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Relationship Between Strategic Orientation, Service Innovation and Its Impact on Market Performance

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ABSTRACT

The purpose of this research is to analyze the relationship between a company's strategic direction and the effectiveness of its service innovation and market presence. Owners and administrators were given a preliminary survey questionnaire to fill out. While correlation looks at the link between factors, regression demonstrates the null hypothesis. Customer focus, competitor focus, cost focus, inter-functional coordination, service innovation, and market success were all examined using various techniques. Our research showed that when looking at combined industries, only the link between client focus and service innovation is supported, while the link between service innovation and market performance is not. There is evidence to support the hypotheses that service innovation boosts market performance in the telecommunications sector, and that a focus on competitors and costs contributes to a more creative environment. While service innovation does support market performance in the food and beverage business, it does not support the relationship between cost orientation and inter-functional coordination. Few empirical investigations have focused on service innovation like this one. More research is needed to determine how a company's strategic direction affects its ability to innovate its products, but the findings of this study are transferable to other service industries.

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1. Introduction

During the process of economic reform, emerging countries go through massive and complex changes to their institutions, such as their governments, economic systems, enterprise ownership structures, and market environments. These changes can be difficult to navigate. Companies that are looking for opportunities in these countries are going to face significant strategic challenges as a result of these changes (Li, Zhou, & Shao, 2009). The goals that managers have established for their companies influence the weights that they give to different strategic behaviors and the perspectives on strategy that they select from among the many available (Olson, Slater, & Hult, 2005). The term "strategic orientation" has been linked to the success (or failure) of organizations functioning in business environments multiple times throughout the research that has been conducted on marketing, management, and management (Gabarro & Pajares, 1973; Hrebiniak, 1978; Knights & Morgan, 1995; Lawrence & Lorsch, 1967; McGee & Thomas, 1986; Miles, Snow, Meyer, & Coleman Jr, 1978; Porter, 1980; Schein, 1996). There is a correlation between

certain aspects of organizational culture and strategic orientations (Deshpandé, Farley, & Webster Jr, 1993; Hurley & Hult, 1998; Narver & Slater, 1990). An organization's culture, whether it be corporate or organizational culture, is an illustration of one of its intangible assets (Barney, 1991; Grant, 1991). The utilization of these resources, which can also be referred to as orientations, will lead to a variety of different relative impacts that are distinct from one another (Day, 1994). The integration of available resources into the overall plan will make it easier to accomplish the goals that have been set. There is a connection between the priority that a company places on innovation and the level of achievement that it achieves (Baker & Sinkula, 2009; Subramaniam & Youndt, 2005). This body of research demonstrates without a shadow of a doubt that the strategic orientation of a company plays an important part in the innovativeness of that company and is a major driver of both competitiveness and company performance. These conclusions from this body of research have allowed for the provision of this evidence, which can be found here.

The business conduct of a company is the primary emphasis of a company's strategic orientation, which centers on how companies should interact with external environments including customers, competitors, and technology (Day, 1994; Gatignon & Xuereb, 1997). Consequently, strategic orientation represents an outwardly focused perspective on the compatibility of strategic decisions with the environment. This is because strategic orientation is concerned with the compatibility of strategic decisions. A dynamic capability, on the other hand, is internally focused and focuses on how an organization can integrate and revitalize its resources. This is in contrast to the static capability, which is outwardly focused. As a consequence of this, strategic orientation as an alternative strategic choice ought to govern the manner in which businesses acquire, distribute, and use resources in order to develop dynamic capabilities. Even though a great number of studies including Zhou, Brown, Dev, and Agarwal (2007) have arrived at the conclusion that there is a connection between market orientation and innovation performance, the connection between market orientation and new service performance does not appear to be completely understood (Zhou & Li, 2010). It is acceptable for products that have a higher degree of innovation to have greater sales and financial performance, which eventually results in improved business performance as a whole. This results in an increase in revenues (Gatignon & Xuereb, 1997; Zhou et al., 2007).

As a result, over the past few years, academic scholars and business professionals have given the idea of marketing performance more attention (Eusebio, Llonch Andreu, & Pilar López Belbeze, 2006). Given that a company's ability to generate value is essential to its survival, marketing plays a critical role in long-term business success. Therefore, marketing performance evaluation is a crucial management job (Eusebio et al., 2006). However, businesses that are focused on rigorously evaluating marketing outcomes are a minority (Ambler, 2000). The capacity of an organization to create innovations will be even more crucial to its success in the future, claim (Alasoini, 2007). An organization's performance increasingly relies on its capacity for innovation (Alasoini, 2007). Organizations must measure their innovation capability to be aware of its development and current condition. However, because innovation capacity is intangible by nature, measuring it cannot be easy (Albaladejo & Romijn, 2000). Measuring is crucial for an organization's capacity for invention and, consequently, for its long-term success. In this study we examine how a firm's strategic and market orientation impacts its capacity for service innovation and the following performance.

