

## Effect of market positioning on market orientation, innovation types and firm performance linkage

Charles Lagat<sup>11</sup> Gary Frankwick<sup>12</sup> Timothy Sulo<sup>13</sup>

### ABSTRACT

Market positioning activities must be carefully planned and reconciled with other marketing strategies and business activities. Most studies have assessed the impact of market orientations and innovations on firm performance. This study was designed to test the moderating effect of market positioning on the relationship between innovation types and firm performance. The study used the resource based view, the competitive advantage paradigm as a framework in testing the theoretical relationships between the constructs. The study adopted a correlational research design and it involved the use of a questionnaire-based survey of a random sample of 220 managers of Manufacturing Companies. Demographic characteristics of the respondents are presented as well as exploratory factor analysis, scale reliabilities and confirmatory factor analysis. Regression results indicate a positive relationship between market orientation, innovation types and performance. Mixed results from moderator regression analysis are presented. Conclusions and practical recommendations are given.

**Key Words:** *Market positioning, Market orientation, innovation and firm performance.*

### INTRODUCTION

There are multiple sources of advantage that an organization may draw on in order to be successful in the marketplace. Among these sources is positioning of the firm's offering to matched the needs of target customers. Positioning is the act of designing the company's offering and image to occupy a distinct place in the target market's mind (Blankson, 2004). Positioning entails selecting and highlighting appropriate product features and focusing on segmentation and image-building (Aaker and Shansby, 1982). The term position implies a frame of reference, the reference point being the competition. According to Aaker and Shansby (1982) a "clear positioning strategy can insure that the elements of the marketing program are consistent and supportive" Pg. 56.

The concept of positioning has become one of the fundamental components of marketing management (Hooley *et al.*, 1998). Its importance is further supported by the evidence that indicates a positive relationship between firm performance and well-formulated and clearly-defined positioning activities (Kalafatis *et al.*, 2000; Blankson and Kalafatis, 2004). Porter (1980) developed three generic strategies (cost leadership, differentiation and focus) for creating a defensible position and outperforming competitors in a given industry. Three generic strategies represent three broad types of strategic groups and thus the choice of a strategy "can be viewed as the choice of which strategic group to compete in" (Dess and Davis 1984). Porter (1980) characterizes the sources of competitive advantage as low cost or differentiation, thus businesses may position themselves by emphasizing either or both.

Over the years studies have been conducted on the concept of positioning in different industries and different settings. Kalafatis, *et al.* (2000) study in the timber industry also confirmed the relevance of positioning in business markets. Winston and Dadzie (2002) conducted a study on the role of top managers on market orientation of Nigerian and Kenyan firms. Their results suggest that the nature of corporate ownership as well as the level of competition, contribute to the level of senior management emphasis on market orientation. Matear *et al.* (2004) investigated how market-related sources of advantage (market orientation, brand investment, new service development, market positioning), contribute to service performance. Blankson and Kalafatis (2004) conducted a study in the UK store and card sector and identified the most popular positioning strategies employed. Kim, *et al.* (2008) carried out a study in the e-business sector, and their results supported the hypothesis that positioning influences firm performance.

The role of market orientation in firm strategy has been debated extensively since it was introduced in the 1990s (Kohli & Jawoski, 1990; Narver & Slater, 1990; Slater & Narver, 1994) and has received considerable attention in the marketing literature. Most of the streams of research have focused on the relationship between market orientation and business performance (Diamantopoulos & Hart, 1993, Day, 1994; Sin, Tse, Heung, & Yim,

<sup>11</sup> Moi University, Kenya,

<sup>12</sup> University of Texas El Paso, USA

<sup>13</sup> Moi University, Kenya.

2005), others have focused on the moderating factors on the relationship (Han, Kim, & Srivastava, 1998, Baker & Sinkula, 1999; Laforet, 2008), while others have focused on the mediators of the relationship (Han *et al.*, 1998; Mavondo & Farrell, 2003; Mavondo *et al.*, 2005; Menguc & Auh, 2006). Other studies have also investigated the relationships of various constructs; Hurley and Hult (1998) study indicated that higher levels of innovativeness in the firm's culture are associated with greater capacity for adaptation and innovation.

