

Exploring performance of software houses

Market orientation and mediating role of firm innovativeness

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Abstract

Purpose – The purpose of this paper is to explore the impact of market orientation on firm performance of software houses and examine the mediating firm innovativeness in the relationship between market orientation and firm performance.

Design/methodology/approach – Data were collected from the employees of software houses located in two big cities of Pakistan. Mean, SD, correlation and regression analysis were conducted to check the relationship among variables.

Findings – Results show that the performance of software houses largely depends on firm innovativeness and market orientation.

Research limitations/implications – The authors recommend that further studies are required to test the propositions in longitudinal research design for achieving in-depth insights.

Practical implications – Software houses need to pay more attention toward market orientation and innovativeness.

Originality/value – It has been observed that software houses pay less attention toward market dynamics. This research discusses an implementation approach based on solid theoretical foundations to achieve the firm performance through market orientation and firm innovativeness.

Paper type Research paper

1. Introduction/background

In the current era, the research on software houses has gained scholarly attention worldwide. Software houses need to focus on market orientation because this orientation is recognized as the core element to success for software houses. Market orientation is very helpful and guides organizations to create proper strategies to achieve the goal effectively. Software firms that possess a high level of market orientation can focus on customers and their needs (Narver and Slater, 1990). Additionally, firm innovativeness is important to improve business performance of software houses. However, in the context of Pakistan, there is hardly any evidence that show the interplay among firm innovativeness, market orientations and performance (Crossan and Apaydin, 2010). Especially, there is a need to explore how market orientation achieves firm performance through firm innovativeness (González-Loureiro and Pita-Castelo, 2012). Firm innovativeness provides firms with a means of creating a sustainable advantage



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over their competitors. This research will overcome this gap by investigating the impact of market orientation on firm performance in the presence of firm innovativeness contextualizing software firms.

The study in hand focused to explore how software firms can perform well using an ideal setting to inspect the role of market orientation (Ray *et al.*, 2017). Today is the age of a rapid growth especially in the field of software industry where change is expected every time (Paul and Gupta, 2014; Zhou *et al.*, 2005). In this situation, these software firms should take an active part and formulate its long-range strategies on the basis of market and technology reforms (Paul and Gupta, 2014). The software houses of Pakistan need strategic and proactive strategies to response to the dynamic needs of the customers through market orientation and firm innovativeness (Noble *et al.*, 2002; Siguaw *et al.*, 2006). Firm innovativeness is a major factor initiated by the market pressures and dynamic technological influence for achieving the firm performance.

This study aims to investigate the impact of market orientation on performance. Another major objective of this study is to check the mediating role of firm innovativeness in the relation between market orientation and firm performance. This study is arranged as follows: the very next section shows the literature. Sections 3 and 4 show methodology and analysis, respectively. The final section shows discussion and conclusion including limitations of the study.

2. Literature review

This section shows literature review about market orientation, firm innovativeness and firm performance.

2.1 Market orientation

Market orientation is knowledge-based intangible resource, which ensures provision of a higher value to a customer Vega-Vázquez *et al.* (2016). Narver and Slater (1990) defined the market orientation as the business culture which ensures the requisite behaviors for provision of a better quality for the customers in the most efficient and effective way. In other words, it is the concept which includes three components pertaining to behavior, i.e. coordination among the functions, orientation toward customers as well as competitors and the two criteria of decision, i.e., long-term focus and profitability.

Asomaning and Abdulai (2015) acknowledged that one of the important aspects of strategic orientation of a firm is its market orientation which facilitates the development of successful and innovative products by the firm. With the application of intelligence generation, communication and ultimate organizational responsiveness, the market orientation establishes the superior customer value (Li *et al.*, 2010).

Charles *et al.* (2012) explained that market orientation is directed toward continuous assessment of customers' needs and their satisfaction through different activities and cross-functional processes. As a matter of routine, the market-oriented firms constantly seek informal from customers, competitors, etc., and ultimately use it to produce demand-driven products which enhances its performance (Sutapa *et al.*, 2017).

