sized enterprises (SMEs) have yet to reach their full potential because of a number of limitations that are inhibiting growth and development. According to the findings of a significant number of empirical research, the primary factor preventing small

and medium-sized enterprises (SMEs) in Bangladesh from realizing their full potential is restricted access to external finance (Ahmed & Chowdhury, 2009; Quader & Abdullah, 2009).

Conceptual framework and research hypothesis

Conceptual framework

The effectiveness of the company's marketing is one of the metrics of its overall success. This success may be judged by looking at factors such as the number of yearly sales, the increase in market share, and the operational profit. The success of the marketing performance is influenced by a variety of aspects, one of which is the business plan that is put into action. The use of a promotional strategy in the company is an essential technique that may lead to an increase in overall sales. In addition, the employment of a promotional strategy has the potential to boost the firm's competitiveness. This is because, when promotions are run, the brand of the product in question becomes more well-known and is more likely to be recalled by customers. In other words, it has a beneficial impact on the accomplishment of the marketing performance goals.

According to our conceptual framework, improving a company's market orientation and innovative capabilities leads to an increase in the company's competitive advantage, which ultimately leads to an improvement in the company's business performance. The orchestration of the organizational activities that shape the formation of a competitive advantage as well as the performance of a firm is accomplished via the market orientation and innovation. Figure 1 provides a graphical representation of our model.

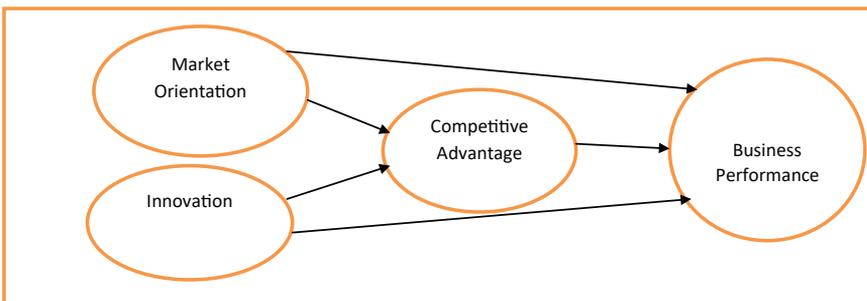


Figure 1

Conceptual framework

Research hypothesis

The following research hypotheses are developed based on the current theoretical framework:

H1: Market orientation has a positive influence on Competitive Advantage.

H2: Market orientation has a positive influence on business performance.

H3: Innovation capability has a positive influence on Competitive Advantage.

H4: Innovation capability has a positive influence on business performance.

H5: Competitive Advantage has a positive influence on business performance.

H6: Competitive Advantage mediates the relationship between Market Orientation and Business Performance.

H7: Competitive Advantage mediates the relationship between innovation and Business Performance.

Methodology

In this part, we will discuss the approach used in conducting this study. Methods of collecting data, determining a study's demographic and representative sample, and crafting a research instrument all fall under this category.

Sample and data collection

Our goal in doing this research was to learn how innovation capacity and market orientation influence business performance in small and medium-sized industries. The small & mid-size enterprise (SME) sector was selected as the target for this study for several good reasons. At the outset, small and mid-size enterprises (SMEs) are better able to respond to changes in the external environment than large corporations. Small and mid-size enterprises (SMEs) benefit more from building innovation capabilities because of their proximity to the market. Second, small and mid-size enterprises (SMEs) might appear as one of the primary drivers of the economy as they fight to bridge the gap between the requirements of large corporations and consumers. They link these two forces that shape the economy.

The purposive sampling approach was used to pick small and medium entrepreneurs in the region of Dhaka and Chattogram and then we selected 200 SMEs from these two regions. Data for this study was gathered by compilation of the questionnaire during a face-to-face interview to small and medium enterprises. The questionnaire is composed of an introduction, basic demographic data, and a series of assessments. Face-to-face interviews and self-administered questionnaires were used to gather information from managers and Operations Managers in each factory ranging in size in Bangladesh. 200 SMEs in Bangladesh have been selected using the purposive sampling technique of the total SMEs firms, 93.6 percent are small and 6.4 percent are medium (MOP, 2014). The sample size 150 and 50 were selected

between small and medium size enterprises respectively (Prifti & Alimehmeti, 2017). A total of 350 questionnaires were filled up with a response rate of 87.5% (50 questionnaires were deemed unusable due to missing data on key items).

Questionnaire development

To conduct this research, a questionnaire was developed. There are 2 sections to this survey. The first section relates to the six-item responder profiles. The second section uses a 5-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree) with five levels to evaluate nine indicators of market orientation, five indicators of innovation, five indicators of competitive advantage, and four indicators of business performance (Udriyah, Tham, & Azam, 2019). The questionnaire's validity and reliability have been checked using a set of tests. Structural Equation Modeling was used to test the model, and SmartPLS was utilized to evaluate the data.