Firm performance has been a subject of interest to academics, managers and investors. The direct relationship between market orientation and firm performance is well-established (Kirca *et al.*, 2005; Lio *et al.*, 2010). Earlier authors had stated that the relationship had not been conclusive (Diamantopoulos & Hart, 1993; Greenley, 1995; Han *et al.*, 1998) however Lio *et al.* (2010) in their survey, found that 36 out of 38 articles examined found a relationship between market orientation and performance. They state that market orientation affects performance in a number of ways, either by providing a customer oriented focus or reshaping an organization's culture for developing superior value for customers. Van Raaij and Stoelhorst (2008) argue that business processes is the central concern of being market oriented. That market orientation is seen as the ability of a firm to generate knowledge about markets and use the knowledge in its business processes for creation of superior customer value. This perspective is in line with studies that have shown processes of innovation and new product development to mediate the relationship between market orientation and performance (Han *et al.*, 1998; Langerak, *et al.*, 2004).

Although most studies on market orientation have failed to include issues of market positioning, the positioning activities must be carefully planned and reconciled with other environmental and business activities (Kalafatis *et al.*, 2000). Little reference had been given to the nature of association between market orientation and competitive strategy (Morgan and Strong, 1998). It was also noted that an effective competitive strategy, begins with timely and actionable diagnosis of current and prospective advantages (positions of advantage) of the business within the served market (Day and Wensley, 1988). Han *et al.* (1998) examined the role organizational innovations play in the context of the relationship between market orientation and business performance and established evidence of a positive relationship. Their study provided some support that innovations facilitate the conversion of market-oriented business philosophy into superior corporate performance.

An understanding of the moderating effect of market positions on market orientation, innovation types and performance can be a significant aid in the process of strategy development. The purpose of the study was to test the moderating effect of market positioning on the market orientation, innovation types and performance linkage. The study contributes to literature by examining these constructs in an emerging country context.

## LITERATURE REVIEW

### The Concept of Market Orientation

Market orientation is a central tenet of marketing, its activities and behaviors are related to; a proactive search for marketplace opportunities; problem solving, and future positioning (Morgan & Strong, 1998). For several decades until now, market orientation has been the central idea of many published works in the marketing and strategic management literature. Market orientation has been identified as an important theoretical construct in marketing and it has stimulated much conceptual, empirical and executive attention.

Market orientation has been regarded as a source of competitive advantage and can be an important determinant of firm performance. Superior organizational performance can be achieved as a market oriented firm is able to satisfy customers through tracking and responding to customer needs and preferences (Jaworski & Kohli, 1993). Further, a market oriented organization performs better in the market since the firm develops an organizational culture in delivering superior value to customers (Narver & Slater, 1990; Slater & Narver, 1994).

Narver and Slater defined market orientation as "the business culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for customers"; that it is a concept "consisting of three behavioral components— customer orientation, competitor orientation, and inter-functional coordination, and two decision criteria - a long-term focus and profitability". The market orientation construct has been conceptualized as three distinctive components in previous research (Narver and Slater, 1990; Slater and Narver, 1994). Some studies have measured the individual effects of this constructs and some have cited that customer orientation plays a relatively larger role in the market orientation dynamics, this study like others (Han *et al.*, 1998), examines the market orientation dynamics using the conventional combined approach as well as component-level approach, for a more detailed inspection. Most studies use the overall measure of market orientation in their hypothesis testing.

Many theories have been developed that concern the competitive advantage of firms (Morgan, *et al.*, 2003). Most of the contributions are associated with the competitive forces paradigm (Porter, 1980, 1985), strategic conflict paradigm (Shapiro, 1989), and resource-based paradigm (Penrose, 1959; Wernerfelt, 1984; Barney, 1991). Among these perspectives the resource based view has been the most dominant in explanations of firm-level competitive phenomenon. Several studies on firm resources and positioning constructs have been design along the resource base view, among them, Day (1994), Hooley *et al.* (1998), Han, *et al.* (1998), and Hooley *et al.* (2005). However, knowledge remains far from conclusive regarding the association between market orientation, market positioning, innovation, and firm performance.