The term market orientation was considered as an organizational factor through which business can be applied the customer orientation (He *et al.*, 2018). It guides about creating such a favorable culture which helps organizations to perform those actions and behaviors that help to attract customers (Papavassiliou, 2010). In the long run, its dissemination of detailed knowledge in organization results in the best performance (Charles *et al.*, 2012). Many organizations based on the modern marketing system largely depend on market orientation for increasing their performance (Yayla *et al.*, 2018). Furthermore, firms believe on the exact information about customer and competitors for improving business needs specific to organizational culture which is possible through market orientation

(Sahi *et al.*, 2018). Thus, it is not wrong to say that market orientation is the very heart of organizational marketing efforts that has the ability to create required culture (Li *et al.*, 2010). This market orientation can produce better results when combined with other orientations.

2.2 Firm innovativeness

Innovativeness is the requirement of business organizations and pertinent to its higher performance (Gündüz Çekmecelioğlu *et al.*, 2018). Innovativeness is the ability of a firm to engage itself in adapting new products, services and ideas which may positively affect performance and forward developmental process (Abrahamsson *et al.*, 2019). Innovativeness can be viewed in a broader concept through innovation breadth and innovation depth (Yap *et al.*, 2018). Innovation breadth is further classified into diverse domains (e.g. innovativeness in product, innovativeness in process, innovativeness in marketing process, and overall organizational innovativeness) through which an organization introduced new idea (Nawaser and Jahanshahi, 2018). Innovation depth means the ability of a firm to accept new offering more frequently and prove itself to be ready all the time for creativity regardless of the domains of the new offering. Firm innovativeness is an important approach, especially relevant to software firms research. The software firms face dynamic changes and mostly rely on newest technology for business success (Nassiuma *et al.*, 2018). Firm innovativeness possesses the potential to weaken mistakes by advance thinking and helps software houses to establish their businesses within technology-intensive industries (Fischer *et al.*, 2018).

Firm innovativeness is a preliminary step for creating innovative culture, i.e. necessary for firm innovation. Firm innovativeness is open and a very broad concept which generates newest thinkton about innovation and creates a culture of innovation (Gündüz Çekmecelioğlu *et al.*, 2018). Firm innovativeness in view point of firm innovative culture encourages the management and employees of the organization in the process of developing the novel ideas and also helps to solve problems in a unique and newest way (Alegre and Pasamar, 2018). Researchers of innovation show that firm innovativeness results in firm innovation; however, this study focuses on the performance as major outcome of firm innovativeness (Nassiuma *et al.*, 2018). Firm innovativeness is imperative for offering a guideline to firm on innovation through which these firms can support their employees to implement new practices and approaches for utilizing their new ideas (Nawaser and Jahanshahi, 2018). Practical application of imagination is a primary point for innovativeness, which always supports the creative ideas for innovation and their execution (Alegre and Pasamar, 2018). Firm innovativeness guides about the procedures of adaptation of a new program for current products and finding the solutions for business problems in an innovative way (Fischer *et al.*, 2018). Firm innovativeness is a process of establishing an organizational culture that inspires their workers to put forward innovative ideas, new thoughts for managerial decisions and more specifically innovative strategies (Abrahamsson *et al.*, 2019).

2.3 Market orientation and performance

The eminent marketing researchers have explained the market orientation as the critical framework for improving the long-term and sustainable business advantage in the competitive environment (Dubihlela and Dhurup, 2014). Market orientation is considered as a mean of competitive advantage which is also an essential determinant for the measurement of a firm performance (Ramayah *et al.*, 2011). High-level organizational performance is achieved when a firm which is market oriented is in the position of satisfying its customers through identification and satisfaction of their needs and preferences as well (He *et al.*, 2018). Moreover, according to the studies conducted by Narver and Slater (1990),

the firm with market orientation delivers in a relatively better way in the market because it establishes organizational culture in providing a superb value to the customers.