2. Literature Review

2.1. Strategic Orientation

The "strategic guidelines that a company employs to cultivate the appropriate dispositions for the business's continuing success" are what is meant when we talk about a company's "strategic direction" (Gatignon & Xuereb, 1997; Menguc, Auh, & Shih, 2007). The overarching principles that direct the marketing and strategy development activities of a business are referred to as its strategic orientations (Noble, Sinha, & Kumar, 2002). (Olson et al., 2005). They are founded on a company's perspective on how business should be conducted through a set of guiding principles and values that have been established by the company (Zhou et al., 2007). Strategic orientations call for complimentary organizational capabilities that shed light on the activities that are unique to an organisation

in the process of putting the chosen strategic direction into action (Hult, Ketchen Jr, & Slater, 2005; Morgan & Strong, 1998). Businesses need to record and categories knowledge so that it can be distributed and used effectively throughout the organization. Only then can information be effectively disseminated (Argote & Ingram, 2000; Spender, 1996; Turner & Makhija, 2006).

2.2. Service Innovation

In the context of the service industry, "service innovation" refers to the introduction of a novel and distinctive service that is utilized by a particular population (Flint, Larsson, Gammelgaard, & Mentzer, 2005). Client value components are likely to undergo change as a direct consequence of shifting market conditions, and the growth of consumer value has been linked to the introduction of innovative services (Flint et al., 2005). As a consequence of this, creating value through the advancement of services frequently requires businesses to anticipate the upcoming requirements of their customers. When developing new solutions, businesses are required to provide consumers with exceptional value and anticipate shifts in the environmental landscape (Kandampully, 2002).

2.3. MARKET PERFORMANCE

The primary objective of carrying out performance measurement techniques in an organization is to improve the financial results of the business. The calculation of cost-effective outcomes, on its own, does not provide sufficient information of the kind that can expedite decision-making that will improve performance (Woodburn, 2004). According to Ambler (2000), the most common approach when evaluating a promotion's effectiveness is to conduct research focused on minimizing costs. Revenues, participation margins, and profits are the three components that make up economic activities.

3. Proposed Framework

A critical literature review analysis suggests a gap exists in firms' strategic orientation to measure a firm's innovation capability and business performance. No prior study was conducted, especially in the Pakistani context, to measure the firm's market performance through service innovation scale. So to understand the importance & effectiveness of service innovation in firms, the following framework is proposed along with 5 hypotheses.