The study adopted an epistemology of scientific realism and hence each premise offered as a proposition was subjected to empirical testing. The study is consistent with the sources-position-performance framework (Day and Wensley, 1988; Hunt and Morgan, 1995). Day and Wensley (1988) state that superior skills and resources can be converted into positional advantages through the firm's knowledge integration processes. That skills and resources taken together represent the ability of a business to do more or better than its competitors.

### **The Concept of Innovation**

Innovation has been defined as the generation, acceptance, and implementation of new ideas, processes, products, or services. Innovation is an idea, practice or material artifact perceived as new by the relevant unit of adoption. An innovation can be a new product or service, a new production process, or a new structure or administration system. The adoption of innovation is generally intended to contribute to the performance or effectiveness of the firm (Damanpour, 1991). Thus an innovative firm is one which aims to enhance production or delivery capabilities through improvements in productivity, efficiency or quality, or by facilitating the production of new products.

Hurley and Hult (1998) introduced two innovation constructs into the models of market orientation: innovativeness and capacity to innovate. Innovativeness refers to the notion of openness to new ideas as an aspect of firm's culture while capacity to innovate is the ability of the organization to adopt or implement new ideas, processes, or products successfully. It is obvious that firms have different levels of innovative capabilities, nonetheless innovative activities need to be focused on many aspects simultaneously such as new products, new organizational and marketing practices or administrative systems, and new process technologies (Garcia and Calantone, 2002; Lin and Chen, 2007). Moreover, as Damanpour and Evan (1984) stated a balanced rate of adoption of administrative and technical innovations are more effective in aiding firms to preserve and improve their level of performance than implementing them alone. Although innovation literature does not reveal a conclusion whether a specific innovation type is likely to provide more or less an impact on corporate performance, it can be concluded that innovations influence each other and need to be implemented in conjunction (Walker, 2004).

The 2005 Oslo manual defines innovation as the implementation of new or significantly improved product (good or service), or process, new marketing method, or a new organizational method in business practices, workplace organization or external relations (Bloch, 2007). This definition is broad and encompasses the narrower concept of product and process innovation. Product innovation refers to the introduction of a good or service that is new or significantly improved with respect to its characteristics or uses. This includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics. On the other hand, process innovation refers to the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software. This study adopted this definition.

More recent research has found a positive relationship between market orientation and innovative consequences such as innovativeness and new product performance (Hult, *et al.*, 2004). These results suggest that market orientation is likely to enhance innovation because it involves doing something new or different in response to market conditions. Among the variables that have been studied as mediators of the market orientation – performance relationship, a strong case has been built for innovativeness (Van Raaij & Stoelhorst, 2008). The underlying rationale is that market-oriented organizations have a knowledge advantage over their competitors, and that this knowledge helps them to become more proficient in their new product development activities (Han, *et al.*, 1998) and hence achieve superior performance.

Market orientation enhances innovation and new product performance because it drives a continuous and proactive disposition toward meeting customer needs and emphasizes greater information use. Innovation in turn, directly affects performance, mediates the relationship between market orientation and performance (Han, Kim, and Srivastava, 1998). Han *et al.* (1998) formerly introduced innovation into the market orientation model. They categorized innovation into two types, technical and administrative. The mediating role of innovation is

supported in the meta-analytic study of Kirca, *et al.* (2005), which presents empirical evidence for a path from market orientation to innovation to customer outcomes (loyalty and perceived quality) to performance. We therefore hypothesize:-

H1: *There is a positive relationship between market orientation and product innovation.*

H2: *There is a positive relationship between market orientation and process innovation.*

The impact of innovation on firm performance and on economic growth has been of interest to economists since the works of Schumpeter (1934). In marketing one of the most cited passages on innovation is where, Drucker (1954) linked innovativeness and market orientation, stating that business enterprise has two, and only two, functions: marketing and innovation. Innovation has been empirically linked to performance (Deshpande and Farley, 2004; Capon, *et al.*, 1992). Both product and process innovation are important in firms attempting to meet customer needs. By developing new products or services firms are likely to achieve and sustain superior performance. We therefore hypothesize that:-