Market orientation

Five questions measuring market orientation on a Likert scale from 1 to 5 were administered. Table 1 displays the elements that were taken from Narver and Slater (1990).

Innovation

Crossan and Apaydin (2010) mentioned "production or adoption, assimilation, and exploitation of value-added novelty in economic social spheres; renewal and enlargement of products, services, and markets; development of new methods of production, and establishment of new management systems. It is both a process and an outcome". To assess the innovation dimensions, a series of questions with a scale running from 1 to 5 was used, and participants were asked to rate their level of agreement or disagreement with each item.

Competitive advantage

The superiority of the company's products in terms of both quality and cost when compared to those of its rivals is what is meant by the term "competitive advantage". To provide higher value for one's client, Narver and Slater (1990) place a strong emphasis on the connection between a company's competitive advantage and its market orientation. They contend that increasing one's focus on the market results in an improvement in one's ability to analyze the sources of sustainable competitive advantage.

Business performance

Product success, sales growth, and total yearly revenue are all indicators of a firm's business performance, which measures how successful the company is at promoting its goods. The measurement of business performance included five items that were adopted from Narver and Slater (1990) (see Table 1).

Empirical results

PLS-SEM is a sophisticated statistical method that was employed to evaluate and estimate the causal links among the researched variables. This tool was used to assess the suggested research model and hypotheses.

Both market orientation and innovations were considered to be independent factors for this study; however, competitive advantage was considered to be a mediator between the independent variables and the dependent variable. PLS-SEM incorporates not one but two distinct levels of analysis, namely the structural model and the reflective measurement model.

The results of the reflective measurement model

The factor loadings were analyzed to determine the level of internal consistency. Table 1 shows that all factor loadings are over the minimum acceptable value of 0.70 (Hair, Hult, Ringle & Sarstedt, 2016).

Table 1

Outer loadings of the measurement model.

No.	Items of the Constructs	Outer Loadings
MO1	Our firm's customer-focused.	0.811
MO2	Customer satisfaction is routinely measured.	0.779
MO3	We focus on consumer requirements.	0.784
MO4	We generate value for our customers.	0.717
MO5	We track client demands.	0.686
MO6	Our sales and marketing divisions exchange competitive intelligence.	0.808
MO7	We react quickly to competition.	0.771
MO8	Different divisions are quite open with one another in terms of information sharing.	0.768
MO9	Tightly coordinating all divisions improves consumer value.	0.701
IN1	New concepts are routinely screened in our organization.	0.726
IN2	Our business always looks for better methods.	0.738
IN3	Our business has innovative ways of doing things.	0.770
IN4	Our firm introduces innovative goods and services first.	0.776
IN5	Innovation is seen as too dangerous but not opposed.	0.719
CA1	We invest in new capabilities to gain a competitive edge.	0.739

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No.	Items of the Constructs	Outer Loadings
CA2	It is quite tough for our rivals to imitate what we do	0.775
CA3	No one else can give our services.	0.727
CA4	No one can duplicate us by offering more to our staff since our numerous advantages are in the firm.	0.728
CA5	Our company routines, procedures, and culture are unique.	0.701
BP1	Your company does well in service quality in the SME industry in comparison to that of its immediate competitors.	0.839
BP2	Your company does well in customer satisfaction in the SME industry in comparison to that of its immediate competitors.	0.728
BP3	Your company does well to make a gross operating margin in the SME industry in comparison to that of its immediate competitors.	0.839
BP4	Your company does well to increase market share in the SME industry in comparison to that of its immediate competitors.	0.712

Both convergent and discriminant validity is evaluated using the reflecting measurement approach. "The degree to which markers of a certain concept converge or have a significant percentage of variation in common" is what's meant to be understood by the term "convergent validity"(Hair, Hult, Ringle & Sarstedt, 2016). To determine the level of reliability associated with each construct, Cronbach's alpha coefficient was used. Table 2 demonstrates that all of the alpha values are reliable and meet the condition of higher 0.7 (DeVellis, 2003) (Table 2). Composite reliability assumes the same thresholds as the cronbach's alpha (which is higher 0.7) and the table 3 indicates the internal consistency of the items. The average variance extracted (AVE) was used to investigate convergent validity. Constructs that have an AVE that is greater than 0.50 are considered to have convergent validity (Tenenhaus, Vinzi, Chatelin, & Lauro, 2005).

