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Market orientation, learning orientation, and innovation capabilities in SMEs: Case study from Iran's SMEs

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Abstract---Increasing market changes has led to a need for increased innovation and, therefore, programs of innovation in SMEs. The interrelationships among a firm's market-orientation, learning-orientation, and innovativeness are an important research area for investigators in the literature of management, strategy, and marketing. However, most of the empirical studies were conducted in large-scale firms in developed countries and ignored small and medium-sized business (SMEs) in general, and in developing countries in particular. This paper examine the nomological relations among market-orientation, learning-orientation and innovativeness in medium-sized business (SMEs) of developing countries. The study involves a questionnaire-based survey of managers from small-sized-firms operating in Iran. These were subjected to a structural equation modeling (SEM) analysis. The results show that; firm learning-orientation positively influences firm innovativeness; firm market-orientation positively impacts firm learning orientation; firm learning-orientation mediates the relationship between firm market-orientation and firm innovativeness.

Keyword---Market orientation, learning capability, SME Innovation capability.

Introduction

Increased competition, ceaseless turbulence, change, and uncertainty have forced organizations to embrace innovation as an integral part of their corporate strategy. In this sense, how organizations enhance their innovativeness has long

been a research question for scholars and practitioners. Even though extensive research has been conducted to address this issue, students of organizational behavior and marketing in general, and organizational learning in particular, have pointed out the direct influence of market- and learning orientation on firm innovativeness (Farrell and Oczkowski, 2002; Sinkula and Baker, 1999; Slater and Narver, 1995). Studies indicated that market-orientation, learning-orientation, and innovativeness are highly correlated and have overlaps based on their definitions and practices (Calantone et al., 2002; Hurley and Hult, 1998). In particular, definitions of innovation from Thompson (1965), Damanpour (1991), and Amabile et al. (1996) converge with the ontology of market-orientation and learning-orientation as indicated by Hurley and Hult (1998). Accordingly, there exists both empirical and theoretical studies investigating the linear or causal relationships among the market-orientation, learning-orientation, innovativeness (Nikolskaya, E. Y., et. al., 2021; Jaghoubi, S. 2019; Alhamdany, H., et. al., 2021). Nevertheless, most of the empirical studies focused on the large-scale organizations in western/developed countries, while ignoring the SMEs in general, and SMEs in developing countries in particular. Specifically, studying the SMEs in developing countries contributes to the literature for two reasons:

1. The majority of the market-orientation and learning-orientation studies were conducted in developed western countries, e.g. USA, UK, using the measure scales of Narver and Slater (1990), Kohli et al. (1993), Ruekert (1992), Calantone et al. (2002), and others. However, replication of the market-orientation, learning-orientation, and innovativeness studies is warranted, because if these constructs are reliable and valid, they should also be applicable in different environments and economies, such as Iran.
2. Market- and learning-orientation studies mostly investigated large firms having 250 or more employees. However, the applicability of market-orientation, learning-orientation, and innovativeness measures, and their research models, which were developed for large-scale firms, may have different meanings in a SME context. For instance, SMEs face particular problems in the formulation of their innovation strategies due to:
 - their deficiencies arising from their limited resources and range of technological competencies;
 - influence of their owners/managers on the decision-making;
 - dependence on small numbers of customers and suppliers; and
 - focus on the efficiency of current operations, to name just a few (Badger et al., 2001).

Also, market- and learning-orientation are less formal, less structured, and less sequential in SMEs (Gibb, 1997; Peterson, 1988, Anderson and Boocock, 2002; Meziou, 1991). Specifically, organizational learning is reflected as work-place learning, which is a lower-level learning style involving the use of existing knowledge to enhance operation efficiency in SMEs (Badger et al., 2001; Chaston et al., 2001). For instance, Anderson and Boocock (2002) note that self-directed,

work-based, and informal learning is dominant in small firms, as it allows increased flexibility and adaptability. In addition, SMEs are more reluctant than larger firms to embrace the marketing concept in their strategy formulations (Meziou, 1991). In fact, most small firms do not conduct market research, and do not have long-term market planning (Peterson, 1988; Meziou, 1991; Blankson and Stokes, 2002).