H3: *There is a positive relationship between product innovation and performance.*

H4: *There is a positive relationship between Process innovation and performance.*

### **The Concept of Market Positioning**

Market positioning represents the sources of value to the customer that is achieved by a firm, relative to rivals in the marketplace. Marketplace positioning describes how a firm differs from the competition in terms of what it does and how it does it within the market. Market positions are achieved through the deployment of competitive advantage generating resources matched to the needs of target customers. There are many definitions of positioning in the literature and at the same time several terms have been used, such as position, product position, market positioning (Greenley, 1989) and strategic positioning. This study adopts the use of the term “market positioning” and “positioning” interchangeably.

Positioning evolved from market segmentation, targeting and market structure. The most popular definition has been that by Ries and Trout (1986, 1972) which states that “*positioning starts with the product. A piece of merchandise, a service, a company, an institution, or even a person...*”. Product/brand positioning is a core strategic marketing activity (Ries and Trout, 1982) and firms can seek to adopt a number of distinct positions in the marketplace. Aaker and Shansby (1982) stated that a positioning decision means selecting the associations which combine to form a total impression and that it is often the crucial strategic decision for a company or brand, because the position can be central to customers’ perception and choice. Arnott (1992, pp. 111-14, as quoted by Blankson, 2004) defined positioning as the deliberate, proactive, iterative process of defining, measuring, modifying and monitoring consumer perceptions of a marketable object. In other words, the process of positioning is iterative and requires deliberate and proactive involvement of the marketer (Blankson, 2004). Arnott’s (1992) definition of positioning is adopted for this study because it can be explained from the perspectives of the consumer, company and competitor.

A clear positioning statement can ensure that the elements of the marketing program are consistent and mutually supportive (Aaker & Shansby 1982). Positioning decisions involve making choices based on level of price, level of quality, level of service and degree of innovativeness (Hooley 1998). The process of positioning can be described as iterative, it necessitates deliberate and proactive actions, and it involves decisions at conceptual, strategic and operational levels and should reflect the triumvirate deliberations of the company, its competitors and its target market/customers (Kalafatis *et al.*, 2000).

Competitive advantage in the marketing literature is used to mean relative superiority in skills and resources or what we observe in the market – positional superiority (Day and Wensley, 1983). Positional superiority is based on the provision of superior customer value or the achievement of lower relative costs, and the resulting market share and profitability performance. The skills and resources reflect the pattern of past investments to enhance competitive positions. Comparative advantage theory explains that competition consists of the constant struggle among firms for a comparative advantage in resources that will yield a marketplace position of competitive advantage, and thereby superior financial performance (Hunt and Morgan, 1995).

Early works on positioning by Porter (1980) focused on what was then seen as a choice between cost leadership and differentiation as alternative bases for competitive strategy. Miles and Snow (1978) suggested that firms could be associated with a strategic pattern according to how they respond to an adaptive cycle: defender; prospector; analyzer; and reactor. Considering market orientation as a firm resource and innovation as an implementation strategy this study uses both Porter’s classifications.

Porter's (1980) model of three distinctive generic business-level strategies (low cost, differentiation and focus) has been widely acknowledged as a dominant paradigm in the marketing literatures and strategic management. According to porter (1980) firms oriented towards specific strategies should outperform firms characterized by Porter as "stuck in the middle" and that this latter class of firms, by failing to develop its strategy along at least one of these three categories is almost guaranteed low profitability.

The strategy of focus, involves serving a specialized segment in terms of a limited geographic market, a certain kind of customer or a narrow range of products, more effectively or efficiently than competitors who are competing more broadly. It requires focusing on a particular consumer group, a segment of a product line, or a geographic market, each functional policy being developed accordingly. The strategy of differentiation requires that the firm creates either a product or provides a service, that is recognized as being unique, thus permitting the firm to command higher than average prices. This strategy seeks to make the offering distinct and different in the market-place, the uniqueness providing greater value to customers (Hunt and Morgan, 1995). It embraces the opportunity to add value for the customer and to modify the offering in a manner that will give the customer a reason to buy (Hooley, *et al.*, 1998).