Table 2
Reflective measurement model assessment

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Business Performance	0.769	0.791	0.853	0.594
Competitive Advantage	0.733	0.747	0.772	0.508
Innovation	0.710	0.740	0.749	0.585
Market Orientation	0.834	0.862	0.869	0.533

To test the discriminant validity, according to Fornell and Larcker (1981) "the average variance shared between each construct, and its measurements should be greater than the variance shared between the construct and other constructs".

Table 3*Discriminant validity using the Fornell–Larcker criterion*

	Fornell-Larcker Criterion			
	Business Performance	Competitive Advantage	Innovation	Market Orientation
Business Performance	0.771			
Competitive Advantage	0.589	0.713		
Innovation	0.534	0.619	0.765	
Market Orientation	0.521	0.620	0.601	0.730

Off-diagonal regions show correlations, whereas diagonal regions show the square root of the average variance extracted (AVE).

Hypotheses testing

Reporting the path coefficient in terms of its sign, size, and significance was recommended by Hair, Hult, Ringle, and Sarstedt (2016) as a method for evaluating the structural model and testing the hypotheses. To create the path coefficient values and their related t. values, the bootstrapping procedures were conducted on the complete model using the Smart PLS program with 5000 resamples. This allowed for the generation of the path coefficient values (Hair, Hult, Ringle, & Sarstedt, 2016). The results provided support for all hypotheses (Table 4 & Figure 2). In particular, market orientation ($\beta = 0.189$, $t=2.197$), innovation ($\beta = 0.519$, $t=8.533$) exerted positive and significant effect on competitive advantage (Table 4 and Figure 2). This result provided support for H1 and H3. On the other hand, market orientation ($\beta = 0.325$, $t=4.267$), innovation ($\beta = 0.150$, $t=2.137$), competitive advantage ($\beta = 0.346$, $t=3.947$) had found positive and significant effect on business performance. This confirmed H2, H4, and H5.

Table 4*Hypothesis testing for direct effect*

	Path coefficient (β)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ($ O/STDEV $)	P Values
Market orientation -> Competitive Advantage	0.189	0.196	0.086	2.197	0.028
Market orientation -> Business Performance	0.325	0.332	0.076	4.267	0.000
Innovation -> Competitive Advantage	0.519	0.520	0.061	8.533	0.000
Innovation -> Business Performance	0.150	0.149	0.070	2.137	0.033
Competitive Advantage -> Business Performance	0.346	0.344	0.088	3.947	0.000

Mediation analysis

To evaluate the mediation effect of competitive advantage of Market Orientation and innovation on Business Performance, according to the recommendations of Preacher and Hays (2008), we used bootstrapping with a resampling size of 5000. The result found that the mediating effect of competitive advantage ($\beta = 0.066$, $t=2.113$) between Market Orientation and Business Performance is statistically significant, which supports H6 (Table 4 & Figure 2). In addition, the study found that mediating effect of competitive advantage ($\beta = 0.180$, $t=3.338$) between innovation and Business Performance is statistically significant and supports H7.

Table 5
Hypothesis testing for mediating effect

	Path coefficient (β)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Market orientation					
-> Competitive Advantage					
-> Business Performance	0.066	0.065	0.031	2.113	0.035
Innovation -> Competitive Advantage					
-> Business Performance	0.180	0.180	0.054	3.338	0.001

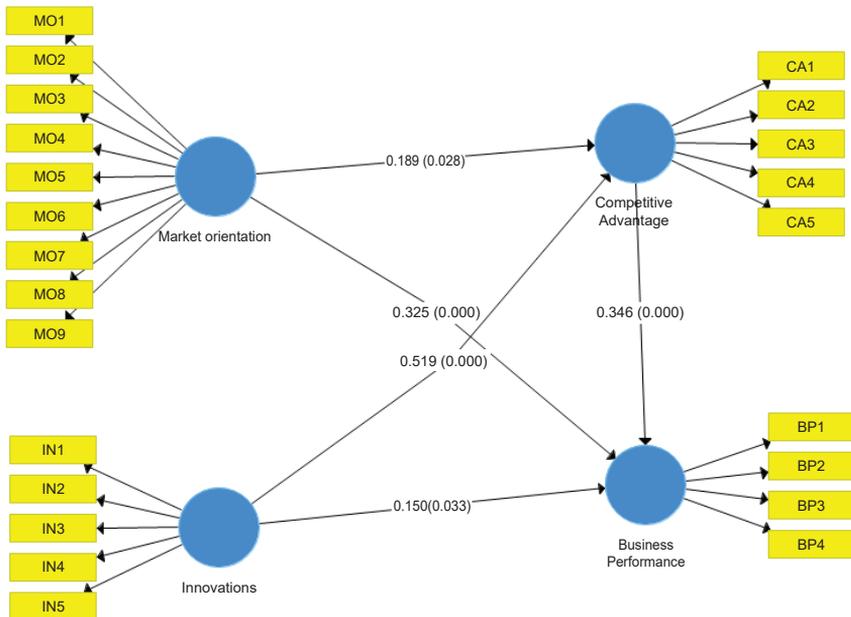


Figure 2
The structural model for market orientation, innovation, competitive advantage, and business performance.