Findings of the studies conducted by Jaworski and Kohli (1993) reflect that the relation of market orientation toward firm performance emerged to exist in diverse situations, and it supports performance irrespective external conditions of the firm. The study of Slater and Narver (1994) reveals that there is minimum support pertaining to the result of competitive environment and argued that a market-oriented firm ought to be fully prepared for achieving and sustaining competitive advantage in any kind of environmental circumstances. Firm performance has remained an important subject of interest to the researchers, academics, organizational leaders and investors group. Research findings highlighted that a direct relationship exists in the market orientation and the performance of the firm (Yayla *et al.*, 2018). In the past, different studies had reported that there is no visible strong relationship between the said variables and instead remained inconclusive. The survey conducted by Liu *et al.* (2013) highlighted that out of the total 38 articles, 36 reported that a stronger relationship is existed in the market orientation and performance of the firm. Their findings show that performance is affected by market orientation in a variety of ways, sometimes by mean of customer focused orientation, whereas in some cases reshaping the culture of an organization in order to incorporate a better value for the customers. According to Van Raaij and Stoelhorst (2008), entrepreneurs claim that business processes are the pivotal concern of a firm with market orientation, such as market orientation is considered as the competency of a firm for generating knowledge regarding markets and apply the knowledge during its business processes with a view to create a superior customer value (Sahi, Gupta and Lonial, 2018). These perspectives are aligned with those of earlier studies which reflected that innovative processes and the development of new product play the role of mediator in the relationship of market orientation variables and the performance variables (Langerak *et al.*, 2004).

According to Hunt and Morgan (1995), the foremost objective of every firm is to achieve better financial performance which is carried out in a situation where there is no perfect information with regard to both customers and competitors. Competitive position of a firm can be gauged through the measures like customers' satisfaction and their loyalty toward the firm, net profit, return on investment, etc. The outcomes of market orientation can be classified into four groups, i.e., innovation consequences, customer consequences, employees consequences and the organization performance (He *et al.*, 2018).

The research findings of different studies reflect that external business environment moderates the decisions taken by different managers. The probable moderators may be competitive intensity, market growth, buyer power, technological turbulence, market turbulence, etc. Hence, it is concluded that the unpredictable environmental turbulence causes moderation between market orientation and the firm performance (Langerak *et al.*, 2004).

Since long, the literature pertaining to commercial and business activities highlights market orientation as one of the most valuable resources which improve and enhance performance of businesses (Eris and Ozmen, 2012). It is the sum total of all the activities of a firm which are concerned with efforts for seeking information for identifying and meeting the needs of customers and also the information about the competitors (Narver and Slater, 1990).

Surprisingly, although it is commonly considered that there exists a strong relationship in the market orientation and performance, market orientation activities may give important information pertaining to the external environment i.e., about customer, the competitor, and the coordination required for properly linking the resources of the organization to the requirements of its relevant market (Cheng and Krumwiede, 2012; Wang and Miao, 2015). Applying such like activities enables a firm to grow and develop maximum organizational knowledge in order to adjust its internal operations, ultimately it will bring it in a better position to react the environment and

enhance its performance (Langerak *et al.*, 2004). Besides this an effective market orientation system ensures that the firm may assess its knowledge bank and resource constraints with a view to successfully perform in the market:

H1. Market orientation is positively associated with firm performance.

2.4 Firm innovativeness mediates the relation of market orientation and performance

This study explored the mediating role of firm innovativeness in the relation between market orientation and performance. The direct impact of market orientation on performance can occur in manufacturing firms where there is no possibility of changes in products (Yap *et al.*, 2018). But the case of technology firms is totally different from that of traditional manufacturing firms (Michna, 2018). Nawaser and Jahanshahi (2018) acknowledged that small and medium firms should consider their ability to implement newest things and search market demand according for complying the required performance standards (Poespowidjojo *et al.*, 2018). Furthermore, top management asserted that firm innovativeness created by market orientation is a major tool for meet the firm requirement of performance (Nassiuma *et al.*, 2018). The technology-orientated firms need up gradation and continuous changes in its product as per market demand; thus, market orientation forces an organization to adapt innovativeness for performing accordingly (Gündüz Çekmecelioglu *et al.*, 2018). The software firms have to think in an innovative way and firm innovativeness becomes stronger through market orientation which helps to guides about the newest processes and latest customer demand (Abrahamsson *et al.*, 2019). This knowledge of customer demand attained by the technological firms set a great foundation for the firms for growing its innovativeness for achieving competitive advantage which is also an essential determinant for the measurement of the firm performance (Ramayah *et al.*, 2011). Therefore, this study shows that high performance is achieved through firm innovativeness and this is only possible when firms are highly market oriented. Market orientation helps to satisfy customers' needs by identifying their preferences about the rapid changes of technology and improve the ability of a firm to innovate (Ramayah *et al.*, 2011). The ability of firms to innovate the software and answering customers' questions can lead firms to achieve a high performance level (Fischer *et al.*, 2018). Figure 1 shows the theoretical framework of the research:

H2. Firm Innovativeness mediates the relationship between market orientation and firm performance.