The strategy of low cost involves giving consumers value comparable to that of other products at a lower cost (Porter, 1986). Under this strategy firms seek to make similarly attractive offerings to the market (compared to competitors) but to do so at relatively lower internal cost. While a number of factors have been shown to affect costs there are a number of ways in which firms can become cost leaders. Pursuing this strategy requires a high degree of internal focus and a resistance to adaptation to market requirements (Hooley *et al.*, 1998), which in a way does not secure long-term market advantage. These strategies can be achieved through product or process innovation. We therefore hypothesize that:-

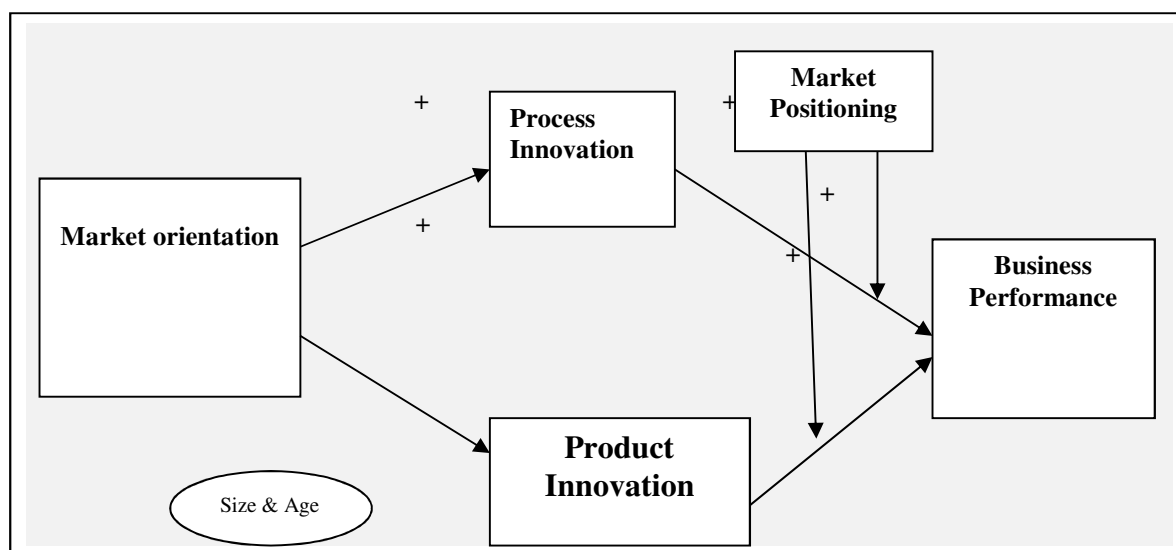
H5: A firms' market position does not moderates the relationships between product innovation and performance

H6: A firms' market position does not moderates the relationships between process innovation and performance.

### Conceptual Framework

This study introduced market positioning as a moderating variable in the market orientation, innovation and performance relationship. We argue that that the greater the fit between an innovation type and market positioning the greater the organization's ability to perform and maintain sustainable competitive advantage.

**Figure 2.2:** Resources-Innovations-Positioning-Performance Framework



Source: Researchers compilation (2014)

## RESEARCH METHODOLOGY

The study used a correlational research design. Data was collected from the Managers of manufacturing companies in Kenya. A person in charge of the marketing function or a manager at a senior management level in each company was identified. The use of a knowledgeable source was expected to limit measurement errors. The use of one manager as a key informant is consistent with prior studies (Kumar, Stern and Anderson 1993; Han *et al.*, 1998). The unit of analysis in this study is the company or strategic business unit. The typical managers' familiarity with the questionnaire items, terminology and tools were assessed during a pilot study to determine if wording and layout of the questionnaires was appropriate. Only minor changes were made, and the questionnaire was believed to be acceptable.