The aim of this study is, therefore, to empirically test the nomological web of market orientation, learning-orientation and firm innovativeness, to enhance the literature on organizational learning and marketing in SMEs.

Literature review

Since, the seminal study of Kohli and Jaworski (1990), the term “market-orientation” found a broad appeal in the marketing literature. The literature describes market-orientation as a set of behaviors and processes (Kohli and Jaworski, 1990), or an aspect of culture (Narver and Slater, 1990) to create a superior customer value. For instance, Kohli and Jaworski (1990), by adapting a process approach, use the term market-orientation to mean the implementation of a marketing concept via market intelligence generation, intelligence dissemination, and responsiveness (implementing a marketing strategy). By using a cultural framework, Slater and Narver (1995) extended the boundary of the market-orientation concept by incorporating the development of information about competitors, and inter functional collaboration. Ruekert (1992), influenced by Deshpande and Webster’s (1989) cultural framework of marketing and adopting a strategic view, identified three components of market-orientation:

1. obtaining and using customer information;
2. developing a strategic plan based on such information; and
3. implementing the plan to respond to customer needs.

Accordingly, market-orientation is a cognitive, behavioral, and cultural aspect of a firm’s marketing concept that puts the customer at the center of the organization and its development (Deshpande and Webster, 1989). However, empirical studies on the effect of market-orientation on superior performance revealed inconsistent results (Han et al., 1998). For instance, Narver and Slater (1990) and Ruekert (1992) found a positive relationship, Hart and Diamantopoulos (1993) found no relationship, and Kohli and Jaworski (1993) found mixed results. Accordingly, scholars attempted to identify the mechanisms or factors that transform market-orientation behavior into firm performance in their theoretical and empirical models (Han et al., 1998).

One of the most studied factors, which has synergy with market-orientation, is learning-orientation. Many researchers (e.g. Slater and Narver, 1995; Baker and Sinkula, 1999; Farrell, 2000), for instance, argued that market-orientation only enhances performance when it is combined with a learning-orientation. According to Baker and Sinkula (1999, p. 412), learning-orientation “is a mechanism that directly affects a firm’s ability to challenge old assumptions about market and

how a firm should be organized to address it.” Specifically, since market-oriented firms focus on customers and their feedback in the established markets, they ignore the emerging markets, technologies, and competitors. However, learning-orientation, embracing the commitment to learning, shared vision, open-mindedness and inter organizational knowledge sharing, fosters a set of knowledge-questioning and knowledge-enhancing values that leverage the adaptive behaviors provided by market-orientation to a higher-order learning that leads to the development of breakthrough products, services, and technologies, and the exploration of new markets (Farrell, 2000; Slater and Narver, 1995).

In addition, to learning-orientation, another mechanism emphasized by the management and marketing scholars is firm innovativeness, which refers to that portion of a firm’s culture that promotes and supports novel ideas, experimentation, and openness to new ideas (Calantone et al., 2002). For instance, Slater and Narver (1995) propose innovation as one of the core-value creating capabilities that drives the market-orientation and performance relationship. Kohli and Jaworski (1993) note that market-orientation provides something new or different in response to market conditions, which can be seen as a form of innovative behavior. Also, by investigating 134 banks, Han et al. (1998) found that innovativeness mediated the relationship

between market-orientation and performance.