Discussion of the findings

The study was conducted not only to evaluate the effect of market orientation and innovation on business performance but also to check the mediating effect of competitive advantage. According to the findings of the test of the hypothesis, small and medium-sized enterprises (SMEs) in Bangladesh who practice market orientation have an affirmative chance of enlightening their business performance (Riswanto, Rasto, Hendrayati, Saparudin, Abidin, & Eka, 2020). These findings may be attributed to the fact that market-oriented SMEs will impact an increase in marketing performance as a component of the procedures and actions connected to the formulation and satisfaction of client needs and preferences. This situation arises as a result of the fact that small and medium-sized enterprises (SMEs) with tactical purposes that are targeted to market circumstances, customer needs, and consumer wishes would have a high degree of understanding of the manners or tactics implemented by their competitors. The market orientation of small and mid-size businesses in Bangladesh has a positive and substantial effect on their competitive advantage (Talaja, Miočević, Pavičić, & Alfirević, 2017; Kanya, Ntayi, & Ahiauzu, 2010). The ability of a company to build a competitive advantage based on market differences may also be facilitated by market orientation. In this line of inquiry, competitive advantage as a mediating variable positively and significantly affects firm performance (Herman, Hady, & Arafah, 2018). The attainment of value creation for consumers via marketed items adds to the competitive advantage, which is realized in the specialness of the items offered for sale, the quality of the products made, and the competitive pricing. If small and mid-size enterprises (SMEs) can find a way to gain a competitive advantage, they will be in a better position to improve their marketing performance. This can be demonstrated by the introduction of new products, improved yearly earnings, faster-than-expected product development cycles, and a surge in sales growth rates. Competitive advantage has a positive impact on enhancing marketing performance, according to Li and Zhou (2010). The company's ability to differentiate its products and gain a competitive advantage may be improved by market orientation, which in turn helps the company's marketing performance.

The capacity to innovate is the critical factor in productivity that generates a competitive advantage by identifying and commercializing new and superior means of competing in an industry. Developing a competitive advantage over the competition is the ultimate aim of innovation. According to the results of the research, innovation significantly boosts a company's competitiveness. Businesses in Bangladesh, particularly SMEs, need to be

flexible and well-prepared for the forthcoming economic shifts that will be felt not only globally, but also regionally and nationally (Distanont & Khongmalai, 2018). Each company's ability to succeed economically is determined in large part by the innovation it can implement.

In today's challenging business climate, firms that want to thrive will need to adopt new ways of thinking and new forms of innovation; therefore this is an area where the support of senior management is crucial.

The findings point to a link between innovation and business performance, with competitive advantage playing a mediating role. There must be a direct and indirect effect of the invention on the efficiency of the company's operations for it to be successful (Ussahawanitchakit, 2007; Mortazavi, Rasoli Ghahrodi, & Rostami, 2017). Most innovations in Bangladesh are implemented in the form of new goods or methods of manufacturing; firms may benefit from the information and expertise of their suppliers on raw materials and packaging to enhance existing products, create new ones, and maintain low pricing.

In addition, the benefits of innovation and competitive advantage help small and medium-sized enterprises in increasing customer happiness and the quality of their offerings, leading to greater financial results. However, small and medium-sized enterprises need to realize that the benefits of differentiating themselves are only felt financially when the market performance is improved, such as when customers are more satisfied. For this reason, small and medium-sized enterprises need to focus intently on improving their client satisfaction ratings.

Conclusion

The performance of SME enterprises will improve if they can do actions that contribute to meeting consumer expectations. Market orientation and innovation have a positive effect on enlightening the marketing performance of SMEs, which indicates that there is a correlation between the two. This indicates that an improvement in market orientation and innovation will lead to an improvement in competitive advantage. In addition, market orientation and innovative practices have good and substantial effects on the success of businesses. One possible explanation for this finding is that the success of market-oriented SMEs is affected by the innovative goods, high-quality products, and low pricing offered by these businesses. To gain an advantage in the marketplace, small & mid-size enterprises (SMEs) will need to strengthen their capacity for market-driven innovation. New product and service development that takes into account consumer wants and the likely activities of competitors is the key to success in expanding into international

markets. This study contains limitations that need further investigation. The article focuses on one mediation factor. Other factors may help us comprehend the connection between customer orientation, innovation, and firm performance. Since environmental challenges affect customers and all market participants, it would be highly useful to include sustainable market orientation developed by Mitchell, Wooliscroft, and Higham (2010).

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