The target population was 575 manufacturing companies listed as members of the Kenya Association of Manufacturers (KAM Directory, 2010). Members are from formal sector industries comprised of small, medium, and large enterprises. More than 80 per cent of these members are based in the capital city Nairobi, with the rest spread out in other major towns and regions. An appropriate random sample was drawn from this population. However, before questionnaires were administered, a formal request for support was sought from the CEO of the Kenya Manufacturers Association. Following pre-notification with this letter, 220 managers were asked to participate by employing a drop-off and pick-up technique. Of the 220 managers, 147 responses were adequately complete for analysis for a 66.8% response rate. All the sectors were represented.

### Measures

All scale used in the study were previously employed by other researchers. Narver and Slater's (1990) scale was used to measure market orientation. Respondents were asked the extent to which they "Strongly Disagree" (1) to "Strongly Agree" (7) with the 15 items that describe their firms. Innovation was conceptualized as consisting of two dimensions, namely: product innovation, and process innovation. Each dimension (sub-construct) was measured using five items modified from Baker and Sinkula (1999). Firm performance was measured by a scale adapted from Matsumo *et al.*, (2002). Performance and innovation types were measured using a seven point scale from low to high.

Factor analysis was conducted to determine if all items loaded properly on their respective constructs given the minor adaptations made for this study. All items loaded greater than .50 on their respective constructs, and less than .30 on others. The Kaiser-Meyer-Olkin measure of sampling adequacy was greater than 0.60 and a significant Barlett's test of sphericity (Tabachnick and Fidel (1989) indicated an adequate sample. All Cronbach's Alphas were greater than the minimum 0.70 suggested by Nunnally (1978). Skewness and Kurtosis statistics were all between -1 and +1. From the regression results, the Durbin-Watson statistics were all between 1.50 and 2.50, and VIF statistics were all much less than 10 indicating no problems of multi-collinearity.

To test the hypotheses, both simple and hierarchical regression analysis were conducted to determine the expected relationships between market orientation, innovation, market positioning and firm performance following Zhao *et al.*, (2010) and Baron and Kenny, (1986). Moderated regression analysis was then performed to test the effect of different market positions on the relationship between market orientation and innovation (Baron and Kenny, 1986).

### FINDINGS

The majority of the respondents were marketing managers (51.7%), followed with general managers (14.3%), human resource managers (11.6%) and the least number of respondents were public relations officers (6.8%). The Exploratory Factor Analysis (EFA) was used to establish the unidimensionality of the measurement scales. Since the items of each sub-construct were adopted from studies done in the developed countries, a principal component analysis was conducted for each sub-construct.

To determine the appropriateness of factor analysis, the Kaiser-Meyer-Olkin measure of sampling adequacy and the Barlett's test of sphericity were examined. In line with the suggestions of Tabachnick and Fidel (1989), a value of 0.60 or more from the Kaiser-Myer-Olkin measure of sampling adequacy test was deemed to indicate that the data was adequate for explanatory factor analysis. Besides, a significant Bartlett's test of sphericity was required. In order to ensure that each factor identified by EFA had only one factor, items that had factor loadings on only one factor items that had factor loadings of lower than 0.6 and items loading on more than one factor with a loading of equal to or greater than 0.6 on each factor were eliminated from the analysis (Chen, Hsn, 2001). The Cronbach's alpha coefficient values are presented on Table 1.

**Table 1: Factor Analysis Result for the Variables.**

Construct Scales	No of Items	Alpha Loadings	Eigen Values	Variance explained
Market orientation	15	0.860*	3.215	69.452
Product Innovation	5	0.856*	3.195	63.902
Process Innovation	5	0.707*	2.214	44.271
Market Positioning - Differentiation				
Market positioning – Low Cost				
Business performance	6	0.837*	2.715	67.883

\* Reliability Coefficient (Cronbach's alpha).

### Descriptive statistic of the Data

Hierarchical multiple regression requires that the dependent variable be metric and the independent variables be metric or dichotomous. Assumption of normality was tested by using the Skewness and Kurtosis values of both the dependent and independent variables.