In short, scholars in general management and marketing literature support the interrelated relationships among market-orientation, learning-orientation, firm innovativeness, in large firms. However, we know surprisingly little about the interrelationships among market-orientation, learning-orientation, innovativeness in SMEs. In particular, a systematic or holistic investigation of market-orientation, learning-orientation, innovativeness, and firm performance is required if SME managers and scholars are to uncover the nomological web of marketing, learning, innovation, and improved firm performance. To address this deficiency, the present study extends the model of Calantone et al. (2002) which addressed the role of learning-orientation in firm innovativeness and firm performance. By using 187 US firms, the authors found that learning-orientation has a positive influence on firm innovativeness and performance; further, that firm innovativeness has a positive impact on firm performance. However, Calantone et al. (2002, p. 523) noted that their study was limited, and that, “. . .the general outline can be applied to other types of activities, such as marketing, and their linkage with organizational learning.” They also suggested the applicability of the learning and innovation constructs to other cultures and industries. In this vein, this study adapted the model of Calantone et al. (2002) by incorporating the market-orientation as a skeleton for a model of market-orientation, learning-orientation, innovativeness, and firm performance in an SME context.

The impact of market-orientation on firm performance has been investigated for over a decade in SME literature. Studies by Peterson (1989), Meziou (1991), Pelham and Wilson (1996), Horng and Chen (1998), especially, addressed the direct influence of market-orientation on firm performance and competitive advantage. According to Pelham (1997), a market-oriented firm, which has

excellent market information gathering and processing abilities, is able to predict the requirements and changes in markets accurately and quickly, allowing them to respond quickly and appropriately. Thereby, they enhance their competitive advantage. In this regard, it has been asserted by scholars in the SME literature that market-orientation provides small firms with a potential competitive advantage over large firms, because SMEs:

- are closer to customers and able to exploit their needs and wants quickly and more flexibly;
- are able to transfer customer intelligence quickly, with less deterioration, due to their reduced organizational layers and bureaucracy; and
- can implement the marketing plan fast, because it is less formal.

Therefore, considering that SMEs may lack a long-range focus and strategic orientation that their customer orientation in general and market-orientation in particular are critical determinants of performance (Appiah-Adu and Singh, 1998).

Organizational learning studies in SMEs, for instance, note that learning in small firms is context sensitive, firm-specific, and work-based, which is, by nature, reactive and produces operational efficiency in the short-run – indicating adaptive rather than innovative behavior (Badger et al., 2001). However, as indicated by cognitive psychology, exploitation of each bit of information and then utilizing such information in the workplace to advance new operational practices, in essence, develops new schemata or thinking ways, and knowledge for employees (Hurley and Hult, 1998). Consequently, people become more adaptive to different views, procedures, and ideas, and become proactive to enhance the quality of workplace and the operations of firms and customer satisfaction (Chaston et al., 2001; Anderson and Boocock, 2002; Matlay, 2000).

Even though market-orientation and learning-orientation are antecedents of innovation (Hurley and Hult, 1998), the effect of market-orientation on firm innovativeness is mediated by learning-orientation. Specifically, market-orientation fosters a knowledge-producing behavior – providing a source of ideas for change and improvement by market information processing and marketing strategies. However, the knowledge generated by market-orientation has little benefit if not appreciated and implemented for firm innovation. For instance, Baker and Sinkula (1999) argue that market-orientation, representing the degree to which firms acquire, distribute, and use the market information, is an input for the innovation process. Nevertheless, learning-orientation, reflecting the degree to which firms are committed to challenge beliefs and practices, defines the innovation process itself. Also, since market-orientation breeds the rigidity and stickiness of the existing customer intelligence and plans, it may also hinder firm innovativeness, as indicated by organizational unlearning studies (Sinkula, 2002). In this regard, learning-orientation lays a foundation for a desire to assimilate new ideas, and leverages customer intelligence for firm innovativeness (Hurley and Hult, 1998; Celuch et al., 2002). For example, Farrell (2000) investigated 200 organizations in Australia and found that market-orientation is related positively

to a learning-orientation and that a learning-orientation has a stronger significant effect on business performance than does market-orientation. Also, by investigating 304 state-owned enterprises in China, Liu et al. (2002) found that learning-orientation mediates market-orientation and short-term outcomes – i.e. marketing program dynamism refers to the frequency with which an organization changes its mix of products/brands, sales, and promotion strategy.

