

Mediating Role of Organizational Innovation on Market Orientation and Business Performance: SEM-AMOS Approach

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Abstract

This study investigated the mediating role of organizational innovativeness on the relationship between market orientation and performance. Past literature has not fully investigated which strategy among market development (international expansion) and technology development (investment in research and development) will result in a higher performance outcome for a market oriented organization. SEM Amos method was used for to analyze data gathered from a survey of 396 small and medium-sized enterprises from manufacturing sectors in Malaysia. Findings of this study suggest that in order to sustain their competitive advantage, market oriented firms need to enhance their innovation process to improve business performance.

Keywords: Market Orientation, Organization Innovation, Business Performance, SEM

Introduction

This study examines the effects of market orientation, organisational innovation and business performance in Small medium enterprise (SME) environment. Most of the previous research on the relationship between market orientation and entrepreneurial orientation were conducted in large organisations (Grant, Laney, Nasution, & Pickett, 2008). Hence, their findings may not be generalized or applicable to SMEs, which have special characteristics such as limited resources and strong personal influence of the owner (Gilmore et al., 2001). Besides, the management of SME operations and strategy is different from those of large corporations. In addition, this study also investigates the market orientation, and organisation innovation's influence on SMEs business performance from a developing country perspective. On top of that, the results of studies on market orientation organisation innovation business performance performed in developed countries may not be transferrable to developing country. Also, Keskin (2006) indicate that majority of empirical studies on innovativeness focusing on large-scale companies in developed countries and small firms in developing countries were ignored.

Hypothesis

Market orientation is an organisational culture that focuses on the understanding of the market condition in terms of customer and competitor. It is also one of the organisation capabilities that contribute to superior business performance via resource utilisation, as suggested by theory of resource based view. This capability is related to the ability to collect and utilise market information as well as coordinating the firm resources in implementing the market research activities. The importance of market orientation has received great attention in the literature over the past two decades (Johnson, Dibrell & Hansen, 2009). Empirical research on market orientation documents the positive effects of a firm's market orientation on

financial performance as well as overall business performance (Milfelner, Gabrijan & Snoj, 2008). Market orientation also helps to improve performance of small and medium sized firm. Firms with a high degree of market orientation can enhance their performance by understanding and satisfying customer needs as well as understanding the market condition via gathering of information on competitor's action. This capability allows

firms to respond to the market condition and competitive environment with sufficient market information that they possess. The study of Low et al (2007); Li et al. (2008); Laforet (2008) and Mokhtar et al. (2009) suggests that market orientation in smallmedium sized business is positively correlated with performance. Accordingly, the following hypothesis is proposed:

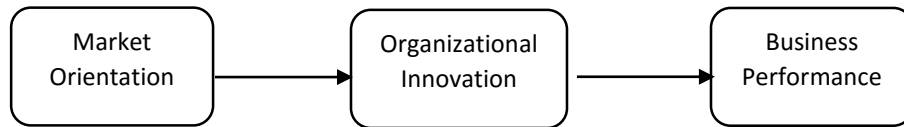
H1: There is a positive impact of Market Orientation on Business Performance.

During the past twenty years a rich body of research in marketing has examined the relationship between market orientation and business performance; however, less attention was paid on the impact of market orientation on organizational innovation (Grinstein, 2008). Limited studies supported that market orientation leads to successful innovations (Atuahene-Gima, 2005), and yet others who argue that it favours certain types of innovations (Zhou et al., 2005). Henard and Szymanski (2001) identified positive connection between market orientation and innovativeness. Salavou et al. (2004) further showed that market oriented SMEs facing strong competition tended to be more innovative. They found that market orientation increased the SMEs' innovative activity. Competition-related characteristics and industry concentration and barriers to entry appeared to also have significant effects on SMEs' innovative activity. Lee and Tsai (2005) showed that market orientation, determined by intelligence generation, intelligence dissemination and responsiveness is associated with the firm's innovativeness. According to Low et al. (2007) innovation was found to be positively correlated to market orientation, higher the levels of market orientation within the firm will lead to higher levels of the firm innovativeness. Based on a random sample of manufacturing SMEs, Laforet (2008) found that customer orientation dimensions of market orientation has a positive effect on innovation at product, process and organisational level. Lin, Peng and Kao (2008) studied venture companies in Taiwan and their results confirmed that market orientation is one of the determinants of organizational innovation. From the above argument, the following hypothesis is proposed:

H2: Organizational Innovation mediates the relationship between Market Orientation and Business performance relationship

Method

This study was designed to utilised quantitative method approach in order to determine the mediation effect of Organization Innovation on relationship between market orientation and business performance. Structural Equation Modelling-AMOS was used for the examination of causal relationship among variables. The questionnaires were based on the 7 point Likert scale, with responses measured and evaluated against the different Likert point scale ratings. This study Market orientation is the exogenous latent variable while endogenous latent variable is represent by Business performance while Organizational Innovation is the mediating latent variable. The hypothesis model is present in Figure 1 below



Findings

According to Baron and Kenny (1986) mediator are functioning to mediate any correlated relationship between endogenous and exogenous latent. This is done to measure whether organizational innovation can mediate the relationship between market orientation and business performance. Figure 2 illustrate the modeling path of direct effect of market orientation on business performance which must be a significant direct in order to test mediation effect of organizational innovation. Result in Table 1 below show that the direct effect of market orientation on business performance is significant. Therefore, Hypothesis H1 is accepted.