Before testing the hypothesis the correlations matrix for the composite scales of the constructs was examined. The correlation analysis was carried out to test the theoretical propositions regarding relationships among the variables. The bivariate correlations appear to be consistent with the hypothesized relationships (Tables 2). There is also variability in measures of the constructs, as reflected by the means and standard deviations.

**Table 2: Correlation matrix, mean and standard deviations**

Variable	Mean	Std. Deviation	Market orientation	Product Innovation	Process Innovation	Market Positioning	Performance
Market orientation	80.1200	13.87827	1				
Product innovation	24.7211	6.20625	.320**	1			
Process Innovation	27.5517	7.59014	.395**	.252**	1		
Market Positioning	53.4930	9.45669	.431**	.366**	.407**	1	
Performance	35.8298	7.70154	.197*	.230**	.268**	.286**	1

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

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

N = 147

*Source: Survey Data (2012).*

### Regression Analysis

A two-step hierarchical regression was conducted to test hypothesis H<sub>1</sub>, H<sub>2</sub>, H<sub>3</sub>, and H<sub>4</sub>. Hierarchical regression was used to evaluate the relationship between the set of independent variables and the dependent variable, controlling for the impact of the firm characteristics (Table 3). The results of the regression summary between market orientation and product innovation 0.153 and process innovation was 0.272. (R<sup>2</sup> change Of 0.071 and 0.189 respectively to the variance in innovation.

**Table 3: Regression Results**

Independent Variable	Dependent Variable			Moderation
	Performance	Product Innovation	Process Innovation	
Market orientation	-	.153	.272	
Product innovation	-			
Process Innovation	-			
Market Positioning	-			
ProdInnoxMP				-
ProcInnoxMP				-
R <sup>2</sup>		.071	.189	-

Product and process innovation were then entered in step 2. Results of the regression summary for the regression analysis between organizational innovation and firm performance, presented in table 4.34, indicate that the three control variables explained only 7.1% ( $R^2=0.071$ ) of the variance in firm performance. On adding the innovation dimensions, the  $R^2$  of firm performance increased to 0.189 projecting that the two dimensions of innovation contributed an additional 11.8% to the variance in firm performance. The Durbin-Watson statistic for this regression as shown in Table 4 .32 was 2.079. This statistic was within the acceptable range from 1.50 to 2.50, indicating that the residuals were not correlated.

Table 4.33 presents the results of the multiple regression coefficients of regressing firm performance on innovation dimensions. From step 1 of the hierarchical regression, only length of operation ( $\beta= -1.534, P=0.001$ ) related positively and significantly with firm performance. However, in the absence of control variable, both variables i.e., product innovation and process innovation were significant predictors of firm performance (Table 4.34). In particular, there is a positive and significant relationship between product innovation and firm performance ( $\beta= 0.243, P=0.003$ ) as well as between process innovation and firm performance. ( $\beta= 0.322, P<0.001$ ).

Multicollinearity in the regression of firm performance on innovation was tested in the study. An examination of the tolerance values of product innovation showed that both the tolerance values were above 0.1 i.e., product innovation (0.941) and process innovation (0.950). This confirms that multicollinearity was not a problem in this regression.

The market positioning dimensions of differentiation position and cost leadership position were hypothesized as moderator variables. First differentiation position was hypothesized to moderate between market orientation and innovation (sub-hypothesis  $H_{4a}$  and  $H_{4b}$ ). Then cost leadership position was hypothesized to moderate the relationship between market orientation and innovation (sub-hypothesis  $H_{4c}$  and  $H_{4d}$ ).

### Discussion of Results

The results of this study are in line with previous findings regarding the positive relationship between market orientation and innovation and also between innovation and firm performance. Past studies (Han *et al.*, 1998) had shown that a firm with a market orientation culture will develop resources and skills which will enable them to undertake greater innovations. The regression analysis results show that there is a positive and significant relationship between market orientation and both innovation types ( $\beta= 0.341$  and  $\beta= 0.341$  with  $P<0.001$ ).