Even if there is a common agreement about the relationship among learning-orientation, market-orientation, and innovativeness (e.g. learning-orientation firm innovativeness),

there is no clear agreement about the direction of the relationship between learning-orientation and market-orientation. For instance, Sinkula et al. (1997) demonstrated the impact of learning-orientation on market-orientation, whereas Slater and Narver addressed the influence of market-orientation on learning-orientation. However, it is important to note that studies promoting the relationship of learning-orientation market-orientation, essentially investigated the market information processing rather than market-orientation. In fact, Farrell and Oczkowski (2002) found that by investigating 340 organizations, market-orientation is able to encompass learning-orientation, but learning-orientation is not able to encompass market-orientation. Also, Dickson (1996) notes that market-orientation describes a set of processes that enables the firm to learn. Further, Farrell (2000, p. 208) states that:

- Market-orientation firms are effective in producing knowledge and this culture of knowledge production, inevitably leads to knowledge-questioning values. In short, organizations that are able to appreciate the value of timely and relevant information (market-orientation), will also be intelligent enough to challenge existing assumptions about the way the market operates (learning-orientation).

The relationship between market-orientation and learning-orientation has also been investigated in SME literature. For instance, by studying 106 SMEs, Chaston et al. (1999) found a positive correlation between market-orientation and learning-orientation. However, they did not specify the direction of the relationship – causality. Since, small firms are closer to their customers, they are able to generate new knowledge and exploit the existing knowledge effectively. Specifically, they develop intelligence about customers, from which they develop a set of knowledge-questioning values that promote innovative products, processes, and services. In fact, market intelligence generation constantly improves and updates organization – wide learning values and skills. Consistent with the work of Slater and Narver (1995, p. 67), since a market orientation is inherently a learning orientation” in the context of an SME.

Research method

Sampling

We nearly gathered most of questionnaire due to following them by phone. All of respondents were managers of SMEs. Most of enterprises are clustered in two special sites that facilitate our data gathering. In terms of education level, %12 of respondents had graduated from high school, %54.4 held Bachelor of Science degrees, % 23.4 had master degree and %10.1 had PhD.

The life time of enterprises was different. %29.3 of enterprises had between 1 and 3 years in terms of life time, %40.2 had between 3 and 5 years and %30.5 had more than 5 years.

Measures

Market-orientation. There have been empirical measurements of market-orientation developed by a number of scholars from both the perspective of the organizational culture (MKTOR scales of Narver and Slater, 1990), and by using a set of processes and activities (MARKOR scales of Kohli et al., 1993). However, as Hunt and Morgan (1995, p. 1) point out: Market-orientation should be conceptualized as i-) systematic gathering of information on customers and competitors (both present and potential), ii-) the systematic analysis of the information for the purpose of developing market knowledge, iii-) the systematic use of such knowledge to guide strategy, recognition, understanding, creation, selection, implementation and modification. Therefore, in applying the market-orientation concept to SMEs, the authors drew upon the elements of Ruekert (1992)[1], viewing market-orientation as cultural and behavioral processes and the activities associated with creating and satisfying customers by continually assessing their needs and wants to increase business performance.

Learning-orientation. Learning-orientation scales were adapted from Calantone et al. (2002). According to Calantone et al. (2002), learning-orientation refers to the organization-wide activity of creating and using knowledge to enhance competitive advantage, including four components (a second-order factor):

- (1) commitment to learning; the degree to which an organization values that which promotes a learning culture;
- (2) shared vision; an organization-wide focus on learning, or direction of learning;
- (3) open-mindedness; willingness to critically evaluate the organization's operational routine and to accept new ideas; and
- (4) intra organizational knowledge sharing; collective beliefs or behavioral routines related to the spread of learning among different units within the organization.

Firm innovativeness. Firm innovativeness scales were adapted from Calantone et al. (2002). Calantone et al. (2002) defined firm innovativeness as openness to new ideas as an aspect of a firm's culture by a willingness to try out new ideas,

seek out new ways to do things, be creative in its methods of operation and rate of product introduction.

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