3.1. Research Model

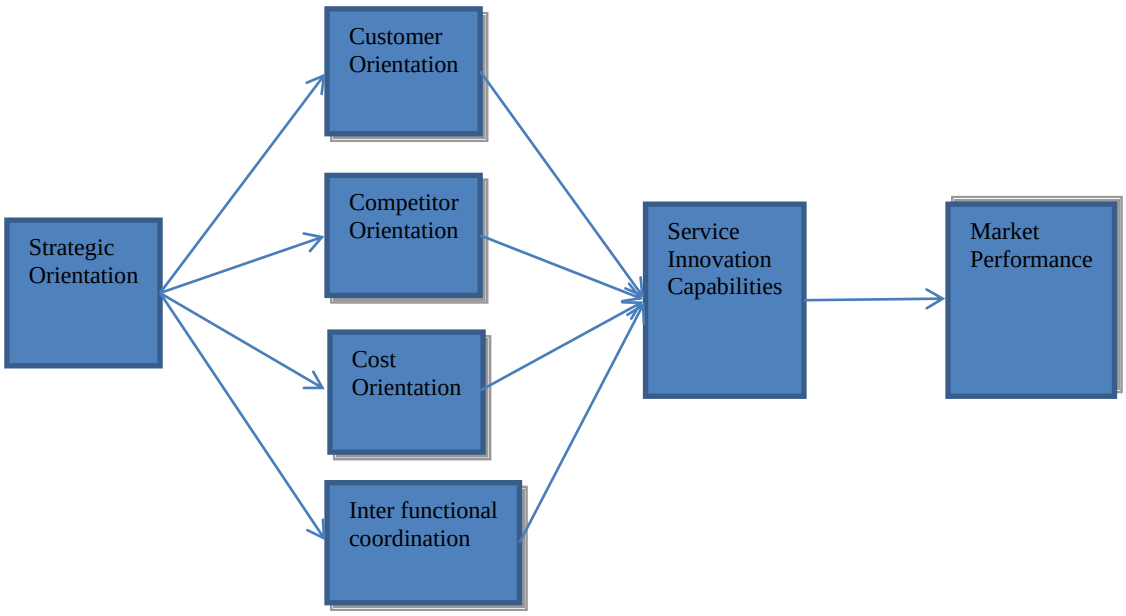

Figure 1: Theoretical Model

3.2. Hypothesis

H1: Customer orientation is positively related to service innovation capability
H2: Competitor orientation is positively related to service innovation capability
H3: Cost orientation is positively related to service innovation capability
H4: Inter functional coordination is positively related to service innovation capability
H5: Service innovation capability is positively related to market performance

3.3. Methods of Data Collection

The data collection was compiled with the help of both primary and secondary sources of information. The vast majority of our data comes from questionnaires that we send out. Because of how quickly it could be completed, the questionnaire was chosen to be the data collection instrument. The lists were prepared with assistance from LSE as well as the chambers of trade in both Multan and Lahore; secondary data was collected through the use of internet searches. The assessment was conducted with input from 120 different companies based in Lahore and Multan. The information that was collected was analysed with version 16 of the statistical software known as SPSS (Statistical Package for the Social Sciences). The empirical findings provide support for the conceptual framework that was developed in order to investigate the impact that service innovation has on market performance. Regardless of how much of an effect the constructed factors have on the overall success of the market, each of the four important independent constructs is beneficial and necessary for producing results.

4. Regression Analysis (Combined)

The below table shows the results of the linear regression of both sectors.

Table 1
Regression Analysis

Variables			Coef.	S.E.	C.R.	P-Value
Customer orientation	<---	Strategic orientation	.131	.029	4.460	0.000
Competitor orientation	<---	Strategic orientation	.522	.114	4.571	0.000
Cost orientation	<---	Strategic orientation	3.718	.762	4.883	0.000
Inter-functional coordination	<---	Strategic orientation	-.180	.079	-2.271	.023
Service innovation capability	<---	Customer orientation	.796	.185	4.315	0.000
Service innovation capability	<---	Competitor orientation	.083	.048	1.725	.085
Service innovation capability	<---	Cost orientation	.008	.007	1.060	.289
Service innovation capability	<---	Inter functional coordination	.009	.063	.137	.891
Market performance	<---	Service innovation capability	-.210	.163	1.290	.197

According to the above table, the relationship between customer orientation and service innovation capability has a significant positive relationship with p=.000<.050. It means that when the firms in both sectors become customer oriented, a firm's innovation capability will increase. The relationship proves H1. Competitor orientation, cost orientation, and inter-functional coordination don't have a significant relationship with service innovation capability. This relationship disproves our H2, H3, and H4 relatively. It might be because competitors always try to compete by making benchmarks to other firms, and follower firms cannot produce new innovative products or services and satisfy the customers at any cost. H4 that team communication and inter firm communication are not the source for the service innovation capability of a firm.

Findings also supported the current study by (Han, Kim, & Srivastava, 1998), and two orientations will escalate the service innovation capability of a firm. The Telecom industry in Pakistan is very competitive, and organizations try to take the lead from each other by delivering superior services and customer care. For beverage, results suggest that firms with cost orientation and functional perspective will make the firm innovation-

oriented. Most of the food and beverage firms are private, and for higher profit margins, they try to produce in bulk quantities to achieve the economies of scale, which is why they are cost oriented. Firms in this sector are also very coordinated with each other. They share information about each other to keep everyone updated. On the other hand, service innovation is significantly related to market performance. This proves our H5 p=.002 that customers feel gratitude, which will increase the customer base and market share growth, so ultimately, the firm's market performance will increase.