The regression results also confirm that there is a positive relationship between product innovation and performance ( $\beta= 0.243, P=0.003$ ). There is also a positive relationship between process innovation and performance ( $\beta= 0.322, P<0.001$ ). The impact of innovation on firm performance and on economic growth has been of interest to economists since the works of Schumpeter (1934). Previous studies have empirically linked innovation to performance (Deshpande and Farley, 2004; Capon, *et al.*, 1992; Hult, *et al.*, 2004).

Companies position their products and services in the market using either low cost positioning or differentiation positioning. The results of this study indicate that differentiation position positively and significantly moderates the relationship between product innovation and performance ( $\beta= 0.443, P=0.003$ ). Differentiation however does not moderate process innovation performance relationship. Results also indicate that low cost position has no effect on firm performance. Using the resource based view (Penrose, 1991) and the competitive advantage theory (Hunt and Morgan, 1995) we had theorized that market positioning moderates the market orientation - innovation relationship. The moderator results of three models gave mixed but insignificant effects. One model showed a significant moderating effect on the product innovation and performance relationship.



## Conclusions of the Study

The findings of this study confirm the relationship between market orientation, and organizational innovation. The study also confirms the relationship between innovation types and performance. The study provides new findings; that low cost leadership moderates the relationship between product innovation and performance. The insignificant moderating effect of positioning may be explained by external variables not measured in the study such as environmental and technological turbulence. According to Hunt and Morgan (1995) once a firm's comparative advantage in resources enables it to achieve superior performance through a position of competitive advantage in some market segment or segments; competitors attempt to neutralize and/or leapfrog the advantaged firm through acquisition, imitation, substitution, or major innovation. Matear et al.'s (2004) findings also suggested that neither cost-effectiveness nor a differential position in isolation may be sufficient for superior financial performance.

The findings of the study add some new understanding to the literature on market orientation, market positioning, innovation, firm performance and the interrelationships of these constructs which influence the success of firms in a developing country context. The findings add into the understanding of market orientation, innovation and performance.

## Practical Implications

The results of this study provide valuable information for managerial decision making. First the findings of the study point to the importance of market orientation in determining organizational innovation. The findings confirm the words of Shapiro (1988) *"The only way we can get out of this mess is for us to become customer driven or market oriented. I'm not sure what that means, but I'm damn sure that we want to be there."*

Managers should therefore pay close attention to the formulation of market orientation strategies. This would involve driving business objectives through customer satisfaction, commitment to serving customer needs, increasing customer value and developing a competitive position based on understanding customer needs. It also requires top managers to regularly discuss competitors' strengths and weaknesses, share competitor information and rapidly respond to competitive actions.

Secondly the study results show the importance of innovation in determining firm performance. To achieve superior performance managers should therefore emphasize on both product and process innovation. This calls for increasing the rate of new innovations, introducing new products use of new raw materials and increasing the degree of innovation. The managers should also advance process innovations through staff training on new methods, diversifying the product range and improving the quality of innovations.

Thirdly the moderator results point to the importance of low cost position in moderating customer orientation and product innovation relationships. It therefore demands that firms which are customer oriented should pay close attention to the development of their low cost positioning strategy. This involves modernizing manufacturing plants, plant layout and capacity utilization. The firms should also identify access to excellent raw materials and perform value analyses regularly to achieve low manufacturing costs.

## Limitations and Suggestions for Future Study

First the sample of this study is confined to the manufacturing sector. Future studies should examine whether the relationships reported here differ across industries. The data was collected on both the dependent and independent variable simultaneously from a single respondent, thus a shared method variance may have inflated the significance of our data. The study also relies on the managers understanding of the subjective statements which are used to reflect the objective underlying characteristics of their firms. Future research could compare the perceptions of customers and managers, and account for any differences concerning the firms' market orientations, innovations and market positioning.

Despite this findings, definite answers on the effect of market positioning on the market orientation innovation relationship depends on a variety of other factors that have not been addressed in this study. Of particular importance are the environmental factors. Han *et al* (1998) found that the extent to which organizational innovations vary with market orientations depends on the level of technological and market turbulence. It is therefore recommended that future studies should explore whether and how environmental factors affect the moderating effect of market positioning on the market orientation and innovation relationships.

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