3. Methodology

For this research, we have collected data from software firms which are located in Rawalpindi and Islamabad. A convenience sample technique has been followed in this research. Questionnaires in printed forms were distributed because an electronic mail survey has a lower feedback rate in the Pakistani emerging market. Thus, total 600 questionnaires were distributed among the firms falling Rawalpindi and Islamabad and

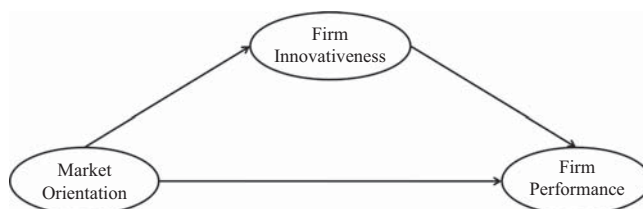


Figure 1.
Theoretical framework

451 useable questionnaires were received back with the opinion of respondents. Respondents of this survey were ensured that data obtained through this survey will be used only for the aim of research and will not be shared at any forum.

3.1 Measurement of variables

All the variables were measured by using five points Likert-scale responses ranging from 1 for strongly disagree, 2 for disagree, 3 for neutral, 4 for agree and 5 for strongly agree. The validity and reliability of measurement model was examined by factor loadings, composite reliability (CR), convergent validity and discriminant validity which show that the values of results were above the threshold values. The values of AVE are as follows: market orientation = 0.76, firm innovativeness = 0.73 and firm performance = 0.77 i.e., (CR > 0.50) in all cases. Similarly, the values of CR are as follows: market orientation = 0.91, firm innovativeness = 0.93 and firm performance = 0.92 i.e., (CR > 0.70). Finally, all factors model supported the model fitness: GFI = 0.92, AGF = 0.93, CFI = 0.94, NFI = 0.95, IFI = 0.914. Hence, it is proved that model is fit and all the measures were valid and reliable.

3.1.1 *Dependent variable firm performance.* The scale of firm performance was measured with three items adapted from the work of Lee *et al.* (2014). The questions were asked about the major performance of firms in the area of market share, sales and profitability as compare to the three largest competitors of the firm.

3.1.2 *Independent variable market orientation.* The scale of market orientation was measured with six items adapted from the work of Lee *et al.* (2014).

3.1.3 *Mediating variable firm innovativeness.* The scale of firm innovativeness was measured with five items adapted from the work of Lee *et al.* (2014).

4. Analysis

Table I presents the results of descriptive Mean, SD, α and correlation.

4.1 Market orientation and firm performance (H1)

The H1 of this study proposed that there is positive association between market orientation and performance of firms in software houses of Pakistan. H1 is accepted because the results depicted in Table II shows that β value = 0.277 which is highly significant, p -value = 0.000.

Table I.
Mean, SD and
correlation

S. No.	Details	α	Mean	SD	1	2	3	4	5	6	7
1	Gender		2.32	0.68	1						
2	Age		2.12	0.59	0.08	1					
3	Education		2.19	0.47	0.02	0.08	1				
4	Experience		2.51	0.58	0.10	0.09	0.11	1			
5	Market orientation	0.87	2.11	0.69	0.11	0.12	0.07	1	1		
6	Firm innovativeness	0.82	2.25	0.67	0.04	0.06	0.15	0.28*	0.21**	1	
7	Firm performance	0.91	2.31	0.64	0.06	0.05	0.09	0.15*	0.24**	0.29**	1

Notes: * $p < 0.005$; ** $p < 0.000$

Table II.
Regression results for
testing H1

H	Details	R^2	F	β	t	Remarks
H1	Market orientation \rightarrow Firm performance	0.17**	37.292**	0.277	11.736**	H1 accepted

Notes: * $p < 0.005$; ** $p < 0.000$

Hence, it is proved that market orientation increases the firm performance in the IT sector, especially in software houses of Pakistan.