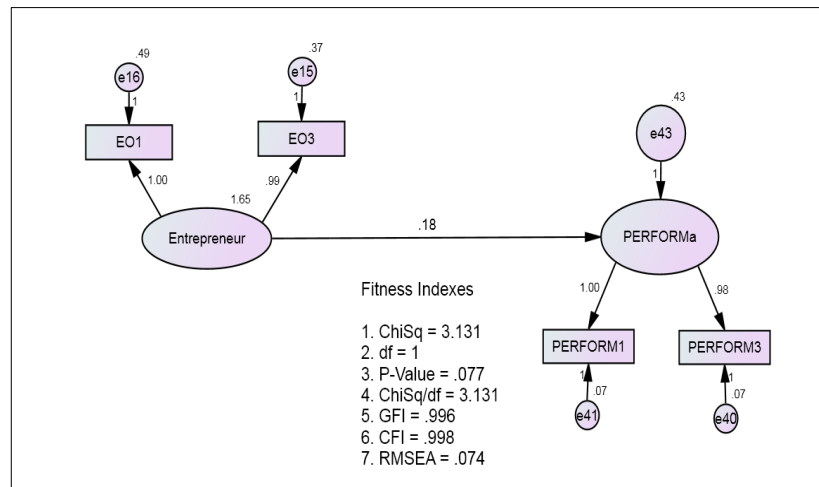


Figure 2 Direct effect of market orientation on business performance

Table 1
 The direct effect of market orientation on business performance

Latent to Latent	Variables	Estimate	P	Result
Performance	<= Market Orientation	0.183	***	Significant

When the mediating variable of organizational innovation enter the model, the value of beta coefficient for market orientation is expected to decreased, or in other words the market orientation direct effect on business performance would be reduced. The new mediating model when organizational innovation entered as a mediator is presented in Figure 1.2

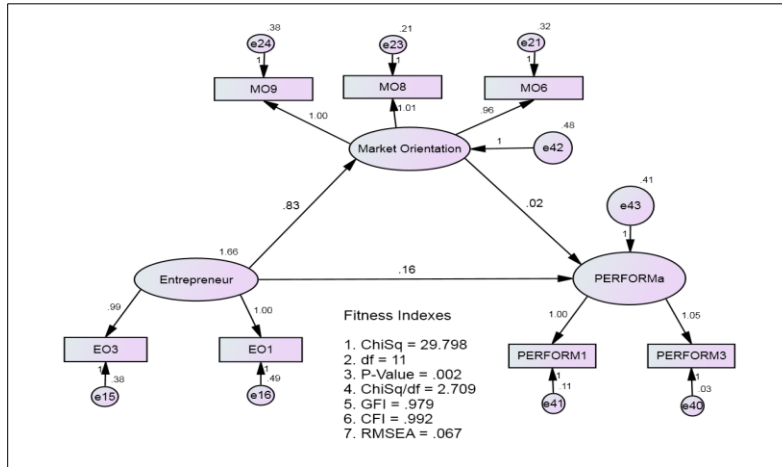


Figure 1.2 Regression coefficient between all constructs

From Table 2 below the value of beta coefficient linking entrepreneur proclivity to organizational performance is reduced from 0.183 to 0.160. In this case, entrepreneur proclivity is both significant in direct effect on organizational performance and also indirectly significant in effect on organizational performance through mediator variable namely market orientation.

Table 2 Multiple Regression Weight

Latent to Latent	Variables	Estimate	P	Result
Innovation	<= Market Orientation	0.833	***	Significant
Performance	<= Market Orientation	0.160	0.009	Significant
Performance	<= Innovation	0.015	0.794	Not Significant

Thus it can be assumed that market orientation can influence business performance either directly or indirectly, by influencing organizational innovation variable first then to business performance. Since the direct effect of market orientation on business performance is still significant even after organizational innovation enter the model and though the beta coefficient for market orientation is reduced from 0.183 to 0.160, The researcher concluded that there is partially mediation effect of organizational Innovation on the relationship between market orientation and business performance. Therefore, Hypothesis H2 is accepted.

Discussion and Conclusion

The relationship to be low or weak when it is directly tested between entrepreneur proclivity and business performance of the firms. Organizational Innovation was found to be partial mediating the relationship between market orientation and business performance. Conforming to previous research of (Matsuno, Mentzer, & Ozsomer, 2002) on mediating effects of organization innovation on relationship between market orientation and business performance. This research finding supports the work of Liu, Luo, and Shi (2003) where they suggested that organizational innovation has a significant relationship with market orientation which in turn impact the business performance. It also provides support to research by

Matsuno, Mentzer, and Ozsomer (2002) whereby they suggested that the higher the level of market orientation in managers will increased the level of organizational innovation

This close relationship between market orientation and organizational innovation can be explain by the ability and willingness of the firm's management to take risk and to become proactive, this could be related to the ability of their marketing members to be alert on customers' needs and to provide useful feedback to other organizational members. Matsuno, Mentzer, and Ozsomer (2002) also suggested that the pro activeness of the marketing orientation dimension promotes the identification and discovery of new market opportunities, which in turn, may increase the level of innovation behavior in organization. The findings of this study suggest that in order to sustain their competitive advantage, market oriented firms need to enhance their innovation process to improve business performance.

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