Table 2
Correlations

Variables		Competitor orientation	Cost orientation	Customer orientation	Inter functional coordination	Innovation capability	Market Performance
Competitor orientation	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	84					
Cost orientation	Pearson Correlation	.395**	1				
	Sig. (2-tailed)	.000					
	N	84	84				
Customer orientation	Pearson Correlation	.461**	.403**	1			
	Sig. (2-tailed)	.000	.000				
	N	84	84	84			
Inter functional coordination	Pearson Correlation	.257*	.047	.322**	1		
	Sig. (2-tailed)	.018	.671	.003			
	N	84	84	84	84		
Innovation capability	Pearson Correlation	.440**	.217*	.665**	.263*	1	
	Sig. (2-tailed)	.000	.048	.000	.015		
	N	84	84	84	84	84	
Market Performance	Pearson Correlation	-.192	-.249*	-.133	.084	-.142	1
	Sig. (2-tailed)	.080	.022	.228	.449	.196	
	N	84	84	84	84	84	84

**. 1 percent significance level
*. 5 percent significance level

4.1. Correlation Interpretation

On the other hand, the competitor and cost orientation is substantial (35.1%), and their relationship is positive. There is a considerable relationship between cost orientation, customer orientation, and competitor orientation, as measured by p values of.000.05 and.000.05, respectively. Interfunctional collaboration has a significant relationship with competitor orientation (p =.018.05), and it also has a significant relationship with customer orientation (p =.003.05). There is a substantial relationship between service innovation capability and a competitor, cost, customer orientation, and inter-functionality, with respective p-values of.000.05,.048.05,.000.05, and.015.05 for each of these factors. The correlation between market performance and cost perspective is statistically significant, with p=.022.05. It has been determined that the relationship between the other variables is not significant with each other.

4.2. Model Fit

To examine the viability of the suggested conceptual framework, this study employs structural equation modelling (SEM). One can perform a goodness-of-fit analysis with a variety of parameters. To evaluate the viability of the model, the following writers established fitness indexes.

Table 3
The goodness of Fit Test

Fitness Index	Required Value	Results
Chi-Square P-value	>0.05	0.134
CMIN/DF	2.00-5.00	2.223
GFI	>0.90	.951
AGFI	>0.90	0.828
RMSE	<0.08	0.121
RMR	<0.08	0.218
IFI	>0.90	0.909
NFI	>0.90	0.338
CFI	>0.90	0.898

The goodness of Fit Index: The Goodness of Fit Index >.90 (Byrne, 1994)

So, the results show that the proposed model has an excellent fit with the above defined standards.

4.3. T-TEST

Levene's test shows a significant relationship, and two variances are significantly different from each other with p=.016<.05. But the independent sample test did not show a significant difference between variances of competitor orientation.

Levene's test shows a significant difference between the variances with p=.006<.05, and the independent t-test also has a significant relationship and sig (2-tailed) value P=.022shows a significant difference between the variances, and it is shown in the statistics table. It illustrates that the private firms in both sectors are more cost oriented than foreign invested firms. Other variances are not significantly different.

Table 4
Levene's Test

Variables		F	Sig.	t	df	Sig. (2-tailed)
Competitor Orientation	Equal variances assumed	4.978	.028	-.259	82	.796
	Equal variances not assumed			-.398	26.515	.694
Cost orientation	Equal variances assumed	8.049	.006	2.326	82	.023
	Equal variances not assumed			1.304	11.612	.217
Customer orientation	Equal variances assumed	.057	.812	-.692	82	.491
	Equal variances not assumed			-.708	15.180	.490
Inter functional coordination	Equal variances assumed	.035	.853	-.892	82	.375
	Equal variances not assumed			-.989	16.296	.337

Table 5
Telecom And Food Beverage Sector

Path	P-value	Note
HI "Customer orientation -> service innovation capability"	.000	supported
H2 "Competitor orientation -> service innovation capability"	NS	NS
H3 "Cost orientation -> service innovation capability"	NS	NS
H4 "Inter functional coordination-> service innovation capability"	NS	NS
H5 "service innovation capability-> market performance"	NS	NS

Table 6
Telecom Sector

Path	P-value	Note
HI "Customer orientation -> service innovation capability"	NS	NS
H2 "Competitor orientation -> service innovation capability"	.008	supported
H3 "Cost orientation -> service innovation capability"	.030	supported
H4 "Inter functional coordination-> service innovation capability"	NS	NS
H5 "service innovation capability-> market performance"	.002	Supported

Table 7
Food Beverage Sector

Path	P-value	Note
HI "Customer orientation -> service innovation capability"	NS	NS
H2 "Competitor orientation -> service innovation capability"	NS	NS
H3 "Cost orientation -> service innovation capability"	.000	supported
H4 "Inter functional coordination-> service innovation capability"	.030	supported
H5 "service innovation capability-> market performance"	NS	NS