4.2 Firm innovativeness as mediator in the relationship between market orientation and firm performance (H2)

The H2 of the study proposed that firm innovativeness mediates the relationship between market orientation and firm performance. To test the mediation analysis, we used the Preacher and Hayes technique. H2 is accepted as results proved that market orientation is positively associated with firm innovativeness ($\beta = 0.3291$, $p = 0.000$, path “a” is significant). The mediator, firm innovativeness has a positive association with firm performance ($\beta = 0.3085$, $p = 0.000$, path “b” is significant). Market orientation is positively associated with performance ($\beta = 0.3530$, $p = 0.000$, path “c” is significant). The direct effect of market on performance when firm innovativeness is controlled has reduced but is significant, showing partial mediation (coefficient = 0.02514, $p = 0.000$, path “c” is significant). Results of indirect effect (Path *ab*) proved that firm innovativeness partially mediates in the relationship between market orientation and firm performance ($\beta = 0.1015$). This analysis also added the control variable and results of control variable were not having any significant results on firm performance (Table III).

5. Discussion

This section presents the discussion of the results. We have discussed the study results of all hypotheses, i.e. direct and mediation analysis as conducted in previous section. The results of simple linear regression show that market orientation positively affects firm performance in the software houses of Pakistan. Market orientation allows firm to penetrate the market and get detailed knowledge about the market and customer. This knowledge allows software houses to bring required changes in their existing process and update themselves accordingly. The result of H2 shows that firm innovativeness acts as a mediator in the relationship between market orientation and firm performance. The results of our study are based on the rational assumptions as market orientation enhance the level of thinking and enable firms to

IV to mediators (a paths)

	Coeff.	SE	<i>t</i>	<i>p</i>
FInnovat	0.3291	0.0415	7.9325	0.000

Direct effects of mediators on DV (b paths)

	Coeff.	SE	<i>t</i>	<i>p</i>
FInnovat	0.3085	0.0642	4.8065	0.000

Total effect of IV on DV (c path)

	Coeff.	SE	<i>t</i>	<i>p</i>
market_o	0.3530	0.0578	6.1067	0

Direct effect of IV on DV (c' path)

	Coeff	SE	<i>t</i>	<i>p</i>
market_o	0.2514	0.0603	4.173	0

Model summary for DV model

R^2	Adj. R^2	<i>F</i>	df1	df2	<i>p</i>
0.122	0.118	31.1147	2	448	0

Indirect effects of IV on DV through mediator (ab paths)

	Data	Boot	Bias	SE
Total	0.1015	0.1014	−0.0001	0.0274
FInnovat	0.1015	0.1014	−0.0001	0.0274

Table III.
Results of direct, total
effect and indirect
effect (H2)

go for creativeness. This creativeness brings benefits in the form of high level of profitability and improved overall firm performance.

5.1 Theoretical implications

This study provides few important theoretical implications regarding relationship of firm innovativeness, market orientation, technology orientation and firm performance. With the extensive review of literature in this study, it provides a clear perspective of the influence of market orientation and technology orientation on firm innovativeness, which suggests direct influence on the performance of any firm. Pakistan is the 6th popular country of the world and has atomic power. Its current project with China, namely, Pak–China Economic Corridor has attracted the attention of other nations through providing an international route to the world. Hence, the study conducted in Pakistan can be generalized to other nations of the world.

5.2 Practical implications

As the competition among firms is increasing with time, every effort in the field of innovativeness and market orientation will give advantage to the firm over competitors. As market orientation always helps to produce new techniques and ideas especially in changing environments, it also pushes the firm toward innovativeness and adoption of latest technology. The results of study propose that organizations will improve their innovative capability by making and implementing market-oriented strategies as per finding of this study and with the literature. The results propose that an organization with a market orientation is having more chances to increase its innovation capability and performance.

5.3 Limitations of the study

This study is cross section and data has been collected at once. But the fact is that software houses are dynamic in nature and latest software and IT trends are ever expected. Thus, this is a major limitation of this research and some future research should be conducted on longitudinal research design. Another big limitation of this research is that it has been conducted on the bases of data collected from only two cities of Pakistan i.e. Rawalpindi and Islamabad. There are many more big cities of Pakistan. Next time the data should be collected from these big cities which can extent the generalizability of research and can predict authentic results. Therefore, it is suggested for future to include all the big cities of Pakistan. Future studies could be conducted as determinant of firm performance in term of orientations like: strategic orientation, customer orientation, innovation orientation, etc. Next research may be conducted on other organizations like textile, hospitality, health, etc.

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