4.4. Discussions

The previously published research receives two distinct types of contributions as a result of this investigation. To begin, it broadens the scope of the concept of strategic orientation framework by bringing to light the significance of including cost orientation and interfunctional collaboration in addition to a focus on customers and competitors. This is accomplished by drawing attention to the importance of including a focus on customers and competitors. Second, it demonstrates that innovation capabilities are effective positioning strategies that facilitate the implementation of strategic orientation, which ultimately results in improved market performance. This is demonstrated by the fact that it demonstrates that innovation capabilities are effective positioning strategies. This is demonstrated by the fact that examples of innovative capabilities can be found here. According to the findings of the principal component factor analysis, the formation of innovative and strategically oriented businesses is influenced by four independent variables as well as one mediating factor. It seems to imply that managers and other decision-makers in charge of strategy can construct strategies with the assistance of information regarding customers and competition, as well as coordination between departments. Principal component factor analysis identified that firms would be competitor oriented when they monitor the activities of the competitors in the market. Likewise, firms will be customer oriented when they value the customers, have a caring attitude toward them, and prefer to satisfy the customers by setting the firm's goals according to the customer's desires. It also suggests that firms should take a cost under critical consideration before making any decision to become cost oriented, and firms in both sectors separately are trying to achieve a cost advantage over their competitors, and inter functional coordination would be created when trust, commitment, and cohesiveness must be present between the functional areas of the firm. These orientations will force the firm to become strategically strong, resulting in an innovative culture that leads to superior performance.

Using structural equation modelling to analyse the results. There is a significant relationship between the strategic orientation (fixed variable) and all of its measurement variables. However, only a single significant relationship was found between customer orientation and service innovation capability, which merely supports our hypothesis. Other relationships are inconsequential. Han et al. (1998) argued that consumer focus has a significant relationship with service innovation.

Literature Firms in both sectors also support this and are customer oriented because both are highly saturated markets so it is time to be innovative and maintain that innovation is essential for superior market performance. Customer orientations are highly focused in those firms because beating the competitor and attracting customers is the main focus of firms which cannot be achieved without service innovation. It didn't mean that cost orientation is not essential for the firms, firms should consider the cost while making any decision, but when the regression was applied with sales volume growth as a dependent variable, we found the relationship significant. If the firms become cost oriented, the sales volume will increase.

In addition, when combined computation is done for both sectors, service innovation does not seem significantly related to market performance. It is surprising but may be due to the firms' culture. It may be due to the country's economic conditions because almost every firm is going for downsizing, and they are fighting for their survival.

5. Conclusion

It has been concluded that the firm's strategic orientation has a significant impact on the innovation capability of a firm. Altogether, Firms in Pakistan are customer oriented because, for every firm, customers are the source of revenue, and in this research, defined sectors have a strong need to satisfy their customers. Because customer satisfaction is vital in the service industry and product development. The cost orientation significantly impacts the firms in the telecom and food beverage sectors separately. However, competitor orientation has a positive impact on service innovation capability. The firm's focuses on competitor and cost orientation have innovation capability in terms of communication innovation, customer care, valuing customer services in terms of delivering superior customer value, and customer satisfaction, which eventually impacts the market performance of the firm in terms of good market share, profit margin growth and sales volume growth.

This study proposes & studied the impact of four orientation approaches (customer orientation, competitor orientation, cost orientation, inter functional coordination) on the service innovation capability of a firm. It finds out the mediating role of service innovation on a firm's market performance. With the help of the conceptual framework, this study demonstrates how a strategic orientation of a firm escalates the innovation capability of the firm and, ultimately, a firm's market performance.

5.1. Recommendations

We strongly suggest that future researchers research various service industries, such as the healthcare industry, the logistics industry, the insurance industry, and others. I also suggest they broaden the research scope to include additional cities in Pakistan. This idea can also be applied to up-and-coming business owners, specifically regarding how they implement service innovation at various business cycle phases. In the future, research may investigate the effect of other potential internal or external factors on service innovation capability development in addition to the three strategic orientations that were the focus of our current investigation. It is possible that strategic orientations, which are part of a company's culture, will play a significant role; however, more work needs to be done to determine other relevant drivers or barriers. More specifically, an organization should conduct empirical research on the factors that can cause it to develop each strategic orientation.

5.2. Limitations

This research is limited to two sectors; further researchers can extend this research to more sectors and cities. Time was also a significant limitation in doing this research. Load shedding was a big problem during the whole period.

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